

BRADY CORP  
Form 10-Q  
March 08, 2011

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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, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-14959  
BRADY CORPORATION**

(Exact name of registrant as specified in its charter)

**Wisconsin**  
(State or other jurisdiction of  
incorporation or organization)

**39-0178960**  
(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices)

(Zip Code)

**(414) 358-6600**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 March 3, 2011 there were outstanding 49,146,902 shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.



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PART I. FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS  
**BRADY CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
 (DOLLARS IN THOUSANDS)

	<b>January 31, 2011 (Unaudited)</b>	<b>July 31, 2010</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 362,302	\$ 314,840
Accounts receivable net	240,173	221,621
Inventories:		
Finished products	56,085	52,906
Work-in-process	14,614	13,146
Raw materials and supplies	28,129	28,620
Total inventories	98,828	94,672
Prepaid expenses and other current assets	36,233	37,839
<b>Total current assets</b>	<b>737,536</b>	<b>668,972</b>
<b>Other assets:</b>		
Goodwill	781,776	768,600
Other intangible assets	98,560	103,546
Deferred income taxes	45,087	39,103
Other	19,673	20,808
<b>Property, plant and equipment:</b>		
Cost:		
Land	6,331	6,265
Buildings and improvements	103,305	101,138
Machinery and equipment	294,414	289,727
Construction in progress	15,208	9,873
	419,258	407,003
Less accumulated depreciation	278,710	261,501
<b>Property, plant and equipment net</b>	<b>140,548</b>	<b>145,502</b>
<b>Total</b>	<b>\$ 1,823,180</b>	<b>\$ 1,746,531</b>
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 92,696	\$ 96,702
Wages and amounts withheld from employees	52,161	67,285
Taxes, other than income taxes	8,898	7,537
Accrued income taxes	16,603	10,138
Other current liabilities	60,105	50,862
Current maturities on long-term obligations	61,265	61,264

<b>Total current liabilities</b>	291,728	293,788
<b>Long-term obligations, less current maturities</b>	387,875	382,940
<b>Other liabilities</b>	66,120	64,776
<b>Total liabilities</b>	745,723	741,504
<b>Stockholders investment:</b>		
Class A nonvoting common stock Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 49,105,601 and 48,875,716 shares, respectively	513	513
Class B voting common stock Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	308,002	304,205
Earnings retained in the business	750,038	718,512
Treasury stock 1,845,866 and 2,175,771 shares, respectively of Class A nonvoting common stock, at cost	(56,069)	(66,314)
Accumulated other comprehensive income	79,674	50,905
Other	(4,736)	(2,829)
<b>Total stockholders investment</b>	1,077,457	1,005,027
<b>Total</b>	\$ 1,823,180	\$ 1,746,531

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended January 31, (Unaudited)			Six Months Ended January 31, (Unaudited)		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Net sales	\$ 329,009	\$ 295,829	11.2%	\$ 658,597	\$ 614,315	7.2%
Cost of products sold	169,999	148,911	14.2%	335,075	309,955	8.1%
Gross margin	159,010	146,918	8.2%	323,522	304,360	6.3%
Operating expenses:						
Research and development	11,732	10,632	10.3%	21,676	20,241	7.1%
Selling, general and administrative	108,064	108,735	(0.6%)	217,388	217,411	0.0%
Restructuring charge (See Note J)	2,134	3,649	(41.5%)	5,775	7,250	(20.3%)
Total operating expenses	121,930	123,016	(0.9%)	244,839	244,902	0.0%
Operating income	37,080	23,902	55.1%	78,683	59,458	32.3%
Other income (expense):						
Investment and other income net	1,174	1,104	6.3%	1,464	1,153	27.0%
Interest expense	(5,850)	(5,163)	13.3%	(11,537)	(10,325)	11.7%
Income before income taxes	32,404	19,843	63.3%	68,610	50,286	36.4%
Income taxes	8,205	4,842	69.5%	18,130	13,617	33.1%
Net income	\$ 24,199	\$ 15,001	61.3%	\$ 50,480	\$ 36,669	37.7%
Per Class A Nonvoting Common Share:						
Basic net income	\$ 0.46	\$ 0.29	58.6%	\$ 0.96	\$ 0.70	37.1%
Diluted net income	\$ 0.46	\$ 0.28	64.3%	\$ 0.95	\$ 0.69	37.7%
Dividends	\$ 0.18	\$ 0.175	2.9%	\$ 0.36	\$ 0.35	2.9%
Per Class B Voting Common Share:						
Basic net income	\$ 0.46	\$ 0.29	58.6%	\$ 0.94	\$ 0.68	38.2%
Diluted net income	\$ 0.46	\$ 0.28	64.3%	\$ 0.94	\$ 0.67	40.3%
Dividends	\$ 0.18	\$ 0.175	2.9%	\$ 0.34	\$ 0.33	3.1%

Weighted average common shares  
outstanding (in thousands):

Basic	52,593	52,370	52,521	52,354
Diluted	53,053	53,096	52,932	53,020

See Notes to Condensed Consolidated Financial Statements.



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

	Six Months Ended January 31, (Unaudited)	
	2011	2010
Operating activities:		
Net income	\$ 50,480	\$ 36,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,502	27,366
Non-cash portion of restructuring charges	1,714	1,420
Non-cash portion of stock-based compensation expense	6,869	5,156
Gain on the divestiture of business	(4,394)	
Deferred income taxes	(4,926)	(4,398)
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):		
Accounts receivable	(11,938)	(10,300)
Inventories	(879)	(1,891)
Prepaid expenses and other assets	2,384	(1,585)
Accounts payable and accrued liabilities	(13,792)	12,926
Income taxes	6,589	2,670
Net cash provided by operating activities	57,609	68,033
Investing activities:		
Acquisition of businesses, net of cash acquired	(7,970)	(20,299)
Divestiture of business, net of cash retained in business	12,979	
Payments of contingent consideration	(979)	
Purchases of property, plant and equipment	(9,045)	(14,974)
Other	(494)	(570)
Net cash used in investing activities	(5,509)	(35,843)
Financing activities:		
Payment of dividends	(18,954)	(18,344)
Proceeds from issuance of common stock	4,909	1,672
Excess income tax benefit from the exercise of stock options and deferred compensation	359	380
Net cash used in financing activities	(13,686)	(16,292)
Effect of exchange rate changes on cash	9,048	1,530
Net increase in cash and cash equivalents	47,462	17,428
Cash and cash equivalents, beginning of period	314,840	188,156
Cash and cash equivalents, end of period	\$ 362,302	\$ 205,584

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest, net of capitalized interest	\$ 9,138	\$ 10,313
Income taxes, net of refunds	17,398	10,817
Acquisitions:		
Fair value of assets acquired, net of cash and goodwill	\$ 4,624	\$ 8,829
Liabilities assumed	(1,446)	(2,678)
Goodwill	4,792	14,148
Net cash paid for acquisitions	\$ 7,970	\$ 20,299

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, 2011

(Unaudited)

(In thousands, except share and per share amounts)

**NOTE A Basis of Presentation**

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

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

The Company has reclassified certain prior year financial statement amounts to conform to their current year presentation. The operating activities including Other, Other liabilities, and Accounts payable and accrued liabilities which were previously disclosed as single line items, have been combined and reported as Accounts payable and accrued liabilities on the Condensed Consolidated Statement of Cash Flows for the six months ended January 31, 2011 and 2010. These reclassifications had no effect on total assets, net income, or earnings per share.

**NOTE B Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the six months ended January 31, 2011, are as follows:

	<b>Americas</b>	<b>Europe</b>	<b>Asia-Pacific</b>	<b>Total</b>
Balance as of July 31, 2010	\$ 425,018	\$ 163,189	\$ 180,393	\$ 768,600
Current year acquisitions			4,792	4,792
Current year divestitures	(3,696)	(8,380)		(12,076)
Translation adjustments	1,699	9,868	8,893	20,460
Balance as of January 31, 2011	\$ 423,021	\$ 164,677	\$ 194,078	\$ 781,776

Goodwill increased \$13,176 during the six months ended January 31, 2011. Of the \$13,176 increase, \$20,460 was due to the positive effects of foreign currency translation and \$4,792 resulted from the acquisition of ID Warehouse during the second quarter of fiscal 2011. The increase was offset by a \$12,076 decrease in goodwill as a result of the divestiture of the Company's Teklynx business during the three months ended January 31, 2011. See Note L, Acquisitions and Divestitures for further discussion.

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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 accounting guidance for goodwill and other intangible assets. The net book value of these assets was as follows:

	January 31, 2011				July 31, 2010			
	Weighted Average Amortization Gross		Weighted Average Amortization Gross		Weighted Average Amortization Gross		Weighted Average Amortization Gross	
	Period (Years)	Carrying Amount	Accumulated Amortization	Net Book Value	Period (Years)	Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$ 9,555	\$ (8,244)	\$ 1,311	5	\$ 9,314	\$ (7,855)	\$ 1,459
Trademarks and other	7	9,090	(6,196)	2,894	7	8,823	(5,685)	3,138
Customer relationships	7	159,773	(107,917)	51,856	7	152,720	(95,996)	56,724
Non-compete agreements	4	12,996	(12,031)	965	4	11,930	(11,059)	871
Other	4	2,730	(2,721)	9	4	3,309	(3,297)	12
Unamortized other intangible assets:								
Trademarks	N/A	41,525		41,525	N/A	41,342		41,342
Total		\$ 235,669	\$ (137,109)	\$ 98,560		\$ 227,438	\$ (123,892)	\$ 103,546

The value of goodwill and other intangible assets in the Condensed Consolidated Balance Sheet at January 31, 2011 differs from the value assigned to them in the allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar between the date of acquisition and January 31, 2011. The acquisition completed during the three and six months ended January 31, 2011 increased the customer relationships by \$1,846 and increased the amortizable trademarks by \$487. See Note L, Acquisitions and Divestitures for further discussion.

Amortization expense on intangible assets was \$5,123 and \$5,628 for the three-month periods ended January 31, 2011 and 2010, respectively and \$10,270 and \$11,235 for the six-month periods ended January 31, 2011 and 2010, respectively. Annual amortization is projected to be \$21,125, \$13,861, \$10,570, \$5,604 and \$5,212 for the years ending July 31, 2011, 2012, 2013, 2014 and 2015, respectively.

**NOTE C Comprehensive Income (Loss)**

Total comprehensive income for the periods presented was as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2011	2010	2011	2010
Net Income	\$ 24,199	\$ 15,001	\$ 50,480	\$ 36,669
Unrealized (loss) gain on cash flow hedges	(165)	317	(890)	(47)
Amortization of gain on post-retirement medical, dental and vision plan	(32)	(63)	(95)	(145)

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Foreign currency translation adjustments	(341)	(18,768)	29,754	5,850
Total comprehensive income (loss)	\$ 23,661	\$ (3,513)	\$ 79,249	\$ 42,327

The increase in total comprehensive income for the quarter ended January 31, 2011 as compared to January 31, 2010 was primarily due to the depreciation of the U.S. dollar against other currencies and net income.

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

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

	<b>Three Months Ended January</b>		<b>Six Months Ended January</b>	
	<b>31,</b>		<b>31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Numerator:				
Net income (numerator for basic and diluted Class A net income per share)	\$ 24,199	\$ 15,001	\$	\$