

BRADY CORP
Form 10-Q
February 23, 2017
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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 January 31, 2017

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 (I.R.S. Employer
incorporation or organization) Identification No.)

6555 West Good Hope Road, Milwaukee, Wisconsin 53223
(Address of principal executive offices) (Zip Code)
(414) 358-6600
(Registrant's telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of February 21, 2017, there were 47,615,579 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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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Unaudited)

	January 31, 2017	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 125,208	\$ 141,228
Accounts receivable—net	140,018	147,333
Inventories:		
Finished products	60,642	64,313
Work-in-process	17,029	16,678
Raw materials and supplies	19,737	18,436
Total inventories	97,408	99,427
Prepaid expenses and other current assets	19,051	19,436
Total current assets	381,685	407,424
Other assets:		
Goodwill	424,857	429,871
Other intangible assets	55,980	59,806
Deferred income taxes	27,403	27,238
Other	16,327	17,181
Property, plant and equipment:		
Cost:		
Land	7,272	5,809
Buildings and improvements	94,542	95,355
Machinery and equipment	254,688	256,549
Construction in progress	3,168	2,842
	359,670	360,555
Less accumulated depreciation	262,786	258,111
Property, plant and equipment—net	96,884	102,444
Total	\$ 1,003,136	\$ 1,043,964
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Notes payable	\$ 5,691	\$ 4,928
Accounts payable	58,515	62,245
Wages and amounts withheld from employees	39,157	45,998
Taxes, other than income taxes	6,617	7,403
Accrued income taxes	2,011	6,136
Other current liabilities	38,210	40,017
Total current liabilities	150,201	166,727
Long-term obligations, less current maturities	157,223	211,982
Other liabilities	60,820	61,657
Total liabilities	368,244	440,366
Stockholders' investment:		
Class A nonvoting common stock—Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 47,594,684 and 46,920,974 shares, respectively	513	513

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Class B voting common stock—Issued and outstanding, 3,538,628 shares	35	35
Additional paid-in capital	317,587	317,001
Earnings retained in the business	480,368	453,371
Treasury stock—3,666,803 and 4,340,513 shares, respectively of Class A nonvoting common stock, at cost	(90,998)	(108,714)
Accumulated other comprehensive loss	(68,214)	(54,745)
Other	(4,399)	(3,863)
Total stockholders' investment	634,892	603,598
Total	\$1,003,136	\$1,043,964

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended		Six months ended	
	January 31,		January 31,	
	2017	2016	2017	2016
Net sales	\$268,001	\$268,630	\$548,177	\$551,703
Cost of products sold	133,843	135,738	273,661	279,462
Gross margin	134,158	132,892	274,516	272,241
Operating expenses:				
Research and development	9,481	9,097	18,627	17,666
Selling, general and administrative	94,715	100,206	192,719	200,884
Total operating expenses	104,196	109,303	211,346	218,550
Operating income	29,962	23,589	63,170	53,691
Other income (expense):				
Investment and other income (expense)	596	(992)	107	(1,751)
Interest expense	(1,458)	(2,130)	(3,190)	(4,281)
Earnings before income taxes	29,100	20,467	60,087	47,659
Income tax expense	3,803	5,177	12,237	13,666
Net earnings	\$25,297	\$15,290	\$47,850	\$33,993
Net earnings per Class A Nonvoting Common Share:				
Basic	\$0.50	\$0.30	\$0.94	\$0.67
Diluted	\$0.49	\$0.30	\$0.93	\$0.67
Dividends	\$0.21	\$0.20	\$0.41	\$0.41
Net earnings per Class B Voting Common Share:				
Basic	\$0.50	\$0.30	\$0.93	\$0.65
Diluted	\$0.49	\$0.30	\$0.91	\$0.65
Dividends	\$0.21	\$0.20	\$0.39	\$0.39
Weighted average common shares outstanding (in thousands):				
Basic	51,054	50,527	50,844	50,778
Diluted	51,954	50,647	51,721	50,868

See Notes to Condensed Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in Thousands, Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Net earnings	\$25,297	\$15,290	\$47,850	\$33,993
Other comprehensive loss:				
Foreign currency translation adjustments	(2,292)	(7,463)	(16,546)	(13,946)
Net investment hedge translation adjustments	1,426	2,671	5,448	3,542
Long-term intercompany loan translation adjustments	558	(2,396)	(279)	(3,820)
Cash flow hedges:				
Net loss recognized in other comprehensive loss	(403)	(302)	(106)	(562)
Reclassification adjustment for losses (gains) included in net earnings	10	115	415	(342)
	(393)	(187)	309	(904)
Pension and other post-retirement benefits:				
Net gain recognized in other comprehensive loss	72	—	72	—
Actuarial gain amortization	(136)	(161)	(272)	(323)
Prior service credit amortization	—	(414)	—	(1,035)
	(64)	(575)	(200)	(1,358)
Other comprehensive loss, before tax	(765)	(7,950)	(11,268)	(16,486)
Income tax expense related to items of other comprehensive loss	(535)	(979)	(2,201)	(835)
Other comprehensive loss, net of tax	(1,300)	(8,929)	(13,469)	(17,321)
Comprehensive income	\$23,997	\$6,361	\$34,381	\$16,672

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands, Unaudited)

	Six months ended January 31, 2017		2016	
Operating activities:				
Net earnings	\$ 47,850		\$ 33,993	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	14,102		17,502	
Stock-based compensation expense	5,394		4,569	
Deferred income taxes	(4,547))	3,338	
Changes in operating assets and liabilities:				
Accounts receivable	3,407		3,204	
Inventories	224		3,403	
Prepaid expenses and other assets	220		(3,811))
Accounts payable and other liabilities	(9,384))	(1,618))
Income taxes	(3,932))	(2,326))
Net cash provided by operating activities	53,334		58,254	
Investing activities:				
Purchases of property, plant and equipment	(7,235))	(3,928))
Other	593		2,521	
Net cash used in investing activities	(6,642))	(1,407))
Financing activities:				
Payment of dividends	(20,852))	(20,425))
Proceeds from exercise of stock options	14,659		53	
Purchases of treasury stock	—		(23,397))
Repayments on borrowing on credit facilities	(50,469))	(437))
Debt issuance costs	—		(803))
Income tax on equity-based compensation, and other	(640))	(1,299))

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Net cash used in financing activities	(57,302)	(46,308)
Effect of exchange rate changes on cash	(5,410)	(4,833)
Net (decrease) increase in cash and cash equivalents	(16,020)	5,706	
Cash and cash equivalents, beginning of period	141,228		114,492	
Cash and cash equivalents, end of period	\$	125,208	\$	120,198

See Notes to Condensed Consolidated Financial Statements

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BRADY CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Six Months Ended January 31, 2017

(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," "Brady," "we," or "our") 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 January 31, 2017 and July 31, 2016, its results of operations and comprehensive income for the three and six months ended January 31, 2017 and 2016, and cash flows for the six months ended January 31, 2017 and 2016. The consolidated balance sheet as of July 31, 2016 has been derived from the audited consolidated financial statements as of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended July 31, 2016.

NOTE B — Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended January 31, 2017, were as follows:

	IDS	WPS	Total
Balance as of July 31, 2016	\$384,529	\$45,342	\$429,871
Translation adjustments	(4,751)	(263)	(5,014)
Realignment of businesses between segments	2,490	(2,490)	—
Balance as of January 31, 2017	\$382,268	\$42,589	\$424,857

Goodwill at January 31, 2017 and July 31, 2016, included \$118,637 and \$209,392 of accumulated impairment losses within the Identification Solutions ("IDS") and Workplace Safety ("WPS") segments, respectively, for a total of \$328,029. There were no impairment charges recorded during the six months ended January 31, 2017.

As further discussed in Note E - Segment Information, the Company realigned certain businesses between the WPS and IDS reportable segments effective August 1, 2016. In accordance with ASC 350, "Intangibles - Goodwill and Other," the Company completed a relative fair value calculation of the businesses that were realigned and moved the corresponding goodwill balance of \$2,490 between the two reportable segments.

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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 Company also has unamortized indefinite-lived trademarks that are classified as other intangible assets. The net book value of these assets was as follows:

	January 31, 2017				July 31, 2016			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$12,283	\$(11,278)	\$1,005	5	\$12,252	\$(11,063)	\$1,189
Trademarks and other	5	14,252	(13,720)	532	5	14,359	(13,709)	650
Customer relationships	7	134,209	(102,539)	31,670	7	135,795	(100,830)	34,965
Non-compete agreements and other	4	9,118	(9,118)	—	4	9,153	(9,142)	11
Unamortized other intangible assets:								
Trademarks	N/A	22,773	—	22,773	N/A	22,991	—	22,991
Total		\$192,635	\$(136,655)	\$55,980		\$194,550	\$(134,744)	\$59,806

The decrease in the gross carrying amount of other intangible assets as of January 31, 2017, compared to July 31, 2016, was due to the effect of currency fluctuations during the six-month period.

The gross carrying amount of goodwill and other intangible assets in the condensed consolidated balance sheet at January 31, 2017 differs from the value assigned to them in the original allocation of purchase price due to impairments and the effect of currency fluctuations between the date of acquisition and January 31, 2017.

Amortization expense on intangible assets was \$1,688 and \$2,595 for the three months ended January 31, 2017 and 2016, respectively, and \$3,583 and \$5,228 for the six months ended January 31, 2017 and 2016, respectively. The amortization over each of the next five fiscal years is projected to be \$7,356, \$6,680, \$6,412, \$5,909 and \$5,864 for the fiscal years ending July 31, 2017, 2018, 2019, 2020 and 2021, respectively.

NOTE C — Other Comprehensive Loss

Other comprehensive loss consists of foreign currency translation adjustments, unrealized gains and losses from cash flow hedges and net investment hedges, and the unamortized gain on post-retirement plans, net of their related tax effects.

The following table illustrates the changes in the balances of each component of accumulated other comprehensive loss, net of tax, for the six months ended January 31, 2017:

	Unrealized loss on cash flow hedges	Unamortized gain on post-retirement plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
Beginning balance, July 31, 2016	\$(857)	\$2,236	\$(56,124)	\$(54,745)
Other comprehensive loss before reclassification	(80)	72	(13,442)	(13,450)
Amounts reclassified from accumulated other comprehensive loss	253	(272)	—	(19)
Ending balance, January 31, 2017	\$(684)	\$2,036	\$(69,566)	\$(68,214)

The increase in accumulated other comprehensive loss as of January 31, 2017, compared to July 31, 2016, was primarily due to the appreciation of the U.S. dollar against certain other currencies during the six month period. The

foreign currency translation adjustments column in the table above includes the impact of foreign currency translation, foreign currency translation on intercompany notes, and the settlements of net investment hedges, net of tax. Of the total \$19 in amounts reclassified from accumulated other comprehensive loss, the \$253 loss on cash flow hedges was reclassified into cost of products sold, and the \$272 gain on post-retirement plans was reclassified into selling, general and administrative expenses ("SG&A") on the condensed consolidated statement of earnings for the six months ended January 31, 2017.

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The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended January 31, 2016, were as follows:

	Unrealized gain (loss) on cash flow hedges	Unamortized gain on post-retirement plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
Beginning balance, July 31, 2015	\$ 9	\$ 3,438	\$ (48,481)	\$ (45,034)
Other comprehensive loss before reclassification	(141)	—	(15,613)	(15,754)
Amounts reclassified from accumulated other comprehensive loss	(209)	(1,358)	—	(1,567)
Ending balance, January 31, 2016	\$ (341)	\$ 2,080	\$ (64,094)	\$ (62,355)

The increase in accumulated other comprehensive loss as of January 31, 2016, compared to July 31, 2015, was primarily due the appreciation of the U.S. dollar against certain other currencies during the six-month period. The foreign currency translation adjustments column in the table above includes the impact of foreign currency translation, foreign currency translation on intercompany notes, and the settlements of net investment hedges, net of tax. Of the total \$1,567 in amounts reclassified from accumulated other comprehensive loss, the \$209 gain on cash flow hedges was reclassified into cost of products sold, and the \$1,358 gain on post-retirement plans was reclassified into SG&A on the condensed consolidated statement of earnings for the six months ended January 31, 2016.

The following table illustrates the income tax expense on the components of other comprehensive loss for the three and six months ended January 31, 2017 and 2016:

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Income tax expense related to items of other comprehensive loss:				
Net investment hedge translation adjustments	\$(556)	\$(1,042)	\$(2,125)	\$(1,381)
Cash flow hedges	(8)	56	(137)	554
Other income tax adjustments and currency translation	29	7	61	(8)
Income tax expense related to items of other comprehensive loss	\$(535)	\$(979)	\$(2,201)	\$(835)

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NOTE D — Net Earnings 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 January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Numerator: (in thousands)				
Earnings (Numerator for basic and diluted Class A Nonvoting Common Share)	\$25,297	\$15,290	\$47,850	\$33,993
Less:				
Preferential dividends	—	—	(788)	(783)
Preferential dividends on dilutive stock options	—	—	(14)	(1)
Numerator for basic and diluted earnings per Class B Voting Common Share	\$25,297	\$15,290	\$47,048	\$33,209
Denominator: (in thousands)				
Denominator for basic earnings per share for both Class A and Class B	\$51,054	\$50,527	\$50,844	\$50,778
Plus: Effect of dilutive stock options and restricted stock units	900	120	877	90
Denominator for diluted earnings per share for both Class A and Class B	\$51,954	\$50,647	\$51,721	\$50,868
Net earnings per Class A Nonvoting Common Share:				
Basic	\$0.50	\$0.30	\$0.94	\$0.67
Diluted	\$0.49	\$0.30	\$0.93	\$0.67
Net earnings per Class B Voting Common Share:				
Basic	\$0.50	\$0.30	\$0.93	\$0.65
Diluted	\$0.49	\$0.30	\$0.91	\$0.65

Options to purchase 768,617 and 3,923,000 shares of Class A Nonvoting Common Stock for the three months ended January 31, 2017 and 2016, respectively, and 770,010 and 4,048,000 shares for the six months ended January 31, 2017 and 2016, respectively, were not included in the computation of diluted net earnings or loss per share because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

NOTE E — Segment Information

The Company is organized and managed on a global basis within three operating segments, Identification Solutions ("IDS"), Workplace Safety ("WPS"), and People Identification ("People ID"), which aggregate into two reportable segments that are organized around businesses with consistent products and services: IDS and WPS. The Identification Solutions and People ID operating segments aggregate into the IDS reporting segment, while the WPS reporting segment is comprised solely of the Workplace Safety operating segment.

Effective August 1, 2016, the Company changed its internal measure of segment profit and loss that is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Prior to August 1, 2016, certain administrative costs were excluded from the measure of segment profit and loss. Effective August 1, 2016, a portion of these administrative costs have been included within the IDS and WPS segments, which includes the cost of finance, information technology, human resources, and certain other administrative costs. Interest expense, investment and other income (expense), income taxes, and certain corporate administrative expenses continue to be excluded when evaluating segment performance.

Also effective August 1, 2016, the Company realigned certain businesses between the WPS and IDS reportable segments, resulting in increased revenues and segment profit in the IDS segment and equal and offsetting declines in revenues and segment profit in the WPS segment. The Company's accompanying segment information has been restated to reflect the change in measurement of segment profit and loss and the realignment of businesses.

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The following is a summary of segment information for the three and six months ended January 31, 2017 and 2016:

	Three months ended		Six months ended	
	January 31, 2017	2016	January 31, 2017	2016
Sales to External Customers				
ID Solutions	\$ 190,962	\$ 189,780	\$ 392,226	\$ 390,800
Workplace Safety	77,039	78,850	155,951	160,903
Total Company	\$ 268,001	\$ 268,630	\$ 548,177	\$ 551,703
Segment Profit				
ID Solutions	\$ 28,961	\$ 23,056	\$ 62,035	\$ 48,487
Workplace Safety	6,059	6,296	12,504	15,678
Total Company	\$ 35,020	\$ 29,352	\$ 74,539	\$ 64,165

The following is a reconciliation of segment profit to earnings before income taxes for the three and six months ended January 31, 2017 and 2016:

	Three months		Six months ended	
	ended January 31, 2017	2016	January 31, 2017	2016
Total profit from reportable segments	\$ 35,020	\$ 29,352	\$ 74,539	\$ 64,165
Unallocated amounts:				
Administrative costs	(5,058)	(5,763)	(11,369)	(10,474)
Investment and other income (expense)	596	(992)	107	(1,751)
Interest expense	(1,458)	(2,130)	(3,190)	(4,281)
Earnings before income taxes	\$ 29,100	\$ 20,467	\$ 60,087	\$ 47,659

NOTE F – Stock-Based Compensation

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock, restricted stock units ("RSUs"), or restricted and unrestricted shares of Class A Nonvoting Common Stock to employees and non-employee directors. Certain awards may be subject to pre-established performance goals.

The options issued under the plan have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest over a three-year service 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" stock options, generally expire 10 years from the date of grant.

Restricted and unrestricted shares and RSUs issued under the plan have a grant date fair value equal to the fair market value of the underlying stock at the date of grant. Shares issued under the plan are referred to herein as either "service-based" or "performance-based" restricted shares and RSUs. The service-based RSUs granted under the plan generally vest over a three-year service period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. The performance-based RSUs granted under the plan generally vest at the end of a three-year service period provided specified company financial performance metrics are met.

As of January 31, 2017, the Company has reserved 3,784,771 shares of Class A Nonvoting Common Stock for outstanding stock options, RSUs, and restricted shares and 4,477,197 shares of Class A Nonvoting Common Stock remain for future issuance of stock options, RSUs, and restricted and unrestricted shares under the plan. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under the plan.

The Company recognizes the compensation cost of all share-based awards at the time it is deemed probable the award will vest. This cost is recognized on a straight-line basis over the vesting period of the award. If it is determined that it is unlikely the award will vest, the expense recognized to date for the award is reversed in the period in which this is evident and the remaining expense is not recorded. Total stock-based compensation expense recognized by the Company during the three months ended January 31, 2017 and 2016, was \$2,238 (\$1,387 net of taxes) and \$1,973

(\$1,223 net of taxes), respectively. Expense recognized during the six months ended January 31, 2017 and 2016, was \$5,394 (\$3,344 net of taxes) and \$4,569 (\$2,833 net of taxes), respectively.

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As of January 31, 2017, total unrecognized compensation cost related to stock-based compensation awards was \$17,455 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.3 years.

The Company has estimated the grant date fair value of its service-based stock option awards granted during the six months ended January 31, 2017 and 2016, 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	Six months ended	
	January 31,	
	2017	2016
Expected term (in years)	6.11	6.11
Expected volatility	29.43 %	29.95 %
Expected dividend yield	2.70 %	2.59 %
Risk-free interest rate	1.26 %	1.64 %
Weighted-average market value of underlying stock at grant date	\$35.13	\$20.02
Weighted-average exercise price	\$35.13	\$20.02
Weighted-average fair value of options granted during the period	\$7.56	\$4.58

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.

A summary of stock option activity under the Company's share-based compensation plans for the six months ended January 31, 2017, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2016	3,714,039	\$ 27.34		
New grants	378,015	35.13		
Exercised	(699,866)	26.65		
Forfeited or expired	(292,529)	35.55		
Outstanding at January 31, 2017	3,099,659	\$ 27.67	6.2	\$26,084,674
Exercisable at January 31, 2017	2,037,018	\$ 28.67	4.7	\$15,296,818

There were 2,037,018 and 2,723,184 options exercisable with a weighted average exercise price of \$28.67 and \$30.00 at January 31, 2017 and 2016, respectively. The total intrinsic value of options exercised during the six months ended January 31, 2017 and 2016, based upon the average market price at the time of exercise during the period, was \$6,719 and \$7, respectively. The total fair value of stock options vested during the six months ended January 31, 2017 and 2016, was \$2,890 and \$3,131, respectively.

The cash received from the exercise of options during the three months ended January 31, 2017 and 2016, was \$5,846 and \$53, respectively. The cash received from the exercise of options during the six months ended January 31, 2017, and 2016 was \$14,659 and \$53, respectively. The tax benefit on options exercised during the three months ended January 31, 2017 and 2016, was \$353 and \$3, respectively. The tax benefit on options exercised during the six months ended January 31, 2017 and 2016, was \$1,453 and \$3, respectively.

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The following table summarizes the RSU activity under the Company's share-based compensation plans for the six months ended January 31, 2017:

Service-Based RSUs	Shares	Weighted Average Grant Date Fair Value
Outstanding at July 31, 2016	678,381	\$ 23.57
New grants	93,161	35.12
Vested	(109,687)	22.60
Forfeited	(34,949)	24.33
Outstanding at January 31, 2017	626,906	\$ 25.41

The service-based RSUs granted during the six months ended January 31, 2016, had a weighted-average grant date fair value of \$20.07. The total fair value of service-based RSUs vested during the six months ended January 31, 2017 and 2016, was \$3,853 and \$1,471, respectively.

Performance-Based RSUs	Shares	Weighted Average Grant Date Fair Value
Outstanding at July 31, 2016	—	\$ —
New grants	58,206	32.03
Vested	—	—
Forfeited	—	—
Outstanding at January 31, 2017	58,206	\$ 32.03

No performance-based RSUs were granted during the six months ended January 31, 2016. The aggregate intrinsic value of unvested service-based and performance-based RSUs outstanding at January 31, 2017, and expected to vest, was \$24,904.

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NOTE G — 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 unadjusted quoted prices in active markets for identical instruments that are accessible as of the reporting date.

Level 2 — Assets or liabilities for which fair value is based on other significant pricing inputs that are either directly or indirectly observable.

Level 3 — Assets or liabilities for which fair value is based on significant unobservable pricing inputs to the extent little or no market data is available, which result in the use of management's own assumptions.

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 January 31, 2017 and July 31, 2016, 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
January 31, 2017				
Trading securities	\$ 13,254	\$ —	\$ 13,254	Other assets
Foreign exchange contracts	—	427	427	Prepaid expenses and other current assets
Total Assets	\$ 13,254	\$ 427	\$ 13,681	
Foreign exchange contracts	\$ —	\$ 941	\$ 941	Other current liabilities
Total Liabilities	\$ —	\$ 941	\$ 941	
July 31, 2016				
Trading securities	\$ 13,834	\$ —	\$ 13,834	Other assets
Foreign exchange contracts	—	2,138	2,138	Prepaid expenses and other current assets
Total Assets	\$ 13,834	\$ 2,138	\$ 15,972	
Foreign exchange contracts	\$ —	\$ 738	\$ 738	Other current liabilities
Total Liabilities	\$ —	\$ 738	\$ 738	

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

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

Foreign 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 H, "Derivatives and Hedging Activities," for additional information.

There have been no transfers of assets or liabilities between the fair value hierarchy levels outlined above during the six months ended January 31, 2017. 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 six months ended January 31, 2017.

The Company's financial instruments, other than those presented in the disclosures above, include cash and cash equivalents, accounts receivable, notes payable, accounts payable, and other liabilities. The fair values of these

financial instruments approximated carrying values because of their short-term nature.

The estimated fair value of the Company's short-term and long-term debt obligations, excluding notes payable, based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities was \$162,711 and \$218,977 at January 31, 2017 and July 31, 2016, respectively, as compared to the carrying value of \$157,223 and \$211,982 at January 31, 2017 and July 31, 2016, respectively.

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NOTE H — 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 program 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 January 31, 2017 and July 31, 2016, the notional amount of outstanding forward exchange contracts was \$104,540 and \$186,093, respectively.

The Company hedges a portion of known exposures using forward exchange contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Mexican Peso, 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.

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.

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 OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of January 31, 2017 and 2016, unrealized losses of \$451 and \$608 have been included in OCI, respectively. Balances are reclassified from OCI to earnings when the hedged transactions impact earnings. For the three months ended January 31, 2017 and 2016, the Company reclassified losses of \$10 and \$115 from OCI into earnings, respectively. For the six months ended January 31, 2017 and 2016, the Company reclassified losses of \$415 and gains of \$342 from OCI into earnings, respectively. At January 31, 2017, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$17,284, including contracts to sell Euros, Canadian Dollars, Australian Dollars, 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 January 31, 2017, the Company designated £25,036 of intercompany loans as net investment hedges to hedge portions of its net investment in British foreign operations. On May 13, 2010, the Company completed the private placement of €75 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 operations. The Company's foreign denominated debt obligations are valued under a market approach using publicized spot prices.

Non-Designated Hedges

For the three and six months ended January 31, 2017, the Company recognized losses of \$3,313 and \$5,046 respectively, in "Investment and other income" on the condensed consolidated statements of earnings related to non-designated hedges. For the three and six months ended January 31, 2016, the Company recognized losses of \$100 and gains of \$513, respectively.

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

Asset Derivatives		Liability Derivatives	
January 31, 2017	July 31, 2016	January 31, 2017	July 31, 2016
Balance Sheet Location			