BRADY CORP
Form 10-K
September 27, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended July 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 charter)

Wisconsin	**39-0178960**
(State or other jurisdiction of	**(IRS Employer**

incorporation or organization)	Identification No.)
6555 West Good Hope Road,	
Milwaukee, WI	**53223**
(Address of principal executive offices)	**(Zip Code)**

(414) 358-6600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Nonvoting Common Stock, Par Value $.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the non-voting common stock held by non-affiliates of the registrant as of January 31, 2012, was approximately $1,441,914,982 based on closing sale price of $32.37 per share on that date as reported for the New York Stock Exchange. As of September 20, 2012, there were 47,406,559 outstanding shares of Class A Nonvoting Common Stock (the Class A Common Stock), and 3,538,628 shares of Class B Common Stock. The Class B Common Stock, all of which is held by affiliates of the registrant, is the only voting stock.

Table of Contents

INDEX

Table of Contents

PART I

Item 1. ***Business***

(a) General Development of Business

Brady Corporation (Brady, Company, we, us, our) was incorporated under the laws of the state of Wisconsin in 1914. The Company s cor headquarters are located at 6555 West Good Hope Road, Milwaukee, Wisconsin 53223, and the telephone number is (414) 358-6600.

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 s primary objective is to build upon its leading market position and increase shareholder value by leveraging competitive strengths including:

- Global leadership position in niche markets
- Innovation advantage Internally developed products drive growth and help sustain gross profit margins
- Operational excellence Continuous productivity improvement through global sourcing, the Brady Business Performance System (BBPS), and SG&A effectiveness programs
- Disciplined acquisition process

(b) Financial Information About Industry Segments

The information required by this Item is provided in Note 7 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

(c) Narrative Description of Business

Overview

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. Below is a summary of sales by reportable segments in the fiscal years ended July 31:

	2012	2011	2010
Americas	45%	43%	44%
EMEA	29%	30%	30%
Asia-Pacific	26%	27%	26%
Total	100%	100%	100%

Across these regions, the Company operates three primary business platforms: Identification Solutions (ID Solutions), Direct Marketing and Die-Cut. The ID Solutions business platform was referred to as the Brady business in prior filings. Below is a summary of sales by business in the fiscal years ended July 31:

	2012	2011	2010
ID Solutions	56%	55%	54%
Direct Marketing	27%	27%	27%
Die-Cut	17%	18%	19%
Total	100%	100%	100%

Table of Contents

ID Solutions

Within the ID Solutions platform, the primary product categories include:

Workplace safety and compliance, which includes facility identification, labeling systems, spill control, lockout/tagout, and software services

Product identification, which includes materials and printing systems for product identification, brand protection labeling, work in process labeling, finished product identification, and bar coding that performs under a variety of harsh or demanding conditions

Wire identification, which includes handheld printers, wire markers, sleeves, and tags

People identification, which includes self-expiring name tags, badges, lanyards, and access control software and products

Approximately 75% of ID Solutions products are sold under the Brady brand. Safety and facility identification products are also marketed under the Safety Signs Service brand, with some lockout/tagout products offered under the Scafftag brands. In the United States, identification products for the utility industry are marketed under the Electromark brand, and spill-control products are marketed under the Sorbent Products Company brand; security and identification badges and systems are included in the Temtec, B.I.G., Identicard/Identicam, STOPware, J.A.M. Plastics, PromoVision, and Brady People ID brands; wire identification products are marketed under the Modernotecnica brand in Italy and the Carroll brand in Australia; hand-held regulatory documentation systems are available under the Tiscor brand, and custom labels and nameplates are available under the Stickolor brand in Brazil.

The ID Solutions platform offers high quality products with rapid response and superior service to provide solutions to customers. The business markets and sells products through multiple channels including distributors, direct sales, mail-order-catalog marketing, and electronic access through e-commerce. The business sales force partners with end-users and distributors providing technical application and product expertise.

The ID Solutions platform serves customers in many markets, which include industrial manufacturing, electronic manufacturing, chemical, oil, gas, food and beverage, aerospace, defense, mass transit, electrical contractors, and telecommunications, among others.

The ID Solutions platform provides differentiated, proprietary products, many which have been internally developed and manufactured. These internally developed products include materials, printing systems, and software. Brady competes for business principally on the basis of production capabilities, engineering, research and development capabilities, materials expertise, global account management where needed, customer service, product quality and price. Competition in many of its product markets is highly fragmented, ranging from smaller companies offering only one or a few types of products, to some of the world s major adhesive and electrical product companies offering some competing products as part of their overall product lines.

Direct Marketing

Within the Direct Marketing business platform, the primary product categories include workplace safety and compliance products, which include informational signs, tags, security and traffic related products, first aid supplies, material handling, asset identification, safety and facility identification, and regulatory products.

Products within the Direct Marketing platform are sold under a variety of brands including: safety and facility identification products offered under the Seton, Emedco, Signals, Safetyshop, Clement and Personnel Concepts brands; spill-control products under the D.A.W.G. brand; and first aid supplies under the Accidental Health and Safety, Trafalgar, and Securimed brands.

The Direct Marketing platform markets and sells products through multiple channels, which include catalog, telemarketing and e-commerce. The business serves customers in many markets, which include process industries, manufacturers, government, education, construction, and utilities.

The Direct Marketing platform manufactures a broad range of stock and custom identification products, and also sells a broad range of related resale products. Historically, many of our competitors were experts in direct marketing, often with varying product niches. However, the competitive landscape is changing with the evolution of e-commerce channels. The barriers to entry are evolving with internet technology replacing direct marketing catalog expertise. A consequence of this shift is price transparency, as prices on commodity products can be easily compared. Dynamic pricing capabilities and an enhanced customer experience are critical to convert customers from traditional catalog channels to the internet.

Table of Contents

Die-Cut

Within the Die-Cut business platform, the primary products include customized precision die-cut products used to seal, dissipate heat, insulate, protect, shield, or provide other mechanical performance properties.

Products within the Die-Cut platform are sold primarily under the Brady brand, with some European business marketed as Balkhausen products. The business sells through a technical direct sales force, and is supported by global strategic account management. The Die-Cut platform serves customers in many markets, which include mobile handset, hard disk drive, consumer electronics, other computing devices, as well as products for the automotive and medical equipment markets.

The Die-Cut platform consists of engineered customized products, manufactured to specific customer requirements. The market for die-cut components is cyclical and can be volatile as it is driven by rapidly changing consumer demand, in addition to being highly price competitive. As products containing die-cut parts (mobile phones, disk drives, and other electronics) change rapidly, programs earned are often short-lived, and business must be rebid with each new program. Brady competes for business principally on the basis of price, production capabilities, engineering, global footprint, and global account management. Competitors include global die-cut and label converters, local low-cost manufacturers, and device manufacturers looking to vertically integrate (shorten supply chain).

Research and Development

The Company focuses research and development efforts on material development, printing systems design and software development. Material development involves the application of surface chemistry concepts for top coatings and adhesives applied to a variety of base materials. Systems design integrates materials, embedded software and a variety of printing technologies to form a complete solution for customer applications. The Company s research and development team also supports production and marketing efforts by providing application and technical expertise.

The Company owns patents and trademarks relating to certain products in the United States and internationally. Although the Company believes that patents are a significant factor in maintaining market position for certain products, technology in the areas covered by many of the patents continues to evolve and may limit the value of such patents. The Company s business is not dependent on any single patent or group of patents. Patents applicable to specific products extend for up to 20 years according to the date of patent application filing or patent grant, depending upon the legal term of patents in the various countries where patent protection is obtained. The Company s trademarks are valid ten years from the date of registration, and are typically renewed on an ongoing basis.

The Company spent approximately $38.4 million, $43.0 million, and $42.6 million during the fiscal years ended July 31, 2012, 2011, and 2010, respectively, on its research and development activities. The reduction in R&D spending in 2012 was primarily due to reductions in variable compensation in addition to cost reduction actions within the Asia-Pacific region. Research and development creates a competitive advantage for the Company that enables long-term sales growth and gross margin improvement. Consistent with fiscal 2011, approximately 220 employees were engaged in research and development activities for the Company in fiscal 2012.

Operations

The materials used in the products manufactured consist primarily of plastic sheets and films, paper, metal and metal foil, cloth, fiberglass, polypropylene, inks, dyes, adhesives, pigments, natural and synthetic rubber, organic chemicals, polymers, solvents and electronic components and subassemblies. The Company has a coating facility that manufactures bulk rolls of label stock for internal and external customers. In addition, the Company purchases finished products for resale.

The Company purchases raw materials, components and finished products from many suppliers. Overall, the Company is not dependent upon any single supplier for its most critical base materials or components; however, the Company has chosen in certain situations to sole source materials, components or finished items for design or cost reasons. As a result, disruptions in supply could have an impact on results for a period of time, but generally these disruptions would simply require qualification of new suppliers and the disruption would be modest. In certain instances, the qualification process could be more costly or take a longer period of time and in rare circumstances, such as a global shortage of a critical materials or components, the financial impact could be significant. The Company currently operates 56 manufacturing or distribution facilities globally.

The Company carries working capital mainly related to accounts receivable and inventory. Inventory consists of raw materials, work in process and finished goods. Generally, custom products are made to order while an on-hand quantity of stock products is maintained to provide customers immediate delivery of stock products. Normal and customary payment terms range from net 30 to 90 days from date of invoice and varies by region.

The Company has a broad customer base, and no individual customer is 5% or more of total net sales. Sales to government markets represent a non-material amount of the business.

Average delivery time for the Company s orders varies from same-day delivery to one month, depending on the type of product, customer request or demand, and whether the product is stock or custom-designed and manufactured. The Company s backlog is not material, does not provide much visibility for future business, and is not pertinent to an understanding of the business.

Environment

Compliance with federal, state and local environmental protection laws during fiscal 2012 had no material effect upon the Company s business, financial condition or results of operations.

Employees

As of September 20, 2012, the Company employed approximately 6,900 individuals. Brady has never experienced a material work stoppage due to a labor dispute and considers its relations with employees to be good.

Financial Information About Foreign and Domestic Operations and Export Sales

The information required by this Item is provided in Note 7 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

Information Available on the Internet

The Company s Corporate Internet address is http://www.bradycorp.com. The Company makes available, free of charge, on or through its Internet website copies of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to all such reports as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Company is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Item 1A. *Risk Factors*

Investors should carefully consider the risks set forth below and all other information contained in this report and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. Our business is also subject to general risk and uncertainties that affect many other companies, such as market conditions, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, wars or conflicts, major health concerns, natural disasters or other disruptions of expected economic or business conditions. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial conditions.

Deterioration of or instability in the global economy and financial markets may adversely affect our business and financial statements.

Our business and operating results have been and will continue to be affected by global economic conditions. When global economic conditions deteriorate or economic uncertainty continues, customers and potential customers may experience deterioration of their businesses, which may result in the delay or cancellation of plans to purchase our products. In particular, the European debt crisis and the instability and uncertainty relating to the Euro could adversely impact our financial results. Our sensitivity to economic cycles and any related fluctuations in the businesses of our customers or potential customers may have a material effect on our results of operations, liquidity and financial conditions.

Table of Contents

E-commerce increases price transparency and may adversely affect our business and financial statements.

A portion of our Direct Marketing business platform is transitioning from traditional channels to e-commerce. Historically, competitors were experts in direct marketing database management. The competitive landscape is changing with the evolution of e-commerce. The barriers to entry are changing with internet technology replacing some traditional catalog direct marketing expertise, and a consequence of this shift is such that prices on some commodity products can be easily compared by the customer. Approximately one-fourth of our sales are derived from our Direct Marketing platform, and this shift toward increased price transparency could adversely impact our results of operations.

Demand for our products may be adversely affected by numerous factors, some of which we cannot predict or control. This could adversely affect our financial results.

Numerous factors may affect the demand for our products including:

- Cyclical demands of the end user marketplace. These markets include, but are not limited to, mobile telecommunication devices, hard disk drives, and electronics in personal computers and other electronic devices.
- Future financial performance of major markets served
- Consolidation in the marketplace, allowing competitors and customers to be more efficient and more price competitive
- Future competitors entering the marketplace
- Large customer market share fluctuations
- Ever decreasing product life cycles
- Changes in customer preferences
- Declines in general economic conditions

If any of these factors occur, the demand for our products could suffer, and this would adversely affect our results of operations.

Price reductions or additional costs may need to be incurred to remain competitive in certain markets, which would have a negative impact on profitability.

We face substantial competition throughout our entire business, but particularly in the Die-Cut business platform. Competition may force us to cut prices or incur additional costs to remain competitive. We compete on the basis of price, production capabilities, engineering, global footprint, and global account management. Present or future competitors may have greater financial, technical or other resources, lower production costs or other pricing advantages, any of which could put us at a disadvantage in the affected business by threatening our market share or reducing our profit margins. Additionally, throughout our global business, distributors and customers may seek lower cost sourcing opportunities, which could result in a loss of business that may adversely impact results of operations, cash flows, and liquidity.

A large customer loss could significantly affect results of operations, cash flows, and liquidity.

While we have a broad customer base and no individual customer represents 5% or more of total sales, several of our large customers in the Die-Cut platform together comprise a significant portion of our sales. Additionally, we conduct business with several large distribution companies. Our dependence on these large customers makes relationships with them important. We cannot guarantee that these relationships will be retained in the future. Because these large customers account for a significant portion of sales, they may possess a greater capacity to negotiate reduced prices. If we are unable to provide products to our customers at the quality and prices acceptable to them or to adapt to technological changes, some of our customers may shift their business to competitors or may substitute another manufacturer s products. If one of the large customers consolidates, is acquired, or loses market share, the result of that event may have an adverse impact on our business. The loss of or reduction of business from one or more of these large customers could have a material impact on our financial condition, results of operations, cash flows, and liquidity.

The global nature of our business exposes us to foreign currency fluctuations that could adversely affect sales, profits, and cash balances.

The majority of our sales are derived outside the United States. Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar, and may adversely affect our financial statements. Increased strength of the U.S. dollar will increase the effective price of our products sold in currencies other than U.S. dollars into other countries. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products, and services purchased overseas. Our sales and expenses are translated into U.S. dollars for reporting purposes, and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. In addition, certain of our subsidiaries may invoice customers in a currency other than its functional currency, which could result in unfavorable translation effects on sales, profits, and cash balances.

Table of Contents

International operations are subject to various U.S. or country-specific regulations which could adversely affect our financial statements.

Our operations are subject to the risks of doing business abroad, including the following:

- Delays or disruptions in product deliveries and payments in connection with international manufacturing and sales
- Political and economic instability and disruptions
- Imposition of duties and tariffs
- Import and export controls
- Changes in governmental policies and business environments
- Disadvantages from competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act (FCPA)
- Local labor market conditions
- Current and changing regulatory environments
- Potentially adverse tax consequences, including repatriation of profits
- Stability of the Euro and its ability to serve as a single currency for a variety of countries

These events could have an adverse effect on our operations by reducing the demand, decreasing prices, or increasing costs for our products, which would adversely affect our financial condition or operating results.

Failure to develop new products or lack of acceptance of new products could adversely impact our business and financial statements.

Development of proprietary products is a driver of core growth and reasonable gross profit margins both currently and in the future. Therefore, we must continue to develop new and innovative products, as well as acquire and retain the necessary intellectual property rights in these products. If we fail to make innovations, if we launch products with quality problems, or if the market does not accept our new products, then our financial condition, results of operations, cash flows, and liquidity could be adversely affected. We continue to invest in the development and marketing of new products. These expenditures do not always result in products that will be accepted by the market. Failure to develop successful new products may also cause customers to buy from a competitor or may cause us to lower our prices in order to compete. This could have an adverse impact on profitability.

Inability to identify, complete and integrate acquisitions may adversely impact our business and financial statements.

Our historical growth has included, and our future growth strategy includes making acquisitions. We may not be able to identify acquisition targets or successfully complete acquisitions in the future due to the absence of quality companies in our target markets, economic conditions, or price expectations from sellers. If we are unable to complete additional acquisitions, our growth may be limited.

Additionally, as we grow through acquisitions, we will continue to place significant demands on management, operational, and financial resources. Recent and future acquisitions will require integration of operations, sales and marketing, information technology, finance and administrative operations, which could decrease the time available to serve and attract customers. We cannot assure that we will be able to successfully integrate acquisitions, that these acquisitions will operate profitably, or that we will be able to achieve the financial or operational success expected from the acquisitions. Our financial condition, cash flows, and operational results could be adversely affected if we do not successfully integrate the newly acquired businesses, or if our other businesses suffer due to the increased focus on the newly acquired businesses.

Table of Contents

Failure to successfully complete restructuring plans may adversely impact the financial statements.

We continue to implement measures to address our cost structure. Successful implementation of such initiatives is critical to our future competitiveness and to improve profitability. Further actions to reduce our cost structure and the charges related to these actions may have a material effect on our results of operations and financial condition.

Failure to comply with laws and regulations could adversely affect our financial condition, results of operations, cash flows, and reputation.

We are subject to extensive regulation by U.S. and non-U.S. governmental and self-regulatory entities at the federal, state and local levels, including the following:

- Regulations relating to climate change, air emissions, wastewater discharges, handling and disposal of hazardous materials and wastes
- Regulations relating to health, safety and the protection of the environment
- Specific country regulations where product is manufactured or sold
- Import, export and economic sanction laws
- Laws and regulations that apply to companies doing business with the government, audit for compliance with requirements of government contracts including procurement integrity, export control, employment practices, and the accuracy of records and recording of costs

Further**,** these laws and regulations are constantly evolving, and it is impossible to predict accurately the effect they may have upon our financial condition, results of operations or cash flows.

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions, could lead to substantial civil or criminal, monetary and non-monetary penalties and related shareholder lawsuits, and could damage our reputation.

Computer systems and technology may be susceptible to cyber threats which could adversely impact the financial statements.

Our exposure to cyber-security threats is growing as we expand and increase our reliance on computers and digital technologies. Our business employs systems and websites designed for the secure storage and transmission of proprietary information. Security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

Failure to meet certain financial covenants required by our debt agreements may adversely affect our assets, financial position, cash flows, and liquidity.

As of July 31, 2012, we had approximately $316.2 million in outstanding indebtedness. In addition, based on the availability under our credit facilities as of July 31, 2012, we had the ability to incur an additional $300.0 million under our revolving credit agreement. Our current revolving credit agreement and long-term debt obligations also impose certain restrictions on us. Refer to the MD&A within Item 7 for more information regarding our credit agreement and long-term debt obligations. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, the outstanding indebtedness (and any other indebtedness with cross-default provisions) could be declared immediately due and payable, which would adversely affect our liquidity and financial condition.

Table of Contents

An increase in the level of debt could adversely affect our financial health.

An increase in our level of debt, which historically has occurred in order to finance acquisitions and for other general corporate purposes, could adversely impact: obligations under existing debt agreements; ability to obtain additional financing for future growth; future interest rates; cash flows available to fund new product development; capital expenditures; working capital and other general corporate activities; and our flexibility in planning and reacting to changes in the business.

Goodwill or other intangible assets may become impaired, which may negatively impact profitability.

We have goodwill of $676.8 million and other intangible assets of $84.1 million as of July 31, 2012, which represents 47% of our total assets. We evaluate goodwill for impairment on an annual basis or more frequently if impairment indicators are present based upon the fair value of each reporting unit. We assess the impairment of other intangible assets on an annual basis or more frequently if impairment indicators are present based upon the expected future cash flows of the respective assets. These valuations include management s estimates of sales, profitability, cash flow generation, capital structure, cost of debt, interest rates, capital expenditures, and other assumptions. Significant negative industry or economic trends, disruptions to our business, inability to achieve forecasted sales projections or cost savings, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations. If the estimated fair value of our reporting units changes in future periods, we may be required to record an impairment charge related to goodwill or other intangible assets, which would reduce earnings in such period.

Changes in tax legislation or tax rates could adversely affect results of operations and financial statements. Additionally, audits by taxing authorities could result in tax payments for prior periods.

We are subject to income taxes in the U.S. and in many non-U.S. jurisdictions. As such, our earnings are subject to risk due to changing tax laws and tax rates around the world. At any point in time, there are a number of tax proposals at various stages of legislation throughout the globe. While it is impossible for us to predict whether some or all of these proposals will be enacted, it is likely would have an impact on our earnings.

Our tax filings are subject to audit by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in payments or assessments different from our reserves, our future net earnings may be adversely impacted.

We review the probability of the realization of our deferred tax assets on a quarterly basis based on forecasts of taxable income in both the U.S. and foreign jurisdictions. As part of this review, we utilize historical results, projected future operating results, eligible carry-forward periods, tax planning opportunities, and other relevant considerations. Adverse changes in profitability and financial outlook in both the U.S. and foreign jurisdictions, or changes in our geographic footprint may require changes in the valuation allowances in order to reduce our deferred tax assets. Such changes could result in a material impact on earnings.

Our annual cash needs could require us to repatriate cash to the U.S. from foreign jurisdictions. This could result in material expenses in the period in which the transactions occur.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The Company currently operates 56 manufacturing or distribution facilities in the following regions:

Americas: Eleven are located in the United States; three in Brazil, two in Mexico; and one in Canada.

EMEA: Four each located in the United Kingdom, Belgium, and Germany; three in France; two each in Norway and Sweden, and one each in the Netherlands, Denmark, Italy, Poland, and South Africa.

Asia-Pacific: Seven are located in China; two in Australia; and one each in Japan, Thailand, Singapore, India, South Korea, and Malaysia.

The Company leases the majority of its operating facilities under operating lease agreements. The Company believes that its equipment and facilities are modern, well maintained, and adequate for present needs.

[Table of Contents](#)

Item 3. ***Legal Proceedings***

The Company is, and may in the future be, party to litigation arising in the normal course of business. The Company is not currently a party to any material pending legal proceedings in which management believes the ultimate resolution would have a material effect on the Company s consolidated financial statements.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

(a) ***Market Information***

Brady Corporation Class A Nonvoting Common Stock trades on the New York Stock Exchange under the symbol BRC. The following table sets forth the range of high and low daily closing sales prices for the Company s class A stock as reported on the New York Stock Exchange for each of the quarters in the fiscal years ended July 31:

	2012		2011		2010	
	High	Low	High	Low	High	Low
4th Quarter	$ 31.28	$ 25.15	$ 38.49	$ 29.60	$ 34.75	$ 24.37
3rd Quarter	$ 34.37	$ 29.41	$ 37.71	$ 33.37	$ 35.28	$ 27.19
2nd Quarter	$ 34.40	$ 27.09	$ 33.78	$ 30.83	$ 31.22	$ 26.77
1st Quarter	$ 32.24	$ 24.73	$ 31.33	$ 25.35	$ 33.06	$ 27.08

There is no trading market for the Company s Class B Voting Common Stock.

(b) ***Holders***

As of September 17, 2012, there were 901 Class A Common Stock shareholders of record and approximately 6,000 beneficial shareholders. There are three Class B Common Stock shareholders.

(c) ***Issuer Purchases of Equity Securities***

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. During the three months ended July 31, 2012, the Company purchased 1,411,833 shares of its Class A Nonvoting Common Stock under this plan for $37.6 million. As of July 31, 2012, there remained 334,940 shares to purchase in connection with this share repurchase plan.

The following table provides information with respect to the purchase of Class A Nonvoting Common Stock during the three months ended July 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
May 1, 2012 May 31, 2012		$		1,746,773
June 1, 2012 June 30, 2012	586,833	$ 27.25	586,833	1,159,940
July 1, 2012 July 31, 2012	825,000	$ 26.22	825,000	334,940
Total	1,411,833	$ 26.65	1,411,833	334,940

(d) ***Dividends***

The Company has historically paid quarterly dividends on outstanding common stock. Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of $0.01665 per share (subject to adjustment in the event of future stock splits, stock dividends or similar events involving shares of Class A Common Stock). Thereafter, any further dividend in that fiscal year must be paid on all shares of Class A Common Stock and Class B Common Stock on an equal basis. The Company believes that based on its historic dividend practice, this restriction will not impede it in following a similar dividend practice in the future.

Table of Contents

During the two most recent fiscal years and for the first quarter of fiscal 2013, the Company declared the following dividends per share on its Class A and Class B Common Stock for the years ended July 31:

	2013	2012				2011			
	1st Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Class A	$ 0.19	$ 0.185	$ 0.185	$ 0.185	$ 0.185	$ 0.18	$ 0.18	$ 0.18	$ 0.18
Class B	0.17335	0.16835	0.185	0.185	0.185	0.16335	0.18	0.18	0.18

13

Table of Contents

(e) ***Common Stock Price Performance Graph***

The graph below shows a comparison of the cumulative return over the last five fiscal years had $100 been invested at the close of business on July 31, 2007, in each of Brady Corporation Class A Common Stock, The Standard & Poor s (S&P) 500 index, the Standard and Poor s SmallCap 600 index, and the Russell 2000 index.

Comparison of 5 Year Cumulative Total Return*

Among Brady Corporation, The S&P 500 Index,

The S&P SmallCap 600 Index and The Russell 2000 Index

* $100 invested on 7/31/07 in stock or index including reinvestment of dividends. Fiscal year ended July 31.

	7/31/2007	7/31/2008	7/31/2009	7/31/2010	7/31/2011	7/31/2012
Brady Corporation	100.00	106.65	87.90	85.12	99.72	91.60
S&P 500 Index	100.00	88.91	71.16	81.01	96.93	105.78
S&P SmallCap 600 Index	100.00	91.72	74.05	88.25	110.06	114.45
Russell 2000 Index	100.00	93.29	73.94	87.58	108.52	108.72

Table of Contents

Item 6. ***Selected Financial Data***

CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL DATA

Years Ended July 31, 2008 through 2012

	2012	2011	2010	2009	2008
Operating Data (1)					
Net Sales	$ 1,324,269	$ 1,339,597	$ 1,259,096	$ 1,208,702	$ 1,523,016
Gross Margin	636,306	656,196	623,297	577,583	744,195
Operating Expenses:					
Research and development	38,440	43,001	42,621	34,181	40,607
Selling, general and administrative	430,310	441,815	435,906	397,180	495,904
Restructuring charges (2)	12,110	9,188	15,314	25,849	
Impairment charge (3)	115,688				
Total operating expenses	596,548	494,004	493,841	457,210	536,511
Operating Income	39,758	162,192	129,456	120,373	207,684
Other Income (Expense):					
Investment and other income net	2,082	3,990	1,168	1,800	4,888
Interest expense	(19,090)	(22,124)	(21,222)	(24,901)	(26,385)
Net other expense	(17,008)	(18,134)	(20,054)	(23,101)	(21,497)
Income before income taxes	22,750	144,058	109,402	97,272	186,187
Income Taxes	40,661	35,406	27,446	27,150	53,999
Net (Loss) Income	$ (17,911)	$ 108,652	$ 81,956	$ 70,122	$ 132,188
Net (Loss) Income Per Common Share (Diluted):					
Class A nonvoting	$ (0.35)	$ 2.04	$ 1.55	$ 1.32	$ 2.41
Class B voting	$ (0.35)	$ 2.03	$ 1.53	$ 1.31	$ 2.39
Cash Dividends on:					
Class A common stock	$ 0.74	$ 0.72	$ 0.70	$ 0.68	$ 0.60
Class B common stock	$ 0.72	$ 0.70	$ 0.68	$ 0.66	$ 0.58
Balance Sheet at July 31:					
Working capital	$ 383,836	$ 456,406	$ 375,184	$ 286,955	$ 390,524
Total assets	1,607,719	1,861,505	1,746,231	1,583,267	1,850,513
Long-term obligations, less current maturities	254,944	331,914	382,940	346,457	457,143
Stockholders investment	1,009,353	1,156,192	1,005,027	951,092	1,021,808
Cash Flow Data:					
Net cash provided by operating activities	$ 144,705	$ 167,350	165,238	126,645	225,554
Depreciation and amortization	43,987	48,827	53,022	54,851	60,587
Capital expenditures	(24,147)	(20,532)	(26,296)	(24,027)	(26,407)

(1) Financial data has been impacted by the acquisitive nature of the Company as three, one, three, and two acquisitions were completed in fiscal years ended July 31, 2012, 2011, 2010, and 2008, respectively. There were no acquisitions in fiscal 2009. Refer to Note 2 within Item 8 for further information on the acquisitions that were completed.

(2)

In fiscal 2009, in response to the global economic downturn, the Company initiated several measures to address its cost structure, including the reduction in its workforce and decreased discretionary spending. The Company continued certain of these measures during fiscal 2010 and 2011. During fiscal 2012, the Company took various measures to address its cost structure in response to a decline in forecasted operating results. As a result, the Company recorded restructuring charges during fiscal 2012.

(3) The Company recognized a goodwill impairment charge of $115.7 million during the quarter ended January 31, 2012, related to the former North/South Asia reporting unit within the Asia-Pacific reporting segment. Refer to Note 1 within Item 8 for further information regarding the impairment charge.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

In fiscal 2012, the Company posted sales of $1,324.3 million and a net loss of $17.9 million. Sales declined by 1.1% from fiscal 2011 to fiscal 2012, of which organic sales decreased by 0.4%, the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar decreased sales by 1.0%, and acquisitions net of divestitures, increased sales by 0.3%. Regionally, fiscal 2012 sales in the Americas increased 2.2%, while sales in EMEA and Asia-Pacific decreased 3.9% and 3.4%, respectively, as compared to fiscal 2011.

The net loss for fiscal 2012 of $17.9 million or ($0.35) per diluted share of Class A Common Stock is a decline from fiscal 2011 net income of $108.7 million, or $2.04 per diluted share. The decline in net income was primarily due to a $115.7 million goodwill impairment charge recorded during the second quarter ended January 31, 2012, related to the former North/South Asia reporting unit within the Asia-Pacific operating segment. Refer to Note 1, Summary of Significant Accounting Policies within the Notes to the Consolidated Financial Statements for further discussion regarding the goodwill impairment charge.

Results of Operations

Year Ended July 31, 2012, Compared to Year Ended July 31, 2011

The comparability of the operating results for the fiscal years ended July 31, 2012 to July 31, 2011, has been impacted by the following acquisitions and divestitures completed in fiscal 2012 and 2011.

Acquisitions:	**Segment**	**Date Completed**
ID Warehouse	Asia Pacific	November 2010
Grafo Wiremarkers Africa (Grafo)	EMEA	March 2012
Runelandhs Försäljnings AB (Runelandhs)	EMEA	May 2012
Pervaco AS (Pervaco)	EMEA	May 2012

Divestitures:	**Segments**	**Date Completed**
Teklynx	Americas, EMEA	December 2010
Etimark	EMEA	July 2012

Fiscal 2012 sales decreased $15.3 million, or 1.1% from fiscal 2011. The 1.1% decrease in sales consisted of a 0.4% decline in organic sales, a 1.0% decline due to the effects of the foreign currency translation, and 0.3% growth due to acquisitions net of divestitures.

Organic sales, defined as sales in the Company s existing businesses and regions (exclusive of acquisitions owned less than one year, divestitures, and foreign currency translation effects), were down 0.4% compared to fiscal 2011. Regionally, fiscal 2012 organic sales in the Americas increased 3.4%, while organic sales in EMEA and Asia-Pacific decreased 1.3% and 5.3%, respectively, as compared to fiscal 2011. The organic sales increase experienced in the Americas was due primarily to strong ID Solutions sales growth and new products positively received by end-users and distributors. The decrease in EMEA s organic sales was primarily due to the challenging economic environment within the region. The organic sales decline in the Asia-Pacific segment was driven by the Asia Die-Cut business platform. Sales were weak within the die-cut mobile handset market, and the flooding in Thailand caused a significant disruption to the hard disk drive supply chain during the last nine months of the fiscal year.

The acquisitions net of divestitures increased sales by 0.3% in fiscal 2012 as compared to fiscal 2011. The currency growth reflects fluctuations in the exchange rates used to translate financial results into the United States Dollar, which decreased sales by 1.0% for the year.

Gross margin as a percentage of sales declined to 48.0% in fiscal 2012 from 49.0% in fiscal 2011. The primary driver of the gross margin decline was the Asia-Pacific region, where lost sales due to the decline in market share of a primary customer have been replaced with lower margin sales opportunities, and price competition within the die-cut industry has increased.

Table of Contents

Research and development expenses decreased to $38.4 million in fiscal 2012 from $43.0 million in fiscal 2011, and declined as a percentage of sales in fiscal 2012 to 2.9% compared to 3.2% in fiscal 2011. The decline in R&D expenses was primarily due to a decrease in variable incentive compensation for fiscal year 2012 compared to fiscal year 2011, as well as cost reduction actions within the Asia-Pacific region.

Selling, general, and administrative (SG&A) expenses decreased to $430.3 million in fiscal 2012 as compared to $441.8 million in fiscal 2011. As a percentage of sales, SG&A declined to 32.5% in fiscal 2012 from 33.0% in fiscal 2011, mainly due to a pretax reduction in variable incentive compensation in fiscal 2012.

During fiscal year 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 expenses of $12.1 million during fiscal 2012. During fiscal 2011, the Company continued its cost-cutting actions initiated during fiscal 2009 and recorded $9.2 million in restructuring charges. Restructuring related costs were driven by facility consolidations and continued workforce reduction activities. The costs associated with the workforce reduction primarily include employee separation costs, consisting of severance pay, outplacement services, medical, and other related benefits for the Company s work force.

Interest expense decreased to $19.1 million from $22.1 million for fiscal 2012 compared to fiscal 2011. The decrease was due to the Company s declining principal balance under its outstanding debt agreements. In fiscal 2012, the Company repaid $62.7 million in debt.

Investment and other income decreased $1.9 million in fiscal 2012 to $2.1 million from $4.0 million in the prior year. The decrease was due to losses on foreign exchange transactions, partially offset by an increase in interest income earned on money market and depository accounts.

The Company s effective tax rate was 178.7% in fiscal 2012, compared to the effective tax rate of 24.6% in fiscal 2011. The effective tax rate for fiscal 2012 was significantly impacted by the non-deductible goodwill impairment charge of $115.7 million recorded on the former North/South Asia reporting unit during the three months ended January 31, 2012, as well as a tax charge recorded during the three months ended July 31, 2012, related to an internal reorganization. Excluding these items our effective tax rate would have been consistent with the prior year. Refer to Note 1, Summary of Significant Accounting Policies within the Notes to the Consolidated Financial Statements for further discussion regarding the goodwill impairment charge.

The net loss for the fiscal year ended July 31, 2012, was $17.9 million, compared to net income of $108.7 million for the fiscal year ended July 31, 2011. The net loss as a percentage of sales was (1.4%) for fiscal 2012, compared to net income as a percentage of sales of 8.1% for fiscal 2011. Diluted net loss per share was ($0.35) per share for fiscal 2012, compared to diluted net income per share of $2.04 for fiscal 2011. The fiscal 2012 net loss was a result of the goodwill impairment charge of $115.7 million recorded during the three months ended January 31, 2012. Refer to Note 1, Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements for further discussion.

The Company s fiscal 2012 net income before the goodwill impairment charge and restructuring-related expenses was $107.3 million, a decrease from net income before restructuring-related expenses of $115.2 million in fiscal 2011. The decline in net income excluding impairment and restructuring of 6.8% from fiscal 2011 to fiscal 2012 was primarily due to the gross margin and profit decline in the Asia Die-Cut business platform.

Year Ended July 31, 2011, Compared to Year Ended July 31, 2010

The comparability of the operating results for the fiscal years ended July 31, 2011 to July 31, 2010, has been impacted by the following acquisition and divestiture completed in fiscal 2011.

Acquisition:	Segment	Date Completed
ID Warehouse	Asia Pacific	November 2010

Divestiture:	Segments	Date Completed
Teklynx	Americas, EMEA	December 2010

Fiscal 2011 sales increased $80.5 million, or 6.4% from fiscal 2010. The 6.4% increase in sales consisted of 2.9% growth in organic sales, 2.5% growth due to the effects of the foreign currency translation, and 1.0% growth due to an acquisition net of divesture.

Table of Contents

Organic sales, defined as sales in the Company s existing core businesses and regions (exclusive of acquisitions owned less than one year, divestitures, and foreign currency translation effects), were up 2.9% compared to fiscal 2010. Regionally, fiscal 2011 organic sales in the Americas, EMEA, and Asia-Pacific increased 3.2%, 4.7%, and 0.4%, respectively, as compared to fiscal 2010.The organic sales increase experienced in the Americas was due primarily to the strong ID Solutions sales growth and new products positively received by end users and distributors. The increase in EMEA s organic sales was broad-based with growth in both the ID Solutions and Direct Marketing platforms. Geographically, sales were weak in the United Kingdom, offsetting strength in other European markets. Organic sales in the Asia-Pacific segment remained relatively flat. The segment s on-going customer base diversification in the mobile handset and other adjacent markets offset the reduced demand from one of our largest mobile handset customers.

The acquisition net of the divestiture listed above increased sales by $12.7 million or 1.0% in fiscal 2011 as compared to fiscal 2010. The currency growth reflects fluctuations in the exchange rates used to translate financial results into the United States Dollar which increased sales by $31.1 million or 2.5% for the year.

Gross margin as a percentage of sales declined to 49.0% in fiscal 2011 from 49.5% in fiscal 2010. The decline in gross margin as a percentage of sales was primarily due to the increased costs of raw materials which the company was not able to fully offset through continued cost reduction activities or price increases. The Company continued to focus on gross margin improvements through the Brady Business Performance System, lean, and strategic sourcing efforts.

Research and development expenses increased to $43.0 million in fiscal 2011 from $42.6 million in fiscal 2010, and declined as a percentage of sales in fiscal 2011 to 3.2% compared to 3.4% in fiscal 2010. The increase in R&D spending was due to the Company s continued commitment to innovation and new product development. This investment declined as percentage of sales slightly in fiscal 2011 as a result of the elimination of the R&D expenses incurred by the Company s previously owned Teklynx business.

Selling, general, and administrative (SG&A) expenses increased to $441.8 million in fiscal 2011 as compared to $435.9 million in fiscal 2010. SG&A expenses increased during the fiscal year mainly due to the fluctuations in exchange rates. The Company divested of its Teklynx business resulting in a pre-tax gain of $4.4 million, which is included in SG&A. This pre-tax gain was offset by the associated transaction-related costs and income tax expense, resulting in a net income impact of $0.8 million during fiscal 2011. SG&A also increased in fiscal 2011 as a result of the annual merit increases, and increased advertising campaign expenses. As a percentage of sales, SG&A declined to 33.0% in fiscal 2011 from 34.6% in fiscal 2010 as the Company continued to reduce administrative costs through its cost reduction activities including simplifying, standardizing, and automating processes.

Restructuring charges were $9.2 million and $15.3 million during fiscal 2011 and 2010, respectively. During fiscal 2010 and 2011, the Company incurred restructuring related costs as a result of facility consolidations and continued workforce reduction activities. The costs associated with the workforce reduction primarily include employee separation costs, consisting of severance pay, outplacement services, medical, and other related benefits for the Company s work force.

Interest expense increased to $22.1 million from $21.2 million for fiscal 2011 compared to fiscal 2010. In fiscal 2011, the Company repaid approximately $61.3 million of debt. Interest expense increased due to a full year of interest being recognized on the May 2010 private placement, compared to a partial year of interest in 2010. The increase was partially offset by the lower principal balance under the previously outstanding debt agreements.

Other income and expense increased $2.8 million in fiscal 2011 to $4.0 million from $1.2 million in the prior year. The increase was primarily due to the interest income earned on the Company s money market and depository accounts, in addition to the gains on securities held in executive deferred compensation plans.

The Company s effective tax rate was 24.6% in fiscal 2011, which was relatively consistent with the effective tax rate of 25.1% in fiscal 2010.

Net income for the fiscal year ended July 31, 2011, increased 32.6% to $108.7 million, compared to $82.0 million for the fiscal year ended July 31, 2010, as a result of the factors noted above. Net income as a percentage of sales increased to 8.1% from 6.5% for the fiscal year ended July 31, 2011 compared to the prior year. Diluted net income per share increased 31.6% to $2.04 per share for fiscal 2011 compared to $1.55 per share for the fiscal year ended July 31, 2010. Fiscal 2011 and 2010 net income before restructuring related expenses was $115.2 million, or $2.16 per diluted share of Class A Common Stock, and $93.4 million, or $1.76 per diluted share of Class A Common Stock, respectively.

Table of Contents

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. Segment results are as follows:

(Dollars in thousands)	Americas	EMEA	Asia- Pacific	Total Regions	Corporate and Eliminations	Total Company
SALES TO EXTERNAL CUSTOMERS						
Years ended:						
July 31, 2012	$ 589,924	$ 389,156	$ 345,188	$ 1,324,269		$ 1,324,269
July 31, 2011	577,428	404,955	357,214	1,339,597		1,339,597
July 31, 2010	551,185	380,121	327,790	1,259,096		1,259,096
SALES GROWTH INFORMATION						
Year ended July 31, 2012:						
Organic	3.4%	(1.3)%	(5.3)%	(0.4)%		(0.4)%
Currency	(0.9)%	(3.5)%	1.4%	(1.0)%		(1.0)%
Acquisitions/Divestitures	(0.3)%	0.9%	0.5%	0.3%		0.3%
Total	2.2%	(3.9)%	(3.4)%	(1.1)%		(1.1)%
Year ended July 31, 2011:						
Organic	3.2%	4.7%	0.4%	2.9%		2.9%
Currency	1.1%	0.6%	6.9%	2.5%		2.5%
Acquisitions/Divestitures	0.5%	1.2%	1.7%	1.0%		1.0%
Total	4.8%	6.5%	9.0%	6.4%		6.4%
SEGMENT PROFIT						
Years ended:						
July 31, 2012	$ 155,657	$ 105,643	$ 31,704(1)	$ 293,004	$ (7,328)	$ 285,676
July 31, 2011	145,516	112,047	50,105	307,668	(15,742)	291,926
July 31, 2010	125,169	103,316	52,105	280,590	(14,131)	266,459

(1) The Company recognized a goodwill impairment charge of $115.7 million during the quarter ended January 31, 2012, related to the former North/South Asia reporting unit within the Asia-Pacific reporting segment, which is excluded from segment profit as presented in the table above. Refer to Note 1 within Item 8 for further discussion regarding the impairment charge.

NET INCOME RECONCILIATION

	Years ended:		
(Dollars in thousands)	July 31, 2012	July 31, 2011	July 31, 2010
Total profit for reportable segments	$ 293,004	$ 307,668	$ 280,590
Corporate and eliminations	(7,328)	(15,742)	(14,131)
Unallocated amounts:			
Administrative costs	(118,120)	(120,546)	(121,689)
Restructuring charges	(12,110)	(9,188)	(15,314)
Impairment charge	(115,688)		
Investment and other income net	2,082	3,990	1,168
Interest expense	(19,090)	(22,124)	(21,222)

Income before income taxes	22,750	144,058	109,402
Income taxes	(40,661)	(35,406)	(27,446)
Net (loss) income	$ (17,911)	$ 108,652	$ 81,956

The Company evaluates short-tem 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 and human resources, which are managed as global functions. Restructuring charges, impairment charges, stock options, interest, investment and other income and income taxes are also excluded when evaluating performance.

Table of Contents

Americas

In the Americas region, the sales mix consists of approximately 70% ID Solutions and 30% Direct Marketing. Sales increased 2.2% from fiscal 2011 to fiscal 2012, and increased 4.8% from fiscal 2010 to fiscal 2011. Organic sales grew 3.4% in 2012 and grew 3.2% in 2011. The fiscal 2011 divestiture of the Teklynx business decreased sales of the segment by 0.3% and the fluctuations of the exchange rates used to translate financial results into the United States dollar decreased sales by 0.9% in fiscal 2012. The increase in organic sales in fiscal 2012 was entirely driven by the ID Solutions platform through new product development and the successful launch earlier in the year of several high quality printers and proprietary consumable materials. Fiscal 2012 organic sales were relatively flat in the Direct Marketing platform compared to fiscal 2011, as the growth achieved during the first half of the year was offset by declines in the second half of the year. This decline in the Direct Marketing platform was primarily due to the softening of the construction and manufacturing markets.

The increase in organic sales in fiscal 2011 of 3.2% was driven by the broad-based improvements in the segment s core markets in addition to the positive results from the segment s sales and marketing productivity initiatives. The net impact of the fiscal 2010 acquisition of Stickolor and the fiscal 2011 divestiture of the Teklynx business increased sales of the segment by 0.5%, and the fluctuations of the exchange rates used to translate financial results into the United States dollar increased sales by 1.1%.

In the Americas region, segment profit increased 7.0% to $155.7 million in fiscal 2012 from $145.5 million in fiscal 2011. Segment profit as a percentage of sales increased to 26.4% in 2012 from 25.2% in 2011. This increase was due to both the ID Solutions and Direct Marketing platforms. Within the ID Solutions platform, the profit improvement was consistent throughout fiscal 2012 due to increased sales and operational efficiencies from site consolidation actions, operational and sourcing cost savings projects. The Direct Marketing platform began fiscal 2012 with modest single digit sales growth and strong profit growth. Profit growth in the second half of the year was essentially flat, as operational savings were reinvested into digital initiatives to drive growth through the internet. The Company s key investment initiatives are to grow customer files and improve every aspect of a customer s on-line experience, targeting improved customer conversion and loyalty.

Comparing fiscal 2011 to 2010, segment profit increased 16.3% to $145.5 million in fiscal 2011 from $125.2 million in fiscal 2010. Segment profit as a percentage of sales increased to 25.2% in 2011 from 22.7% in 2010. This increase was primarily due to the segment s improved gross margin due to certain facility consolidation actions, operational and sourcing cost savings projects offset by higher inflation, in addition to actions taken in fiscal 2011 to streamline the segment s selling expense structure.

EMEA

In the EMEA region, the sales mix consists of approximately 50% ID Solutions, 40% Direct Marketing, and 10% Die-Cut. EMEA sales declined 3.9% from fiscal 2011 to fiscal 2012, and increased 6.5% from fiscal 2010 to fiscal 2011. Organic sales declined 1.3% in fiscal 2012 and increased 4.7% in fiscal 2011 as compared to prior years. Segment sales increased 0.9% in fiscal 2012 as a result of the fiscal 2012 acquisitions of Grafo, Runelandhs and Pervaco, net of the fiscal 2011 divestiture of the Teklynx business. By business, the ID Solutions and Direct Marketing platforms were essentially flat for fiscal 2012 due to the challenging economic climate within the region. The Die-Cut platform declined during the fiscal year, resulting in the overall decline in organic sales within the region.

The increase in organic sales in fiscal 2011 of 4.7% was driven by growth in the ID Solutions and Direct Marketing platforms in Germany and Southern EMEA due to a combination of improving economies and positive results of sales initiatives, partially offset by the continued depressed conditions in the United Kingdom. Segment sales increased 1.2% in fiscal 2011 as a result of the fiscal 2010 acquisitions of Welco and Securimed, net of the fiscal 2011 divestiture of the Teklynx business. Sales were also positively affected by fluctuations in the exchange rates used to translate financial results into the United States dollar, which increased sales within the segment by 0.6% in fiscal 2011.

In the EMEA region, segment profit declined 5.7% to $105.6 million in fiscal 2012 from $112.0 million in fiscal 2011. The majority of the decline of $6.4 million related to fluctuations in the exchange rates used to translate financial results into the United States dollar, as segment profit as a percentage of sales decreased slightly to 27.1% in fiscal 2012 from 27.7% in fiscal 2011 and 27.2% in fiscal 2010. The decline in segment profit as a percentage of sales was due primarily to the overall sales decline and depressed economic conditions, limiting the ability to pass along price increases. The improvement in the segment s profit from fiscal 2010 to fiscal 2011 was primarily due to increased sales volumes in addition to the continued efforts to streamline selling expenses through the Company s strategic initiatives.

Table of Contents

Asia-Pacific

In the Asia-Pacific region, the sales mix consists of approximately 50% Die-Cut, 40% ID Solutions, and 10% Direct Marketing. Asia-Pacific sales declined 3.4% from fiscal 2011 to fiscal 2012, and sales increased 9.0% from fiscal 2010 to fiscal 2011. Organic sales declined 5.3% and increased 0.4% in fiscal 2012 and 2011, respectively, compared to prior years. Foreign currency translation positively impacted the segment s sales by 1.4% and 6.9% in fiscal 2012 and 2011, respectively, compared to prior years. The decline in organic sales was primarily due to the Asia Die-Cut platform. Sales were weak within the die-cut mobile handset market, and the flooding in Thailand caused a significant disruption to the hard disk drive supply chain during the last nine months of the fiscal year.

The relatively flat fiscal 2011 organic sales growth of 0.4% was a result of increased sales from the segment s on-going customer base diversification in the mobile handset and other adjacent markets, which offset the reduced demand from one of the Company s largest mobile handset customers.

In the Asia-Pacific region, segment profit declined 36.7% to $31.7 million in fiscal 2012 from $50.1 million in fiscal 2011. Segment profit as a percentage of sales declined to 9.2% in fiscal 2012 from 14.0% in fiscal 2011. The decline in the profit in fiscal 2012 was primarily due to increased market competitiveness and a decline in sales within the Asia Die-Cut platform, particularly within the mobile handset industry. In addition, segment profit was negatively impacted by the residual effects of the Thailand flood through delayed product launches and lower absorption of fixed costs. Losses caused by the flooding are expected to be partially covered by property and business interruption insurance during fiscal 2013.

Comparing fiscal 2011 to 2010, segment profit as a percentage of sales decreased to 14.0% in 2011 from 15.9% in 2010. The decline in profit in fiscal 2011 was a result of relatively flat organic sales, continued price pressure, and inflation on raw materials and wages.

Liquidity and Capital Resources

Cash and cash equivalents were $305.9 million at July 31, 2012, and $390.0 million at July 31, 2011, a decline of $84.1 million as summarized below:

	Years ended July 31,		
(Dollars in thousands)	**2012**	**2011**	**2010**
Net cash flow provided by (used in):			
Operating activities	$ 144,705	$ 167,350	$ 165,238
Investing activities	(64,604)	(22,631)	(48,681)
Financing activities	(147,824)	(91,574)	15,275
Effect of exchange rate changes on cash	(16,348)	21,986	(5,148)
Net (decrease) increase in cash and cash equivalents	$ (84,071)	$ 75,131	$ 126,684

Net cash provided by operating activities was $144.7 million in fiscal 2012, compared to $167.4 million in fiscal 2011. Cash flows from operating activities are generated primarily from operating income and managing the components of working capital. The decrease in cash flows from operating activities of $21.9 million from fiscal 2011 to fiscal 2012 was partially due to a decline in net income of $10.9 million after excluding the goodwill impairment charge of $115.7 million. In addition, the net change of inventories and accounts payable and accrued liabilities reduced operating cash flows by $30.8 million compared to the prior year. This decline was partially offset by favorable cash flows from income taxes of $20.5 million in fiscal 2012 compared to 2011.

Net cash used in investing activities was $64.6 million in fiscal 2012, compared to $22.6 million in fiscal 2011. The increase in cash used in investing activities of $42.0 million from fiscal 2011 to fiscal 2012 was primarily due to the increase in cash used in acquisitions of $29.7 million compared to 2011. In addition, cash provided by divestitures declined by $12.1 million, which further increased the net use of cash in investing activities from fiscal 2011 to fiscal 2012. See Note 3 within Item 8 for further information regarding acquisitions and divestitures.

Net cash used in financing activities was $147.8 million in fiscal 2012, compared to $91.6 million in fiscal 2011. The increase in cash used in financing activities of $56.2 million was primarily due to the repurchase of common shares during the current year for $49.9 million. In addition, cash received from the exercise of employee stock options declined by $4.3 million from fiscal 2011 to fiscal 2012. See Item 5 within Part II for further information regarding the current year share repurchases.

Net cash provided by operating activities was $167.4 million in fiscal 2011, compared to $165.2 million in fiscal 2010. The increase in cash flows from operating activities of $2.1 million from fiscal 2010 to fiscal 2011 was due to an increase in net income of $22.3 million after excluding the gain on the sale of business of $4.4 million. This was partially offset by the aggregate of accounts receivable and accounts payable and accrued liabilities, which reduced operating cash flows by $18.6 million from 2010 to 2011.

Net cash used in investing activities was $22.6 million in fiscal 2011, compared to $48.7 million in fiscal 2010. The decrease in cash used in investing activities of $26.1 million was primarily due to a reduction in cash used in acquisitions of $22.5 million in fiscal 2011 as compared to fiscal 2010. In addition, cash provided by the fiscal 2011 divestiture of Teklynx reduced cash used in investing activities by $13.0 million as compared to fiscal 2010. This was partially offset by the settlement of net investment hedges in fiscal 2011 and fiscal 2010.

Net cash used in financing activities was $91.6 million in fiscal 2011, compared to net cash provided by financing activities of $15.3 million in fiscal 2010. The decrease in cash used in financing activities of $106.8 million was primarily due to the proceeds received from the issuance of debt of $94.9 million in fiscal 2010. In addition, the increase in cash used for principal payments on debt was $16.4 million from fiscal 2010 to fiscal 2011.

On October 26, 2011, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC), which will allow the Company to issue and sell, from time to time in one or more offerings, an indeterminate amount of Class A Nonvoting Common Stock and debt securities as it deems prudent or necessary to raise capital at a later date. The shelf registration statement became effective upon filing with the SEC. The Company plans to use the proceeds from any future offerings under the shelf registration for general corporate purposes, including, but not limited to, acquisitions, capital expenditures, and refinancing of debt.

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. Under the debt agreement, the Company made scheduled principal payments of $44.9 million, $61.3 million, and $61.3 million during the years ended July 31, 2010, 2011, and 2012, respectively.

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.

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 on 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 new credit facility.

Table of Contents

The Company s debt and revolving loan agreements require it to maintain certain financial covenants. As of July 31, 2012, the Company was in compliance with financial covenants in its debt agreements. See Note 5 within Item 8 for further information regarding the financial covenants.

Long-term obligations as a percentage of long-term obligations plus stockholders investment were 20.1% at July 31, 2012 and 22.3% at July 31, 2011. Long-term obligations decreased by $77.0 million from July 31, 2011 to July 31, 2012 due to debt repayments made during the year, combined with a $15.7 million decrease in the USD value of the Euro denominated debt due to foreign exchange fluctuations. The fiscal 2012 debt repayments consisted of the scheduled installment of $18.8 million on the 2004 private placement, an installment of $26.1 million on the 2006 private placement, and an installment of $16.4 million on the 2007 private placement. In addition, long-term debt assumed as part of the acquisition of Runelandhs was repaid in the amount of $1.4 million.

Stockholders investment decreased $146.8 million during fiscal 2012 due to the negative effects of foreign currency translation of approximately $55.3 million, an increase in treasury stock of $42.6 million due to the current year share repurchase, dividends paid of $38.9 million, and the current year net loss of $17.9 million.

The Company s cash balances are generated and held in numerous locations throughout the world. At July 31, 2012, approximately 78% of the Company s cash and cash equivalents was held outside the United States. 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 from operations, 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 for at least the next 12 months. 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 Liquidity and Capital Resources

On September 6, 2012, the Company s Board of Directors authorized a share buyback program for up to an additional two million shares of the Company s Class A Common Stock. The share repurchase plan may be implemented from time to time on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company s stock-based compensation plans and for other corporate purposes.

On September 6, 2012, the Company announced an increase in the annual dividend to shareholders of the Company s Class A Common Stock, from $0.74 to $0.76 per share. A quarterly dividend of $0.19 will be paid on October 31, 2012, to shareholders of record at the close of business on October 10, 2012. This dividend represents an increase of 2.7% and is the 27th consecutive annual increase in dividends.

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 risks discussed in this filing and presented in other Company filings. However, the following additional information is provided to assist financial statement users.

Operating Leases These 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 other than those discussed below under Payments Due Under Contractual Obligations.

Table of Contents

Related Party Transactions The Company evaluated its affiliated party transactions for the period ended July 31, 2012. Based on the evaluation the Company does not have material related party transactions that affect the results of operations, cash flow or financial condition.

Payments Due Under Contractual Obligations

The Company s future commitments at July 31, 2012, for long-term debt, operating lease obligations, purchase obligations, interest obligations and other obligations are as follows (dollars in thousands):

		Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Uncertain Timeframe
Long-Term Debt Obligations	$ 316,208	$ 61,264	$ 103,778	$ 95,797	$ 55,369	$
Operating Lease Obligations	69,308	16,280	23,732	12,544	16,752	
Purchase Obligations (1)	46,655	45,850	805			
Interest Obligations	55,464	15,550	21,434	11,437	7,043	
Tax Obligations	36,532					36,532
Other Obligations (2)	18,246	716	1,578	1,863	14,089	
Total	$ 542,413	$ 139,660	$ 151,327	$ 121,641	$ 93,253	$ 36,532

(1) Purchase obligations include all open purchase orders as of July 31, 2012.

(2) Other obligations represent expected payments under the Company s U.S. postretirement medical plan and international pension plans as disclosed in Note 3 to the consolidated financial statements, under Item 8 of this report.

Inflation and Changing Prices

Essentially all of the Company s revenue is derived from the sale of its products in competitive markets. Because prices are influenced by market conditions, it is not always possible to fully recover cost increases through pricing. Changes in product mix from year to year, timing differences in instituting price changes, and the large amount of part numbers make it impracticable to accurately define the impact of inflation on profit margins.

Critical Accounting Estimates

Management s discussion and analysis of the Company s financial condition and results of operations are based upon the Company s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases these estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments.

The Company believes the following accounting estimates are most critical to an understanding of its financial statements. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 1 to the Company s Consolidated Financial Statements.

Income Taxes

The Company s effective tax rate is based on pre-tax income and the tax rates applicable to that income in the various jurisdictions in which the Company operates. Significant judgment is required in determining the Company s effective income tax rate and in evaluating its tax positions. The Company establishes liabilities when it is more likely than not that the Company will not realize the full tax benefit of the position. The

Company adjusts these liabilities in light of changing facts and circumstances.

Tax regulations may require items of income and expense to be included in a tax return in different periods than the items are reflected in the consolidated financial statements. As a result, the effective income tax rate reflected in the consolidated financial statements may be different than the tax rate reported in the income tax return. Some of these differences are permanent, such as expenses that are not deductible on the income tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as tax deductions or credits in the tax return in future years for which the Company has already recorded the tax benefit in the consolidated financial statements. The Company establishes valuation allowances against its deferred tax assets when it is more likely than not that the amount of expected future taxable income will not support the use of the deduction or credit. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies, and can also be impacted by changes to tax laws. Deferred tax liabilities generally represent tax expense recognized in the consolidated financial statements for which payment has been deferred or expense for which the Company has already taken a deduction on an income tax return, but has not yet recognized as expense in the consolidated financial statements.

The Company accounts for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is more-likely-than-not that the position will be sustained upon examination. Judgment is required in evaluating tax positions and determining income tax provisions. The Company generally re-evaluates the technical merits of its tax positions and recognizes an uncertain tax benefit when (i) there is completion of a tax audit; (ii) there is a change in applicable tax law including a tax case ruling or legislative guidance; or (iii) there is an expiration of the statute of limitations.

Goodwill and Other Indefinite-lived Intangible Assets

The allocation of purchase price for business combinations requires management estimates and judgment as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocation purposes. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require acceleration of the amortization expense of finite-lived intangible assets. In addition, accounting guidance requires that goodwill and other indefinite-lived intangible assets be tested at least annually for impairment. If circumstances or events prior to the date of the required annual assessment indicate that, in management s judgment, it is more likely than not that there has been a reduction of fair value of a reporting unit below its carrying value, the Company performs an impairment analysis at the time of such circumstance or event. Changes in management s estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company s financial condition and results of operations. To aid in establishing the value of goodwill and other intangible assets at the time of acquisition, Company policy requires that all acquisitions with goodwill of greater than $5 million require the use of external valuations.

The Company has identified six reporting units within its three reportable segments with the corresponding goodwill balances as of July 31, 2012: Brady Americas, $234.7 million; Direct Marketing Americas, $183.1 million; Brady EMEA, $107.8 million; Direct Marketing EMEA, $67.2 million; Brady Asia, $59.3 million; and Die-Cut Asia, $24.7 million. Brady continues to believe that the discounted cash flow model and market multiples model provide a reasonable and meaningful fair value estimate based upon the reporting units projections of future operating results and cash flows and replicates how market participants would value the Company s reporting units. The projections of future operating results, which are based on both past performance and the projections and assumptions used in the Company s current and long range operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, improvement in gross margin and SG&A as a percentage of sales, capital expenditures, working capital levels, income tax rates, the benefits of recent acquisitions and expected synergies, and a weighted-average cost of capital that reflects the specific risk profile of the reporting unit being tested. Significant negative industry or economic trends, disruptions to the Company s business, loss of significant customers, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations.

In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the Company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill. The determination of implied fair value of goodwill would require management to compare the fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit; if necessary, the Company may consult valuation specialists to assist with the assessment of the estimated fair value of assets and liabilities for the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment would be recorded.

In performing the Company s annual goodwill impairment assessment, the Company performed a sensitivity analysis on the material assumptions used in the discounted cash flow valuation models for each of its reporting units. Based on the Company s fiscal 2012 goodwill impairment testing and assuming a hypothetical 10% decrease in the estimated fair values of each of its reporting units, the hypothetical fair value of each of the Company s reporting units would have been greater than the carrying value. The assumptions that are most sensitive to a decline in estimated fair value are sales growth rates, and improvement in gross margin and SG&A as a percentage of sales, particularly within the Company s Die-Cut Asia and Direct Marketing Americas reporting units.

During the quarter ended January 31, 2012, the Company recorded a goodwill impairment charge related to its former North/South Asia reporting unit within the Asia-Pacific operating segment. This impairment charge was recorded as a result of a triggering event related to a decline in profitability within the Asia Die-Cut platform. The Company s methodologies for valuing goodwill were applied consistently from the period in which the impairment charge was recorded to the annual goodwill impairment assessment. Refer to Note 1 within Item 8 for further discussion regarding the fiscal 2012 goodwill impairment charge.

The Company also evaluates the recoverability of its indefinite-lived intangible assets by utilizing a relief from royalty valuation methodology that estimates the fair value of the future discounted cash flows of each indefinite-lived intangible asset. The future projections, which are based on both past performance and the projections and assumptions used in the Company s current and long range operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the relief from royalty valuation methodology include estimates of future revenue streams based on expected growth and royalty rates, income tax rates, and a weighted-average cost of equity that reflects the specific risk profile of the indefinite-lived intangible asset tested. The Company s methodologies for valuing indefinite-lived intangible assets are applied consistently on a year-over-year basis, and are aligned with the methodologies and assumptions applied to the annual goodwill impairment assessment. The Company continues to believe that the relief from royalty valuation methodology provides the most reasonable and meaningful fair value estimate based upon the indefinite-lived intangible assets projected future revenue streams and replicates how market participants would value the Company s indefinite-lived intangible assets in an orderly transaction.

The Company completed its annual impairment testing of goodwill and other indefinite-lived intangibles assets in the fourth quarter of fiscal 2012. Although the Company consistently uses the same methods in developing the assumptions and estimates underlying the fair value calculations, such estimates are uncertain in nature and can vary from actual results.

Reserves and Allowances

The Company has recorded reserves or allowances for inventory obsolescence, uncollectible accounts receivable, and credit memos. These accounts require the use of estimates and judgment. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The Company believes that such estimates are made with consistent and appropriate methods. Actual results may differ from these estimates under different assumptions or conditions.

New Accounting Standards

The information required by this Item is provided in Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

Table of Contents

Forward-Looking Statements

In this annual report on Form 10-K, statements that are not reported financial results or other historic information are 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 termin 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;
- 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
- 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 this 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.

Risk Factors

Refer to the information contained in Item 1A Risk Factors.

Table of Contents

Item 7A. ***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 of the Company s foreign 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, Japanese Yen, Swiss Franc, Malaysian Ringgit, and Singapore Dollar. As of July 31, 2012, the notional amount of outstanding forward contracts designated as cash flow hedges was $61.2 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 fiscal 2012 sales by 1.0% as compared to fiscal 2011 as the U.S. dollar appreciated, on average, against other major currencies throughout the year. The most significant impact on sales due to currency fluctuations occurred during the fourth quarter ended July 31, 2012, as sales declined by 5.0% as compared to the same quarter of the prior year. This decline was primarily driven by the appreciation of the U.S. dollar against the Euro.

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. Such activities require approval of the Board of Directors. As of July 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. 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 adjustment recorded in fiscal 2012 and 2011 as a separate component of stockholders investment was $55.3 million unfavorable and $63.0 million favorable, respectively. As of July 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 $384.2 million and $427.7 million, respectively. The potential decrease in the net current assets as of July 31, 2012 from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately $38.4 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.

Table of Contents

Item 8. ***Financial Statements and Supplementary Data***

BRADY CORPORATION & SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Brady Corporation

Milwaukee, WI

We have audited the accompanying consolidated balance sheets of Brady Corporation and subsidiaries (the Company) as of July 31, 2012 and 2011, and the related consolidated statements of income, stockholders investment, and cash flows for each of the three years in the period ended July 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brady Corporation and subsidiaries at July 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of July 31, 2012 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 27, 2012, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, WI

September 27, 2012

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

July 31, 2012 and 2011

	2012	2011
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 305,900	$ 389,971
Accounts receivable net	199,006	228,483
Inventories:		
Finished products	64,740	62,152
Work-in-process	15,377	14,550
Raw materials and supplies	25,407	27,484
Total inventories	105,524	104,186
Prepaid expenses and other current assets	40,424	35,647
Total current assets	650,854	758,287
Other assets:		
Goodwill	676,791	800,343
Other intangibles assets	84,119	89,961
Deferred income taxes	45,356	53,755
Other	20,584	19,244
Property, plant and equipment:		
Cost:		
Land	8,651	6,406
Buildings and improvements	101,962	104,644
Machinery and equipment	292,130	305,557
Construction in progress	10,417	11,226
	413,160	427,833
Less accumulated depreciation	283,145	287,918
Property, plant and equipment net	130,015	139,915
Total	$ 1,607,719	$ 1,861,505
LIABILITIES AND STOCKHOLDERS INVESTMENT		
Current liabilities:		
Accounts payable	$ 86,646	$ 98,847
Wages and amounts withheld from employees	54,629	69,798
Taxes, other than income taxes	9,307	7,612
Accrued income taxes	14,357	9,954
Other current liabilities	40,815	54,406
Current maturities on long-term obligations	61,264	61,264
Total current liabilities	267,018	301,881
Long-term obligations, less current maturities	254,944	331,914
Other liabilities	76,404	71,518

Total liabilities	598,366	705,313
Commitments and contingencies (See Note 9)		
Stockholders investment:		
Common stock:		
Class A Nonvoting Issued 51,261,487 and 51,261,487 shares, respectively; (aggregate liquidation preference of $42,803 and $42,803 at July 31, 2012 and 2011, respectively)	513	513
Class B Voting Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	313,008	307,527
Earnings retained in the business	732,290	789,100
Treasury stock 3,245,561 and 1,667,235 shares, respectively of Class A nonvoting common stock, at cost	(92,600)	(50,017)
Accumulated other comprehensive income	59,411	113,898
Other	(3,304)	(4,864)
Total stockholders investment	1,009,353	1,156,192
Total	$ 1,607,719	$ 1,861,505

See notes to consolidated financial statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended July 31, 2012, 2011 and 2010

	2012	2011	2010
	(In thousands, except per share amounts)		
Net sales	$ 1,324,269	$ 1,339,597	$ 1,259,096
Cost of products sold	687,963	683,401	635,799
Gross margin	636,306	656,196	623,297
Operating expenses:			
Research and development	38,440	43,001	42,621
Selling, general and administrative	430,310	441,815	435,906
Restructuring charges	12,110	9,188	15,314
Impairment charge	115,688		
Total operating expenses	596,548	494,004	493,841
Operating income	39,758	162,192	129,456
Other income (expense):			
Investment and other income net	2,082	3,990	1,168
Interest expense	(19,090)	(22,124)	(21,222)
Net other expense	(17,008)	(18,134)	(20,054)
Income before income taxes	22,750	144,058	109,402
Income taxes	40,661	35,406	27,446
Net (loss) income	$ (17,911)	$ 108,652	$ 81,956
Net (loss) income per common share:			
Class A Nonvoting:			
Basic	$ (0.35)	$ 2.06	$ 1.56
Diluted	$ (0.35)	$ 2.04	$ 1.55
Dividends	$ 0.74	$ 0.72	$ 0.70
Class B Voting:			
Basic	$ (0.36)	$ 2.04	$ 1.55
Diluted	$ (0.36)	$ 2.03	$ 1.53
Dividends	$ 0.72	$ 0.70	$ 0.68
Weighted average Class A and Class B common shares outstanding			
Basic	52,453	52,639	52,402
Diluted	52,453	53,133	52,946

See notes to consolidated financial statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS INVESTMENT

Years Ended July 31, 2012, 2011 and 2010

	Common Stock	Additional Paid-In Capital	Earnings Retained in the Business	Treasury Stock	Accumulated Other Comprehensive Income	Other	Total Comprehensive Income
	(In thousands, except per share amounts)						
Balances at July 31, 2009	$ 548	$ 298,466	$ 673,342	$ (69,823)	$ 53,051	$ (4,492)	
Net income			81,956				$ 81,956
Net currency translation adjustment and other (Note 1)					(2,146)		(2,146)
Total comprehensive income							$ 79,810
Issuance of 215,447 shares of Class A Common Stock under stock option plan		(2,788)		6,505			
Other (Note 6)		(2,512)		(459)		1,663	
Tax benefit from exercise of stock options and deferred compensation distributions		1,318					
Stock-based compensation expense (Note 1)		9,721					
Purchase of 102,067 shares of Class A Common Stock				(2,537)			
Cash dividends on Common Stock							
Class A $0.70 per share			(34,368)				
Class B $0.68 per share			(2,418)				
Balances at July 31, 2010	$ 548	$ 304,205	$ 718,512	$ (66,314)	$ 50,905	$ (2,829)	
Net income			108,652				$ 108,652
Net currency translation adjustment and other (Note 1)					62,993		62,993
Total comprehensive income							$ 171,645
Issuance of 524,144 shares of Class A Common Stock under stock option plan		(5,684)		13,877			
Other (Note 6)		(1,964)		2,420		(2,035)	
Tax benefit from exercise of stock options and deferred compensation distributions		1,140					
Stock-based compensation expense (Note 1)		9,830					
Cash dividends on Common Stock							
Class A $0.72 per share			(35,575)				
Class B $0.70 per share			(2,489)				
Balances at July 31, 2011	$ 548	$ 307,527	$ 789,100	$ (50,017)	$ 113,898	$ (4,864)	
Net (loss) income			(17,911)				$ (17,911)
Net currency translation adjustment and other (Note 1)					(54,487)		(54,487)
Total comprehensive income							$ (72,398)
Issuance of 265,491 shares of Class A Common Stock under stock option plan		(3,516)		7,380			
Other (Note 6)		(1,637)		(30)		1,560	

Tax benefit from exercise of stock options and deferred compensation distributions		1,167				
Stock-based compensation expense (Note 1)		9,467				
Purchase of 1,869,193 shares of Class A Common Stock				(49,933)		
Cash dividends on Common Stock						
Class A $0.74 per share			(36,340)			
Class B $0.72 per share			(2,559)			
Balances at July 31, 2012	$ 548	$ 313,008	$ 732,290	$ (92,600)	$ 59,411	$ (3,304)

See notes to consolidated financial statements.

Table of Contents

BRADY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended July 31, 2012, 2011 and 2010

	2012	2011	2010
	(Dollars in thousands)		
Operating activities:			