

BRADY CORP  
Form 10-Q  
June 07, 2011

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended April 30, 2011**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission File Number 1-14959**  
**BRADY CORPORATION**  
(Exact name of registrant as specified in its charter)

**Wisconsin**

**39-0178960**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**6555 West Good Hope Road, Milwaukee, Wisconsin 53223**

(Address of principal executive offices)

(Zip Code)

**(414) 358-6600**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 31, 2011, there were outstanding 49,278,752 shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.



FORM 10-Q  
BRADY CORPORATION  
INDEX

Page

PART I. Financial Information

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets 3

Condensed Consolidated Statements of Income 4

Condensed Consolidated Statements of Cash Flows 5

Notes to Condensed Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 18

Item 3. Quantitative and Qualitative Disclosures About Market Risk 26

Item 4. Controls and Procedures 26

PART II. Other Information

Item 6. Exhibits 27

EX-10.1

EX-10.2

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**BRADY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(DOLLARS IN THOUSANDS)

	<b>April 30, 2011</b>	<b>July 31, 2010</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 373,978	\$ 314,840
Accounts receivable net	235,634	221,621
Inventories:		
Finished products	59,727	52,906
Work-in-process	14,741	13,146
Raw materials and supplies	28,034	28,620
Total inventories	102,502	94,672
Prepaid expenses and other current assets	39,614	37,839
<b>Total current assets</b>	<b>751,728</b>	<b>668,972</b>
<b>Other assets:</b>		
Goodwill	799,395	768,600
Other intangible assets	96,386	103,546
Deferred income taxes	52,744	39,103
Other	19,633	20,808
<b>Property, plant and equipment:</b>		
Cost:		
Land	6,416	6,265
Buildings and improvements	103,060	101,138
Machinery and equipment	302,017	289,727
Construction in progress	13,601	9,873
	425,094	407,003
Less accumulated depreciation	284,334	261,501
<b>Property, plant and equipment net</b>	<b>140,760</b>	<b>145,502</b>
<b>Total</b>	<b>\$ 1,860,646</b>	<b>\$ 1,746,531</b>

**LIABILITIES AND STOCKHOLDERS INVESTMENT****Current liabilities:**

Accounts payable	\$ 90,621	\$ 96,702
Wages and amounts withheld from employees	67,316	67,285
Taxes, other than income taxes	9,061	7,537
Accrued income taxes	17,399	10,138
Other current liabilities	65,300	50,862
Current maturities on long-term obligations	61,264	61,264

<b>Total current liabilities</b>	310,961	293,788
<b>Long-term obligations, less current maturities</b>	351,789	382,940
<b>Other liabilities</b>	65,741	64,776
<b>Total liabilities</b>	728,491	741,504
<b>Stockholders' investment:</b>		
Class A nonvoting common stock Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 49,226,952 and 48,875,716 shares, respectively	513	513
Class B voting common stock Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	308,908	304,205
Earnings retained in the business	769,081	718,512
Treasury stock 1,724,535 and 2,175,771 shares, respectively, of Class A nonvoting common stock, at cost	(51,959)	(66,314)
Accumulated other comprehensive income	109,840	50,905
Other	(4,263)	(2,829)
<b>Total stockholders' investment</b>	1,132,155	1,005,027
<b>Total</b>	\$ 1,860,646	\$ 1,746,531

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**BRADY CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in Thousands, Except Per Share Amounts)

	Three Months Ended April 30, (Unaudited)			Nine Months Ended April 30, (Unaudited)		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Net sales	\$ 337,896	\$ 321,887	4.9%	\$ 996,493	\$ 936,202	6.4%
Cost of products sold	170,258	161,690	5.3%	505,333	471,644	7.1%
Gross margin	167,638	160,197	4.6%	491,160	464,558	5.7%
Operating expenses:						
Research and development	10,550	10,709	(1.5%)	32,226	30,950	4.1%
Selling, general and administrative	115,006	111,227	3.4%	332,394	328,638	1.1%
Restructuring charge (See Note J)	1,211	2,347	(48.4%)	6,986	9,597	(27.2%)
Total operating expenses	126,767	124,283	2.0%	371,606	369,185	0.7%
Operating income	40,871	35,914	13.8%	119,554	95,373	25.4%
Other income (expense):						
Investment and other income net	1,428	121	1080.2%	2,892	1,273	127.2%
Interest expense	(5,103)	(5,147)	(0.9%)	(16,640)	(15,472)	7.5%
Income before income taxes	37,196	30,888	20.4%	105,806	81,174	30.3%
Income taxes	8,607	7,193	19.7%	26,737	20,810	28.5%
Net income	\$ 28,589	\$ 23,695	20.7%	\$ 79,069	\$ 60,364	31.0%
Per Class A Nonvoting Common Share:						
Basic net income	\$ 0.54	\$ 0.45	20.0%	\$ 1.50	\$ 1.15	30.4%
Diluted net income	\$ 0.54	\$ 0.45	20.0%	\$ 1.49	\$ 1.14	30.7%
Dividends	\$ 0.18	\$ 0.175	2.9%	\$ 0.54	\$ 0.525	2.9%
Per Class B Voting Common Share:						
Basic net income	\$ 0.54	\$ 0.45	20.0%	\$ 1.48	\$ 1.13	31.0%

Edgar Filing: BRADY CORP - Form 10-Q

Diluted net income	\$	0.54	\$	0.45	20.0%	\$	1.47	\$	1.12	31.3%
Dividends	\$	0.18	\$	0.175	2.9%	\$	0.523	\$	0.508	3.0%

Weighted average common  
shares outstanding (in  
thousands):

Basic	52,701	52,427	52,581	52,378
Diluted	53,337	52,873	53,067	52,971

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents**

BRADY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Dollars in Thousands)

	Nine Months Ended April 30, (Unaudited)	
	2011	2010
Operating activities:		
Net income	\$ 79,069	\$ 60,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,522	40,276
Non-cash portion of restructuring charges	2,155	1,455
Non-cash portion of stock-based compensation expense	9,396	7,574
Gain on the divestiture of business	(4,394)	
Deferred income taxes	(9,018)	(4,582)
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):		
Accounts receivable	211	(17,192)
Inventories	(1,491)	3,887
Prepaid expenses and other assets	772	(5,273)
Accounts payable and accrued liabilities	(8,355)	31,493
Income taxes	4,579	152
Net cash provided by operating activities	110,446	118,154
Investing activities:		
Acquisition of businesses, net of cash acquired	(7,970)	(30,431)
Divestiture of business, net of cash retained in business	12,979	
Payments of contingent consideration	(979)	
Purchases of property, plant and equipment	(13,671)	(20,927)
Other	(379)	1,197
Net cash used in investing activities	(10,020)	(50,161)
Financing activities:		
Payment of dividends	(28,500)	(27,560)
Proceeds from issuance of common stock	7,154	3,494
Principal payments on debt	(42,514)	(26,143)
Income tax benefit from the exercise of stock options and deferred compensation distribution	1,075	182
Net cash used in financing activities	(62,785)	(50,027)
Effect of exchange rate changes on cash	21,497	984
Net increase in cash and cash equivalents	59,138	18,950
Cash and cash equivalents, beginning of period	314,840	188,156

Edgar Filing: BRADY CORP - Form 10-Q

Cash and cash equivalents, end of period	\$ 373,978	\$ 207,106
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 16,379	\$ 18,217
Income taxes, net of refunds	26,695	18,296
Acquisitions:		
Fair value of assets acquired, net of cash and goodwill	\$ 4,624	\$ 15,366
Liabilities assumed	(1,446)	(5,201)
Goodwill	4,792	20,266
Net cash paid for acquisitions	\$ 7,970	\$ 30,431

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**BRADY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Nine Months Ended April 30, 2011

(Unaudited)

(In thousands, except share and per share amounts)

**NOTE A Basis of Presentation**

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the Company or Brady) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of April 30, 2011 and July 31, 2010, its results of operations for the three and nine months ended April 30, 2011 and 2010, and its cash flows for the nine months ended April 30, 2011 and 2010. The condensed consolidated balance sheet as of July 31, 2010 has been derived from the audited consolidated financial statements of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended July 31, 2010.

The Company has reclassified certain prior year financial statement amounts to conform to their current year presentation. The operating activities including Other, Other liabilities, and Accounts payable and accrued liabilities which were previously disclosed as single line items, have been combined and reported as Accounts payable and accrued liabilities on the Condensed Consolidated Statement of Cash Flows for the nine months ended April 30, 2011 and 2010. These reclassifications had no effect on total assets, net income, or earnings per share.

**NOTE B Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the nine months ended April 30, 2011, are as follows:

	<b>Americas</b>	<b>Europe</b>	<b>Asia-Pacific</b>	<b>Total</b>
Balance as of July 31, 2010	\$ 425,018	\$ 163,189	\$ 180,393	\$ 768,600
Current year acquisitions			4,792	4,792
Current year divestitures	(3,696)	(8,380)		(12,076)
Translation adjustments	4,203	18,847	15,029	38,079
Balance as of April 30, 2011	\$ 425,525	\$ 173,656	\$ 200,214	\$ 799,395

Goodwill increased \$30,795 during the nine months ended April 30, 2011. Of the \$30,795 increase, \$38,079 was due to the positive effects of foreign currency translation and \$4,792 resulted from the acquisition of ID Warehouse during the second quarter of fiscal 2011. The increase was offset by a \$12,076 decrease in goodwill as a result of the divestiture of the Company's Teklynx business during the second quarter of fiscal 2011. See Note L, Acquisitions and Divestitures for further discussion.

**Table of Contents**

Other intangible assets include patents, trademarks, customer relationships, non-compete agreements and other intangible assets with finite lives being amortized in accordance with accounting guidance for goodwill and other intangible assets. The net book value of these assets was as follows:

	April 30, 2011				July 31, 2010			
	Weighted Average Amortization	Gross			Weighted Average Amortization	Gross		
	Period (Years)	Carrying Amount	Accumulated Amortization	Net Book Value	Period (Years)	Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$ 9,687	\$ (8,452)	\$ 1,235	5	\$ 9,314	\$ (7,855)	\$ 1,459
Trademarks and other	7	9,434	(6,505)	2,929	7	8,823	(5,685)	3,138
Customer relationships	7	164,840	(115,293)	49,547	7	152,720	(95,996)	56,724
Non-compete agreements	4	13,523	(12,709)	814	4	11,930	(11,059)	871
Other	4	2,731	(2,723)	8	4	3,309	(3,297)	12
Unamortized other intangible assets:								
Trademarks	N/A	41,853		41,853	N/A	41,342		41,342
Total		\$ 242,068	\$ (145,682)	\$ 96,386		\$ 227,438	\$ (123,892)	\$ 103,546

The value of goodwill and other intangible assets in the Condensed Consolidated Balance Sheet at April 30, 2011 differs from the value assigned to them in the allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar between the date of acquisition and April 30, 2011. The acquisition completed during the nine months ended April 30, 2011 increased the customer relationships by \$1,846 and increased the amortizable trademarks by \$487. See Note L, Acquisitions and Divestitures for further discussion.

Amortization expense on intangible assets was \$5,117 and \$5,160 for the three-month periods ended April 30, 2011 and 2010, respectively and \$15,387 and \$16,395 for the nine-month periods ended April 30, 2011 and 2010, respectively. Annual amortization is projected to be \$20,740, \$16,794, \$10,959, \$5,941 and \$5,531 for the years ending July 31, 2011, 2012, 2013, 2014 and 2015, respectively.

**NOTE C Comprehensive Income**

Total comprehensive income for the periods presented was as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2011	2010	2011	2010
Net Income	\$ 28,589	\$ 23,695	\$ 79,069	\$ 60,364
Unrealized (loss) gain on cash flow hedges	(315)	110	(1,206)	63
Amortization of gain on post-retirement medical, dental and vision plan	(31)	(63)	(126)	(208)

Edgar Filing: BRADY CORP - Form 10-Q

Foreign currency translation adjustments	30,512	(1,758)	60,267	4,092
Total comprehensive income	\$ 58,755	\$ 21,984	\$ 138,004	\$ 64,311

The increase in total comprehensive income for the quarter ended April 30, 2011 as compared to April 30, 2010 was primarily due to the depreciation of the U.S. dollar against other currencies.

**Table of Contents****NOTE D Net Income Per Common Share**

In June 2008, the Financial Accounting Standards Board ( FASB ) issued accounting guidance addressing whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share. This guidance requires that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends be considered participating securities in undistributed earnings with common shareholders. The Company adopted the guidance during the first quarter of fiscal 2010. As a result, the dividends on the Company's performance-based restricted shares are included in the basic and diluted earnings per share calculations for the respective periods presented.

Reconciliations of the numerator and denominator of the basic and diluted per share computations for the Company's Class A and Class B common stock are summarized as follows:

	<b>Three Months Ended April</b>		<b>Nine Months Ended April</b>	
	<b>2011</b>	<b>30, 2010</b>	<b>2011</b>	<b>30, 2010</b>
Numerator:				
Net income (numerator for basic and diluted Class A net income per share)	\$ 28,589	\$ 23,695	\$ 79,069	\$ 60,364
Less:				
Restricted stock dividends	(56)	(37)	(168)	(111)
Numerator for basic and diluted Class A net income per share	\$ 28,533	\$ 23,658	\$ 78,901	\$ 60,253
Less:				
Preferential dividends			(820)	(816)
Preferential dividends on dilutive stock options			(6)	(11)
Numerator for basic and diluted Class B net income per share	\$ 28,533	\$ 23,658	\$ 78,075	\$ 59,426
Denominator:				
Denominator for basic net income per share for both Class A and Class B	52,701	52,427	52,581	52,378
Plus: Effect of dilutive stock options	636	446	486	593
Denominator for diluted net income per share for both Class A and Class B	53,337	52,873	53,067	52,971
Class A Nonvoting Common Stock net income per share:				
Basic	\$ 0.54	\$ 0.45	\$ 1.50	\$ 1.15
Diluted	\$ 0.54	\$ 0.45	\$ 1.49	\$ 1.14

Class B Voting Common Stock net income per share:

Edgar Filing: BRADY CORP - Form 10-Q

Basic	\$	0.54	\$	0.45	\$	1.48	\$	1.13
Diluted	\$	0.54	\$	0.45	\$	1.47	\$	1.12

Options to purchase approximately 2,500,000 and 3,100,000 shares of Class A Nonvoting Common Stock for the three and nine months ended April 30, 2011, respectively, and 2,800,000 and 2,700,000 shares of Class A Nonvoting Common Stock for the three and nine months ended April 30, 2010, respectively, were not included in the computations of diluted net income per share because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

**Table of Contents****NOTE E Segment Information**

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Corporate long-term performance is evaluated based on shareholder value enhancement (SVE), which incorporates the cost of capital as a hurdle rate for capital expenditures, new product development, and acquisitions. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology and human resources, which are managed as global functions. Restructuring charges, stock options, interest, investment and other income and income taxes are also excluded when evaluating performance.

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, Europe and Asia-Pacific, has a President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each region has its own distinct operations, is managed by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. The Company has determined that these regions comprise its operating and reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

Intersegment sales and transfers are recorded at cost plus a standard percentage markup. Intercompany profit is eliminated in consolidation. It is not practicable to disclose enterprise-wide revenue from external customers on the basis of product or service.

Following is a summary of segment information for the three and nine months ended April 30, 2011 and 2010:

	<b>Americas</b>	<b>Europe</b>	<b>Asia-Pacific</b>	<b>Total Regions</b>	<b>Corporate And Eliminations</b>	<b>Totals</b>
Three months ended April 30, 2011:						
Revenues from external customers	\$ 149,217	\$ 105,894	\$ 82,785	\$ 337,896	\$	\$ 337,896
Intersegment revenues	9,938	696	5,960	16,594	(16,594)	
Segment profit	38,292	28,938	9,976	77,206	(3,561)	73,645
Three months ended April 30, 2010:						
Revenues from external customers	\$ 144,413	\$ 98,152	\$ 79,322	\$ 321,887	\$	\$ 321,887
Intersegment revenues	11,624	791	4,443	16,858	(16,858)	
Segment profit	33,858	27,472	12,775	74,105	(3,558)	70,547
Nine months ended April 30, 2011:						
Revenues from external customers	\$ 431,216	\$ 301,985	\$ 263,292	\$ 996,493	\$	\$ 996,493
Intersegment revenues	30,729	2,209	18,306	51,244	(51,244)	
Segment profit	108,666	82,165	38,330	229,161	(12,087)	217,074
Nine months ended April 30, 2010:						
Revenues from external customers	\$ 402,255	\$ 289,101	\$ 244,846	\$ 936,202	\$	\$ 936,202
Intersegment revenues	32,657	3,367	13,344	49,368	(49,368)	
Segment profit	90,205	78,281	38,589	207,075	(10,161)	196,914



Edgar Filing: BRADY CORP - Form 10-Q

Following is a reconciliation of segment profit to net income for the three months and nine months ended April 30, 2011 and 2010.

	<b>Three months ended:</b>		<b>Nine months ended:</b>	
	<b>April 30,</b>		<b>April 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Total profit from reportable segments	\$ 77,206	\$ 74,105	\$ 229,161	\$ 207,075
Corporate and eliminations	(3,561)	(3,558)	(12,087)	(10,161)
Unallocated amounts:				
Administrative costs	(31,563)	(32,286)	(90,534)	(91,944)
Restructuring charges	(1,211)	(2,347)	(6,986)	(9,597)
Investment and other income	1,428	121	2,892	1,273
Interest expense	(5,103)	(5,147)	(16,640)	(15,472)
Income before income taxes	37,196	30,888	105,806	81,174
Income taxes	(8,607)	(7,193)	(26,737)	(20,810)
Net income	\$ 28,589	\$ 23,695	\$ 79,069	\$ 60,364

**Table of Contents****NOTE F Stock-Based Compensation**

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock or restricted shares of Class A Nonvoting Common Stock to employees. Additionally, the Company has a nonqualified stock option plan for non-employee directors under which stock options to purchase shares of Class A Nonvoting Common Stock are available for grant. The stock options have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest ratably over a three-year period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Stock options issued under these plans, referred to herein as service-based stock options, generally expire 10 years from the date of grant. The Company also grants stock options to certain executives and key management employees that vest upon meeting certain financial performance conditions over the vesting schedule described above; these options are referred to herein as performance-based stock options. Performance-based stock options expire 10 years from the date of grant. Restricted shares have an issuance price equal to the fair market value of the underlying stock at the date of grant. The Company granted restricted shares in fiscal 2008 and fiscal 2011 that have an issuance price equal to the fair market value of the underlying stock at the date of grant. The restricted shares vest at the end of a five-year period, with respect to the restricted shares issued in fiscal 2008, and ratably at the end of years 3, 4 and 5 with respect to the restricted shares issued in fiscal 2011, and upon meeting certain financial performance conditions; these shares are referred to herein as performance-based restricted shares. As of April 30, 2011, the Company has reserved 5,885,249 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 740,000 shares of Class A Nonvoting Common Stock for future issuance of stock options and restricted shares under the various plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

The Company recognizes the compensation cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense recognized by the Company during the three months ended April 30, 2011 and 2010 was \$2,527 (\$1,541 net of taxes) and \$2,418 (\$1,475 net of taxes), respectively, and expense recognized during the nine months ended April 30, 2011 and 2010 was \$9,396 (\$5,732 net of taxes) and \$7,574 (\$4,620 net of taxes), respectively. As of April 30, 2011, total unrecognized compensation cost related to share-based compensation awards was \$18,384 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.2 years.

The Company has estimated the fair value of its service-based and performance-based option awards granted during the nine months ended April 30, 2011 and 2010 using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

	Nine Months Ended April 30, 2011		Nine Months Ended April 30, 2010	
	Service-Based Option Awards	Performance- Based Option Awards	Service-Based Option Awards	Performance- Based Option Awards
Black-Scholes Option Valuation Assumptions				
Expected term (in years)	5.91	6.57	5.95	6.57
Expected volatility	40.22%	39.39%	39.85%	38.72%
Expected dividend yield	1.94%	1.96%	3.02%	3.02%
Risk-free interest rate	1.65%	2.35%	2.65%	3.03%
Weighted-average market value of underlying stock at grant date	\$ 29.10	28.43	\$ 28.73	28.73
Weighted-average exercise price	\$ 29.10	28.35	\$ 28.73	29.78
Weighted-average fair value of options granted during the period	\$ 9.58	9.87	\$ 8.78	8.70

The Company uses historical data regarding stock option exercise behaviors to estimate the expected term of options granted based on the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company's stock. The expected dividend yield is based on the Company's historical dividend payments and historical yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date for the length of time corresponding to the expected term of the option. The market value is obtained by taking the average of the high and the low stock price on the date of the grant.

The Company granted 100,000 shares of performance-based restricted stock to Frank M. Jaehnert, the Company's President and Chief Executive Officer, in August of 2010, with a grant price and fair value of \$28.35. The Company also granted 210,000 shares of performance-based restricted stock during fiscal 2008, with a grant price and fair value of \$32.83. As of April 30, 2011, 310,000 performance-based restricted shares were outstanding.

The Company granted 465,000 performance-based stock options during the nine months ended April 30, 2011, with a weighted average exercise price of \$28.35 and a weighted average fair value of \$9.87. The Company also granted 897,500 service-based stock options during the nine months ended April 30, 2011, with a weighted average exercise price of \$29.10 and a weighted average fair value of \$9.58.

**Table of Contents**

A summary of stock option activity under the Company's share-based compensation plans for the nine months ended April 30, 2011 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2010	5,108,736	\$ 28.69		
New grants	1,362,500	\$ 28.84		
Exercised	(366,488)	\$ 19.43		
Forfeited or expired	(292,499)	\$ 31.65		
Outstanding at April 30, 2011	5,812,249	\$ 29.16	6.62	\$ 48,729
Exercisable at April 30, 2011	3,359,215	\$ 29.70	5.00	\$ 26,350

There were 3,359,215 and 3,104,089 options exercisable with a weighted average exercise price of \$29.70 and \$28.34 at April 30, 2011 and 2010, respectively. The cash received from the exercise of options during the quarters ended April 30, 2011 and 2010 was \$2,244 and \$1,822, respectively. The cash received from the exercise of options during the nine months ended April 30, 2011 and 2010 was \$7,154 and \$3,494, respectively. The cash received from the tax benefit on stock options exercised during the quarter ended April 30, 2011 and 2010 was \$695 and \$462, respectively. The cash received from the tax benefit on options exercised during the nine months ended April 30, 2011 and 2010 was \$1,398 and \$845, respectively.

The total intrinsic value (defined as the amount by which the fair value of the underlying stock exceeds the exercise price of an option) of options exercised during the nine months ended April 30, 2011 and 2010, based upon the average market price during the period, was \$4,907 and \$2,660, respectively. The total fair value of stock options vested during the nine months ended April 30, 2011 and 2010 was \$6,775 and \$5,294, respectively.

**NOTE G Stockholders' Investment**

In fiscal 2009, the Company's Board of Directors authorized share repurchase plans for the Company's Class A Nonvoting Common Stock. The share repurchase plans were implemented by purchasing shares in the open market or privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. The Company reacquired approximately 102,067 shares of its Class A Common Stock for \$2.5 million in fiscal 2010 in connection with its stock repurchase plans. No shares were reacquired during the nine months ended April 30, 2011. As of April 30, 2011, there remained 204,133 shares to purchase in connection with this share repurchase plan.

**NOTE H Employee Benefit Plans**

The Company provides postretirement medical, dental and vision benefits for eligible regular full and part-time domestic employees (including spouses) outlined by the plan. Postretirement benefits are provided only if the employee was hired prior to April 1, 2008, and retires on or after attainment of age 55 with 15 years of credited service. Credited service begins accruing at the later of age 40 or date of hire. All active employees first eligible to retire after July 31, 1992, are covered by an unfunded, contributory postretirement healthcare plan where employer contributions will not exceed a defined dollar benefit amount, regardless of the cost of the program. Employer contributions to the plan are based on the employee's age and service at retirement.

The Company funds benefit costs on a pay-as-you-go basis. There have been no changes to the components of net periodic benefit cost or the amount that the Company expects to fund in fiscal 2011 from those reported in Note 3 to the consolidated financial statements included in the Company's latest annual report on Form 10-K for the year ended July 31, 2010.



**Table of Contents****NOTE I Fair Value Measurements**

The Company adopted new accounting guidance on fair value measurements on August 1, 2008 as it relates to financial assets and liabilities. The Company adopted the new accounting guidance on fair value measurements for its nonfinancial assets and liabilities on August 1, 2009. The accounting guidance applies to other accounting pronouncements that require or permit fair value measurements, defines fair value based upon an exit price model, establishes a framework for measuring fair value, and expands the applicable disclosure requirements. The accounting guidance indicates, among other things, that a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

The accounting guidance on fair value measurements establishes a fair market value hierarchy for the pricing inputs used to measure fair market value. The Company's assets and liabilities measured at fair market value are classified in one of the following categories:

**Level 1** Assets or liabilities for which fair value is based on quoted market prices in active markets for identical instruments as of the reporting date.

**Level 2** Assets or liabilities for which fair value is based on valuation models for which pricing inputs were either directly or indirectly observable.

**Level 3** Assets or liabilities for which fair value is based on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The following tables set forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at April 30, 2011, and July 31, 2010, according to the valuation techniques the Company used to determine their fair values.

**Fair Value Measurements Using Inputs****Considered as**

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>	<b>Balance Sheet Classification</b>
<b>April 30, 2011:</b>					
Trading Securities	\$ 11,236	\$	\$	\$ 11,236	Other assets
Foreign exchange contracts					Prepaid expenses and other
cash flow hedges		65		65	current assets
Total Assets	\$ 11,236	\$ 65	\$	\$ 11,301	
Foreign exchange contracts					
cash flow hedges	\$	\$ 1,672		\$ 1,672	Other current liabilities
Foreign exchange contracts					
net investment hedge		14,069		14,069	Other current liabilities
Foreign exchange contracts					Other current liabilities
Foreign currency					
denominated debt net					Long term obligations, less
investment hedge		109,110		109,110	current maturities

Edgar Filing: BRADY CORP - Form 10-Q

Total Liabilities	\$		\$	124,851	\$		\$	124,851
-------------------	----	--	----	---------	----	--	----	---------

**July 31, 2010:**

Trading Securities	\$	8,757	\$		\$	8,757	Other assets
Foreign exchange contracts							Prepaid expenses and other
cash flow hedges				156		156	current assets
Foreign exchange contracts							Prepaid expenses and other
				24		24	current assets
Total Assets	\$	8,757	\$	180	\$	8,937	

Foreign exchange contracts							
cash flow hedges	\$		\$	829	\$	829	Other current liabilities
Foreign exchange contracts				64		64	Other current liabilities
Foreign currency							
denominated debt net							Long term obligations, less
investment hedge				97,747		97,747	current maturities
Total Liabilities	\$		\$	98,640	\$	98,640	

**Table of Contents**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

*Trading Securities:* The Company's deferred compensation investments consist of investments in mutual funds. These investments were classified as Level 1 as the shares of these investments trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

*Foreign currency exchange contracts:* The Company's foreign currency exchange contracts were classified as Level 2, as the fair value was based on the present value of the future cash flows using external models that use observable inputs, such as interest rates, yield curves and foreign currency exchange rates. See Note K,

Derivatives and Hedging Activities for additional information.

*Foreign currency denominated debt net investment hedge:* The Company's foreign currency denominated debt designated as a net investment hedge was classified as Level 2, as the fair value was based on the present value of the future cash flows using external models that use observable inputs, such as interest rates, yield curves and foreign currency exchange rates. See Note K, Derivatives and Hedging Activities for additional information.

There have been no transfers of assets or liabilities between the fair value hierarchy levels, outlined above, during the nine months ended April 30, 2011.

The Company's financial instruments, other than those presented in the disclosures above, include cash, notes receivable, accounts receivable, accounts payable, accrued liabilities and short-term and long-term debt. The fair values of cash, accounts receivable, accounts payable, and accrued liabilities approximated carrying values because of the short-term nature of these instruments.

The estimated fair value of the Company's long-term obligations including current maturities, based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities, was \$430,276 and \$467,479 at April 30, 2011 and July 31, 2010, respectively, as compared to the carrying value of \$413,053 and \$444,204 at April 30, 2011 and July 31, 2010, respectively.

Disclosures for nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, were required prospectively beginning August 1, 2009. During the nine months ended April 30, 2011, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition other than for the acquisition of ID Warehouse and divestiture of the Teklynx business. See Note L, Acquisitions and Divestitures for further information.

**NOTE J Restructuring**

In fiscal 2010, the Company continued the execution of its restructuring actions announced in fiscal 2009. As a result of these actions, the Company recorded restructuring charges of \$15,314 in fiscal 2010. The restructuring charges included \$10,850 of employee separation costs, \$2,260 of non-cash fixed asset write-offs, \$1,493 of other facility closure related costs, and \$711 of contract termination costs. The Company continued executing its restructuring actions during the nine months ended April 30, 2011.

During the three and nine months ended April 30 2011, the Company recorded restructuring charges of \$1,211 and \$6,986, respectively. The year-to-date charges of \$6,986 consisted of \$4,531 of employee separation costs, \$2,155 of fixed asset write-offs, and \$300 of other facility closure related costs and contract termination costs. Of the \$6,986 of restructuring charges recorded during the nine months ended April 30, 2011, \$4,401 was incurred in the Americas, \$2,457 was incurred in Europe, and \$128 was incurred in Asia-Pacific. The charges for employee separation costs consisted of severance pay, outplacement services, medical and other related benefits. The costs related to these restructuring activities have been recorded on the condensed consolidated statements of income as restructuring charges. The Company expects the majority of the remaining cash payments to be made during the next twelve months.

A reconciliation of the Company's fiscal 2011 restructuring activity is as follows:

	<b>Employee Related</b>	<b>Asset Write- offs</b>	<b>Other</b>	<b>Total</b>
Beginning balance, July 31, 2010	\$ 6,055	\$	\$ 106	\$ 6,161
Restructuring charge	2,665	951	25	3,641



Edgar Filing: BRADY CORP - Form 10-Q

Non-cash write-offs		(951)		(951)
Cash payments	(3,413)		(112)	(3,525)
Ending balance, October 31, 2010	\$ 5,307	\$	\$ 19	\$ 5,326
Restructuring charge	1,213	763	158	2,134
Non-cash write-offs		(763)		(763)
Cash payments	(2,679)		(169)	(2,848)
Ending balance, January 31, 2011	\$ 3,841	\$	\$ 8	\$ 3,849
Restructuring charge	653	441	117	1,211
Non-cash write-offs		(441)		(441)
Cash payments	(1,823)		(117)	(1,940)
Ending balance, April 30, 2011	\$ 2,671	\$	\$ 8	\$ 2,679

**Table of Contents****NOTE K Derivatives and Hedging Activities**

The Company utilizes forward foreign exchange currency contracts to reduce the exchange rate risk of specific foreign currency denominated transactions and net investments. These contracts typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date, with maturities of 12 months or less, which qualify as either cash flow hedges or net investment hedges under the accounting guidance for derivative instruments and hedging activities. The primary objectives of the Company's foreign currency exchange risk management are to minimize the impact of currency movements due to products purchased in other than the respective subsidiaries' functional currency and to minimize the impact of currency movements on the Company's net investment denominated in a currency other than the U.S. dollar. To achieve this objective, the Company hedges a portion of known exposures using forward foreign exchange currency contracts. As of April 30, 2011 and July 31, 2010, the notional amount of outstanding forward exchange contracts was \$120,475 and \$45,328, respectively.

Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current earnings. The amount of hedge ineffectiveness was not significant for the three-month or nine-month periods ended April 30, 2011 and 2010.

The Company hedges a portion of known exposure using forward exchange contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Singapore Dollar, Swedish Krona, Japanese Yen, Swiss Franc, and the Korean Won. Generally, these risk management transactions will involve the use of foreign currency derivatives to protect against exposure resulting from sales and identified inventory or other asset purchases.

The Company has designated a portion of its foreign exchange contracts as cash flow hedges and recorded these contracts at fair value on the Condensed Consolidated Balance Sheets. For these instruments, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. At April 30, 2011 and July 31, 2010, unrealized losses of \$2,210 and \$493 have been included in OCI, respectively. All balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings.

At April 30, 2011 and July 31, 2010, the Company had \$65 and \$156 of forward exchange contracts designated as cash flow hedges included in Prepaid expenses and other current assets on the accompanying Condensed Consolidated Balance Sheets. At April 30, 2011 and July 31, 2010, the Company had \$1,672 and \$829, respectively, of forward exchange contracts designated as cash flow hedges included in Other current liabilities on the accompanying Condensed Consolidated Balance Sheets. At April 30, 2011 and July 31, 2010, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$20,475 and \$32,020, respectively, including contracts to sell Euros, Canadian Dollars, Australian Dollars, British Pounds, U.S. Dollars, and Swiss Franc.

On May 13, 2010, the Company completed the private placement of 75.0 million aggregate principal amount of senior unsecured notes to accredited institutional investors. This Euro-denominated debt obligation was designated as a net investment hedge to hedge portions of the Company's net investment in Euro-denominated foreign operations. As net investment hedges, the currency effects of the debt obligations are reflected in the foreign currency translation adjustments component of accumulated other comprehensive income where they offset gains and losses recorded on the Company's net investment in Euro-denominated operations. The Company's foreign denominated debt obligations are valued under a market approach using publicized spot prices.

During the three and nine month period ended April 30, 2011, the Company used forward foreign exchange currency contracts designated as net investment hedges to hedge portions of the Company's net investments in Euro-denominated foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in the foreign exchange translation adjustment component of accumulated other comprehensive income where it offsets gains and losses recorded on the Company's net investment in Euro-denominated foreign operations. Any ineffective portions are recognized in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or

substantially complete liquidation of the net investment in the hedged foreign operation. At April 30, 2011, the Company had \$14,069 of forward foreign exchange currency contracts designated as net investment hedges included in Other current liabilities on the Condensed Consolidated Balance Sheet. At April 30, 2011, the U.S dollar equivalent of these outstanding forward foreign exchange contracts totaled \$100,000. There were no forward foreign exchange contracts designated as net investment hedges outstanding as of July 31, 2010.

**Table of Contents**

Fair values of derivative instruments in the Condensed Consolidated Balance Sheets were as follows:

	Asset Derivatives				Liability Derivatives			
	April 30, 2011		July 31, 2010		April 30, 2011		July 31, 2010	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location		Location		Location	
<b>Derivatives designated as hedging instruments</b>								
Cash flow hedges								
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 65	Prepaid expenses and other current assets	\$ 156	Other current liabilities	\$ 1,672	Other current liabilities	\$ 829
Net investment hedges								
Foreign currency denominated debt	Prepaid expenses and other current assets	\$	Prepaid expenses and other current assets	\$	Long term obligations, less current maturities	\$ 109,110	Long term obligations, less current maturities	\$ 97,747
Foreign exchange contracts	Prepaid expenses and other current assets	\$	Prepaid expenses and other current assets	\$	Other current liabilities	\$ 14,069	Other current liabilities	\$
Total derivatives designated as hedging instruments		\$ 65		\$ 156		\$ 124,851		\$ 98,576
<b>Derivatives not designated as hedging instruments</b>								
		\$		\$ 24		\$		\$ 64

Edgar Filing: BRADY CORP - Form 10-Q

Foreign exchange contracts	Prepaid expenses and other current assets	Prepaid expenses and other current assets	Other current liabilities	Other current liabilities
Total derivatives not designated as hedging instruments	\$	\$	24	\$ 64

The pre-tax effects of derivative instruments designated as cash flow hedges and net investment hedges on the Condensed Consolidated Statements of Income consisted of the following:

			Location of					
	Amount of Gain or (Loss)		Gain or (Loss)	Amount of Gain or (Loss)		Location of Gain or (Loss)	Amount of Gain or (Loss)	
	Recognized in OCI on Derivative (Effective Portion)		Reclassified From	Reclassified From Accumulated OCI Into Income		(Loss)	Recognized in Income on Derivative (Ineffective Portion)	
	Nine	Nine	Accumulated OCI	Nine	Nine	Income	Nine	Nine
Derivatives in Cash Flow	months ended	months ended	into Income	months ended	months ended	on Derivative	months ended	months ended
Hedging	April 30,	April 30,	(Effective	April 30,	April 30,	(Ineffective	April 30,	April 30,
Relationships Cash Flow Hedges	2011	2010	Portion)	2011	2010	Portion)	2011	2010
Foreign exchange contracts			Cost of Goods Sold			Cost of Goods Sold		
	\$ (2,210)	\$ (120)		\$ (887)	\$		\$	\$
Total	\$ (2,210)	\$ (120)		\$ (887)	\$		\$	\$

**Table of Contents**

The pre-tax effects of derivative instruments designated as net investment hedges on the Condensed Consolidated Balance Sheet consisted of the following:

Derivatives in Net Investment Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion) Investment and other income net	Amount of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion) Nine months ended		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Investment and other income net	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Nine months ended	
	Nine months ended			April 30,			April 30,	
	2011	2010		2011	2010		2011	2010
Foreign currency denominated debt	\$ (11,362)	\$		\$	\$		\$	\$
Foreign exchange contracts	\$ (14,069)	\$ (1,326)		\$	\$		\$	\$
Total	\$ (25,431)	\$ (1,326)		\$	\$		\$	\$

The pre-tax effects of derivative instruments not designated as hedge instruments on the Condensed Consolidated Statements of Income consisted of the following:

Derivatives Not Designated as Hedging Instruments	Amount of Gain or (Loss) Recognized in Income on Derivative	
	Location of Gain or (Loss) Recognized in Income on Derivative	
	Other income (expense)	
Foreign exchange contracts	\$ (953)	\$ (402)
Total	\$ (953)	\$ (402)

NOTE L Acquisitions and Divestitures

On November 1, 2010, the Company acquired ID Warehouse, based in New South Wales, Australia for \$7,970. ID Warehouse offers security identification and visitor management products including identification card printers, access control cards, wristbands, tamper-evident security seals and identification accessories. The business is included in the Company's Asia-Pacific segment. The purchase price allocation resulted in \$4,792 assigned to goodwill, \$1,846 assigned to customer relationships, and \$487 assigned to non-compete agreements. The amounts assigned to the customer relationships and non-compete agreements are being amortized over 10 and 5 years, respectively. The Company expects the acquisition to further strengthen its position in the people identification business in Australia and the segment.

The results of the operations of the acquired business have been included since the date of acquisition in the accompanying condensed consolidated financial statements. The Company is continuing to evaluate the initial purchase price allocations for the acquisition included above and will adjust the allocations as additional information relative to the fair value of assets and liabilities of the acquired business becomes known. Pro forma information related to the acquisition of ID Warehouse was not included because the impact on the Company's consolidated results of operations is considered to be immaterial.

On December 16, 2010, the Company sold its Teklynx business, a barcode software company. The Teklynx business had operations primarily in the Company's Americas and Europe segments. The Company received proceeds of \$12,979, net of cash retained in the business. The transaction resulted in a pre-tax gain of \$4,394, which was accounted for in Selling, general, and administrative expenses (SG&A) on the Condensed Consolidated Statement of Income for the nine month periods ended April 30, 2011. The divestiture of the Teklynx business was part of the Company's continued long-term growth strategy to focus the Company's energies and resources on growth of the Company's core business.

**Table of Contents**

**NOTE M Updated Accounting Policies**

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The Company adopted the new guidance in the second quarter of fiscal 2011. The new guidance provides for additional disclosure included herein.

Accounts receivables are stated net of allowances for doubtful accounts of \$5,523 and \$7,137 as of April 30, 2011 and July 31, 2010, respectively. No single customer comprised more than 10% of the Company's consolidated net sales as of April 30, 2011 or July 31, 2010, or 10% of the Company's consolidated accounts receivable as of April 30, 2011 and July 31, 2010. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at different rates, based upon the age of the receivable and the Company's historical collection experience.

In addition, the Company provides for an allowance for estimated product returns and credit memos which is recognized as a deduction from sales at the time of the sale. As of April 30, 2011 and July 31, 2010, the Company had a reserve of \$4,414 and \$3,963, respectively.

**NOTE N Subsequent Events**

On May 17, 2011, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.18 per share payable on July 29, 2011 to shareholders of record at the close of business on July 8, 2011.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

Brady, a Wisconsin corporation founded in 1914, is an international manufacturer and marketer of identification solutions and specialty materials that identify and protect premises, products, and people. Its products include facility identification products; safety and complementary products; wire and cable identification products; sorbent materials; people identification products; regulatory publishing products; high-performance identification products for product identification and work-in-process identification; and bar-code labels and precision die-cut components for mobile telecommunications devices, hard disk drives, medical devices and supplies, and automotive and other electronics. The Company serves customers in general manufacturing, maintenance and safety, process industries, construction, electrical, telecommunications, electronics, laboratory/healthcare, airline/transportation, brand protection, education, governmental, public utility, and a variety of other industries. The Company manufactures and sells products domestically and internationally through multiple channels including distributors, resellers, business-to-business direct marketing and a direct sales force. The Company believes that its reputation for innovation, commitment to quality and service, and dedicated employees have made it a world leader in the markets it serves. The Company operates in Australia, Belgium, Brazil, Canada, the Cayman Islands, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, Norway, the Philippines, Poland, Singapore, South Korea, Spain, Sweden, Thailand, Turkey, the United Arab Emirates, the United Kingdom and the United States. Brady sells through subsidiaries or sales offices in these countries, with additional sales through a dedicated team of international sales representatives in New Zealand, Russia, Taiwan, Turkey, Vietnam, and the United Arab Emirates. The Company further markets its products to parts of Eastern Europe, the Middle East, Africa and Russia.

Sales for the quarter ended April 30, 2011, increased 4.9% to \$337.9 million, compared to \$321.9 million in the same period of fiscal 2010. Of the increase in sales, organic sales increased 1.0%, acquisitions net of divestitures added 0.4% and the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar increased sales by 3.5%. Net income for the quarter ended April 30, 2011, was \$28.6 million or \$0.54 per diluted Class A Nonvoting Common Share, up 20.7% and 20.0%, respectively, from \$23.7 million or \$0.45 per diluted Class A Nonvoting Common Share reported in the third quarter of last fiscal year. Net income before restructuring-related expenses for the quarter ended April 30, 2011 was \$29.5 million, or \$0.55 per diluted Class A Nonvoting Common Share, an increase of 16.1% from \$25.4 million, or \$0.48 per diluted Class A Nonvoting Common Share for the quarter ended April 30, 2010.

Sales for the nine months ended April 30, 2011, increased 6.4% to \$996.5 million, compared to \$936.2 million in the same period of fiscal 2010. Of the increase in sales, organic sales increased 4.1%, acquisitions net of divestitures added 1.4% and the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar increased sales 0.9%. Net income for the nine months ended April 30, 2011, was \$79.1 million or \$1.49 per diluted Class A Nonvoting Common Share, up 31.0% and 30.7%, respectively, from \$60.4 million or \$1.14 per diluted Class A Nonvoting Common Share reported in the same period of the prior fiscal year. Net income before restructuring-related expenses for the nine months ended April 30, 2011 was \$84.1 million or \$1.58 per diluted Class A Nonvoting Common Share, an increase of 25.0% from \$67.3 million or \$1.27 per diluted Class A Nonvoting Common Share, for the nine months ended April 30, 2010.

**Results of Operations**

The comparability of the operating results for the three and nine months ended April 30, 2011, to the prior year has been impacted by the following acquisitions and divestiture completed in fiscal 2011 and fiscal 2010.

**Fiscal 2011**

	<b>Segment</b>	<b>Date Completed</b>
<b>Acquisitions</b>		
ID Warehouse	Asia Pacific	November 2010

**Divestiture**

Teklynx

Americas  
Europe

December 2010

**Fiscal 2010**

	<b>Segment</b>	<b>Date Completed</b>
<b>Acquisitions</b>		
Welconstruct Group Limited ( Welco )	Europe	October 2009
Stickolor Industria e Comercio de Auto Adesivos Ltda. ( Stickolor )	Americas	December 2009
Securimed SAS ( Securimed )	Europe	March 2010

**Table of Contents**

Sales for the three months ended April 30, 2011, increased 4.9% compared to the same period in fiscal 2010. The increase was comprised of an increase in organic sales of 1.0%, an increase of 0.4% due to the acquisitions net of divestitures listed in the above table, and an increase of 3.5% due to the effect of currencies on sales. Organic sales grew during the third quarter of fiscal 2011 in the Americas and Europe segments by 2.7% and 3.6%, respectively, partially offset by a decline in organic sales of 5.1% in the Asia-Pacific segment. The organic sales increase experienced in the Americas was due primarily to the strong Brady brand sales growth and new products positively received by end users and distributors. The increase in Europe's organic sales was mainly a result of the Brady business in Germany and in Southern Europe. The decline in organic sales for the Asia-Pacific segment was due to the reduced demand from one of our largest mobile handset customers and Japan-related supply chain issues experienced by the Company's customers.

Sales for the nine months ended April 30, 2011, increased 6.4% compared to the same period in fiscal 2010. The increase was comprised of a 4.1% increase in organic sales and an increase of 1.4% resulting from sales related to the acquisitions of ID Warehouse in fiscal 2011 and the acquisitions of Welco, Stickolor and Securimed in fiscal 2010, net of divestiture. The positive impact of the fluctuations in exchange rates also increased sales in the quarter by 0.9%. The increase in organic sales was comprised of increases of 5.3% in the Americas segment, 5.6% in the Europe segment, and 0.4% in the Asia-Pacific segment.

Gross margin as a percentage of sales decreased to 49.6% from 49.8% for the quarter and to 49.3% from 49.6% for the nine months ended April 30, 2011, compared to the same periods of the previous year. This decrease in gross margin as a percentage of sales for the three and nine months ended April 30, 2011 was primarily due to the increased costs of raw materials which the Company was not able to offset through continued cost reduction activities or price increases.

Research and development ( R&D ) expenses decreased 1.5% to \$10.6 million for the quarter and increased 4.1% to \$32.2 million for the nine months ended April 30, 2011, compared to \$10.7 million and \$31.0 million for the same periods in the prior year, respectively. The decrease for the quarter ended April 30, 2011 was due to the elimination of the R&D expenses incurred by the Company's previously owned Teklynx business in the second quarter of fiscal 2011. As a percentage of sales, R&D expenses represented a lower percentage of sales, declining to 3.1% in the third quarter of fiscal 2011 from 3.3% in the third quarter of fiscal 2010, and declining to 3.2% in the first nine months of fiscal 2011 compared to 3.3% in the first nine months of fiscal 2010. The Company continues its commitment to innovation and new product development and expects R&D expense to continue to increase through fiscal 2011.

Selling, general and administrative ( SG&A ) expenses increased 3.4% to \$115.0 million for the three months ended April 30, 2011, compared to \$111.2 million for the same period in the prior year, and increased 1.1% to \$332.4 million for the nine months ended April 30, 2011, compared to \$328.6 million for the same period in the prior year. SG&A increased during the quarter ended April 30, 2011 mainly due to the fluctuations in exchange rates, in addition to the increase in annual merit increases and the increase in advertising campaign expenses. During the nine months ended April 30, 2011, the Company divested of its Teklynx business resulting in a pre-tax gain of \$4.4 million, which is included in SG&A. This gain was offset by an increase in the Company's transaction-related costs in addition to the merit increase during the nine months ended April 30, 2011. As a percentage of sales, SG&A expenses declined to 34.0% from 34.6% for the quarter and to 33.4% from 35.1% for the nine months ended April 30, 2011, compared to the same periods in the prior year.

Restructuring expenses decreased to \$1.2 million from \$2.3 million for the three months ended April 30, 2011, as compared to the same period in the prior year, and decreased to \$7.0 million from \$9.6 million for the nine months ended April 30, 2011 as compared to the same period in the prior year. In fiscal 2009, in response to the global recession, the Company took several measures to address its cost structure. The Company continued to incur costs related to the reduction of its workforce and facilities consolidations during the nine months ended April 30, 2011. The Company expects to incur \$8 to \$10 million of restructuring charges in fiscal 2011.

Other income and expense increased to \$1.4 million from \$0.1 million for the three months ended April 30, 2011, as compared to the same period in the prior year, and increased to \$2.9 million from \$1.3 million for the nine months ended April 30, 2011 as compared to the same period in the prior year. The increase was primarily due to the gains on securities held in executive deferred compensation plans and interest income.

Interest expense remained constant at \$5.1 million for the quarter and increased to \$16.6 million from \$15.5 million for the nine months ended April 30, 2011, compared to the same periods in the prior year. The increase was due to the incremental interest on the Company's May 2010 private placement entered into in the fourth quarter of fiscal 2010, partially offset by scheduled debt payments made during the three and nine months ended April 30, 2011.

**Table of Contents**

The Company's income tax rate was 23.1% for the three months ended April 30, 2011 and 25.3% for the nine months ended April 30, 2011, compared to 23.3% and 25.6% for the three and nine months ended April 30, 2010, respectively. During the quarter ended April 30, 2011, the Company recognized tax benefits associated with certain international tax positions being settled and the lapses of statutes of limitation. The benefits were partially offset by an increase in the Company's effective tax rate due to the mix of profits in low and high tax countries. The Company expects the full year effective tax rate for fiscal 2011 to be approximately 25%.

Net income for the three months ended April 30, 2011, increased 20.7% to \$28.6 million, compared to \$23.7 million for the same quarter of the previous year. Net income as a percentage of sales increased to 8.5% from 7.4% for the quarter ended April 30, 2011, compared to the same period in the prior year. Net income before restructuring-related expenses for the quarter ended April 30, 2011 was \$29.5 million, an increase of 16.1% from \$25.4 million, for the same period in the previous year. For the nine months ended April 30, 2011, net income increased 31.0% to \$79.1 million, compared to \$60.4 million for the same period in the previous year. As a percentage of sales, net income increased to 7.9% from 6.4% for the nine months ended April 30, 2011, compared to the same period in the previous year. Net income before restructuring-related expenses for the nine months ended April 30, 2011 was \$84.1 million, an increase of 25.0% from \$67.3 million, for the nine months ended April 30, 2010. The improved earnings for the nine months ended April 30, 2011, was primarily driven by the organic growth, which included organic growth in all three segments along with the impacts of the Company's on-going process improvement activities.

***Business Segment Operating Results***

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, Europe and Asia-Pacific, has a President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each region has its own distinct operations, is managed locally by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. The Company has determined that these regions comprise its operating and reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

Following is a summary of segment information for the three and nine months ended April 30, 2011 and 2010:

(Dollars in thousands)	Americas	Europe	Asia-Pacific	Total Regions	Corporate and Eliminations	Total
<b>SALES TO EXTERNAL CUSTOMERS</b>						
Three months ended:						
April 30, 2011	\$ 149,217	\$ 105,894	\$ 82,785	\$ 337,896	\$	\$ 337,896
April 30, 2010	\$ 144,413	\$ 98,152	\$ 79,322	\$ 321,887	\$	\$ 321,887
Nine months ended:						
April 30, 2011	\$ 431,216	\$ 301,985	\$ 263,292	\$ 996,493	\$	\$ 996,493
April 30, 2010	\$ 402,255	\$ 289,101	\$ 244,846	\$ 936,202	\$	\$ 936,202
<b>SALES GROWTH INFORMATION</b>						
Three months ended						
April 30, 2011						
Organic	2.7%	3.6%	(5.1%)	1.0%		1.0%
Currency	1.3%	4.0%	7.0%	3.5%		3.5%
Acquisitions/Divestitures	(0.7%)	0.3%	2.5%	0.4%		0.4%
Total	3.3%	7.9%	4.4%	4.9%		4.9%

Edgar Filing: BRADY CORP - Form 10-Q

Nine months ended April 30,  
2011

Organic	5.3%	5.6%	0.4%	4.1%	4.1%
Currency	0.9%	(3.2%)	5.6%	0.9%	0.9%
Acquisitions/Divestitures	1.0%	2.1%	1.5%	1.4%	1.4%

Total	7.2%	4.5%	7.5%	6.4%	6.4%
-------	------	------	------	------	------

**SEGMENT PROFIT**

Three months ended:

April 30, 2011	\$ 38,292	\$ 28,938	\$ 9,976	\$ 77,206	\$ (3,561)	\$ 73,645
April 30, 2010	\$ 33,858	\$ 27,472	\$ 12,775	\$ 74,105	\$ (3,558)	\$ 70,547
Percentage increase	13.1%	5.3%	(21.9%)	4.2%		4.4%

Nine months ended:

April 30, 2011	\$ 108,666	\$ 82,165	\$ 38,330	\$ 229,161	\$ (12,087)	\$ 217,074
April 30, 2010	\$ 90,205	\$ 78,281	\$ 38,589	\$ 207,075	\$ (10,161)	\$ 196,914
Percentage increase	20.5%	5.0%	(0.7%)	10.7%		10.2%

**Table of Contents****NET INCOME RECONCILIATION** (Dollars in thousands)

	Three months ended:		Nine months ended:	
	April 30, 2011	April 30, 2010	April 30, 2011	April 30, 2010
Total profit from reportable segments	\$ 77,206	\$ 74,105	\$ 229,161	\$ 207,075
Corporate and eliminations	(3,561)	(3,558)	(12,087)	(10,161)
Unallocated amounts:				
Administrative costs	(31,563)	(32,286)	(90,534)	(91,944)
Restructuring costs	(1,211)	(2,347)	(6,986)	(9,597)
Investment and other income	1,428	121	2,892	1,273
Interest expense	(5,103)	(5,147)	(16,640)	(15,472)
Income before income taxes	37,196	30,888	105,806	81,174
Income taxes	(8,607)	(7,193)	(26,737)	(20,810)
Net income	\$ 28,589	\$ 23,695	\$ 79,069	\$ 60,364

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Corporate long-term performance is evaluated based on shareholder value enhancement ( SVE ), which incorporates the cost of capital as a hurdle rate for capital expenditures, new product development, and acquisitions. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology and human resources, which are managed as global functions. Restructuring charges, stock options, interest, investment and other income and income taxes are also excluded when evaluating performance.

*Americas:*

Americas sales increased 3.3% to \$149.2 million for the quarter and 7.2% to \$431.2 million for the nine months ended April 30, 2011, compared to \$144.4 million and \$402.3 million for the same three and nine-month periods in the prior year. Organic sales increased 2.7% and 5.3% during the quarter and year-to-date, respectively, as compared to the same periods in the previous year across. Fluctuations in the exchange rates used to translate financial results into the United States dollar resulted in a positive impact on sales of 1.3% and 0.9% in the quarter and in the nine-month period, respectively, as compared to the same periods in the previous year. Sales resulting from acquisitions net of divestiture declined 0.7% for the quarter and increased 1.0% for the nine-month period as a result of the sales of Stickolor, acquired in the second quarter of fiscal 2010, offset by the reduction in sales due to the divestiture of the Teklynx business. The increases in organic sales of 2.7% for the three-month period and 5.3% for the nine-month period was driven by the broad-based improvement in the Company's core markets, in addition to the positive results from new products.

Segment profit for the region increased 13.1% to \$38.3 million from \$33.9 million for the quarter and 20.5% to \$108.7 million from \$90.2 million for the nine months ended April 30, 2011, compared to the same periods in the prior year. Segment profit for the quarter was positively impacted by increased sales volumes, while the segment continued to drive productivity improvements through consolidating facilities, and implementing other operational improvement initiatives to further reduce costs and improve productivity. As a percentage of sales, segment profit increased to 25.7% from 23.4% in the third quarter of fiscal 2011 and increased to 25.2% from 22.4% in the nine months ended April 30, 2011, compared to the same periods in the prior year. The increase in segment profit as a percentage of sales was due to the cost reduction efforts and productivity improvements described above.

*Europe:*

Europe sales increased 7.9% to \$105.9 million for the quarter and 4.5% to \$302.0 million for the nine months ended April 30, 2011, compared to \$98.2 million and \$289.1 million for the same three and nine-month periods in the prior year. Organic sales increased 3.6% and 5.6% for the quarter and year-to-date, respectively, compared to the same periods in the previous year. Sales were also affected by fluctuations in the exchange rates used to translate financial

results into the United States dollar, which increased sales within the segment by 4.0% in the quarter and reduced sales by 3.2% during the nine-month period. Segment sales increased 0.3% during the quarter and 2.1% during the nine-month period as result of the fiscal 2010 acquisitions of Welco and Securimed, net of the fiscal 2011 divestiture of the Teklynx business. The segment's organic sales were positively impacted during the three and nine months ended April 30, 2011 as a result of growth in the Brady business in Germany and Southern Europe due to a combination of improving economies and positive results of sales initiatives, partially offset by the continued depressed conditions in the United Kingdom.

Segment profit for the region increased 5.3% to \$28.9 million from \$27.5 million for the quarter and 5.0% to \$82.2 million from \$78.3 million for the nine months ended April 30, 2011, compared to the same periods in the prior year. The increase in segment profit for the quarter was attributable to the increased sales volumes in addition to productivity initiatives. As a percentage of sales, segment profit declined to 27.3% from 28.0% in the third quarter of fiscal 2011 and increased slightly to 27.2% from 27.1% in the nine months ended April 30, 2011, compared to the same periods in the prior year. The increase in segment profit as a percentage of sales in the nine months ended April 30, 2011 was partially due to the increased sales volumes and the continued efforts to streamline selling expenses through strategic initiatives.



**Table of Contents***Asia-Pacific:*

Asia-Pacific sales increased 4.4% to \$82.8 million for the quarter and 7.5% to \$263.3 million for the nine months ended April 30, 2011, compared to \$79.3 million and \$244.8 million for the same three and nine-month periods in the prior year. Organic sales declined 5.1% in the quarter and increased 0.4% for the nine-month periods, compared to the same periods in the previous year. Sales were positively impacted by fluctuations in the exchange rates used to translate financial results into the United States dollar, which increased sales within the region by 7.0% in the quarter and 5.6% for the nine-month period. Segment sales increased 2.5% during the quarter and 1.5% during the nine-month period as result of the fiscal 2011 acquisition of ID Warehouse. The significant decline in organic sales for the quarter was primarily due to the reduced demand from one of our largest mobile handset customers and the supply chain disruptions at several of the segment's electronic customers resulting from the earthquake in Japan. The modest increase in organic sales for the nine months ended April 30, 2011 was driven by increased sales in the consumer electronic market in addition to the expanded focus on MRO applications throughout the segment, partially offset by the decline of mobile handset sales. The segment continues to focus on the development of new value-added solutions, while continuing growth in adjacent markets.

Segment profit for the region declined 21.9% to 10.0 million from \$12.8 million for the quarter and declined 0.7% to \$38.3 million from \$38.6 million for the nine months ended April 30, 2011, compared to the same periods in the prior year. The decline in segment profit during the three and nine months ended April 30, 2011 was primarily due to the decline in organic sales as discussed above in addition to the inflationary pressures on raw materials resulting in cost increases. The segment continues to focus on driving operational excellence through its strategic sourcing initiatives. As a percentage of sales, segment profit declined to 12.1% from 16.1% in the third quarter of fiscal 2011 and to 14.5% from 15.8% in the nine months ended April 30, 2011, compared to the same periods in the prior year.

**Financial Condition**

Cash and cash equivalents were \$374.0 million at April 30, 2011, compared to \$314.8 million at July 31, 2010. The increase in cash of \$59.2 million was the result of cash provided by operations of \$110.4 million and the \$21.5 million effect of exchange rates, partially offset by cash used for acquisitions, capital expenditures, dividends, and debt payments during the nine months ended April 30, 2011.

The Company's working capital, excluding cash and cash equivalents, increased to \$66.8 million at April 30, 2011 from \$60.3 million at July 31, 2010. Accounts receivable and inventories increased \$14.0 million and \$7.8 million for the nine months ended April 30, 2011, respectively, due the impact of foreign currency translation on the Company's foreign balances. The net increase in current liabilities was \$17.2 million from July 31, 2010 to April 30, 2011. The increase in the current liabilities was primarily due to the Company's forward foreign exchange currency contracts designated as net investment hedges.

Cash flow from operating activities totaled \$110.4 million for the nine months ended April 30, 2011, compared to \$118.2 million for the same period last year. The decrease was primarily due to the payment of the Company's fiscal 2010 annual incentive compensation during the nine months ended April 30, 2011, whereas no incentive compensation was paid in same period in the prior year due to the elimination of the annual incentive compensation in fiscal 2009.

Cash used for acquisitions totaled \$8.0 million for the nine months ended April 30, 2011 due to the acquisition of ID Warehouse. The Company used \$30.4 million for acquisitions of Welco, Stickolor, and Securimed during the nine months ended April 30, 2010; the net cash paid for Welco, Stickolor, and Securimed was \$1.8 million, \$18.5 million, and \$10.1 million, respectively. Cash received from divestiture was \$13.0 million during the nine months ended April 30, 2011 as a result of the sale of the Teklynx business.

Capital expenditures were \$13.7 million for the nine months ended April 30, 2011, compared to \$20.9 million in the same period last year. The decrease was mainly due to the expenditures related to the new coater in the Americas segment and the increased tooling required for new products in fiscal 2010. Capital expenditures were \$26.3 million during the twelve months ended July 31, 2010. The Company expects the capital expenditures to be between \$18.0 million and \$20.0 million for the twelve months ending July 31, 2011. Net cash used in financing activities was \$62.8 million for the nine months ended April 30, 2011, due primarily to the payment of dividends of \$28.5 million and the principal debt payments of \$42.5 million, partially offset by the proceeds from the issuance of the common

stock related to stock option exercises.

On November 24, 2008, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ( SEC ), which will allow the Company to issue and sell, from time to time in one or more offerings, an indeterminate amount of Class A Non-Voting Common Stock and debt securities as it deems prudent or necessary to raise capital at a later date. The shelf registration statement became effective upon filing with the SEC. The Company plans to use the proceeds from any future offerings under the shelf registration for general corporate purposes, including, but not limited to, acquisitions, capital expenditures, and refinancing of debt.

**Table of Contents**

On May 13, 2010, the Company completed a private placement of 75.0 million aggregate principal amount of senior unsecured notes to accredited institutional investors. The 75.0 million of senior notes consists of 30.0 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, due May 13, 2017 and 45.0 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for prepaying them prior to maturity. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. These unsecured notes were issued pursuant to a note purchase agreement, dated May 13, 2010.

During fiscal 2004 through fiscal 2007, the Company completed three private placement note issuances totaling \$500 million in ten-year fixed rate notes with varying maturity dates to institutional investors at interest rates varying from 5.14% to 5.33%. The notes must be repaid equally over seven years, with initial payment due dates ranging from 2008 to 2011, with interest payable on the notes due semiannually on various dates throughout the year, which began in December 2004. The private placements were exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain conditions, the available amount under the credit facility may be increased from \$200 million up to \$300 million. Under the credit agreement, the Company has the option to select either a base interest rate (based upon the higher of the federal funds rate plus one-half of 1% or the prime rate of Bank of America) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). A commitment fee is payable on the unused amount of the facility. The agreement restricts the amount of certain types of payments, including dividends, which can be made annually to \$50 million plus an amount equal to 75% of consolidated net income for the prior fiscal year of the Company. The Company believes that based on historic dividend practice, this restriction would not impede the Company in following a similar dividend practice in the future. On March 18, 2008, the Company entered into an amendment to the revolving loan agreement which extended the maturity date from October 5, 2011 to March 18, 2013. All other terms of the revolving loan agreement remained the same. As of April 30, 2011, there were no outstanding borrowings under the credit facility.

The Company's debt and revolving loan agreements require it to maintain certain financial covenants. The Company's June 2004, February 2006, March 2007, and May 2010 private placement debt agreements require the Company to maintain a ratio of debt to the trailing twelve months EBITDA, as defined in the debt agreements, of not more than a 3.5 to 1.0 ratio (leverage ratio). As of April 30, 2011, the Company was in compliance with the financial covenant of the June 2004, February 2006, and March 2007 private placement debt agreements, with the ratio of debt to EBITDA, as defined by the agreements, equal to 1.9 to 1.0. As of April 30, 2011, the Company was in compliance with the financial covenant of the May 2010 private placement debt agreement, with the ratio of debt to EBITDA, as defined by the agreement, equal to 1.8 to 1.0. Additionally, the Company's October 2006 revolving loan agreement requires the Company to maintain a ratio of debt to trailing twelve months EBITDA, as defined by the debt agreement, of not more than a 3.0 to 1.0 ratio. The revolving loan agreement requires the Company's trailing twelve months earnings before interest and taxes (EBIT) to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of April 30, 2011 the Company was in compliance with the financial covenants of the revolving loan agreement, with the ratio of debt to EBITDA, as defined by the agreement, equal to 1.9 to 1.0 and the interest expense coverage ratio equal to 7.4 to 1.0.

Long-term obligations, less current obligations, as a percentage of long-term obligations, less current obligations, plus stockholders' investment were 23.7% at April 30, 2011 and 27.6% at July 31, 2010. Long-term obligations increased by \$11.3 million from July 31, 2010 to April 30, 2011 due to the negative impact of foreign currency translation on the Company's Euro-denominated debt. The increase was offset by the \$42.5 million debt payments made during the

nine months ended April 30, 2011.

Stockholders' investment increased \$127.1 million during the nine months ended April 30, 2011 as a result of the Company's net income of \$79.1 million as well as the increase in the accumulated other comprehensive income of \$60.3 million due to the impact of foreign currency translation. The increase was offset by the dividends paid on Class A and Class B Common Stock of \$26.6 million and \$1.9 million, respectively.

The Company's growth has historically been funded by a combination of cash provided by operating activities and debt financing. The Company believes that its cash from operations, in addition to its borrowing capacity, are sufficient to fund its anticipated requirements for working capital, capital expenditures, restructuring activities, acquisitions, common stock repurchases, scheduled debt repayments, and dividend payments. The Company believes that its current credit arrangements are sound and that the strength of its balance sheet will allow the Company the financial flexibility to respond to both internal growth opportunities and those available through acquisition.

**Table of Contents**

**Off-Balance Sheet Arrangements** The Company does not have material off-balance sheet arrangements or related-party transactions. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risk factors described in this and other Company filings. However, the following additional information is provided to assist those reviewing the Company's financial statements.

**Operating Leases** These leases generally are entered into for investments in facilities such as manufacturing facilities, warehouses and office space, computer equipment and Company vehicles.

**Purchase Commitments** The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the ordinary conduct of its business. In the aggregate, such commitments are not in excess of current market prices and are not material to the financial position of the Company. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not believe a material amount of penalties will be incurred under these contracts based upon historical experience and current expectations.

**Other Contractual Obligations** The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity.

**Related-Party Transactions** The Company evaluated its affiliated party transactions for the period ended April 30, 2011. Based on the evaluation the Company does not have material related party transactions that affect the results of operations, cash flow or financial condition.

**Subsequent Events Affecting Financial Condition**

On May 17, 2011, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.18 per share payable on July 29, 2011 to shareholders of record at the close of business on July 8, 2011.

## **Table of Contents**

### Forward-Looking Statements

Brady believes that certain statements in this Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements related to future, not past, events included in this Form 10-Q, including, without limitation, statements regarding Brady's future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations are forward-looking statements. When used in this Form 10-Q, words such as may, will, expect, intend, estimate, anticipate, believe, should, project or plan or similar terminology are to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from the length or severity of the current worldwide economic downturn or timing or strength of a subsequent recovery; future financial performance of major markets Brady serves, which include, without limitation, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation; difficulties in making and integrating acquisitions; risks associated with newly acquired businesses; Brady's ability to develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; fluctuations in currency rates versus the US dollar; unforeseen tax consequences; potential write-offs of Brady's substantial intangible assets; Brady's ability to retain significant contracts and customers; risks associated with international operations; Brady's ability to maintain compliance with its debt covenants; technology changes; business interruptions due to implementing business systems; environmental, health and safety compliance costs and liabilities; future competition; interruptions to sources of supply; Brady's ability to realize cost savings from operating initiatives; difficulties associated with exports; risks associated with restructuring plans; risks associated with obtaining governmental approvals and maintaining regulatory compliance; and numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive and regulatory nature contained from time to time in Brady's U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the Risk Factors section located in Item 1A of Part I of the Company's most recently filed Form 10-K for the year ended July 31, 2010. These uncertainties may cause Brady's actual future results to be materially different than those expressed in its forward-looking statements. Brady does not undertake to update its forward-looking statements.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's business operations give rise to market risk exposure due to changes in foreign exchange rates. To manage that risk effectively, the Company enters into hedging transactions, according to established guidelines and policies that enable it to mitigate the adverse effects of this financial market risk.

The global nature of the Company's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. Dollar. The primary objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on intercompany transactions and foreign raw-material imports. To achieve this objective, the Company hedges a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Singapore Dollar, Swedish Krona, Japanese Yen, and the Korean Won. As of April 30, 2011, the amount of outstanding foreign exchange contracts was \$120,475 million. In fiscal 2010 and continuing in fiscal 2011, the Company also hedged portions of its net investments in its European foreign operations using forward foreign exchange currency contracts and Euro-denominated debt of 75.0 million designated as a hedge instrument.

The Company could be exposed to interest rate risk through its corporate borrowing activities. The objective of the Company's interest rate risk management activities is to manage the levels of the Company's fixed and floating interest rate exposure to be consistent with the Company's preferred mix. The interest rate risk management program allows the Company to enter into approved interest rate derivatives, with the approval of the Board of Directors, if there is a desire to modify the Company's exposure to interest rates. As of April 30, 2011, the Company had no interest rate derivatives.

The Company is subject to the risk of changes in foreign currency exchange rates due to its operations in foreign countries. The Company has manufacturing facilities and sells and distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company manufactures, distributes and sells its products. The Company's operating results are principally exposed to changes in exchange rates between the U.S. Dollar and the European currencies, primarily the Euro, changes between the U.S. Dollar and the Australian Dollar, changes between the U.S. Dollar and the Canadian Dollar, and changes between the U.S. Dollar and the Chinese Yuan. Changes in foreign currency exchange rates for the Company's foreign subsidiaries reporting in local currencies are generally reported as a component of shareholders' equity. The Company's currency translation adjustments recorded for the three and nine months ended April 30, 2011 were \$30.5 million favorable and \$60.3 million favorable, respectively. The Company's currency translation adjustments recorded for the three and nine months ended April 30, 2010 were \$1.8 million unfavorable and \$4.0 million favorable, respectively. As of April 30, 2011 and 2010, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$411.2 million and \$221.7 million, respectively. The potential increase in the net current assets as of April 30, 2011 from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be \$41.1 million. This sensitivity analysis assumes a parallel shift in foreign currency exchange rates. Exchange rates rarely move in the same direction relative to the U.S. Dollar. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

**ITEM 4. CONTROLS AND PROCEDURES**

Brady Corporation maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports filed by the Company under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports the Company files under the Exchange Act is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its Senior Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the

Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Company's President and Chief Executive Officer and Senior Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents**

PART II. OTHER INFORMATION

ITEM 6. Exhibits

(a) Exhibits

- 10.1 Brady Corporation Executive Deferred Compensation Plan, as amended
- 10.2 Brady Corporation Directors' Deferred Compensation Plan, as amended
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Frank M. Jaehnert
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Thomas J. Felmer
- 32.1 Section 1350 Certification of Frank M. Jaehnert
- 32.2 Section 1350 Certification of Thomas J. Felmer

101 Interactive Data File

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIGNATURES

BRADY CORPORATION

Date: June 7, 2011

/s/ Frank M. Jaehnert  
Frank M. Jaehnert  
President & Chief Executive Officer

Date: June 7, 2011

/s/ Thomas J. Felmer  
Thomas J. Felmer  
Senior Vice President & Chief Financial  
Officer  
(Principal Financial Officer)