

BRADY CORP  
Form 10-Q  
May 30, 2006

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, 2006

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 22, 2006, there were outstanding 45,577,842 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
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<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 Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>PART II. Other Information</u>	
<u>Item 1A. Risk Factors</u>	30
<u>Item 6. Exhibits</u>	34
<u>Share Sale and Purchase Agreement</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification</u>	
<u>Section 1350 Certification</u>	
<u>Section 1350 Certification</u>	

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**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

(DOLLARS IN THOUSANDS)

	April 30, 2006 (Unaudited)	July 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 90,314	\$ 72,970
Short term investments	30,000	7,100
Accounts receivable, less allowance for losses (\$5,309 and \$3,726, respectively)	166,962	123,453
Inventories:		
Finished products	50,827	38,827
Work-in-process	11,162	9,681
Raw materials and supplies	31,863	22,227
Total inventories	93,852	70,735
Prepaid expenses and other current assets	37,402	28,114
<b>Total current assets</b>	<b>418,530</b>	<b>302,372</b>
<b>Other assets:</b>		
Goodwill	452,748	332,369
Other intangible assets, net	95,189	71,647
Deferred income taxes	40,302	39,043
Other	9,145	6,305
<b>Total other assets</b>	<b>597,384</b>	<b>449,364</b>
<b>Property, plant and equipment:</b>		
Cost:		
Land	6,553	6,388
Buildings and improvements	73,606	65,007
Machinery and equipment	175,205	157,093
Construction in progress	10,424	6,510
	265,788	234,998
Less accumulated depreciation	150,251	136,587
<b>Net property, plant and equipment</b>	<b>115,537</b>	<b>98,411</b>

<b>Total</b>	\$ 1,131,451	\$ 850,147
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 60,790	\$ 52,696
Wages and amounts withheld from employees	46,361	49,620
Taxes, other than income taxes	6,443	4,815
Accrued income taxes	23,205	24,028
Other current liabilities	32,713	29,649
Short-term borrowings and current maturities on long-term debt	126	4
<b>Total current liabilities</b>	<b>169,638</b>	<b>160,812</b>
<b>Long-term debt, less current maturities</b>	<b>350,187</b>	<b>150,026</b>
<b>Other liabilities</b>	<b>56,377</b>	<b>42,035</b>
<b>Total liabilities</b>	<b>576,202</b>	<b>352,873</b>
<b>Stockholders investment:</b>		
Class A nonvoting common stock Issued 45,881,743 and 45,877,543 shares, respectively and outstanding 45,462,077 and 45,792,199 shares, respectively	459	458
Class B voting common stock Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	101,242	99,029
Income retained in the business	445,508	382,880
Treasury stock 419,666 and 85,344 shares, respectively of Class A nonvoting common stock, at cost	(15,341)	(1,575)
Accumulated other comprehensive income	25,198	17,497
Other	(1,852)	(1,050)
<b>Total stockholders investment</b>	<b>555,249</b>	<b>497,274</b>
<b>Total</b>	<b>\$ 1,131,451</b>	<b>\$ 850,147</b>

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)

	(Unaudited)					
	Three Months Ended April 30,			Nine Months Ended April 30,		
	2006	2005	Percentage Change	2006	2005	Percentage Change
Net sales	\$ 266,494	\$ 209,766	27.0%	\$ 730,103	\$ 606,401	20.4%
Cost of products sold	125,739	95,898	31.1%	348,252	282,052	23.5%
Gross margin	140,755	113,868	23.6%	381,851	324,349	17.7%
Operating expenses:						
Research and development	7,314	5,941	23.1%	20,677	17,744	16.5%
Selling, general and administrative	89,215	72,384	23.3%	241,543	208,335	15.9%
Total operating expenses	96,529	78,325	23.2%	262,220	226,079	16.0%
Operating income	44,226	35,543	24.4%	119,631	98,270	21.7%
Other income and (expense):						
Investment and other income net	2,279	36	6230.6%	2,759	812	239.8%
Interest expense	(4,496)	(2,101)	114.0%	(8,920)	(6,277)	42.1%
Income before income taxes	42,009	33,478	25.5%	113,470	92,805	22.3%
Income taxes	11,763	8,522	38.0%	31,772	26,913	18.1%
Net income	\$ 30,246	\$ 24,956	21.2%	\$ 81,698	\$ 65,892	24.0%
Per Class A Nonvoting Common Share:						
Basic net income	\$ 0.62	\$ 0.51	21.6%	\$ 1.67	\$ 1.35	23.7%
Diluted net income	\$ 0.61	\$ 0.50	22.0%	\$ 1.64	\$ 1.32	24.2%
Dividends	\$ 0.13	\$ 0.11	18.2%	\$ 0.39	\$ 0.33	18.2%
Per Class B Voting Common Share:						
Basic net income	\$ 0.62	\$ 0.51	21.6%	\$ 1.65	\$ 1.33	24.1%
Diluted net income	\$ 0.61	\$ 0.50	22.0%	\$ 1.62	\$ 1.31	23.7%
Dividends	\$ 0.13	\$ 0.11	18.2%	\$ 0.37	\$ 0.31	19.4%
Weighted average common shares outstanding (In Thousands):						
Basic	48,923	49,177		49,039	48,872	
Diluted	49,833	50,192		49,962	49,754	

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents**

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

	(Unaudited) Nine Months Ended April 30,	
	2006	2005
Operating activities:		
Net income	\$ 81,698	\$ 65,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,973	19,991
Gain on Foreign Currency Contract	(1,517)	
Income tax benefit from the exercise of stock options		4,747
Deferred income taxes	(3,500)	(2,354)
Loss on sale or disposal of property, plant & equipment	188	599
Provision for losses on accounts receivable	1,102	980
Non-cash portion of stock-based compensation expense	4,275	3,101
Changes in operating assets and liabilities (net of effects of business acquisitions):		
Accounts receivable	(25,570)	(5,099)
Inventories	(14,123)	(8,423)
Prepaid expenses and other assets	(2,604)	(979)
Accounts payable and accrued expenses	(3,748)	(10,056)
Income taxes	(1,657)	10,107
Other liabilities	4,813	3,491
Net cash provided by operating activities	63,330	81,997
Investing activities:		
Acquisition of businesses, net of cash acquired	(155,283)	(49,397)
Purchases of short-term investments	(105,800)	(34,000)
Sales of short-term investments	82,900	22,950
Purchases of property, plant and equipment	(26,291)	(14,411)
Purchase of Foreign Currency Contract	(2,134)	
Proceeds from sale of property, plant and equipment	(51)	288
Other	(1,907)	(1,188)
Net cash used in investing activities	(208,566)	(75,758)
Financing activities:		
Payment of dividends	(19,070)	(15,885)
Proceeds from the exercise of stock options	6,960	14,635
Principal payments on debt	(721)	(83,046)
Net proceeds from issuance of debt	200,000	83,000
Purchase of treasury stock	(27,299)	
Income tax benefit from the exercise of stock options	3,707	



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Net cash provided by (used in) financing activities	163,577	(1,296)
Effect of exchange rate changes on cash	(997)	(760)
Net increase in cash and cash equivalents	17,344	4,183
Cash and cash equivalents, beginning of period	72,970	68,788
Cash and cash equivalents, end of period	\$ 90,314	\$ 72,971
Supplemental disclosures:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 4,572	\$ 4,051
Income taxes, net of refunds	30,844	12,982
Acquisitions:		
Fair value of assets acquired, net of cash	\$ 61,602	\$ 35,971
Liabilities assumed	(23,188)	(18,212)
Goodwill	116,869	31,638
Net cash paid for acquisitions	\$ 155,283	\$ 49,397

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, 2006

(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, 2006 and July 31, 2005, and its results of operations for the three months and nine months ended April 30, 2006 and 2005, and its cash flows for the nine months ended April 30, 2006 and 2005. The condensed consolidated balance sheet as of July 31, 2005 has been derived from the audited consolidated financial statements of that date and condensed. 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, 2005.

Reclassifications Certain prior period amounts have been reclassified to conform with the current period presentation.

**NOTE B Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the nine months ended April 30, 2006, are as follows:

	Americas	Europe	Asia	Total
Balance as of July 31, 2005	\$ 226,843	\$ 73,544	\$ 31,982	\$ 332,369
Goodwill acquired during the period	101,734	6,102	9,033	116,869
Translation adjustments and other	901	1,258	1,351	3,510
Balance as of April 30, 2006	\$ 329,478	\$ 80,904	\$ 42,366	\$ 452,748

Goodwill increased by \$120,379 during the nine months ended April 30, 2006, including an increase of \$3,510 attributable to translation adjustments and adjustments to the preliminary allocation of the purchase price of Technology Print Supplies Ltd. and its associate, Technology Supply Media Co., Ltd. in Thailand, which were acquired on July 29, 2005. The additional increase in goodwill of \$116,869 for the nine months ended April 30, 2006 was due to the allocation of the purchase price for the acquisitions of STOPware, Inc., TruMed Technologies, Inc., J.A.M. Plastics Inc., Personnel Concepts, and IDenticard Systems, Inc. in the United States, IDenticam Systems in Canada, Texit Danmark AS and Texit Norge AS in Europe, QDP Thailand Co. Ltd. in Asia, and Accidental Health & Safety Pty. Ltd. and Trafalgar First Aid Pty. Ltd. in Australia.

**Table of Contents**

Other intangible assets include patents, trademarks, non-compete agreements and other intangible assets with finite lives being amortized in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. The net book value of these assets was as follows:

	April 30, 2006				July 31, 2005			
	Weighted Average Amortization	Gross		Net	Weighted Average Amortization	Gross		Net
	Period (Years)	Carrying Amount	Accumulated Amortization	Book Value	Period (Years)	Carrying Amount	Accumulated Amortization	Book Value
Amortized other intangible assets:								
Patents	16	\$ 7,210	\$ (4,957)	\$ 2,253	16	\$ 6,830	\$ (4,525)	\$ 2,305
Trademarks and other	8	2,737	(1,391)	1,346	10	1,370	(1,134)	236
Customer relationships	8	71,795	(14,301)	57,494	8	51,211	(7,244)	43,967
Purchased software	4	3,523	(1,897)	1,626	5	3,148	(1,353)	1,795
Non-compete agreements	4	8,184	(4,336)	3,848	4	6,216	(3,212)	3,004
Unamortized other intangible assets:								
Trademarks	N/A	28,622		28,622	N/A	20,340		20,340
Total		\$ 122,071	\$ (26,882)	\$ 95,189		\$ 89,115	\$ (17,468)	\$ 71,647

The increase in customer relationships for the nine months ended April 30, 2006, relates to the acquisitions of STOPware, Inc., TruMed Technologies, Inc., J.A.M. Plastics Inc., Personnel Concepts, and IDenticard Systems, Inc. in the United States, Identicam Systems in Canada, Textit Danmark AS and Textit Norge AS in Europe, QDP Thailand Co. Ltd. in Asia, and Accidental Health & Safety Pty. Ltd. and Trafalgar First Aid Pty. Ltd. in Australia. The increase in trademarks for the same period is due primarily to the acquisitions of Textit Danmark AS, Textit Norge AS, J. A. M. Plastics Inc., and Personnel Concepts. The value of goodwill and intangible assets in the Condensed Consolidated Financial Statements at April 30, 2006 differs from the value assigned to them in the preliminary allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar.

Amortization expense on intangible assets was \$4,084 and \$1,978 for the three-month periods ended April 30, 2006 and 2005, respectively and \$9,414 and \$6,062 for the nine-month periods ended April 30, 2006 and 2005, respectively. The amortization over each of the next five fiscal years is projected to be \$12,773, \$12,299, \$11,770, \$11,207 and \$10,387 for the years ending July 31, 2006, 2007, 2008, 2009 and 2010, respectively.

**NOTE C Comprehensive Income**

Total comprehensive income, which is comprised of net income, foreign currency adjustments and net unrealized gains and losses from cash flow hedges, amounted to approximately \$34,579 and \$34,619 for the three months ended April 30, 2006 and 2005, respectively and \$89,399 and \$82,692 for the nine months ended April 30, 2006 and 2005, respectively.



**Table of Contents**

## 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		Nine Months Ended	
	April 30,		April 30,	
	2006	2005	2006	2005
Numerator:				
Net Income	\$ 30,246	\$ 24,956	\$ 81,698	\$ 65,892
Numerator for basic and diluted Class A net income per share	30,246	24,956	81,698	65,892
Less: Preferential dividends			(758)	(751)
Less: Preferential dividends on dilutive stock options			(16)	(23)
Numerator for basic and diluted Class B net income per share	\$ 30,246	\$ 24,956	\$ 80,924	\$ 65,118