KEITHLEY INSTRUMENTS INC
Form DEF 14A
December 29, 2005

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SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

KEITHLEY INSTRUMENTS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Keithley Instruments, Inc.
28775 Aurora Road
Cleveland, Ohio 44139-1891
440-248-0400
Fax: 440-248-6168
http://www.keithley.com

December 29, 2005

TO THE SHAREHOLDERS OF KEITHLEY INSTRUMENTS, INC.

This year s Annual Meeting of Shareholders of Keithley Instruments, Inc. will be held at 12:00 Noon (EST), Saturday, February 11, 2006, at our corporate headquarters, 28775 Aurora Road, Cleveland, Ohio.

In addition to acting on the matters outlined in the Proxy Statement, we look forward to giving you a progress report on the first quarter, which will end on December 31, 2005. As in the past, there will be an informal presentation on the Company s business.

We hope that you are planning to attend the Annual Meeting personally, and we look forward to seeing you. Whether or not you expect to attend in person, the return of the enclosed proxy as soon as possible would be greatly appreciated and will ensure that your shares will be represented at the Annual Meeting. If you do attend the Annual Meeting, you may revoke your proxy should you wish to vote in person.

On behalf of the Directors and management of Keithley Instruments, Inc., we would like to thank you for your continued support and confidence in the Company.

Sincerely yours,

/s/ Joseph P. Keithley
Joseph P. Keithley
Chairman, President and Chief Executive Officer

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Keithley Instruments, Inc.
28775 Aurora Road
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440-248-0400
Fax: 440-248-6168
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Keithley Instruments, Inc. will be held at the Company s corporate headquarters, 28775 Aurora Road, Cleveland, Ohio, on Saturday, February 11, 2006, at 12:00 Noon (EST), for the following purposes:

(1) To vote on a proposal to fix the number of Directors of the Company at ten;

(2) To elect ten members of the Board of Directors to serve until the next annual meeting of shareholders and until their successors have been duly elected and qualified;

(3) To vote on a proposal to approve the Keithley Instruments, Inc. 2005 Employee Stock Purchase and Dividend Reinvestment Plan;

(4) To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of Common Shares and Class B Common Shares of record at the close of business on Tuesday, December 13, 2005, are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

By Order of the Board of Directors,

/s/ John M. Gherlein
John M. Gherlein
Secretary

December 29, 2005

Please sign, date and return the enclosed proxy promptly.
A return envelope is enclosed for your convenience.

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KEITHLEY INSTRUMENTS, INC.
28775 Aurora Road
Cleveland, Ohio 44139
PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON FEBRUARY 11, 2006

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Keithley Instruments, Inc. (the Company) for use at the Annual Meeting of Shareholders of the Company to be held on February 11, 2006, and any adjournment or postponement thereof. The time, place and purposes of the Annual Meeting are stated in the Notice of Annual Meeting of Shareholders which accompanies this Proxy Statement.

The solicitation of proxies is made by and on behalf of the Board of Directors. The expense of soliciting proxies, including the cost of preparing, assembling and mailing the proxy materials, will be borne by the Company. In addition to solicitation of proxies by mail, solicitation may be made personally and by telephone, and the Company may pay persons holding shares for others their expenses for sending proxy materials to their principals. No solicitation will be made other than by Directors, officers and employees of the Company.

The presence of a shareholder at the Annual Meeting will not operate to revoke the shareholder s proxy. Any shareholder giving a proxy pursuant to this solicitation may revoke it by giving notice to the Company in writing or in open meeting. All properly executed proxies received by the Board of Directors of the Company pursuant to this solicitation will be voted at the Annual Meeting, in accordance with the directions contained in such proxies. If no directions are given, properly executed proxies will be voted FOR the election of the nominees named in this Proxy Statement and FOR the proposals set forth in the Notice, with discretionary authority to vote on all other matters that may properly come before the Annual Meeting or any adjournment or postponement thereof.

The close of business on December 13, 2005 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting. This Proxy Statement and the accompanying President s letter, notice and proxy, together with the Company s annual report to shareholders for the fiscal year ended September 30, 2005, are first being sent to shareholders on or about December 29, 2005.

VOTING RIGHTS

As of the close of business on December 13, 2005, there were outstanding 14,315,164 Common Shares, without par value, of the Company (Common Shares) and 2,150,502 Class B Common Shares, without par value, of the Company (Class B Common Shares). The holders of outstanding Common Shares on that date will be entitled to one vote for each share held, and the holders of outstanding Class B Common Shares on that date will be entitled to ten votes for each share held. Proxies received by the Company but marked as abstentions or broker non-votes will not count in favor of, or against, election of a nominee for Director; however, abstentions and broker non-votes may have the effect of a vote against approval of any other matter.

The Ohio Revised Code, as it applies to the Company, provides that if notice in writing is given by any shareholder to the President, a Vice President or the Secretary of the Company not less than 48 hours before the time fixed for holding the meeting that such shareholder desires the voting to elect Directors to be cumulative, and if an announcement of the giving of such notice is made upon the convening of the meeting by the Chairman or the Secretary or by or on behalf of the shareholder giving such notice, then each shareholder shall have cumulative voting rights in the election of Directors, enabling such shareholder to give one nominee for Director as many votes as is equal to the number of Directors to be elected multiplied by the number of shares in respect of which such shareholder is voting, or to distribute votes on the same principle among two or more nominees, as such shareholder sees fit. If cumulative voting is in effect, the persons named in the proxy will vote shares represented thereby so as to elect as many of the ten nominees named herein as possible.

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PRINCIPAL SHAREHOLDERS

Security Ownership of Certain Beneficial Owners

The following persons are known to the Company to be the beneficial owners of more than 5% of the voting securities of the Company as of December 13, 2005:

	Common Shares		Class B Common Shares(1)		
Name of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percent of Class**	**Number of Shares Beneficially Owned**	**Percent of Class**	**Percentage of Total Voting Power**
Joseph P. Keithley	554,386(2)	3.7%	2,130,878(3)	99.1%	60.2%
Barclays Global Investors, N.A. (4)	1,073,822	7.5%			3.0%
The TCW Group, Inc. (5)	720,404	5.0%			2.0%
Bank of America Corporation (6)	713,328	5.0%			2.0%

(1) Pursuant to the Company s Amended Articles of Incorporation, all holders of Class B Common Shares are entitled to convert any or all of their Class B Common Shares into Common Shares at any time, on a share-for-share basis.

(2) Includes Common Shares represented by options exercisable on or before February 11, 2006, by Joseph P. Keithley (501,500 shares). Such shares are deemed to be outstanding for the purpose of computing the percentage of shares outstanding owned by Mr. Keithley and his percentage of total voting power of the Company s capital stock, but are not deemed outstanding for the purpose of computing the percentage of shares held by or total voting power of any other person. Also includes 6,540 shares of restricted stock that are subject to certain vesting requirements and 2,448 shares owned by Mr. Keithley s wife. Mr. Keithley disclaims beneficial ownership with respect to the shares owned by his wife.

(3) Includes 1,954,816 shares owned by a partnership of which Mr. Keithley serves as the general partner, and 46,062 shares owned by a trust of which Mr. Keithley serves as the co-trustee.

(4) Derived from information set forth on a Schedule 13G of Barclays Global Investors, N.A. dated February 14, 2005. Barclay s Global Investors, N.A. reports sole voting power with respect to 610,147 shares, and sole dispositive power with respect to 740,285 shares; and Barclays Global Fund Advisors reports sole voting power with respect to 331,306 shares, and sole dispositive power with respect to 333,537 shares.

(5) Derived from information set forth on a Schedule 13G of The TCW Group, Inc. dated February 9, 2005. The TCW Group, Inc. on behalf of the TCW Business Unit reports shared voting power with respect to 647,239 shares and shared dispositive power with respect to 720,404 shares.

(6) Derived from information contained in a Schedule 13G dated February 11, 2005. Bank of America Corporation reports shared voting power with respect to 700,656 shares and shared dispositive power with respect to 713,328 shares; NB Holdings Corporation reports shared voting power and shared dispositive power with respect

to 81,048 shares; Bank of America, NA reports sole voting power with respect to 2,500 shares, shared voting power with respect to 74,150 shares, sole dispositive power with respect to 5,700 shares and shared dispositive power with respect to 70,950 shares; Banc of America Capital Management, LLC reports sole voting power and sole dispositive power with respect to 70,775 shares; NationsBanc Montgomery Holdings Corporation reports shared voting power and shared dispositive power with respect to 4,398 shares; Banc of America Securities LLC reports sole voting power and sole dispositive power with respect to 4,398 shares; Fleet National Bank reports sole voting power with respect to 73,343 shares, shared voting power with respect to 546,620 shares, sole dispositive power with respect to 82,975 shares and shared dispositive power with respect to 549,305 shares; Columbia Management Group, Inc. reports shared voting power with respect to 546,620 shares and shared dispositive power with respect to 549,265 shares; and Columbia Management Advisors, Inc. reports sole voting power with respect to 546,620 shares and sole dispositive power with respect to 549,265 shares.

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The business address of Mr. Keithley is 28775 Aurora Road, Cleveland, Ohio 44139. The address for Barclays Global Investors, N.A. is 45 Fremont Street, San Francisco, California 94105. The address for The TCW Group, Inc. is 865 South Figueroa Street, Los Angeles, California 90017. The address for Bank of America Corporation is 100 North Tryon Street, Floor 25, Bank of America Corporate Center, Charlotte, North Carolina 28255.

Security Ownership of Management

The beneficial ownership of Common Shares and Class B Common Shares by each of the Company s Directors, nominees for Director, each of the Company s executive officers named in the Summary Compensation Table and by all executive officers and Directors of the Company as a group on December 13, 2005, is set forth in the table below:

	Common Shares		Class B Common Shares(1)		
Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(2)	Percent of Class	Number of Shares Beneficially Owned	Percent of Class	Percentage of Total Voting Power
Brian R. Bachman	75,479	*			*
James T. Bartlett	90,388	*			*
James B. Griswold	70,696	*			*
Leon J. Hendrix, Jr.	121,527	*			*
Brian J. Jackman	12,539	*			*
Joseph P. Keithley	554,386(3)	3.7%	2,130,878(4)	99.1%	60.2%
Dr. N. Mohan Reddy	52,314	*			*
Thomas A. Saponas					
Barbara V. Scherer	20,936	*			*
R. Elton White	71,180	*			*
Mark A. Hoersten	118,298	*			*
John A. Pesec	139,261(5)	1.0%			*
Mark J. Plush	198,727(6)	1.4%			*
Linda C. Rae	157,801	1.1%			*
All executive officers and Directors as a group (18 persons)	2,063,377	12.8%	2,130,878	99.1%	62.2%

* Less than 1%

(1) Pursuant to the Company s Amended Articles of Incorporation, all holders of Class B Common Shares are entitled to convert any or all of their Class B Common Shares into Common Shares at any time, on a share-for-share basis.

(2) Includes Common Shares represented by options exercisable on or before February 11, 2006 by Brian R. Bachman (60,000 shares), James T. Bartlett (60,000 shares), James B. Griswold (40,000 shares), Leon J. Hendrix, Jr. (80,000 shares), Brian J. Jackman (10,000 shares), Joseph P. Keithley (501,500 shares), Dr. N. Mohan Reddy (45,000 shares), Barbara V. Scherer (20,000 shares), R. Elton White (40,000 shares), Mark A. Hoersten (116,700 shares) John A. Pesec (132,250 shares), Mark J. Plush (158,854 shares), Linda C. Rae (157,000 shares), and all officers and Directors as a group (1,757,429 shares). Such shares are deemed to be

outstanding for the purpose of computing the percentage of shares outstanding owned by each of the individuals and all officers and Directors as a group and their percentage of total voting power of the Company s capital stock, respectively, but are not deemed outstanding for the purpose of computing the percentage of shares held by or total voting power of any other person. Also includes restricted shares that are subject to certain vesting requirements for Mr. Keithley (6,540 shares), Mr. Plush (6,912 shares), and all officers and Directors as a group (21,874). Includes shares held under the Keithley Instruments, Inc. 1996 Outside Directors Deferred

Stock Plan for the benefit of Mr. Bachman (12,543 shares), Mr. Bartlett (29,452 shares), Mr. Griswold (28,760 shares), Mr. Hendrix (30,591 shares), Mr. Jackman (1,603 shares), Dr. Reddy (6,378), and Mr. White (30,244 shares), as to which such persons do not have current voting rights.

(3) Includes 2,448 shares owned by Mr. Keithley s wife. Mr. Keithley disclaims beneficial ownership with respect to the shares owned by his wife.

(4) Includes 1,954,816 shares owned by a partnership of which Mr. Keithley serves as the general partner, and 46,062 shares owned by a trust of which Mr. Keithley serves as the co-trustee.

(5) Includes eight shares owned by Mr. Pesec s wife. Mr. Pesec disclaims beneficial ownership with respect to the shares owned by his wife.

(6) Includes 1,251 shares owned by Mr. Plush s son and 36,482 Common Shares represented by options exercisable on or before February 11, 2006 for Mr. Plush s former wife. Mr. Plush may exercise the options solely upon the direction of his former wife who is entitled to the shares issued upon exercise. Mr. Plush disclaims beneficial ownership with respect to the options held for the benefit of his former wife.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Keithley s executive officers, Directors and persons who own more than 10% of Keithley s common shares to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are required to provide the Company with copies of all Section 16(a) forms that they file. Based solely on the Company s review of these forms and written representations from the executive officers and Directors, the Company believes that all Section 16(a) filing requirements were met during fiscal year 2005.

PROPOSAL ONE: TO FIX THE NUMBER OF DIRECTORS AT TEN

The Company s Code of Regulations provides that the number of Directors shall be fixed by the shareholders at no fewer than three. The number of Directors is currently fixed at nine. It is expected that two current Directors will retire within the next two years, and the Board believes that it is desirable to elect a new Director at this time in order to provide continuity. Therefore, the Board believes it desirable to increase the Board to ten members.

Under the Company s Code of Regulations, the affirmative vote of a majority of the issued and outstanding shares of the Company represented at the meeting is required for approval.

The Board of Directors recommends that the shareholders vote FOR this proposal.

PROPOSAL TWO: ELECTION OF DIRECTORS

At the Annual Meeting, or any adjournment or postponement thereof, Common Shares and Class B Common Shares represented by proxies, unless otherwise specified, will be voted for the election as Directors of the ten persons named below who have been nominated by the Board of Directors following the recommendation of the Board s Nominating and Corporate Governance Committee.

Each of the Directors to be elected at the meeting is to serve until the next Annual Meeting and until his successor shall have been duly elected and qualified. Pursuant to the Company s Amended Articles of Incorporation (the Articles), one-fourth (calculated to the nearest whole number) of the number of authorized Directors, is entitled to be elected by the Common Shares voting separately as a class. If Proposal One is approved the number of Directors will be fixed at ten and three Directors will be elected by the holders of the Common Shares. Messrs. Bachman, Jackman and Reddy have been nominated as the Directors to be so elected by the holders of the Common Shares of the Company. If Proposal One does not pass the holders of the Common Shares will be entitled to elect two Directors. The remaining seven nominees are to be elected by the holders of the Common Shares and the Class B Common Shares voting together. The three nominees (or two nominees if Proposal One does not pass) receiving the greatest number of votes of the Common Shares voting separately as a class, and the seven other nominees receiving the greatest number of

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votes of the Common Shares and the Class B Common Shares voting together without regard to class, will be elected as Directors.

Each of the nominees, with the exception of Mr. Saponas, is presently a member of the Board of Directors and each has indicated his willingness to serve as a Director, if elected. If any nominee at the time of election is unable or unwilling to serve or is otherwise unavailable for election (which contingency is not now contemplated or foreseen), it is intended that the shares represented by proxies will be voted for the election of any substitute nominee that may be named by the Board of Directors.

Nominees for Election

Set forth below is certain information, as of December 13, 2005, with respect to each person nominated for election as a Director.

Name and Age of Nominee	Business Experience	Director Since
Joseph P. Keithley Age 56	Chairman of the Board of the Company since 1991, Chief Executive Officer since November 1993 and President since May 1994. Director of Brush Engineered Materials Inc., which through its subsidiaries supplies beryllium-containing products and other engineered materials for end-use applications within the worldwide telecommunications and computer, automotive electronics, industrial components, optical media, aerospace, defense and appliance markets, and Director of Nordson Corporation, a worldwide producer of precision dispensing equipment and manufacturer of technology-based systems for curing and surface treatment processes.	1986
Brian R. Bachman (1) Age 60	Private Investor. From 2000 to 2002, Mr. Bachman served as the Chief Executive Officer and Vice Chairman of Axcelis Technologies, a worldwide producer of ion implantation, dry strip and photostabilization equipment used in the fabrication of semiconductors. He was also Senior Vice President and Group Executive of Semiconductor Equipment and Specialty Controls of Eaton Corporation from 1996 to 2000, and Vice President of Standard Products Business Group of Philips Semiconductor, a worldwide semiconductor manufacturer for Philips Electronics N.V. from 1991 through 1995. Director of Kulicke and Soffa Industries Inc., a leading supplier of wire bonding equipment in the semiconductor assembly market, and Director of Ultra Clean Technologies, a developer and supplier of critical subsystems for the semiconductor capital equipment industry, focusing on gas delivery systems.	1996

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Name and Age of Nominee	Business Experience	Director Since
James T. Bartlett Age 68	Advising Director since 2002, and Managing Director from 1986 to 2002, of Primus Venture Partners Inc., the manager of Primus Capital Fund and Primus Capital Funds II, III, IV and V, venture capital limited partnerships. Director of Lamson & Sessions Co., a provider of products for the construction and telecommunications industries.	1983
James B. Griswold (2) Age 59	Partner in the law firm of Baker & Hostetler LLP since 1982 concentrating in the areas of mergers and acquisitions, venture capital, financing business negotiations, and assisting entrepreneurs and high-growth companies.	1989
Leon J. Hendrix, Jr. Age 64	Chairman of the Board of Remington Arms Co. since 1997, a manufacturer and marketer of firearms and ammunition. Principal, Clayton, Dubilier & Rice, Inc., a private investment firm, from 1993 to 2000. Chief Operating Officer of Reliance Electric Company from 1992 to 1993, Executive Vice President of Reliance from 1989 to 1992 and Vice President of Corporate Development of Reliance from 1987 to 1989. Reliance Electric is now a part of Rockwell Automation, a worldwide provider of industrial automation power, control and information solutions. Director of NACCO Industries, Inc., a holding company with subsidiaries that manufacture lift trucks and household electrical appliances, mine and market lignite coal and operate specialty retail stores, and Director of Cambrex Corp., a provider of products and services to the life sciences industries. Chairman of Clemson University Board of Trustees.	1990

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Name and Age of Nominee	Business Experience	Director Since
Brian J. Jackman (1) Age 64	President, The Jackman Group, Inc., a management consulting organization formed in 2005. From 1998 until his retirement in 2001, Mr. Jackman served as President, Global Systems and Technology of Tellabs, Inc., which designs, deploys and services optical networking, broadband access and voice-quality enhancement equipment for the telecommunications industry. He also served as Tellab s President of Operations from 1993 to 1998, and held various sales and marketing positions during his tenure. Prior to joining Tellabs, Mr. Jackman held various systems, sales and marketing positions with IBM Corporation, which manufactures and markets advanced information processing products, including computer and microelectronic technology, software and networking systems. Director of PCTEL, Inc., a leading supplier of products which simplify mobile connectivity, and Open Text^{tm} Corporation, a provider of Enterprise Content Management solutions for global organizations. He also serves on the Board of Gannon University.	2005
Dr. N. Mohan Reddy (1) Age 52	Associate Professor of Marketing since 1991 and Keithley Professor of Technology Management since 1996 at the Weatherhead School of Management, Case Western Reserve University. Consultant to firms in the electronics, semiconductor and telecommunications industries on commercializing new technologies and marketing strategy implementation. Director of Brush Engineered Materials, Inc., which through its subsidiaries supplies beryllium-containing products and other engineered materials for end-use applications within the worldwide telecommunications and computer, automotive electronics, industrial components, optical media, aerospace, defense and appliance markets.	2001

Name and Age of Nominee	Business Experience	Director Since
Thomas A. Saponas Age 56	Private Investor. Mr. Saponas served as the Senior Vice President and Chief Technology Officer of Agilent Technologies, Inc. from August 1999 until he retired in October 2003. Prior to Agilent s spin-off from Hewlett-Packard, Saponas was Vice President and General Manager of Hewlett-Packard s Electronic Instruments Group from June 1998 to April 1999. Mr. Saponas joined Hewlett-Packard in 1972 and held a number of other positions prior to those listed. Director of Procera Networks, a global provider of networking infrastructure equipment.	
Barbara V. Scherer Age 49	Senior Vice President Finance & Administration and Chief Financial Officer of Plantronics, Inc. since 1998. Vice President Finance & Administration and Chief Financial Officer from 1997 to 1998. Plantronics is the leading provider of headsets to telephone companies and the business community worldwide. Prior to joining Plantronics, Ms. Scherer held various executive management positions spanning eleven years in the disk drive industry, was an employee with The Boston Consulting Group and was a member of the corporate finance team at ARCO.	2004
R. Elton White Age 63	Private Investor. President of NCR Corporation from 1991 to 1993, Executive Vice President of Marketing of NCR from 1990 to 1991, and Executive Vice President of the United States Group from 1987 to 1990. Director of Kohl s Corporation, which owns specialty department stores.	1994

(1) Elected by holders of Common Shares only.

(2) Baker & Hostetler LLP served as general outside legal counsel to the Company during the fiscal year ended September 30, 2005 and is expected to render services in such capacity to the Company in the future.

INFORMATION REGARDING MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held five meetings during the fiscal year ended September 30, 2005. During that fiscal year no Director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors held during the period he or she served as a Director and (ii) the total number of meetings held by committees of the Board on which he or she served, during the periods that he or she served.

The Company has not established a formal policy regarding director attendance at the Company s annual meeting of shareholders. However, the annual meeting has generally been scheduled on the same day as a regular board meeting. All of the Company s Directors attended the 2005 annual shareholders meeting.

The Company has five standing committees: the Executive Committee, the Audit Committee, the Compensation and Human Resources Committee, the Strategy Committee, and the Nominating and

Corporate Governance Committee. Each of these committees has a written charter approved by the Board of Directors. The Board of Directors has also adopted Corporate Governance Guidelines. A copy of the charters for the Audit Committee, Compensation and Human Resources Committee and Nominating and Corporate Governance Committee and the Corporate Governance Guidelines can be found under the Investor Relations section of our website at www.keithley.com and are also available in print to any shareholder who submits a request to the Company c/o Marcia Miller, Keithley Instruments, Inc., 28775 Aurora Road, Cleveland, Ohio 44139. Additionally, a copy of the charter for the Audit Committee is attached hereto as Appendix A. Set forth below is the current membership of each committee of the Board, with the number of meetings held during the fiscal year ended September 30, 2005, in parentheses.

Executive Committee (one)	**Audit Committee (seven)**	**Compensation and Human Resources Committee (five)**	**Strategy Committee (four)**	**Nominating and Corporate Governance Committee (three)**
Joseph P. Keithley (Chairman)	R. Elton White (Chairman)	Brian R. Bachman (Chairman)	Dr. N. Mohan Reddy (Chairman)	James T. Bartlett (Chairman)
James T. Bartlett	James T. Bartlett	Leon J. Hendrix, Jr.	Brian R. Bachman	Brian R. Bachman
Leon J. Hendrix, Jr.	Dr. N. Mohan Reddy	Brian J. Jackman	James T. Bartlett	Leon J. Hendrix, Jr.
	Barbara V. Scherer	Barbara V. Scherer	James B. Griswold	Brian J. Jackman
		R. Elton White	Leon J. Hendrix, Jr.	
			Brian J. Jackman	
			Joseph P. Keithley	
			Barbara V. Scherer	
			R. Elton White	

The Board has determined that all of the Directors, except for Messrs. Keithley and Griswold, are independent directors within the meaning of New York Stock Exchange listing standards. All of the member of the Board s Audit Committee, Compensation and Human Resources Committee and Nominating and Corporate Governance Committee are independent directors.

The non-management directors meet in executive session without management during each board meeting. The non-management directors have appointed R. Elton White to preside over these executive sessions.

The Executive Committee is authorized to exercise all of the powers of the Board of Directors between meetings of the Board of Directors. All actions of the Executive Committee are reported to the Board of Directors at its first meeting following such action or actions.

The Audit Committee is responsible for assisting the Board in overseeing (i) the integrity of the financial statements of the Company, (ii) the Company s compliance with legal and regulatory requirements, (iii) the Company s independent registered public accounting firm s qualifications and independence, and (iv) the performance of the Company s internal audit function and independent registered public accounting firm. The Board has determined that the Audit Committee financial experts within the meaning of Item 401 of Regulation S-K under the federal securities laws, are Mr. White, Mr. Bartlett and Ms. Scherer.

The Compensation and Human Resources Committee responsibilities are to review and approve the goals and objectives relevant to the compensation of the Company s Chief Executive Officer, other executive officers and other employees who report to the Company s Chief Executive Officer, and to amend these goals and objectives if the Committee deems it appropriate. Toward that end, the committee oversees all compensation, equity and employee benefit plans and payments. The Committee is also responsible for periodically evaluating compensation for members of the Board of Directors and its committees and to review and approve changes in compensation and plans relating to director compensation.

The Strategy Committee is responsible for ensuring that management has in place strategies and action plans as well as useful planning and control systems to enable the Company to meet its objectives.

The Nominating and Corporate Governance Committee is responsible for assisting the Board of Directors in identifying individuals qualified to become Board members; to recommend board committee structure, membership and operations; to develop and recommend to the Board a set of effective corporate governance policies and procedures; and to lead the Board in its annual review of the Board s performance.

The charter of the Nominating and Corporate Governance Committee provides that the Committee shall make recommendations to the Board regarding director nominations, including director candidates recommended by shareholders. If a shareholders wishes to recommend a candidate, they should send their recommendation, with a description of the candidate s qualifications, to: Chairman, Nominating and Corporate Governance Committee, c/o Marcia Miller, Keithley Instruments, Inc., 28775 Aurora Road, Cleveland, Ohio 44139. The Committee has not established specific minimum qualifications a candidate must have in order to be recommended by the Committee. However, in determining qualifications for new directors, the Committee will periodically establish and review Board succession plans, establish the experience and attributes needed to fulfill its responsibilities and work with the Chief Executive Officer to identify management s needs for advice and counsel. A director candidate pool will be established from recommendations from shareholders and the Board of Directors. Additionally, the Nominating and Governance Committee is supplementing this pool through the retention of a board search consultant, which will identify and recruit potential directors. Mr. Saponas was recommended to the Nominating and Governance Committee by the board search consultant.

For fiscal year 2005, directors who were not employees of the Company received an annual fee of $10,000 paid in five installments. Directors received an additional $1,000 for each Board meeting attended and, unless Chairman of a committee, $750 for each committee meeting attended, except for Executive Committee meetings for which no additional fees are paid. The Audit Committee Chairman was paid $2,500 for presiding as Chairman at a committee meeting. The Compensation and Human Resources Committee Chairman was paid $1,500 for presiding as Chairman at a committee meeting. The Strategy Committee and Nominating and Corporate Governance Committee Chairmen were paid $1,250 for presiding as Chairman at a committee meeting. Additionally, under the 1997 Director s Stock Option Plan, non-employee Directors were automatically granted an option to purchase 10,000 Common Shares at the close of each annual meeting of shareholders. The exercise price for each option was the fair market value of a Common Share on the date such option is granted as defined by the Plan. The Board of Directors could, in its sole discretion, grant additional options under the Plan for newly elected nonemployee Directors. The 1997 Director s Stock Option Plan would have expired by its terms on February 15, 2007; however, the Board of Directors terminated this Plan on December 8, 2005.

Beginning October 1, 2005, the Compensation and Human Resources Committee of the Board of Directors approved a new outside-Director compensation program. Under the new program, Directors who are not employees of the Company receive an annual fee of $20,000 paid in four installments. Directors receive an additional $1,000 for each board meeting attended and each committee meeting attended, except for Audit Committee meetings where each Director receives $1,500 for his or her attendance. Furthermore, the Audit Committee Chairman receives an additional annual fee of $10,000 paid in four installments, while the Compensation and Human Resources Committee Chairman, the Strategy Committee Chairman, and the Nominating and Corporate Governance Committee Chairman receive an additional annual fee of $5,000 paid in four installments. Directors may defer their fees under the Keithley Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. Additionally, under the Keithley Instruments Inc. 2002 Stock Incentive Plan, each non-employee Director receives an annual Common Share grant equal to $58,000. The Common Shares are issued on a quarterly basis. New outside-Directors will receive a restricted stock grant worth $75,000 at the time of his or her appointment, which will vest over a 3-year period.

Effective October 1, 2005, the board adopted a stock ownership guideline pursuant to which directors will hold $100,000 worth of Common Shares in the Company. It is expected that the Company s Directors will achieve this ownership level within the next four years, or in the case of new Directors, within four year s of their election.

CODE OF ETHICS

The Company has a Code of Ethics that applies to all employees, executive officers and Directors of the Company, including the Company s principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics includes provisions covering compliance with laws and regulations, insider trading practices, conflicts of interest, confidentiality, protection and proper use of Company assets, accounting and recordkeeping, fair competition and fair dealing, business gifts and entertainment, payments to government personnel, and the reporting of illegal or unethical behavior. The Code of Ethics is posted on the Company s website and is available in print to any shareholder submitting a request to the Company c/o Marcia Miller, Keithley Instruments, Inc., 28775 Aurora Road, Cleveland, Ohio 44139. Any waiver of any provision of the code granted to an executive officer or Director may only be made by the Board of Directors or a Committee of the Board authorized to do so and will be promptly disclosed on the Company s website at *www.keithley.com*.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation and Human Resources Committee Report

The Company s Board of Directors has delegated to the Compensation and Human Resources Committee (the Committee) the responsibility of evaluating and establishing the amounts of compensation paid to officers. The Committee is composed entirely of outside Directors.

The guiding philosophy of the Company s executive compensation program is to attract, motivate, develop and retain highly qualified leaders to direct and grow the Company. The guideline for compensation of officers is that, in general, it should be between 80% and 120% of median compensation for similar positions at peer companies as determined by the Committee s independent compensation consultant.

The compensation for each officer is set based upon independent benchmark data from the Committee s compensation consultant. The consultant provides current information on the range of compensation paid to individuals who hold similar positions or have similar responsibilities within companies or divisions of companies of similar size in the electronics industry. Some of these companies are in the S&P Information Technology Sector Index used in the performance graph on page 16. We specifically benchmark data on base salaries, short-term incentives, and long-term incentives, as well as emerging trends in the mix and character of the compensation elements.

The current program provides for a salary that is based upon individual responsibility and performance, an annual bonus that is based upon the attainment of corporate performance goals, and long-term incentives in the form of equity.

The annual bonus paid to each officer is determined as follows. The Committee, based on independent benchmark data determines a target bonus to be paid annually. A mix of corporate financial measures are established each year as performance goals, from which a payout schedule is established. The performance measures for 2005 are Return on Assets and Sales Growth. The actual performance goals and the target bonus levels are set by the Board Compensation Committee to reflect marketplace conditions together with an expectation of continuous improvement.

Non-qualified Stock Options (NQSOs) have been used to provide long-term incentives to officers and other key employees based upon competitive market practices. Generally, options vest in four years, expire in ten years, and have an option price equal to the market price at the time of grant. Beginning in fiscal year 2006, Performance Award Units will be a primary long-term incentive program for officers going forward. The performance awards agreements provide for the award of performance units with each unit representing the right to receive one share of the Company s common shares to be issued after the applicable award period. The award vests over a 3-year performance period, based on revenue growth relative to the Company s peers and return on assets or return on invested capital. The final amount of units earned pursuant to an award may range from a maximum of twice the initial award, as specified in the agreement, to a minimum of no units depending upon the level of attainment of performance threshold based upon return on assets or return on invested capital. NQSOs will continue to be used to provide a long-term stake in increasing shareholder value. Finally, Restricted Shares are used for retention of other key employees, and generally will have a 4-year vesting period. The mix of equity incentives was established to meet the objectives of focusing on growth relative to our peers while earning our cost of capital through the business cycle, retaining key employees, and continuing to align our awards with shareholder interests, while limiting the potential dilution of such programs.

Chief Executive Officer Compensation

The Compensation and Human Resources Committee determined Mr. Keithley s compensation for fiscal 2005 based upon a number of criteria. The Committee considered compensation for CEOs from the independent benchmark data, and the performance of the Company in sales and level of profits. In addition, the Committee s assessment of Mr. Keithley s performance relative to his annual individual performance objectives, which are mutually set at the beginning of each year, is the basis for establishing his compensation level. In 2004, the Committee specifically recognized Mr. Keithley s superior performance in developing leaders and an effective organization, the organizational commitment to superior long term growth through new product innovation, operational excellence, and a clear focus on superior profitability.

Mr. Keithley s annual salary was increased by three percent in January 2005. Mr. Keithley s base salary is comparable to others in equivalent positions in the electronics industry. Mr. Keithley received a bonus for fiscal 2005 of $109,481, based upon the Company s performance measured by sales growth and return on assets goals.
Mr. Keithley did not receive a stock option grant during fiscal 2005, as the Company changed its long-term incentive program to issue its equity-based compensation awards at the beginning of its fiscal year.

Compensation and Human Resources Committee

Brian R. Bachman, Chairman
R. Elton White
Brian Jackman
Leon J. Hendrix
Barbara Scherer

Employment Agreements with Named Executive Officers of the Company. Pursuant to an employment agreement which was entered into on April 7, 1994, Mr. Plush is required to be compensated at the rate of at least $109,800 per year. Mr. Plush s agreement initially covered a three-year period and is automatically renewable for one-year periods thereafter.

Retirement Plan. The Company s United States pension plan provides retirement benefits to eligible participants who terminate employment at or after age 65, or who terminate employment before age 65 with at least five years of service. Benefits commence after termination of employment, but generally not before age 55. Retirement benefits are computed on the basis of pension credits for each year of the employee s service. Generally, an employee s pension credits will be equal to the sum of (i) 0.9% of the employee s high five-year average annual compensation, not in excess of the employee s Social Security covered compensation (as defined by Section 401(I)(5)(E) of the Internal Revenue Code) as of September 30, 1999, plus 1.5% of such average annual compensation in excess of covered compensation, with such sum multiplied by the employee s years of credited service (up to 30 years) through September 30, 1999; plus (ii) 1.2% of the employee s annual compensation for each plan year beginning on or after October 1, 1999. The employee s annual retirement benefit, when paid as a life annuity commencing at age 65, will equal the total of the pension credits he has earned. If the individuals listed in the compensation table were to continue to be employees until their attainment of age 65 at the rate of compensation they received during fiscal 2005, their annual retirement benefits would be as follows: Mr. Keithley, $93,100; Ms. Rae, $82,700; Mr. Plush, $66,600; Mr. Pesec, $79,800, and Mr. Hoersten, $85,700.

Table of Contents

The following table sets forth information concerning the compensation of the Chief Executive Officer of the Company and the four most highly compensated executive officers of the Company as of September 30, 2005, for the fiscal years ended September 30, 2005, 2004 and 2003.

SUMMARY COMPENSATION TABLE