

BRADY CORP
Form 10-Q
December 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 October 31, 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 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 the definitions 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 December 2, 2011, there were 48,892,686 outstanding shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Voting Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

FORM 10-Q
BRADY CORPORATION
INDEX

	Page
<u>PART I. Financial Information</u>	3
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussions and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 4. Controls and Procedures</u>	22
<u>PART II. Other Information</u>	23
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 6. Exhibits</u>	23
<u>Signatures</u>	23
<u>Exhibit 10.1</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

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

(Dollars in Thousands)

	October 31, 2011 (Unaudited)	July 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 371,594	\$ 389,971
Accounts receivable net	232,837	228,483
Inventories:		
Finished products	64,652	62,152
Work-in-process	16,259	14,550
Raw materials and supplies	28,752	27,484
Total inventories	109,663	104,186
Prepaid expenses and other current assets	42,120	35,647
Total current assets	756,214	758,287
Other assets:		
Goodwill	792,303	800,343
Other intangible assets	84,461	89,961
Deferred income taxes	50,676	53,755
Other	19,444	19,244
Property, plant and equipment:		
Cost:		
Land	6,360	6,406
Buildings and improvements	103,683	104,644
Machinery and equipment	303,493	305,557
Construction in progress	13,431	11,226
	426,967	427,833
Less accumulated depreciation	290,704	287,918
Property, plant and equipment net	136,263	139,915
Total	\$ 1,839,361	\$ 1,861,505
LIABILITIES AND STOCKHOLDERS INVESTMENT		
Current liabilities:		
Accounts payable	\$ 96,237	\$ 98,847
Wages and amounts withheld from employees	46,221	69,798
Taxes, other than income taxes	8,963	7,612
Accrued income taxes	16,170	9,954
Other current liabilities	57,717	54,406
Current maturities on long-term debt	61,264	61,264

Total current liabilities	286,572	301,881
Long-term obligations, less current maturities	330,054	331,914
Other liabilities	68,200	71,518
Total liabilities	684,826	705,313
Stockholders investment:		
Class A nonvoting common stock Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 48,862,485 and 49,284,252 shares, respectively	513	513
Class B voting common stock Issued and outstanding, 3,538,628 shares	35	35
Additional paid-in capital	310,602	307,527
Income retained in the business	812,142	789,100
Treasury stock 2,082,801 and 1,667,235 shares, respectively of Class A nonvoting common stock, at cost	(61,015)	(50,017)
Accumulated other comprehensive income	96,778	113,898
Other	(4,520)	(4,864)
Total stockholders investment	1,154,535	1,156,192
Total	\$ 1,839,361	\$ 1,861,505

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 October 31, (Unaudited)		
	2011	2010	Percentage Change
Net sales	\$ 349,508	\$ 329,588	6.0%
Cost of products sold	181,677	165,076	10.1%
Gross margin	167,831	164,512	2.0%
Operating expenses:			
Research and development	9,809	9,944	(1.4)%
Selling, general and administrative	108,932	109,324	(0.4)%
Restructuring charges		3,641	(100.0)%
Total operating expenses	118,741	122,909	(3.4)%
Operating income	49,090	41,603	18.0%
Other income and (expense):			
Investment and other income (expense)	(202)	290	(169.7)%
Interest expense	(5,047)	(5,687)	(11.3)%
Income before income taxes	43,841	36,206	21.1%
Income taxes	11,109	9,925	11.9%
Net income	\$ 32,732	\$ 26,281	24.5%
Per Class A Nonvoting Common Share:			
Basic net income	\$ 0.62	\$ 0.50	24.0%
Diluted net income	\$ 0.62	\$ 0.50	24.0%
Dividends	\$ 0.185	\$ 0.18	2.8%
Per Class B Voting Common Share:			
Basic net income	\$ 0.60	\$ 0.48	25.0%
Diluted net income	\$ 0.60	\$ 0.48	25.0%
Dividends	\$ 0.168	\$ 0.163	3.1%
Weighted average common shares outstanding (in thousands):			
Basic	52,657	52,448	
Diluted	52,954	52,810	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in Thousands)

	Three Months Ended October 31, (Unaudited)	
	2011	2010
Operating activities:		
Net income	\$ 32,732	\$ 26,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,241	12,594
Deferred income taxes	4,399	(4,849)
Non-cash portion of stock-based compensation expense	3,591	4,069
Non-cash portion of restructuring charges		951
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):		
Accounts receivable	(7,798)	(13,614)
Inventories	(7,156)	(3,689)
Prepaid expenses and other assets	(7,384)	1,078
Accounts payable and accrued liabilities	(21,814)	(16,909)
Income taxes	7,470	10,245
Net cash provided by operating activities	15,281	16,157
Investing activities:		
Purchases of property, plant and equipment	(5,817)	(2,810)
Settlement of net investment hedges	(958)	
Other	(233)	(908)
Net cash used in investing activities	(7,008)	(3,718)
Financing activities:		
Payment of dividends	(9,690)	(9,424)
Proceeds from issuance of common stock	683	2,105
Purchase of treasury stock	(12,309)	
Income tax benefit from the exercise of stock options and deferred compensation distributions, and other	456	(146)
Net cash used in financing activities	(20,860)	(7,465)
Effect of exchange rate changes on cash	(5,790)	6,286
Net (decrease) increase in cash and cash equivalents	(18,377)	11,260
Cash and cash equivalents, beginning of period	389,971	314,840
Cash and cash equivalents, end of period	\$ 371,594	\$ 326,100
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 6,082	\$ 7,211
Income taxes, net of refunds	5,825	5,907

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Three Months Ended October 31, 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 October 31, 2011 and July 31, 2011, and its results of operations and cash flows for the three months ended October 31, 2011 and 2010. The condensed consolidated balance sheet as of July 31, 2011 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 condensed or 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, 2011.

NOTE B Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the quarter ended October 31, 2011, are as follows:

	Americas	Europe	Asia-Pacific	Total
Balance as of July 31, 2011	\$ 425,578	\$ 171,238	\$ 203,527	\$ 800,343
Translation adjustments	(3,045)	(3,048)	(1,947)	(8,040)
Balance as of October 31, 2011	\$ 422,533	\$ 168,190	\$ 201,580	\$ 792,303

Goodwill decreased \$8,040 during the three months ended October 31, 2011 due to the negative effects of foreign currency translation. Goodwill at October 31, 2011 and July 31, 2011 did not include any accumulated impairment losses.

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

	October 31, 2011				July 31, 2011			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$ 9,939	\$ (8,604)	\$ 1,335	5	\$ 9,784	\$ (8,556)	\$ 1,228

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Trademarks and other	7	9,292	(7,025)	2,267	7	9,448	(6,599)	2,849
Customer relationships	7	162,659	(121,832)	40,827	7	165,566	(119,977)	45,589
Non-compete agreements and other	4	16,114	(15,562)	552	4	16,432	(15,760)	672
Unamortized other intangible assets:								
Trademarks	N/A	39,480		39,480	N/A	39,623		39,623
Total		\$ 237,484	\$ (153,023)	\$ 84,461		\$ 240,853	\$ (150,892)	\$ 89,961

Table of Contents

The value of goodwill and other intangible assets in the condensed consolidated financial statements at October 31, 2011 differs from the value assigned to them in the original allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate the financial statements into the United States Dollar between the date of acquisition and October 31, 2011.

Amortization expense on intangible assets was \$4,080 and \$5,147 for the three-month periods ended October 31, 2011 and 2010, respectively. The amortization over each of the next five fiscal years is projected to be \$16,436, \$10,578, \$5,617, \$5,263 and \$4,163 for the fiscal years ending July 31, 2012, 2013, 2014, 2015 and 2016, respectively.

NOTE C Comprehensive Income

Total comprehensive income for the periods presented was as follows:

	Three Months Ended	
	October 31, 2011	October 31, 2010
Net Income	\$ 32,732	\$ 26,281
Unrealized gain (loss) on cash flow hedges	1,330	(725)
Prior service credit and amortization of (gain) loss on post-retirement medical plan	668	(63)
Foreign currency translation adjustments (1)	(19,118)	30,095
Total comprehensive income	\$ 15,612	\$ 55,588

(1) The cumulative translation adjustment in the table above includes the settlement of net investment hedges for the three months ended October 31, 2011 of (\$584), net of tax.

The decrease in total comprehensive income for the quarter ended October 31, 2011 as compared to the quarter ended October 31, 2010 was primarily due to the appreciation of the U.S. dollar against other currencies.

NOTE D Net Income per Common Share

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:

	Three Months Ended	
	2011	October 31, 2010
Numerator: (in thousands)		
Net income	\$ 32,732	\$ 26,281
Less:		
Restricted stock dividends	(57)	(56)
Numerator for basic and diluted Class A net income per share	\$ 32,675	\$ 26,225
Less:		
Preferential dividends	(818)	(820)
Preferential dividends on dilutive stock options	(5)	(6)
Numerator for basic and diluted Class B net income per share	\$ 31,852	\$ 25,399
Denominator: (in thousands)		
Denominator for basic net income per share for both Class A and Class B	52,657	52,448
Plus: Effect of dilutive stock options	297	362

Denominator for diluted net income per share for both Class A and Class B	\$	52,954	\$	52,810
Class A Nonvoting Common Stock net income per share:				
Basic	\$	0.62	\$	0.50
Diluted	\$	0.62	\$	0.50
Class B Voting Common Stock net income per share:				
Basic	\$	0.60	\$	0.48
Diluted	\$	0.60	\$	0.48

Options to purchase approximately 4,915,000 and 3,636,000 shares of Class A Nonvoting Common Stock were not included in the computation of diluted net income per share for the quarters ended October 31, 2011 and 2010, respectively, 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 (expense) 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 months ended October 31, 2011 and 2010:

	Americas	Europe	Asia-Pacific	Total Region	Corporate and Eliminations	Totals
Three months ended October 31, 2011:						
Revenues from external customers	\$ 153,863	\$ 97,356	\$ 98,289	\$ 349,508	\$	\$ 349,508
Intersegment revenues	10,225	762	7,442	18,429	(18,429)	
Segment profit	43,230	26,299	13,304	82,833	(3,263)	79,570
Three months ended October 31, 2010:						
Revenues from external customers	\$ 145,988	\$ 92,050	\$ 91,550	\$ 329,588	\$	\$ 329,588
Intersegment revenues	9,748	893	5,946	16,587	(16,587)	
Segment profit	39,359	24,061	16,829	80,249	(3,436)	76,813

Following is a reconciliation of segment profit to net income for the three months ended October 31, 2011 and 2010:

	Three months ended: October 31,	
	2011	2010
Total profit from reportable segments	\$ 82,833	\$ 80,249
Corporate and eliminations	(3,263)	(3,436)
Unallocated amounts:		
Administrative costs	(30,480)	(31,569)
Restructuring charges		(3,641)
Investment and other income (expense)	(202)	290
Interest expense	(5,047)	(5,687)
Income before income taxes	43,841	36,206
Income taxes	(11,109)	(9,925)

Net income		\$ 32,732	\$ 26,281
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Table of Contents**NOTE F Stock-Based Compensation**

The Company has incentive stock plans under which the Board of Directors may grant unrestricted stock, nonqualified stock options, incentive stock options, shares of restricted stock and restricted stock units to eligible employees and Directors of the Company and its affiliates. The stock options granted under the Company's active incentive stock plans 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. 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 granted in fiscal 2008 were amended in fiscal 2011 to allow for vesting after a seven-year period upon meeting both performance and service conditions. The restricted shares granted in fiscal 2011 vest ratably at the end of years three, four and five upon meeting certain performance and service conditions. The restricted shares granted in fiscal 2008 and 2011 are referred to herein as performance-based restricted shares. As of October 31, 2011, the Company has reserved 6,885,999 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 5,020,700 shares of Class A Nonvoting Common Stock remain for future issuance of stock options and restricted shares under the active 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 October 31, 2011 and 2010 was \$3,591 (\$2,190 net of taxes) and \$4,069 (\$2,482 net of taxes), respectively. As of October 31, 2011, total unrecognized compensation cost related to share-based compensation awards was \$22,882 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.3 years.

The Company has estimated the fair value of its service-based and performance-based stock option awards granted during the three months ended October 31, 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:

	Three Months Ended October 31, 2011		Three Months Ended October 31, 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)	5.89	6.57	5.92	6.57
Expected volatility	39.40%	39.21%	40.22%	39.39%
Expected dividend yield	2.07%	1.99%	1.94%	1.96%
Risk-free interest rate	1.16%	2.05%	1.65%	2.35%
Weighted-average market value of underlying stock at grant date	\$ 27.00	\$ 29.55	\$ 29.09	\$ 28.35
Weighted-average exercise price	27.00	29.55	29.09	28.35
Weighted-average fair value of options granted during the period	8.37	10.01	9.58	9.82

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 calculated as 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 October 31, 2011, 310,000 performance-based restricted shares were outstanding.

The Company granted 415,000 performance-based stock options during the three months ended October 31, 2011, with a weighted average exercise price of \$29.55 and a weighted average fair value of \$10.01. The Company also granted 791,150 service-based stock options during the three months ended October 31, 2011, with a weighted average exercise price of \$27.00 and a weighted average fair value of \$8.37.

Table of Contents

A summary of stock option activity under the Company's share-based compensation plans for the three months ended October 31, 2011 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2011	5,726,017	\$ 29.24		
New grants	1,206,150	\$ 27.88		
Exercised	(69,803)	\$ 20.49		
Forfeited or expired	(49,365)	\$ 28.58		
Outstanding at October 31, 2011	6,812,999	\$ 29.09	6.8	\$ 22,979
Exercisable at October 31, 2011	3,975,963	\$ 29.83	5.3	\$ 14,652

There were 3,975,963 and 3,301,195 options exercisable with a weighted average exercise price of \$29.83 and \$29.10 at October 31, 2011 and 2010, respectively. The cash received from the exercise of options during the quarters ended October 31, 2011 and 2010 was \$683 and \$2,105, respectively. The tax benefit on stock options exercised during the quarters ended October 31, 2011 and 2010 was \$469 and \$440, respectively.

The total intrinsic value of options exercised during the three months ended October 31, 2011 and 2010, based upon the average market price at the time of exercise during the period, was \$642 and \$1,320, respectively. The total fair value of stock options vested during the three months ended October 31, 2011 and 2010, was \$6,935 and \$3,685, respectively.

NOTE G Stockholders' Equity

In fiscal 2009, the Company's Board of Directors authorized a share repurchase plan for the Company's Class A Nonvoting Common Stock. The plan was implemented by purchasing shares in the open market or in 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 did not repurchase shares during fiscal 2011. As of July 31, 2011, there remained 204,133 shares to purchase in connection with this share repurchase plan.

On September 9, 2011, the Company's Board of Directors authorized an additional share repurchase program for up to two million additional shares of the Company's Class A Nonvoting Common Stock. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. During the three months ended October 31, 2011, the Company purchased 457,360 shares of its Class A Nonvoting Common Stock under this plan for \$12,309. As of October 31, 2011, there remained 1,746,773 shares to purchase in connection with this share repurchase plan.

NOTE H Employee Benefit Plans

The Company provides postretirement medical 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 2012 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, 2011.

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

In accordance with fair value accounting guidance, 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, our financial assets and liabilities that were accounted for at fair value on a recurring basis at October 31, 2011, and July 31, 2011, according to the valuation techniques the Company used to determine their fair values.

	Fair Value Measurements Using Inputs Considered As				Fair Values	Balance Sheet Classifications
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
October 31, 2011:						
Trading Securities	\$ 11,207	\$	\$	\$ 11,207		Other assets
Foreign exchange contracts cash flow hedges		296		296		Prepaid expenses and other current assets
Foreign exchange contracts		21		21		Prepaid expenses and other current assets
Total Assets	\$ 11,207	\$ 317	\$	\$ 11,524		
Foreign exchange contracts cash flow hedges	\$	188	\$	\$ 188		Other current liabilities
Foreign exchange contracts net investment hedges		2,656		2,656		Other current liabilities
Foreign exchange contracts		1		1		Other current liabilities
Foreign currency denominated debt net investment hedge		106,125		106,125		Long term obligations, less current maturities
Total Liabilities	\$	\$ 108,970	\$	\$ 108,970		
July 31, 2011:						
Trading Securities	\$ 10,897	\$	\$	\$ 10,897		Other assets
Foreign exchange contracts cash flow hedges		16		16		Prepaid expenses and other current assets
Foreign exchange contracts		3		3		Prepaid expenses and other current assets

Total Assets	\$	10,897	\$	19	\$	10,916	
Foreign exchange contracts							
cash flow hedges	\$		\$	830	\$	830	Other current liabilities
Foreign exchange contracts net							
investment hedges				5,295		5,295	Other current liabilities
Foreign exchange contracts				2		2	Other current liabilities
Foreign currency denominated							Long term obligations, less
debt net investment hedge				107,985		107,985	current maturities
Total Liabilities	\$		\$	114,112	\$	114,112	

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 us 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.

Table of Contents

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 three months ended October 31, 2011.

The Company's financial instruments, other than those presented in the disclosures above, include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term and long-term debt. The fair values of cash and cash equivalents, 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 short-term and long-term debt obligations, based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities, was \$414,631 and \$416,694 at October 31, 2011 and July 31, 2011, respectively, as compared to the carrying value of \$391,318 and \$393,178 at October 31, 2011 and July 31, 2011, 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 three months ended October 31, 2011, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

NOTE J Restructuring

In fiscal 2009, in response to the global economic downturn, the Company took several measures to address its cost structure. In addition to a company-wide salary freeze and decreased discretionary spending, the Company reduced its workforce by 25%. The Company reduced its workforce through voluntary and involuntary separation programs, voluntary retirement programs, and facility consolidations. The Company continued the execution of its restructuring actions during fiscal 2011. These actions included a reduction in its contract labor and decreased discretionary spending. As a result of these actions, the Company recorded restructuring charges of \$3,641 during the three months ended October 31, 2010. The restructuring charges included \$2,665 of employee separation costs, \$951 of non-cash fixed asset write-offs, and \$25 of other facility closure related costs and contract termination costs.

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

	Employee Related	Asset Write-offs	Other	Total
Beginning balance, July 31, 2011	\$ 2,207	\$	\$ 49	\$ 2,256
Cash payments	(1,351)			(1,351)
Ending balance, October 31, 2011	\$ 856	\$	\$ 49	\$ 905

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. 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 less than 18 months, which qualify as cash flow hedges or net investment hedges under the accounting guidance for derivative instruments and hedging activities. The primary objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements due to transactions 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 October 31, 2011 and July 31, 2011, the notional amount of outstanding forward exchange contracts was \$56,938 and \$80,807, 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 quarters ended October 31, 2011 and 2010.

Table of Contents

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, Japanese Yen, Swiss Franc and Singapore Dollar. 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 October 31, 2011, unrealized gains of \$252 have been included in OCI. As of July 31, 2011, unrealized losses of \$1,535 have been included in OCI. All balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings.

At October 31, 2011 and July 31, 2011, the Company had \$296 and \$16 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 October 31, 2011 and July 31, 2011, the Company had \$188 and \$830, respectively, of forward exchange contracts designated as hedge instruments included in Other current liabilities on the accompanying Condensed Consolidated Balance Sheets. At October 31, 2011 and July 31, 2011, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$25,288 and \$30,519, respectively, including contracts to sell Euros, Canadian Dollars, Australian Dollars, British Pounds, U.S. Dollars, and Swiss Franc.

The Company has also designated intercompany and third party foreign currency denominated debt instruments as net investments hedges. During the three months ended October 31, 2011, the Company designated 4,581 of intercompany loans as net investment hedges to hedge portions of its net investment in European foreign operations. No intercompany loans were designated as net investment hedges as of July 31, 2011. 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 selectively hedge portions of its net investment in European foreign operations. As net investment hedges, the currency effects of the intercompany and third party 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 European operations. The Company's foreign denominated debt obligations are valued under a market approach using publicized spot prices.

Additionally, the Company utilizes forward foreign exchange currency contracts designated as hedge instruments to hedge portions of the Company's net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. Any ineffective portions are to be 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 October 31, 2011 and July 31, 2011, the Company had \$2,656 and \$5,295, respectively, of forward foreign exchange currency contracts designated as net investment hedges included in Other current liabilities on the Condensed Consolidated Balance Sheet. At October 31, 2011 and July 31, 2011, the U.S dollar equivalent of these outstanding forward foreign exchange contracts totaled \$31,650 and \$50,000, respectively, including contracts to sell Euros and Singapore Dollars.

Table of Contents

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

Derivatives designated as hedging instruments	Asset Derivatives				Liability Derivatives			
	October 31, 2011		July 31, 2011		October 31, 2011		July 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash flow hedges								
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 296	Prepaid expenses and other current assets	\$ 16	Other current liabilities	\$ 188	Other current liabilities	\$ 830
Net investment hedges								
Foreign exchange contracts	Prepaid expenses and other current assets	\$	Prepaid expenses and other current assets	\$	Other current liabilities	\$ 2,656	Other current liabilities	\$ 5,295
Foreign currency denominated debt	Prepaid expenses and other current assets	\$	Prepaid expenses and other current assets	\$	Long term obligations, less current maturities	\$ 106,125	Long term obligations, less current maturities	\$ 107,985
Total derivatives designated as hedging instruments		\$ 296		\$ 16		\$ 108,969		\$ 114,110
Derivatives not designated as hedging instruments								
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 21	Prepaid expenses and other current assets	\$ 3	Other current liabilities	\$ 1	Other current liabilities	\$ 2
Total derivatives not designated as hedging instruments		\$ 21		\$ 3		\$ 1		\$ 2

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss)		Location of 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) Three months ended October 31, 2011 2010		Reclassified From Accumulated OCI into Income (Effective Portion)	Reclassified From Accumulated OCI Into Income (Effective Portion) Three months ended October 31, 2011 2010		Recognized in Income on Derivative (Ineffective Portion)	Recognized in Income on Derivative (Ineffective Portion) Three months ended October 31, 2011 2010	
Foreign exchange contracts	\$ 230	\$ (185)	Cost of goods sold	\$ (777)	\$ (100)	Cost of goods sold	\$	\$
Total	\$ 230	\$ (185)		\$ (777)	\$ (100)		\$	\$

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:

	Amount of Gain or (Loss) Recognized in		Location of Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in	Amount of Gain or (Loss) Recognized in	
	OCI on Derivative (Effective Portion) Three months ended October 31,		OCI into Income (Effective Portion) Three months ended October 31,		Income on Derivative (Ineffective Portion)	Income on Derivative (Ineffective Portion) Three months ended October 31,	
	2011	2010				2011	2010
Foreign currency intercompany debt	\$ (298)	\$	Investment and other income net	\$	Investment and other income net	\$	\$
Foreign currency denominated debt	(11,210)	(6,720)	Investment and other income net		Investment and other income net		
Total	\$ (11,508)	\$ (6,720)		\$		\$	\$

NOTE L Subsequent Events

On November 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 \$0.185 per share payable on January 31, 2012 to shareholders of record at the close of business on January 10, 2012.

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, direct sales and e-commerce capabilities. 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, Slovakia, 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, Vietnam, Central Europe, the Middle East, Africa and South America.

Results of Operations

Sales for the quarter ended October 31, 2011, increased 6.0% to \$349.5 million, compared to \$329.6 million in the same period of the last fiscal year. Of the 6.0% increase in sales, organic sales increased by 3.5%, and divestitures, net of acquisitions reduced sales by 0.2%. The change in sales related to divestitures, net of acquisitions, resulted from the acquisition of ID Warehouse and the divestiture of Teklynx during fiscal 2011. The remaining increase in sales of 2.7% was due to fluctuations in the exchange rates used to translate financial results into the United States Dollar for the three months ended October 31, 2011, compared to the same period in the previous year. The increase in organic sales for the quarter ended October 31, 2011 was comprised of 5.7% and 3.7% increases in sales in the Americas and Europe segments, respectively, partially offset by the 0.2% decline in sales in the Asia-Pacific segment. Net income for the quarter ended October 31, 2011, was \$32.7 million or \$0.62 per diluted Class A Nonvoting Common Share, up 24.5% from \$26.3 million or \$0.50 per diluted Class A Nonvoting Common Share reported in the first quarter of last fiscal year.

Gross margin as a percentage of sales was 48.0% for the quarter ended October 31, 2011, compared to 49.9% in the same period of the previous year. The primary driver for the decline in gross margin relates to the Asia-Pacific segment where the Company took on lower margin sales opportunities in an effort to offset volume declines.

Research and development (R&D) expenses decreased 1.4% to \$9.8 million during the three months ended October 31, 2011, compared to \$9.9 million for the same period in the prior year. As a percentage of sales, R&D expenses decreased from 3.0% to 2.8% during the three months ended October 31, 2011, compared to the three months ended October 31, 2010. The Company remains committed to innovation and new product development and expects R&D expense to increase for the remainder of fiscal 2012.

Selling, general, and administrative expenses (SG&A) decreased 0.4% to \$108.9 million for the three months ended October 31, 2011, compared to \$109.3 million for the same period in the prior year. SG&A expense as percentage of sales declined to 31.2% in the first quarter of fiscal 2012 compared to 33.2% in the same quarter last year. The Company has continued to focus on reducing its SG&A expenses as a percentage of sales, which is partially offset by its reinvestment in growth initiatives.

Restructuring charges related to the reduction of the Company's workforce and facility consolidations were \$3.6 million during the three-month period ended October 31, 2010.

Interest expense decreased to \$5.0 million for the quarter ended October 31, 2011 from \$5.7 million for the quarter ended October 31, 2010. The decrease was due to the Company's lower principal balance under the outstanding debt agreements.

The Company's income tax rate was 25.3% for the quarter ended October 31, 2011 and 27.4% for the same period of the previous year. The decrease in the Company's income tax rate during the first quarter of fiscal 2012 was primarily due to the mix of profits in low and high tax countries as well as positive impacts from foreign tax credit benefits. The Company expects the full year income tax rate for fiscal 2012 to be in the mid 20% range.

Net income for the three months ended October 31, 2011, increased 24.5% to \$32.7 million, compared to \$26.3 million for the same quarter of the previous year. Net income as a percentage of sales increased to 9.4% for the quarter ended October 31, 2011 from 8.0% for the same period in the prior year. Net income before restructuring related expenses was \$28.9 million, or \$0.55 per diluted Class A Common Share, for the three months ended October 31, 2010.

Table of Contents

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 months ended October 31, 2011 and 2010:

Corporate