

BRADY CORP  
Form 10-Q  
December 05, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended October 31, 2012**

**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)

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<b>Wisconsin</b> (State or other jurisdiction of incorporation or organization)	<b>39-0178960</b> (I.R.S. Employer Identification No.)
<b>6555 West Good Hope Road, Milwaukee, Wisconsin</b> (Address of principal executive offices)	<b>53223</b> (Zip Code)
<b>(414) 358-6600</b> (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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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 3, 2012, there were 47,581,104 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.

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BRADY CORPORATION

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(Dollars in Thousands)

	October 31, 2012 (Unaudited)	July 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 321,309	\$ 305,900
Accounts receivable net	218,246	199,006
Inventories:		
Finished products	67,992	64,740
Work-in-process	16,280	15,377
Raw materials and supplies	26,255	25,407
Total inventories	110,527	105,524
Prepaid expenses and other current assets	42,400	40,424
<b>Total current assets</b>	<b>692,482</b>	<b>650,854</b>
<b>Other assets:</b>		
Goodwill	680,595	676,791
Other intangible assets	80,983	84,119
Deferred income taxes	46,627	45,356
Other	21,577	20,584
<b>Property, plant and equipment:</b>		
Cost:		
Land	8,892	8,651
Buildings and improvements	102,592	101,962
Machinery and equipment	296,561	292,130
Construction in progress	10,064	10,417
	418,109	413,160
Less accumulated depreciation	288,949	283,145
<b>Property, plant and equipment net</b>	<b>129,160</b>	<b>130,015</b>
<b>Total</b>	<b>\$ 1,651,424</b>	<b>\$ 1,607,719</b>
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 105,348	\$ 86,646
Wages and amounts withheld from employees	40,529	54,629
Taxes, other than income taxes	8,211	9,307
Accrued income taxes	12,153	14,357
Other current liabilities	44,686	40,815
Current maturities on long-term debt	61,264	61,264

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<b>Total current liabilities</b>	272,191	267,018
<b>Long-term obligations, less current maturities</b>	259,729	254,944
<b>Other liabilities</b>	78,538	76,404
<b>Total liabilities</b>	610,458	598,366
<b>Stockholders' investment:</b>		
Class A nonvoting common stock Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 47,563,704 and 47,630,926 shares, respectively	513	513
Class B voting common stock Issued and outstanding, 3,538,628 shares	35	35
Additional paid-in capital	314,896	313,008
Income retained in the business	749,773	732,290
Treasury stock 3,387,783 and 3,245,561 shares, respectively of Class A nonvoting common stock, at cost	(93,535)	(92,600)
Accumulated other comprehensive income	72,178	59,411
Other	(2,894)	(3,304)
<b>Total stockholders' investment</b>	1,040,966	1,009,353
<b>Total</b>	\$ 1,651,424	\$ 1,607,719

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)

	<b>Three Months Ended October 31, (Unaudited)</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 337,646	\$ 349,508
Cost of products sold	173,026	181,677
Gross margin	164,620	167,831
Operating expenses:		
Research and development	8,485	9,809
Selling, general and administrative	108,261	108,932
Loss (gain) on sales of businesses	3,438	
Total operating expenses	120,184	118,741
Operating income	44,436	49,090
Other income and (expense):		
Investment and other income (expense)	397	(202)
Interest expense	(4,163)	(5,047)
Income before income taxes	40,670	43,841
Income taxes	13,482	11,109
Net income	\$ 27,188	\$ 32,732
Per Class A Nonvoting Common Share:		
Basic net income	\$ 0.53	\$ 0.62
Diluted net income	\$ 0.53	\$ 0.62
Dividends	\$ 0.19	\$ 0.185
Per Class B Voting Common Share:		
Basic net income	\$ 0.52	\$ 0.60
Diluted net income	\$ 0.51	\$ 0.60
Dividends	\$ 0.173	\$ 0.168
Weighted average common shares outstanding (in thousands):		
Basic	51,039	52,657
Diluted	51,312	52,954
See Notes to Condensed Consolidated Financial Statements.		

**Table of Contents****BRADY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in Thousands)

	<b>Three Months Ended October 31, (Unaudited)</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 27,188	\$ 32,732
Other comprehensive income:		
Foreign currency translation adjustments	18,493	(14,600)
Net investment hedge translation adjustments	(5,301)	3,228
Long-term intercompany loan translation adjustments	(1,594)	(3,684)
Cash flow hedges:		
Net (loss) gain recognized in other comprehensive income	(557)	1,010
Reclassification adjustment for (gains) losses included in net income	(467)	777
	(1,024)	1,787
Pension and other post-retirement benefits:		
Gain recognized in other comprehensive income		1,105
Actuarial gain amortization	(11)	
Prior service credit amortization	(51)	
	(62)	1,105
Other comprehensive income (loss), before tax	10,512	(12,164)
Income tax benefit (expense) related to items of other comprehensive income (loss)	2,255	(4,956)
Other comprehensive income (loss), net of tax	12,767	(17,120)
Comprehensive income	\$ 39,955	\$ 15,612

See Notes to Condensed Consolidated Financial Statements.

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(Dollars in Thousands)

	<b>October 31, (Unaudited)</b>	
	<b>2012</b>	<b>2011</b>
Operating activities:		
Net income	\$ 27,188	\$ 32,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,675	11,241
Deferred income taxes	(109)	4,399
Non-cash portion of stock-based compensation expense	4,399	3,591
Loss (gain) on sales of businesses	3,138	
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):		
Accounts receivable	(18,426)	(7,798)
Inventories	(8,141)	(7,156)
Prepaid expenses and other assets	(2,710)	(7,384)
Accounts payable and accrued liabilities	6,752	(21,814)
Income taxes	(2,548)	7,470
Net cash provided by operating activities	20,218	15,281
Investing activities:		
Purchases of property, plant and equipment	(6,177)	(5,817)
Settlement of net investment hedges		(958)
Divestiture of businesses, net of cash retained in the businesses	10,178	
Other	(70)	(233)
Net cash provided by (used in) investing activities	3,931	(7,008)
Financing activities:		
Payment of dividends	(9,705)	(9,690)
Proceeds from issuance of common stock	1,684	683
Purchase of treasury stock	(5,121)	(12,309)
Income tax benefit from the exercise of stock options and deferred compensation distributions, and other	401	456
Net cash used in financing activities	(12,741)	(20,860)
Effect of exchange rate changes on cash	4,001	(5,790)
Net increase (decrease) in cash and cash equivalents	15,409	(18,377)
Cash and cash equivalents, beginning of period	305,900	389,971
Cash and cash equivalents, end of period	\$ 321,309	\$ 371,594
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 4,953	\$ 6,082
Income taxes, net of refunds	12,199	5,825
See Notes to Condensed Consolidated Financial Statements.		



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## BRADY CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended October 31, 2012

(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, 2012 and July 31, 2012, and its results of operations, comprehensive income, and cash flows for the three months ended October 31, 2012 and 2011. The condensed consolidated balance sheet as of July 31, 2012, 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, 2012.

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income, which indefinitely defers the requirements in ASU 2011-05 to present on the face of the financial statements adjustments for items that are reclassified from OCI to net income in the statement where the components of net income and the components of OCI are presented. The ASU does not change the items that must be reported in OCI. The Company has provided the required statements of comprehensive income for the three months ended October 31, 2012 and 2011.

## NOTE B Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the quarter ended October 31, 2012, are as follows:

	Americas	EMEA	Asia-Pacific	Total
Balance as of July 31, 2012	\$ 417,886	\$ 174,868	\$ 84,037	\$ 676,791
Current year divestitures	(2,882)			(2,882)
Translation adjustments	389	5,886	411	6,686
Balance as of October 31, 2012	\$ 415,393	\$ 180,754	\$ 84,448	\$ 680,595

Goodwill increased \$3,804 during the three months ended October 31, 2012, due to the positive effects of foreign currency translation, partially offset by the divestitures of Precision Converting, LLC (Brady Medical) and the Varitronics businesses during the first quarter of fiscal 2013. Refer to Note K, Acquisitions and Divestitures for further discussion. The goodwill balance as of October 31, 2012, includes an accumulated impairment charge of \$115,688 recognized during fiscal 2012 on the Company's former North/South Asia reporting unit.



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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, 2012				July 31, 2012			
	Weighted Average Amortization	Gross		Net Book Value	Weighted Average Amortization	Gross		Net Book Value
	Period (Years)	Carrying Amount	Accumulated Amortization		Period (Years)	Carrying Amount	Accumulated Amortization	
Amortized other intangible assets:								
Patents	5	\$ 10,605	\$ (9,217)	\$ 1,388	5	\$ 10,418	\$ (9,058)	\$ 1,360
Trademarks and other	7	9,195	(7,403)	1,792	7	8,945	(7,094)	1,851
Customer relationships	7	164,375	(132,097)	32,278	7	164,392	(128,805)	35,587
Non-compete agreements and other	4	15,662	(15,224)	438	4	15,988	(15,417)	571
Unamortized other intangible assets:								
Trademarks	N/A	45,087		45,087	N/A	44,750		44,750
Total		\$ 244,924	\$ (163,941)	\$ 80,983		\$ 244,493	\$ (160,374)	\$ 84,119

The value of goodwill and other intangible assets in the condensed consolidated balance sheets at October 31, 2012, 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, 2012.

Amortization expense on intangible assets was \$4,147 and \$4,080 for the three-month periods ended October 31, 2012 and 2011, respectively. The amortization over each of the next five fiscal years is projected to be \$14,383, \$7,060, \$6,265, \$5,359 and \$2,918 for the fiscal years ending July 31, 2013, 2014, 2015, 2016 and 2017, respectively.

**NOTE C 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 October 31,	
	2012	2011
Numerator: (in thousands)		
Net income	\$ 27,188	\$ 32,732
Less:		
Restricted stock dividends	(59)	(57)
Numerator for basic and diluted Class A net income per share	\$ 27,129	\$ 32,675
Less:		
Preferential dividends	(797)	(818)
Preferential dividends on dilutive stock options	(5)	(5)
Numerator for basic and diluted Class B net income per share	\$ 26,327	\$ 31,852
Denominator: (in thousands)		
Denominator for basic net income per share for both Class A and Class B	51,039	52,657
Plus: Effect of dilutive stock options	273	297

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Denominator for diluted net income per share for both Class A and Class B	51,312	52,954
Class A Nonvoting Common Stock net income per share:		
Basic	\$ 0.53	\$ 0.62
Diluted	\$ 0.53	\$ 0.62
Class B Voting Common Stock net income per share:		
Basic	\$ 0.52	\$ 0.60
Diluted	\$ 0.51	\$ 0.60

Options to purchase approximately 5,072,000 and 4,915,000 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, 2012 and 2011, 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.

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The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology, human resources, and executive leadership, which are managed as global functions. Restructuring charges, impairment charges, equity compensation costs, interest expense, investment and other income (expense) and income taxes are also excluded when evaluating performance. Intersegment sales and transfers are recorded at cost plus a standard percentage markup.

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, EMEA 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, 2012 and 2011:

	Americas	EMEA	Asia-Pacific	Total Region	Corporate and Eliminations	Totals
<b>Three months ended October 31, 2012:</b>						
Revenues from external customers	\$ 148,692	\$ 93,233	\$ 95,721	\$ 337,646	\$	\$ 337,646
Intersegment revenues	10,082	924	6,407	17,413	(17,413)	
Segment profit	44,633	23,567	12,055	80,255	(1,973)	78,282
<b>Three months ended October 31, 2011:</b>						
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

Following is a reconciliation of segment profit to net income for the three months ended October 31, 2012 and 2011:

	<b>Three months ended: October 31,</b>	
	<b>2012</b>	<b>2011</b>
Total profit from reportable segments	\$ 80,255	\$ 82,833
Corporate and eliminations	(1,973)	(3,263)
Unallocated amounts:		
Administrative costs	(30,408)	(30,480)
Loss (gain) on sales of businesses (1)	(3,438)	
Investment and other income (expense)	397	(202)
Interest expense	(4,163)	(5,047)
Income before income taxes	40,670	43,841
Income taxes	(13,482)	(11,109)
Net income	\$ 27,188	\$ 32,732

(1) Losses on sales of businesses relate to the Americas segment during the three months ended October 31, 2012.

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Following is a summary of sales by business platform for the three months ended October 31, 2012 and 2011:

	Three months ended October 31,	
	2012	2011
ID Solutions	\$ 186,302	\$ 194,334
Direct Marketing	90,627	88,833
Die-Cut	60,717	66,341
Total	337,646	349,508

**NOTE E 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 and non-employee directors. The 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. Options issued under the plan, referred to herein as service-based 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 options. Performance-based stock options expire 10 years from the date of grant. Restricted shares issued under the plan 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 either a five-year period or a seven-year period based upon both performance and service conditions. The restricted shares granted in fiscal 2011 vest ratably at the end of years 3, 4 and 5 upon meeting certain performance and service conditions. These shares are referred to herein as performance-based restricted shares. The Company also grants restricted stock units to certain executives and key management employees that vest upon meeting certain financial performance conditions over a specified vesting period, referred to herein as performance-based restricted stock units. The performance-based restricted stock units granted in fiscal 2013 vest over a two-year period upon meeting both performance and service conditions.

As of October 31, 2012, the Company has reserved 7,013,266 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 4,239,650 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, 2012 and 2011, was \$4,399 (\$2,683 net of taxes) and \$3,591 (\$2,190 net of taxes), respectively. As of October 31, 2012, total unrecognized compensation cost related to share-based compensation awards was \$16,252 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.0 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, 2012 and 2011, using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

Black-Scholes Option Valuation Assumptions	Three Months Ended October 31, 2012		Three Months Ended October 31, 2011	
	Service-Based Option Awards	Performance- Based Option Awards	Service-Based Option Awards	Performance- Based Option Awards
Expected term (in years)	5.94		5.89	6.57
Expected volatility	38.73%		39.40%	39.21%
Expected dividend yield	2.20%		2.07%	1.99%

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Risk-free interest rate	0.89%		1.16%	2.05%
Weighted-average market value of underlying stock at grant date	\$ 30.21	\$	\$ 27.00	\$ 29.55
Weighted-average exercise price	\$ 30.21	\$	\$ 27.00	\$ 29.55
Weighted-average fair value of options granted during the period	\$ 8.96	\$	\$ 8.37	\$ 10.01

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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 10,000 shares of performance-based restricted stock units in September 2012 with a grant price and fair value of \$30.21. The Company granted 100,000 shares of performance-based restricted stock in August of 2010, with a grant price and fair value of \$28.35, and 210,000 shares in fiscal 2008, with a grant price and fair value of \$32.83. As of October 31, 2012, 10,000 restricted stock units were outstanding and 310,000 performance-based restricted shares were outstanding.

The Company granted 760,350 service-based stock options during the three months ended October 31, 2012, with a weighted average exercise price of \$30.21 and a weighted average fair value of \$8.96. There were no performance-based stock options granted during the three months ended October 31, 2012.

A summary of stock option activity under the Company's share-based compensation plans for the three months ended October 31, 2012 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2012	6,253,751	\$ 29.24		
New grants	760,350	\$ 30.21		
Exercised	(167,636)	\$ 17.78		
Forfeited or expired	(474,807)	\$ 30.49		
Outstanding at October 31, 2012	6,371,658	\$ 29.56	6.5	\$ 15,992
Exercisable at October 31, 2012	4,231,429	\$ 29.78	5.0	\$ 12,722

There were 4,231,429 and 3,975,963 options exercisable with a weighted average exercise price of \$29.78 and \$29.83 at October 31, 2012 and 2011, respectively. The cash received from the exercise of options during the quarters ended October 31, 2012 and 2011, was \$1,684 and \$683, respectively. The tax benefit on stock options exercised during the quarters ended October 31, 2012 and 2011, was \$635 and \$469, respectively.

The total intrinsic value of options exercised during the three months ended October 31, 2012 and 2011, based upon the average market price at the time of exercise during the period, was \$2,033 and \$642, respectively. The total fair value of stock options vested during the three months ended October 31, 2012 and 2011, was \$6,330 and \$6,935, respectively.

**NOTE F Stockholders' Equity**

On September 9, 2011, the Company's Board of Directors authorized a share repurchase program for up to two million 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. As of July 31, 2012, there remained 334,940 shares to purchase in connection with this share repurchase plan. During the three months ended October 31, 2012, the Company purchased 188,167 shares of its Class A Nonvoting Common Stock under this plan for \$5,121.

On September 6, 2012, 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. As of October 31, 2012, there remained 2,146,773 shares to purchase in connection with the Company's share repurchase plans.

**NOTE G Employee Benefit Plans**



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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.

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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 2013 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, 2012.

**NOTE H 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, 2012, and July 31, 2012, according to the valuation techniques the Company used to determine their fair values.

	Inputs Considered As			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Values	Balance Sheet Classifications
<b>October 31, 2012:</b>				
Trading securities	\$ 12,962	\$	\$ 12,962	Other assets
Foreign exchange contracts		485	485	Prepaid expenses and other current assets
Total Assets	\$ 12,962	\$ 485	\$ 13,447	
Foreign exchange contracts	\$	\$ 311	\$ 311	Other current liabilities
Foreign currency denominated debt		105,292	105,292	Long term obligations, less current maturities
Total Liabilities	\$	\$ 105,603	\$ 105,603	
<b>July 31, 2012:</b>				
Trading securities	\$ 12,676	\$	\$ 12,676	Other assets
Foreign exchange contracts		1,234	1,234	Prepaid expenses and other current assets
Total Assets	\$ 12,676	\$ 1,234	\$ 13,910	
Foreign exchange contracts	\$	\$ 281	\$ 281	Other current liabilities
Foreign currency denominated debt		99,081	99,081	Long term obligations, less current maturities
Total Liabilities	\$	\$ 99,362	\$ 99,362	

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

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*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 exchange contracts:* The Company's foreign 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 exchange rates. See Note K, *Derivatives and Hedging Activities* for additional information.

*Foreign currency denominated debt:* 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 J, *Derivatives and Hedging Activities* for additional information.

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There have been no transfers of assets or liabilities between the fair value hierarchy levels, outlined above, during the three months ended October 31, 2012 and 2011. In addition, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months ended October 31, 2012 and 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 \$343,894 and \$338,668 at October 31, 2012 and July 31, 2012, respectively, as compared to the carrying value of \$320,993 and \$316,208 at October 31, 2012 and July 31, 2012, respectively.

During fiscal 2012, goodwill with a carrying amount of \$163,702 in the former North/South Asia reporting unit was written down to its estimated implied fair value of \$48,014, resulting in a non-cash impairment charge of \$115,688. In order to arrive at the implied fair value of goodwill, the Company assigned the fair value to all of the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Intangible assets consisted of customer lists, and were valued using the income approach based upon customers in existence at the valuation date. After assigning fair value to the assets and liabilities of the reporting unit, the result was the implied fair value of goodwill of \$48,014, which represented a Level 3 asset measured at fair value on a nonrecurring basis subsequent to its original recognition.

**NOTE I Restructuring**

During fiscal 2012, the Company took various measures to address its cost structure in response to weaker sales forecasts across the Company. As a result of these actions, the Company recorded restructuring charges of \$12,110, which consisted of \$10,944 of employee separation costs, \$458 of fixed asset write-offs, \$521 of other facility closure related costs, and \$187 of contract termination costs. Of the \$12,110 of restructuring charges recorded during fiscal 2012, \$3,531 was incurred in the Americas, \$6,898 was incurred in EMEA, and \$1,681 was incurred in Asia-Pacific. The costs related to these restructuring activities were recorded on the consolidated statements of income as restructuring charges during fiscal 2012. The Company expects the majority of the remaining cash payments to be made during fiscal 2013.

A reconciliation of the Company's fiscal 2012 restructuring liability is as follows:

	<b>Employee Related</b>	<b>Other</b>	<b>Total</b>
Beginning balance, July 31, 2012	\$ 8,809	\$ 265	\$ 9,074
Cash payments	(3,516)	(64)	(3,580)
Ending balance, October 31, 2012	\$ 5,293	\$ 201	\$ 5,494

**NOTE J 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, 2012 and July 31, 2012, the notional amount of outstanding forward exchange contracts was \$50,859 and \$61,169, respectively.

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, Malaysian Ringgit and Singapore Dollar. Generally, these risk management transactions will involve the use of foreign currency derivatives to minimize the impact of currency movements on non-functional currency transactions.

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Hedge effectiveness is determined by how closely the changes in 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.

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### **Cash Flow Hedges**

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, 2012, unrealized losses of \$557 have been included in OCI. As of October 31, 2011, unrealized gains of \$1,010 have been included in OCI. These balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings. For the three months ended October 31, 2012 and 2011, the Company reclassified gains of \$467 and losses of \$777 from OCI into earnings, respectively. At October 31, 2012 and July 31, 2012, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$33,348 and \$39,458, respectively, including contracts to sell Euros, Canadian Dollars, Australian Dollars, British Pounds and U.S. Dollars.

### **Net Investment Hedges**

The Company has also designated intercompany and third party foreign currency denominated debt instruments as net investment hedges. At October 31, 2012 and July 31, 2012, the Company designated 4,581 of intercompany loans as net investment hedges to hedge portions of its net investment in European foreign operations. 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. 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. The net gains or losses attributable to changes in spot exchange rates are recorded in other comprehensive income. 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, 2012 and July 31, 2012, the U.S dollar equivalent of these outstanding forward foreign exchange contracts totaled \$8,550 and \$10,650, respectively. For the three months ended October 31, 2012 and 2011, the Company recognized an OCI loss of \$5,301 and an OCI gain of \$3,228, respectively, on its net investment hedges.

### **Non-Designated Hedges**

For the three months ended October 31, 2012, the Company recognized a gain of \$186 in Investment and other income on the condensed consolidated statements of income related to non-designated hedges. The Company did not recognize a gain or loss on the condensed consolidated statements of income related to non-designated hedges during the three months ended October 31, 2011.

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Fair values of derivative instruments in the condensed consolidated balance sheets were as follows:

		Asset Derivatives				Liability Derivatives			
		October 31, 2012		July 31, 2012		October 31, 2012		July 31, 2012	
		Balance		Balance		Balance		Balance	
	Sheet Location	Fair Value		Sheet Location	Fair Value	Sheet Location	Fair Value	Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>									
Cash flow hedges									
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 470		Prepaid expenses and other current assets	\$ 1,156	Other current liabilities	\$ 191	Other current liabilities	\$ 210
Net investment hedges									
Foreign exchange contracts	Prepaid expenses and other current assets	\$		Prepaid expenses and other current assets	\$	Other current liabilities	\$ 16	Other current liabilities	\$ 71
Foreign currency denominated debt	Prepaid expenses and other current assets	\$		Prepaid expenses and other current assets	\$	Long term obligations, less current maturities	\$ 105,292	Long term obligations, less current maturities	\$ 99,081
Total derivatives designated as hedging instruments		\$ 470			\$ 1,156		\$ 105,499		\$ 99,362
<b>Derivatives not designated as hedging instruments</b>									
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 15		Prepaid expenses and other current assets	\$ 78	Other current liabilities	\$ 104	Other current liabilities	\$
Total derivatives not designated as hedging instruments		\$ 15			\$ 78		\$ 104		\$

**NOTE K Acquisitions and Divestitures**

In August 2012, the Company sold all of its assets of Precision Converting, LLC, doing business as Brady Medical, in Mesquite, Texas. Brady Medical specialized in manufacturing and converting die-cut products for the medical and diagnostic industry. Brady Medical had operations in the Company's Americas segment. The Company received proceeds of \$3,378 for this business, of which \$3,018 was in cash and \$360 was in non-cash consideration. The non-cash consideration consisted of an escrow account to be released upon the terms of the agreement, which is classified within Other Long Term Assets on the Condensed Consolidated Balance Sheets. The transaction resulted in a pre-tax loss of \$3,675, which was accounted for during the period ended October 31, 2012.

In October 2012, the Company sold certain assets of its Varitronics business, an education technology solutions business. Varitronics had operations in the Company's Americas segment. The Company received proceeds of \$8,410 for this business, of which \$7,160 was in cash and \$1,250 was in the form of a promissory note. The promissory note is classified within Other Long Term Assets on the Condensed Consolidated Balance Sheets. The transaction resulted in a pre-tax gain of \$237, which was accounted for during the period ended October 31, 2012.

The Brady Medical and Varitronics divestitures are part of the Company's continued long-term strategy to focus resources on businesses with a clear path to sustainable organic growth and profitability.

**NOTE L Subsequent Events**

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On November 14, 2012, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.19 per share payable on January 31, 2013 to shareholders of record at the close of business on January 10, 2013.



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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Overview**

Brady Corporation was incorporated under the laws of the state of Wisconsin in 1914. Brady Corporation is an international manufacturer of identification solutions and specialty materials that identify and protect premises, products and people. The ability to provide customers with a broad range of proprietary, customized, and diverse products for use in various applications, along with a commitment to quality and service, a global footprint and multiple sales channels, have made Brady a world leader in many of its markets.

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 Africa, 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.

The Company is organized and managed on a geographic basis within three regions: Americas, EMEA (Europe, the Middle East and Africa), and Asia-Pacific, which are the reportable segments. Across these regions, the Company operates three primary business platforms: Identification Solutions ( ID Solutions ), Direct Marketing and Die-Cut. Refer to Item 1 of the Company's fiscal 2012 Form 10-K for additional information regarding the business platforms.

#### **Results of Operations**

During the quarter ended October 31, 2012, the business and operating results were affected by continued global economic weakness. As such, in order to create growth we are focused on the following initiatives:

Expanding our business in emerging geographies, or geographies where we are under-penetrated

Expanding globally in certain focus markets, such as Aerospace and Mass Transit, Chemical, Oil & Gas, and Food & Beverage

New product development

Commitment to increased market share, and

Expansion of our on-line capabilities to deliver the best buying experience for our customers, partially mitigating the decline in the traditional catalog model within the Direct Marketing business platform

We are also evaluating our portfolio of businesses to ensure that resources are allocated to those with sustainable organic growth and profitability. As such, two businesses were divested during the quarter ended October 31, 2012, as summarized within the table below. Divestitures involve risks, including difficulties in the separation of operations, services, products, and personnel, the diversion of management's attention from other business concerns, and the disruption of our business.

The comparability of the operating results for the three months ended October 31, 2012, to the prior year has been impacted by the following acquisitions and divestitures completed in fiscal 2013 and fiscal 2012:

#### **Fiscal 2013**

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## Divestitures

	Segment	Date Completed
Precision Converting, LLC ( Brady Medical )	Americas	August 2012
Varitronics	Americas	October 2012

## Fiscal 2012

## Acquisitions

	Segment	Date Completed
Grafo Wiremarkers Africa ( Grafo )	EMEA	March 2012
Runelandhs Försäljnings AB ( Runelandhs )	EMEA	May 2012
Pervaco AS ( Pervaco )	EMEA	May 2012

## Divestiture

Etimark	EMEA	July 2012
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Sales for the quarter ended October 31, 2012, decreased 3.4% to \$337.6 million, compared to \$349.5 million in the same period of the last fiscal year. Of the 3.4% decrease in sales, organic sales decreased by 1.9%, and fluctuations in the exchange rates used to translate financial results into the United States Dollar reduced sales by 2.1%. Acquisitions, net of divestitures increased sales by 0.6% during the three months ended October 31, 2012. The decrease in organic sales for the quarter ended October 31, 2012, was comprised of 0.7%, 3.2% and 2.5% decreases in sales in the Americas, EMEA and Asia-Pacific segments, respectively. Net income for the quarter ended October 31, 2012, was \$27.2 million or \$0.53 per diluted Class A Nonvoting Common Share, a decrease of 16.9% from \$32.7 million or \$0.62 per diluted Class A Nonvoting Common Share reported in the first quarter of last fiscal year.

Gross margin as a percentage of sales was 48.8% for the quarter ended October 31, 2012, compared to 48.0% in the same period of the previous year. The increase in gross margin was due to operational improvements, as well as the divestiture of businesses with lower gross margins.

Research and development ( R&D ) expenses decreased 13.5% to \$8.5 million during the three months ended October 31, 2012, compared to \$9.8 million for the same period in the prior year. As a percentage of sales, R&D expenses decreased from 2.8% to 2.5% during the three months ended October 31, 2012, compared to the three months ended October 31, 2011. The decline in R&D expenses was due to the downsizing of certain Asian R&D centers primarily supporting the Die-Cut business platform, which took place during the second half of fiscal 2012.

Selling, general, and administrative expenses ( SG&A ) decreased 0.6% to \$108.3 million for the three months ended October 31, 2012, compared to \$108.9 million for the same period in the prior year. SG&A expense as percentage of sales increased to 32.1% in the first quarter of fiscal 2013 compared to 31.2% in the same quarter last year. The increase in SG&A as a percentage of sales was due to the Company's continued focus on reinvestment in growth initiatives, as well as the decline in sales during the current period.

Interest expense decreased to \$4.2 million for the quarter ended October 31, 2012, from \$5.0 million for the same period in the prior year. The decrease was due to the Company's declining principal balance under its outstanding debt agreements.

The Company's income tax rate was 33.1% for the quarter ended October 31, 2012, and 25.3% for the same period in the prior year. The increase in the Company's income tax rate during the first quarter of fiscal 2013 was primarily due to the non-renewal of certain U.S. tax laws, the mix of profits earned in higher tax countries, and the divestitures of two U.S. businesses.

Net income for the three months ended October 31, 2012, decreased 16.9% to \$27.2 million, compared to \$32.7 million for the same quarter of the previous year. Net income as a percentage of sales decreased to 8.1% for the quarter ended October 31, 2012, from 9.4% for the same period in the prior year. The losses on the sales of Brady Medical and Varitronics were \$3.2 million, or \$0.06 per diluted Class A Common Share.

### *Business Segment Operating Results*

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, EMEA 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.

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Following is a summary of segment information for the three months ended October 31, 2012 and 2011:

(Dollars in thousands)	Americas	EMEA	Asia-Pacific	Total Regions	Corporate and Eliminations	Total
<b>SALES TO EXTERNAL CUSTOMERS</b>						
Three months ended:						
October 31, 2012	\$ 148,692	\$ 93,233	\$ 95,721	\$ 337,646	\$	\$ 337,646
October 31, 2011	\$ 153,863	\$ 97,356	\$ 98,289	\$ 349,508	\$	\$ 349,508
<b>SALES GROWTH INFORMATION</b>						
Three months ended October 31, 2012						
Organic	(0.7)%	(3.2)%	(2.5)%	(1.9)%		(1.9)%
Currency	(1.1)%	(5.7)%	(0.1)%	(2.1)%		(2.1)%
Acquisitions/Divestitures	(1.6)%	4.7%	0.0%	0.6%		0.6%
Total	(3.4)%	(4.2)%	(2.6)%	(3.4)%		(3.4)%
<b>SEGMENT PROFIT</b>						
Three months ended:						
October 31, 2012	\$ 44,633	\$ 23,567	\$ 12,055	\$ 80,255	\$ (1,973)	\$ 78,282
October 31, 2011	\$ 43,230	\$ 26,299	\$ 13,304	\$ 82,833	\$ (3,263)	\$ 79,570
Percentage increase (decrease)	3.2%	(10.4)%	(9.4)%	(3.1)%		(1.6)%
<b>NET INCOME RECONCILIATION</b>						

(Dollars in thousands)	Three months ended: October 31,	
	2012	2011
Total profit from reportable segments	\$ 80,255	\$ 82,833
Corporate and eliminations	(1,973)	(3,263)
Unallocated amounts:		
Administrative costs	(30,408)	(30,480)
Loss (gain) on sales of businesses (1)	(3,438)	
Investment and other income (expense)	397	(202)
Interest expense	(4,163)	(5,047)
Income before income taxes	40,670	43,841
Income taxes	(13,482)	(11,109)
Net income	\$ 27,188	\$ 32,732

(1) Losses on sales of businesses relate to the Americas segment during the three months ended October 31, 2012.

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology, human resources, and executive leadership, which are managed as global functions. Restructuring charges, impairment charges, equity compensation costs, interest expense, investment and other income and income taxes are also excluded when evaluating performance.

*Americas:*

Sales in the Americas decreased 3.4% to \$148.7 million for the quarter ended October 31, 2012, compared to \$153.9 million for the same period in the prior year. Organic sales declined by 0.7%, the divestitures of Brady Medical and Varitronics decreased sales by 1.6%, and fluctuations in the exchange rates used to translate financial results into the U.S. dollar decreased sales by 1.1%.

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The decrease in organic sales of 0.7% during the quarter was primarily due to a decline in the Direct Marketing business platform. Although Direct Marketing sales transacted over the internet increased, it was not sufficient to offset revenue declines in the traditional catalog business. This decrease in the Direct Marketing platform's organic sales was partially offset by organic sales growth within the ID Solutions platform in the U.S. and Canada through new product developments and an increased focus on the Company's core distributor-based business.

Segment profit increased 3.2% to \$44.6 million for the quarter ended October 31, 2012, compared to \$43.2 million for the same period in the prior year. As a percentage of sales, segment profit increased to 30.0% for the quarter from 28.1% for the same period in the prior year.

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The increase in segment profit was driven by the ID Solutions platform, as the Direct Marketing platform's profit declined as a result of a decline in sales for the quarter. The ID Solutions platform realized an improved gross margin from the divestiture of businesses as well as operational improvements taken to improve the Company's selling expense structure. These efforts have effectively offset the investment in core growth strategies within the region.

*EMEA:*

Sales in EMEA decreased 4.2% to \$93.2 million for the quarter ended October 31, 2012, compared to \$97.4 million for the same period in the prior year. Organic sales declined by 3.2%, acquisitions net of divestitures increased sales by 4.7%, and fluctuations in the exchange rates used to translate financial results into the U.S. dollar decreased sales by 5.7%.

The decrease in organic sales of 3.2% during the quarter was primarily due to the difficult economic circumstances in the European economy. Specifically, the ID Solutions platform experienced a sales decline within most European countries during the quarter ended October 31, 2012, compared to the same period in the prior year. The Direct Marketing platform experienced an organic sales decline in most European countries as well, partially offset by modest growth within France. The fiscal 2012 acquisitions of Grafo, Pervaco and Runelandhs, net of the divestiture of the Etimark business in the fourth quarter of fiscal 2012, increased sales by 4.7% for the quarter ended October 31, 2012, compared to the same period in the prior year.

Segment profit decreased 10.4% to \$23.6 million for the quarter ended October 31, 2012, compared to \$26.3 million for the same period in the prior year. As a percentage of sales, segment profit decreased to 25.3% for the quarter ended October 31, 2012, from 27.0% for the same period in the prior year. The segment profit decrease was a result of the decline in sales within both the ID Solutions and Direct Marketing platforms during the quarter.

*Asia-Pacific:*

Asia-Pacific sales decreased 2.6% to \$95.7 million for the quarter ended October 31, 2012, compared to \$98.3 million for the same period in the prior year. Organic sales decreased 2.5% in the quarter ended October 31, 2012, compared to the same period last year, and fluctuations in the exchange rates used to translate financial results into the U.S. dollar decreased sales within the segment by 0.1% in the quarter.

The decrease in organic sales during the quarter was primarily due to a decline in the hard disk drive market within the Asia Die-Cut business platform as a result of a recent softening in the PC market. In addition, the continued weakness in the Australian economy reduced organic sales for the quarter ended October 31, 2012, compared to the same period in the prior year. The decline in organic growth within the region was partially offset by an increase in organic sales due to securing several new programs within the mobile handset business.

Segment profit decreased 9.4% to \$12.1 million for the quarter ended October 31, 2012, compared to \$13.3 million for the same period in the prior year. As a percentage of sales, segment profit decreased to 12.6% for the quarter ended October 31, 2012, from 13.5% for the same period in the prior year.

The decrease in segment profit for the quarter was due to the decline in sales in the hard disk drive market within the Asia Die-Cut business platform, as well as the decline in the Australian business during the quarter ended October 31, 2012, compared to the same period in the prior year.

**Financial Condition**

Cash and cash equivalents were \$321.3 million at October 31, 2012, an increase of \$15.4 million compared to \$305.9 million at July 31, 2012. During the quarter ended October 31, 2011, cash and cash equivalents declined \$18.4 million.

(Dollars in thousands)	Three months ended:	
	October 31,	
	2012	2011
Net cash flow provided by (used in):		
Operating activities	\$ 20,218	\$ 15,281
Investing activities	3,931	(7,008)

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Financing activities	(12,741)	(20,860)
Effect of exchange rate changes on cash	4,001	(5,790)
Net increase (decrease) in cash and cash equivalents	\$ 15,409	\$ (18,377)

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Net cash provided by operating activities was \$20.2 million during the three months ended October 31, 2012, compared to \$15.3 million during the same period in the prior year. Cash flows from operating activities are generated primarily from operating income and managing the components of working capital. The increase in cash flows from operating activities of \$4.9 million from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 was primarily due to favorable cash flows from accounts payable and accrued liabilities, partially offset by unfavorable cash flows from accounts receivable.

Net cash provided by investing activities was \$3.9 million during the three months ended October 31, 2012, compared to net cash used by investing activities of \$7.0 million during the same period in the prior year. The increase in cash provided by investing activities of \$10.9 million was primarily due to the sales of the Brady Medical and Varitronics businesses which provided \$10.2 million in cash flows.

Net cash used in financing activities was \$12.7 million during the three months ended October 31, 2012, compared to net cash used by financing activities of \$20.9 million during the same period in the prior year. The decrease in cash used in financing activities of \$8.1 million was primarily due to a decline in the repurchase of common shares of \$7.2 million.

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 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 repaying 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.

On February 1, 2012, the Company and certain of its subsidiaries entered into an unsecured \$300 million multi-currency revolving loan agreement with a group of six banks that replaced and terminated the Company's previous credit agreement that had been entered into on October 5, 2006, and amended on March 18, 2008. Under the new credit agreement, which has a final maturity date of February 1, 2017, 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 plus a margin based upon the Company's consolidated leverage ratio) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). At the Company's option, and subject to certain conditions, the available amount under the new credit facility may be increased from \$300 million up to \$450 million. No borrowings have occurred 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). The revolving loan agreement dated February 1, 2012, 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 3.25 to 1.0 ratio. The 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 October 31, 2012, the Company was in compliance with the financial covenants of the debt and revolving loan agreements, with the ratio of debt to EBITDA, as defined by the agreement, equal to 1.5 to 1.0 and the interest expense coverage ratio equal to 12.0 to 1.0.

Long-term obligations as a percentage of long-term obligations plus stockholders' investment were 20.0% at October 31, 2012 and 20.2% at July 31, 2012. Long-term obligations increased by \$4.8 million from July 31, 2012 to October 31, 2012 due to the negative impact of foreign currency translation on the Company's Euro-denominated debt.

Stockholders' investment increased \$31.6 million during the three months ended October 31, 2012, due to the positive effects of foreign currency translation of \$13.4 million and current quarter net income of \$27.2 million, partially offset by the quarterly dividend payment of \$9.7 million.





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The Company's cash balances are generated and held in numerous locations throughout the world. At October 31, 2012 and July 31, 2012, approximately 73% and 78% of the Company's cash and cash equivalents were held outside the United States, 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 flow from operating activities, 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. However, the Company's cash needs could require the repatriation of cash to the United States from foreign jurisdictions, which could result in material expenses in the period in which the transactions occur. The Company believes that its current credit arrangements are sound and that the strength of its balance sheet will allow financial flexibility to respond to both internal growth opportunities and those available through acquisition.

## **Subsequent Events Affecting Financial Condition**

On November 14, 2012, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.19 per share payable on January 31, 2013, to shareholders of record at the close of business on January 10, 2013.

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**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** The 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** Based on an evaluation for the period ended October 31, 2012, the Company does not have material related party transactions that affect the results of operations, cash flow or financial condition.

## **Forward-Looking Statements**

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historic information may be forward-looking statements. These forward-looking statements relate to, among other things, the Company'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.

The use of words such as may, will, expect, intend, estimate, anticipate, believe, should, project or plan or similar terminology are intended 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;

Increased usage of e-commerce allowing for ease of price transparency;

Future financial performance of major markets Brady serves, which include, without limitation, telecommunications, hard disk drive, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, and transportation;

Future competition;

Changes in the supply of, or price for, parts and components;

Increased price pressure from suppliers and customers;

Brady's ability to retain significant contracts and customers;

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Fluctuations in currency rates versus the U.S. dollar;

Risks associated with international operations;

Difficulties associated with exports;

Risks associated with obtaining governmental approvals and maintaining regulatory compliance;

Brady's ability to develop and successfully market new products;

Risks associated with identifying, completing, and integrating acquisitions;

Risks associated with restructuring plans;

Environmental, health and safety compliance costs and liabilities;

Technology changes and potential security violations to the Company's information technology systems;

Brady's ability to maintain compliance with its debt covenants;

Increase in our level of debt;

Potential write-offs of Brady's substantial intangible assets;

Unforeseen tax consequences; and

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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 within Item 1A of Part I of the Form 10-K.

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 except as required by law.

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### **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 objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions and minimize the foreign currency translation impact on the Company's operations. 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, Malaysian Ringgit, and Singapore Dollar. As of October 31, 2012, the notional amount of outstanding forward contracts designated as cash flow hedges was \$33.3 million. The Company also uses euro-denominated debt of \$75.0 million designated as a hedge instrument to hedge portions of the Company's net investments in its European foreign operations.

The Company also faces exchange rate risk from transactions with customers in countries outside the United States and from intercompany transactions between affiliates. Although the Company has a U.S. dollar functional currency for reporting purposes, it has manufacturing sites throughout the world and the majority of its sales are generated in foreign currencies. Costs incurred and sales recorded by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates effective during the respective period. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar. In particular, the Company has more sales in European currencies than it has expenses in those currencies. Therefore, when European currencies strengthen or weaken against the U.S. dollar, operating profits are increased or decreased, respectively.

Currency exchange rates decreased sales by 2.1% for the quarter ended October 31, 2012, as compared to an increase in sales of 2.7% due to currency exchange rate fluctuations in the same period of the prior year. During the current quarter, the U.S. dollar appreciated on average against other major currencies throughout the period.

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 if there is a desire to modify the Company's exposure to interest rates. As of October 31, 2012, 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 Australian dollar, the Canadian dollar, the Singapore dollar, the Euro, the British Pound, the Brazilian Real, the Korean Won, 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 stockholders' investment. The Company's currency translation adjustments recorded for the three months ended October 31, 2012 and 2011 were \$13.4 million favorable, and \$19.1 million unfavorable, respectively. As of October 31, 2012 and 2011, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$407.3 million and \$407.4 million, respectively. The potential decrease in the net current assets as of October 31, 2012, from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be \$40.7 million. This sensitivity analysis assumes a parallel shift in all major foreign currency exchange rates versus the U.S. dollar. Exchange rates rarely move in the same direction relative to the U.S. dollar due to positive and negative correlations of the various global currencies. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

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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.

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PART II. OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 9, 2011, the Company's Board of Directors authorized a share repurchase program for up to two million 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. As of July 31, 2012, there remained 334,940 shares to purchase in connection with this share repurchase plan. During the three months ended October 31, 2012, the Company purchased 188,167 shares of its Class A Nonvoting Common Stock under this plan for \$5,121.

On September 6, 2012, 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. As of October 31, 2012, there remained 2,146,773 shares to purchase in connection with the Company's share repurchase plans.



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The following table provides information with respect to the purchase of Class A Nonvoting Common Stock during the three months ended October 31, 2012:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
August 1, 2012	August 31, 2012	188,167	\$ 27.22	188,167	146,773
September 1, 2012	September 30, 2012		\$		2,146,773
October 1, 2012	October 31, 2012		\$		2,146,773
Total		188,167	\$ 27.22	188,167	2,146,773

ITEM 6. Exhibits

## (a) Exhibits

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

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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: December 5, 2012

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

Date: December 5, 2012

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