

KEITHLEY INSTRUMENTS INC

Form 11-K

June 24, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 11-K
FOR ANNUAL REPORTS OF EMPLOYEE STOCK
REPURCHASE SAVINGS AND SIMILAR PLANS
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

**Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2008**

OR

**Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934.
Commission File Number 1-9965**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

KEITHLEY INSTRUMENTS, INC.

RETIREMENT SAVINGS TRUST AND PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

KEITHLEY INSTRUMENTS, INC.

28775 AURORA ROAD

CLEVELAND, OHIO 44139

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**KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST
AND PLAN
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULE**

DECEMBER 31, 2008 AND 2007

KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
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AND SUPPLEMENTAL SCHEDULE

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator
of the Keithley Instruments, Inc.
Retirement Savings Trust and Plan
Cleveland, Ohio

We have audited the accompanying statements of net assets available for plan benefits for the Keithley Instruments, Inc. Retirement Savings Trust and Plan as of December 31, 2008 and 2007, the related statement of changes in net assets available for plan benefits for the year ended December 31, 2008, and the supplemental schedule of assets (held at end of year) as of December 31, 2008. These financial statements and supplemental schedule are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements and supplemental schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and supplemental schedule referred to above present fairly, in all material aspects, the net assets available for plan benefits of the Keithley Instruments, Inc. Retirement Savings Trust and Plan as of

December 31, 2008 and 2007, and the changes in net assets available for plan benefits for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.
/s/ SS&G Financial Services, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Cleveland, Ohio
June 24, 2009

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
Investments, at fair value (See Note 3)	\$ 39,165,207	\$ 53,963,753
Participant loans	241,843	232,616
Total investments	39,407,050	54,196,369
Receivables:		
Employer contribution	41,248	42,956
Participant contributions	159,624	221,387
Dividends and interest	23,142	19,164
Total receivables	224,014	283,507
NET ASSETS AVAILABLE FOR PLAN BENEFITS AT FAIR VALUE	39,631,064	54,479,876
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	386,608	
NET ASSETS AVAILABLE FOR PLAN BENEFITS	\$ 40,017,672	\$ 54,479,876

The accompanying notes are an integral part of these financial statements.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2008

Changes to net assets attributed to:	
Investment (loss) income:	
Net depreciation of investments	\$ (16,717,101)
Dividends and interest	589,027
Total investment loss	(16,128,074)
Contributions:	
Employer	502,209
Participants	3,287,258
Rollovers	108,182
Total contributions	3,897,649
	(12,230,425)
Deductions from net assets attributed to:	
Distributions to participants	(2,214,064)
Administrative expenses	(17,715)
Total deductions	(2,231,779)
Net decrease	(14,462,204)
Net assets available for plan benefits at beginning of year	54,479,876
Net assets available for plan benefits at end of year	\$ 40,017,672

The accompanying notes are an integral part of these financial statements.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 1 PLAN DESCRIPTION:

The following description of the Keithley Instruments, Inc. Retirement Savings Trust and Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

Participation

The Plan is a defined contribution plan, established on January 1, 1988, covering all domestic employees of Keithley Instruments, Inc. and its participating subsidiaries (the Company) that have attained age twenty-one. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) as amended.

Administration

The Plan is administered by the Company (the Administrator). The administration of the Plan includes exercising all necessary powers as provided by the Plan to interpret and apply the Plan provisions. The Company has the right to settle claims or debts and to defend any claims arising from the operation of the Plan. The Charles Schwab Trust Company (Schwab) is the trustee and acts as the custodian of the Plan.

Contributions

Participants may elect to contribute up to 25% of their compensation and have the option of contributing their profit sharing award, if any, on a pre-tax basis subject to certain limitations of the Internal Revenue Code.

The Company provided a base matching contribution equal to 25% on the first 6% contributed by the participant and may provide an additional discretionary supplemental match, based on the financial performance of the Company, of up to an additional 25% on the first 6% contributed by the participant. The Company elected to match 25% of each dollar of pre-tax contributions up to 6% of participants compensation for 2008 and 2007. The Company s Board of Directors has complete discretion to determine its matching contribution, if any, each year. As of January 1, 2009, the Company suspended the base matching contribution.

The Company may make additional supplemental profit sharing contributions to the Plan. All eligible U.S. employees, as defined, may receive these profit sharing contributions if they are actively employed as of December 31. No additional supplemental profit sharing contributions were made to the Plan during 2008.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
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Participant accounts

Each participant has two separate accounts under each fund in which contributions have been invested on behalf of the participant. One account represents the participant's contributions and earnings thereon (Participant Account) and the other account represents the employer's contributions, made on behalf of the respective participant, and the earnings thereon (Employer Account). Forfeitures of terminated participants' nonvested employer account balances are used to reduce future employer contributions.

Net assets available for Plan benefits of \$13,927 and \$3,522 were not allocated to participants' accounts at December 31, 2008 and 2007, respectively, due to forfeitures during each Plan year.

Vesting

Participants are immediately vested in their voluntary contributions plus earnings thereon. Vesting of the employer contributions begins at the conclusion of one year of service and vests ratably based on years of service. A participant is 100% vested after three years of credited service.

Payment of benefits

Upon termination of service, a participant may elect to receive either a lump-sum amount equal to the value of his or her account, or installment payments. In the case of a severe financial hardship, the Administrator, at its sole discretion, may direct distribution of all or a portion of a participant's account, subject to certain restrictions.

Participant loans

In the case of a financial hardship as defined by the Plan, a participant may apply to the Administrator for a loan. The Administrator, in accordance with a uniform, nondiscriminatory policy, may direct the custodian to make a loan to a participant from their before-tax contribution account, subject to certain restrictions. Loans outstanding as of December 31, 2008 and 2007 bear interest rates ranging from 6.0% to 10.25% per annum.

Termination provisions

The Company anticipates and believes that the Plan will continue; however, the Company reserves the right to terminate the Plan at any time by an action of its Board of Directors. In the event of termination of the Plan, the assets then remaining will be allocated and distributed to participants in accordance with the terms and provisions of the Plan.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following is a summary of the significant accounting policies of the Plan as sponsored by the Company.

Basis of accounting

The accompanying financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for Plan benefits and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for Plan benefits during the reporting period. Actual results could differ from those estimates.

Benefit distributions

Distributions are recognized during the period in which they are paid to a Plan participant.

Investment valuation

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

The Plan has adopted Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP). The FSP requires that investment contracts held by a defined-contribution plan be reported at fair value. However, contract value is the relevant measurement attribute for that portion of net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, the Statement of Net Assets Available for Plan Benefits presents the fair value of the investment in the common / collective trusts as well as the adjustment for the fully benefit responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Plan Benefits is prepared on a contract value basis.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

Administrative expenses

Administrative expenses of the Plan are paid by the Company, except for Personal Choice Retirement Account fees and other specific fund expenses.

Risks and uncertainties

The Plan provides for various investment options through the use of mutual funds and personal choice brokerage accounts. Investment securities are exposed to various risks, such as interest rate and market fluctuations. Due to the level of risk associated with certain investment securities, as well as the level of uncertainty related to changes in the value of the investment securities, it is possible that changes in the near term could materially affect participants account balances and the amounts reported in the financial statements.

NOTE 3 FAIR VALUE MEASUREMENTS:

On January 1, 2008, the Plan adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements in accordance with accounting principles generally accepted in the United States of America. SFAS 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

SFAS 157 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobserved inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the net asset value of shares held by the Plan at year-end.

Personal Choice Retirement Accounts: Included within the Personal Choice Retirement Account are cash and cash equivalents, common stocks, mutual funds, and unit investment trusts. Common stocks, mutual funds, and unit investment trusts are valued at the closing price reported on the active market on which the individual investments are traded.

Common/collective trust: Valued at net asset value of units held by the Plan at year-end.

Participant loans: Valued at amortized cost, which approximates fair value.

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2008:

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 25,073,361	\$	\$	\$ 25,073,361
Common collective trusts		11,381,154		11,381,154
Personal Choice Retirement Accounts	2,710,692			2,710,692
Participant loans			241,843	241,843
Balance at December 31, 2008	\$ 27,784,053	\$ 11,381,154	\$ 241,843	\$ 39,407,050

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Participant Loans
Balance, beginning of year	\$ 232,616
Purchases, sales, issuances, settlements, net	9,227
Balance, end of year	\$ 241,843

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS:

The mix of funds available to participants for investment purposes allows for ease in participant selections and provides for appropriate diversification. A total of 19 funds are available to participants for investment purposes. Schwab manages the distribution of assets among funds and provides record keeping services. Additionally, participants may choose to invest in any stock listed on a major U.S. exchange, mutual funds, bonds and other fixed-income investments, and money market funds through the use of a Personal Choice Retirement Account. The following table presents the fair value of the individual investments that represent 5% or more of the Plan's net assets:

	December 31,	
	2008	2007
Allianz RCM Global Technology	\$ 1,523,638	\$ 3,260,929
Dreyfus Midcap Index Fund	1,979,555	3,107,027
EuroPacific Growth R3	3,046,494	5,164,671
Marsico Focus Fund	3,423,652	5,681,087
Pimco Total Return Fund Class D	3,030,794	2,617,393
Schwab Managed Retirement 2020	2,051,588	2,615,229
Schwab S&P 500 Fund	4,917,825	7,492,847
Schwab Stable Value Fund	7,963,465	6,492,992
T. Rowe Price New Horizons Fund	1,659,986	2,791,133
During 2008, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$16,717,101.		
Registered Investment Companies		\$ (15,522,857)
Common/Collective Trust		(1,194,244)
		\$ (16,717,101)

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 5 RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500:

As discussed in the valuation of investment section of Note 2, the financial statements report the value of the Plan's stable value fund investment at contract value whereas the Form 5500 reports at fair value.

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500:

	December 31, 2008
Net assets available for plan benefits per the financial statements	\$ 40,017,672
Adjustment from contract value to fair value for fully benefit responsive investment contracts	(386,608)
Net assets per the Form 5500	\$ 39,631,064

The following is a reconciliation of the decrease in net assets per the financial statements to the Form 5500:

	Year Ended December 31, 2008
Decrease in net assets per the financial statements	\$ (14,462,204)
Adjustment from contract value to fair value for fully benefit responsive investment contracts	(386,608)
Decrease in net assets per the Form 5500	\$ (14,848,812)

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KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 6 FEDERAL INCOME TAX STATUS:

On November 21, 2008, the Internal Revenue Service advised that the Plan, as amended, is qualified and the trust thereunder is exempt from federal income tax pursuant to the applicable requirements of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan's Administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

NOTE 7 PARTY-IN-INTEREST TRANSACTIONS:

At December 31, 2008 and 2007, the Plan held shares of mutual funds managed by an affiliate of The Charles Schwab Trust Company, Trustee to the Plan. In addition, at December 31, 2008 and 2007, the Plan held 58,116 and 8,071 shares of Keithley Instruments, Inc. Common Stock, valued at \$212,124 and \$78,131, respectively. Transactions involving these investments are allowable party-in-interest transactions under ERISA.

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Schedule I

KEITHLEY INSTRUMENTS, INC.
EIN # 34-0794417
PLAN NUMBER 003
RETIREMENT SAVINGS TRUST AND PLAN
SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2008

(a)	(b)	(c)	(e)
	Identity of issue, borrower, lessor, or similar party	Description of investment including maturity date, rates of interest, collateral, par, or maturity value	Current value
	Mutual Funds:		
	Allianz RCM Global Technology	Registered Investment Co.	\$ 1,523,638
	Cohen & Steers Realty Shares	Registered Investment Co.	662,252
	Dreyfus Midcap Index Fund	Registered Investment Co.	1,979,555
	Eaton Vance Income Fund	Registered Investment Co.	784,042
	EuroPacific Growth R3	Registered Investment Co.	3,046,494
	Heartland Value Fund	Registered Investment Co.	618,607
	Marsico Focus Fund	Registered Investment Co.	3,423,652
	PIMCO Total Return Fund Class D	Registered Investment Co.	3,030,794
*	Schwab Managed Retirement 2010	Common/Collective Trust	268,283
*	Schwab Managed Retirement 2020	Common/Collective Trust	2,051,588
*	Schwab Managed Retirement 2030	Common/Collective Trust	607,566
*	Schwab Managed Retirement 2040	Common/Collective Trust	384,783
*	Schwab Managed Retirement	Common/Collective Trust	105,469
*	Schwab S&P 500 Fund	Registered Investment Co.	4,917,825
*	Schwab Stable Value Fund	Common/Collective Trust	7,963,465
*	Schwab Total Stock Market Index Fund	Registered Investment Co.	1,329,987
	T. Rowe Price New Horizons Fund	Registered Investment Co.	1,659,986
	Van Kampen Comstock Fund Class A	Registered Investment Co.	896,412
	Vanguard Small Cap Index Fund	Registered Investment Co.	1,200,117
	Total Mutual Funds		36,454,515
	Personal Choice Retirement Accounts:		
*	Keithley Instruments, Inc.		212,124
	Other Participant Directed Investments		2,498,568
	Total Personal Choice Retirement Accounts		2,710,692
*	Participant Loans	6.0% to 10.25%	241,843

Total Investments

\$ 39,407,050

(*) Denotes an
allowable party
in interest

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

KEITHLEY INSTRUMENTS, INC.
RETIREMENT SAVINGS TRUST AND
PLAN
(Name of Plan)

Date: June 24, 2009

/s/ Mark J. Plush
Mark J. Plush
Vice President and Chief Financial Officer
Keithley Instruments, Inc., Plan Administrator

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EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm