BRADY CORP
Form 10-Q
June 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended April 30, 2003

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _________to________
Commission File Number 1-14959

BRADY CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN	39-0178960
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6555 WEST GOOD HOPE ROAD, MILWAUKEE, WISCONSIN 53223

(Address of principal executive offices)
(Zip Code)

(414) 358-6600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 20, 2003, there were outstanding 21,432,334 shares of Class A Common Stock and 1,769,314 shares of Class B Common Stock. The Class B Common Stock, all of which is held by an affiliate of the Registrant, is the only voting stock.

FORM 10-Q

BRADY CORPORATION

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

	(APRIL 30, 200
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 68,631
Accounts receivable, less allowance for losses ($3,574 and $3,206,	85,098

respectively)	
Inventories	37,685
Prepaid expenses and other current assets	19,965
TOTAL CURRENT ASSETS	211,379
OTHER ASSETS:	
Goodwill - net	128,655
Other	26,292
	154,947
PROPERTY, PLANT AND EQUIPMENT:	
Cost:	
Land	5,155
Buildings and improvements	50,409
Machinery and equipment	138,159
Construction in progress	3,865
	197,588
Less accumulated depreciation	116,554
NET PROPERTY, PLANT AND EQUIPMENT	81,034
TOTAL	$ 447,360
LIABILITIES AND STOCKHOLDERS' INVESTMENT	
CURRENT LIABILITIES:	
Accounts payable	$ 27,198
Wages and amounts withheld from employees	29,120
Taxes, other than income taxes	2,614
Accrued income taxes	10,890
Other current liabilities	19,961
Short-term borrowings and current maturities on long-term debt	39
TOTAL CURRENT LIABILITIES	89,822
LONG-TERM DEBT, LESS CURRENT MATURITIES	845
OTHER LIABILITIES	18,554
TOTAL LIABILITIES	109,221
STOCKHOLDERS' INVESTMENT:	
Preferred stock	-
Class A nonvoting common stock - Issued and outstanding 21,426,467 and 21,356,605 shares, respectively	214
Class B voting common stock - Issued and outstanding 1,769,314 shares	18
Treasury stock - 18,262 and 4,548 class A common shares, at cost	(509)
Additional paid-in capital	43,566
Income retained in the business	293,562
Cumulative other comprehensive income (loss)	1,350
Other	(62)
TOTAL STOCKHOLDERS' INVESTMENT	338,139
TOTAL	$ 447,360

See Notes to Condensed Consolidated Financial Statements

BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND INCOME RETAINED IN THE BUSINESS
(Dollars in Thousands, Except Per Share Amounts)

(Unaud

	Three Months Ended April 30, 2003	2002
Net sales	$ 141,955	$ 130,533
Operating expenses:		
Cost of products sold	68,826	63,516
Research and development	5,165	4,520
Selling, general and administrative	55,890	49,781
Total operating expenses	129,881	117,817
Operating income	12,074	12,716
Other income and (expense):		
Investment and other income - net	977	238
Interest expense	(22)	(15)
Income before income taxes	13,029	12,939
Income taxes	4,432	4,464
Net income	8,597	8,475
Income retained in business at beginning of period	289,508	282,329
Less dividends:		
Redemption premium on preferred stock	-	-
Preferred stock	-	(65)
Common stock	(4,543)	(4,270)
Income retained in business at end of period	$ 293,562	$ 286,469
Net income per class A nonvoting common share		
Basic	$ 0.37	$ 0.36
Diluted	$ 0.37	$ 0.36
Net income per class B voting common share		

Basic	$ 0.37	$ 0.36
Diluted	$ 0.37	$ 0.36

See Notes to Condensed Consolidated Financial Statements

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

Operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
  Depreciation and amortization
  Loss on sale of property, plant & equipment
  Provision for losses on accounts receivable
  Amortization of restricted stock
  Changes in operating assets and liabilities (net of effects of business acquisitions):
    Accounts receivable
    Inventory
    Prepaid expenses and other assets
    Accounts payable, accrued expenses and other liabilities
    Income taxes

Net cash provided by operating activities

Investing activities:
  Purchase of business
  Termination of capital lease
  Purchases of property, plant and equipment
  Proceeds from sale of property, plant and equipment
  Other investments

Net cash used in investing activities

Financing activities:
  Payment of dividends
  Proceeds from issuance of class A common stock
  Principal payments on debt
  Redemption of preferred stock
  Purchase of treasury stock

Net cash used in financing activities

Effect of exchange rate changes on cash

Net (decrease) increase in cash and cash equivalents
Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

Supplemental disclosures:
Cash paid during the period for:
  Interest
  Income taxes, net of refunds
Acquisitions:
  Fair value of asset acquired, net of cash
  Liabilities assumed
  Goodwill

Net cash paid for acquisitions

Termination of capital lease
  Disposition of capital assets
  Settlement of capital lease liability

Net cash paid for termination of capital lease

See Notes to Condensed Consolidated Financial Statements

BRADY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended April 30, 2003
(Unaudited)

NOTE A - Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position of the Company as of April 30, 2003 and July 31, 2002, its results of operations for the three months and nine months ended April 30, 2003 and 2002, and its cash flows for the nine months ended April 30, 2003 and 2002. The condensed consolidated balance sheet at July 31, 2002 has been derived from the audited consolidated financial statements of that date and condensed. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended July 31, 2002.

It is not practical to segregate the amounts of raw material, work in process or finished goods at the respective balance sheet dates.

NOTE B - New Pronouncements

In July 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached final consensus on EITF Issue No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement, and income statement classification for sales incentives offered to customers. Sales incentives include discounts, coupons, and generally any other offers that entitle a customer to receive a reduction in the price of a product by submitting a claim for a refund or rebate. Under EITF Issue No. 00-14, the reduction in or refund of the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. In July 2001, the EITF reached final consensus on EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" (EITF Issue No. 00-25). EITF Issue No. 00-25 generally requires that consideration, including equity instruments, given to a customer be classified in a vendor's financial statements not as an expense, but as an offset to revenue up to the amount of cumulative revenue recognized or to be recognized. In November 2001, the EITF reached consensus on EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products" (EITF Issue No. 01-09). EITF Issue No. 01-09 clarifies and modifies certain items discussed in EITF Issue No. 00-14 and EITF Issue No. 00-25. The Company adopted these new standards in the quarter ended April 30, 2002. The implementation of EITF Issue No. 00-14, EITF Issue No. 00-25, EITF Issue No. 01-09, and the accompanying interpretive guidance did not have an impact on the Company's financial position, results of operations, or cash flows.

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In August 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses the accounting for and the reporting of the impairment or disposal of long-lived assets and was effective for the Company on August 1, 2002. This pronouncement did not have a material effect on the Company's financial results.

NOTE C - Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended April 30, 2003, are as follows:

	Identification Solutions & Specialty Tapes	Graphics & Workplace Solutions	Total
Balance as of July 31, 2002	$ 59,884,000	$ 48,169,000	$108,053,000
Goodwill acquired (including adjustments)	4,074,000	11,685,000	15,759,000
Translation adjustments	2,391,000	2,452,000	4,843,000
Balance as of April 30, 2003	$ 66,349,000	$ 62,306,000	$128,655,000

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Goodwill increased by $20,602,000 during the nine months ended April 30, 2003, including an increase of $4,843,000 attributable to the effects of foreign currency translation. The acquisitions of TISCOR Inc., Cleere Advantage Ltd. and Etimark GmbH resulted in $8,057,000, $1,492,000 and $3,654,000 of additional goodwill, respectively. An additional payment of $2,000,000 related to the fiscal 2002 Temtec, Inc. acquisition was earned and paid during the period, resulting in additional goodwill of $2,000,000. Lastly, a holdback payment and a purchase accounting adjustment related to the fiscal 2002 acquisitions of Strandware and Temtec, Inc., respectively, resulted in additional goodwill of $556,000.

Other long-term assets include patents, trademarks, non-compete agreements and other intangibles with finite lives being amortized in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The net book value of these assets was $9,335,000 and $3,918,000 at April 30, 2003 and July 31, 2002, respectively. At April 30, 2003, this amount consisted of $2,852,000 related to patents and trademarks, $3,599,000 related to customer relationships, $1,960,000 related to software and $924,000 related to non-compete agreements. The amounts related to customer relationships and software were acquired with the TISCOR, Inc. and Cleere Advantage Ltd. acquisitions during the nine months ended April 30, 2003. The TISCOR, Inc. purchase accounting was finalized during the three months ended April 30, 2003. The purchase accounting related to the Cleere Advantage Ltd. and Etimark GmbH acquisitions is subject to change based on completion of the final valuation of the assets purchased. Amortization expense related to intangible assets was not material for the three and nine-month periods ended April 30, 2003. The intangible assets have finite estimated lives over which the value is amortized ranging from one to ten years.

NOTE D - Comprehensive Income

Total comprehensive income, which was comprised of net income, foreign currency adjustments and net unrealized gains and losses from cash flow hedges, amounted to approximately $11,445,000 and $9,938,000 for the three months ended April 30, 2003 and 2002, respectively, and $28,628,000 and $23,080,000 for the nine months ended April 30, 2003 and 2002, respectively.

NOTE E - Net Income Per Common Share

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

	Fiscal 2003		
(Dollars in thousands, except per share amounts)	3rd Quarter	Nine-months	3rd Q
Numerator:			
Net income	$ 8,597	$ 19,613	$
Less: Preferred stock dividends and premium on redemption of preferred stock	-	(171)	
Numerator for basic and diluted			

Class A net income per share	8,597	19,442	
Less: Preferential dividends	-	(711)	
Less: Preferential dividends on dilutive stock options	-	(7)	
Numerator for basic and diluted Class B net income per share	$ 8,597	$ 18,724	$
Denominator:			
Denominator for basic net income per share for both Class A and Class B	23,183	23,151	2
Plus: Effect of dilutive stock options	152	192	
Denominator for diluted net income per share for both Class A and Class B	23,335	23,343	2
Class A common stock net income per share:			
Basic	$ 0.37	$ 0.84	$
Diluted	$ 0.37	$ 0.83	$
Class B common stock net income per share:			
Basic	$ 0.37	$ 0.81	$
Diluted	$ 0.37	$ 0.80	$

Options to purchase 1,108,000 shares of class A common stock were not included in the computation of diluted net income per share for the three months ended April 30, 2003, because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

Options to purchase 799,000 shares of class A common stock were not included in the computation of diluted net income per share for the nine months ended April 30, 2003 because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

NOTE F - Acquisitions

In April 2003, the Company acquired Etimark GmbH, located in Bad Nauheim, Germany, a leading provider of complete barcode solutions including labels, printers, applicators and software for the German Market. In February 2003, the Company acquired Cleere Advantage Ltd., a small printing system distributor, located in the United Kingdom. The combined purchase price for the two acquisitions was approximately $5,100,000 in cash and $2,100,000 in notes payable. Preliminary allocation of the purchase price of these acquisitions has been made based on the carrying values recorded by the acquired entities. The purchase price allocation is preliminary and pending the outcome of valuations of the acquired entities, which are in progress. Approximately $5,100,000 was assigned to goodwill in the preliminary allocation of the purchase price.

In January 2003, the Company acquired TISCOR, Inc., located in Poway, California, an innovator in mobile workforce automation solutions, and an industry leader in designing hand-held-computer software for technicians performing site and equipment inspections. The purchase price was approximately

$13,500,000 in cash. The agreement includes provisions for contingent payments up to a maximum of $3,000,000 based on the earnings of the acquired entity in calendar years ending December 31, 2003 and 2004. The results of its operations have been included since the respective date of acquisition in the accompanying condensed consolidated financial statements. The allocation of the purchase price resulted in the allocation to intangible assets as follows: $8,057,000 to goodwill, $2,900,000 to customer relationships and $2,100,000 to software. The pro-forma results assuming the acquisitions had been consummated as of the beginning of the periods presented are not significant.

NOTE G - Restructuring

During the fourth quarters of fiscal 2002 and 2001, the Company recorded nonrecurring charges of $3,030,000 and $9,560,000, respectively, related primarily to facilities consolidations and workforce reductions. Reconciliations of activity with respect to the Company's restructuring actions are as follows:

	Fiscal 2002 Restructuring	Fiscal 2001 Restructuring
Ending reserve balance, July 31, 2002	$ 2,239,000	$ 1,748,000
Fiscal 2003 first quarter activity:		
Cash payments associated with severance, leases and other	(542,000)	(394,000)
Fiscal 2003 second quarter activity:		
Cash payments associated with severance, leases and other	(319,000)	(551,000)
Non-cash asset write-offs	(59,000)	-
Fiscal 2003 third quarter activity:		
Cash payments associated with severance, leases and other	(170,000)	(199,000)
Non-cash asset write-offs	-	(40,000)
Ending reserve balance, April 30, 2003	$ 1,149,000	$ 564,000

NOTE H - Preferred Stock Redemption

On August 1, 2002, all Cumulative Preferred Stock was redeemed at a 6% premium for approximately $3 million. Each share of $100 par value Cumulative Preferred Stock was entitled to receive cumulative cash dividends and could be redeemed, under certain circumstances, by the Company at par value plus accrued dividends plus a premium of 6% of the par value. Such shares, which were held by the initial holder thereof, were subject to redemption only if the holder consented thereto.

NOTE I - Segment Information

The Company's reportable segments are business units that are each managed separately because they manufacture and/or distribute distinct products to differentiated markets. The Company has two reportable segments: the Identification Solutions & Specialty Tapes Group and the Graphics and Workplace Solutions Group. In April 2003, the Company announced a new regional based management structure. The Company continues to internally evaluate its fiscal 2003 results under the historical group structure. As a result, the Company will begin to report segment information by Americas, Europe and Asia in fiscal 2004, when they are fully operational.

Following is a summary of segment information for the three months ended April 30, 2003 and 2002:

(Dollars in Thousands)	Identification Solutions & Specialty Tapes	Graphics & Workplace Solutions	Corporate and Eliminations	Totals
Three months ended April 30, 2003:				
Revenues from external customers	$ 55,872	$ 86,083	-	$141,955
Intersegment revenues	71	337	($ 408)	-
Profit (loss)	6,895	20,802	(847)	26,850
Three months ended April 30, 2002:				
Revenues from external customers	$ 54,658	$ 75,875	-	$130,533
Intersegment revenues	58	225	($ 283)	-
Profit (loss)	6,987	20,019	(549)	26,457

Following is a summary of segment information for the nine months ended April 30, 2003 and 2002:

(Dollars in Thousands)	Identification Solutions & Specialty Tapes	Graphics & Workplace Solutions	Corporate and Eliminations	Totals
Nine months ended April 30, 2003:				
Revenues from external customers	$170,110	$240,072	-	$410,182
Intersegment revenues	315	676	($ 991)	-
Profit (loss)	22,429	53,202	(2,503)	73,128
Nine months ended April 30, 2002:				
Revenues from external customers	$165,452	$215,671	-	$381,123
Intersegment revenues	386	1,388	($ 1,774)	-
Profit (loss)	22,142	54,129	(1,643)	74,628

Following is a reconciliation of profit for the three and nine months ended April 30, 2003 and 2002:

	Fiscal 2003		Fiscal 2002	
(Dollars in Thousands)	3rd Quarter	Nine-months	3rd Quarter	Nine-months
Total profit from reportable segments	$ 27,697	$ 75,631	$ 27,006	$ 76,271
Corporate and eliminations	(847)	(2,503)	(549)	(1,643)

Unallocated amounts:				
Administrative costs	(14,055)	(41,682)	(13,342)	(39,105)
Interest-net	148	528	111	505
Foreign exchange	806	194	111	285
Other	(720)	(2,448)	(398)	(1,751)
Income before income taxes	$ 13,029	$ 29,720	$ 12,939	$ 34,562

NOTE J - Pro Forma Stock-Based Compensation

The Company has stock-based compensation plans under which stock options are granted to various officers, directors and other employees of the Company with exercise prices equal to the fair market value at the date of grant. Stock options were issued during the nine months ended April 30, 2003 under stock-based compensation plans previously approved by shareholders. Generally, these options are not exercisable until one-year after the grant date, and will be exercisable thereafter, to the extent of one-third per year, and have a maximum term of ten years.

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its employee stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," which recognizes expense based on the intrinsic value at date of grant. As stock options have been issued with exercise prices equal to grant date fair value, no compensation cost has resulted. Had compensation cost for all options granted been determined based on the fair value at grant date consistent with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

	Three Months Ended April 30		Nine Months Ended April 30	
(In thousands, except per share amounts)	2003	2002	2003	2002
Net earnings				
As reported	$ 8,597	$ 8,475	$ 19,613	$ 22,60
Pro forma expense	525	510	1,497	1,52
Pro forma	8,072	7,965	18,116	21,07
Net earnings per class A common share				
Basic				
As reported	$ 0.37	$ 0.36	$ 0.84	$ 0.9
Pro forma adjustments	(0.02)	(0.02)	(0.06)	(0.0
Pro forma	0.35	0.34	0.78	0.9
Diluted				
As reported	0.37	0.36	0.83	0.9
Pro forma adjustments	(0.02)	(0.02)	(0.06)	(0.0
Pro forma	0.35	0.34	0.77	0.9

The assumptions used to calculate the fair value of new options granted are evaluated and revised, as necessary, to reflect market conditions and experience.

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

Results of Operations

For the three months ended April 30, 2003, sales of $141,955,000 were 8.8% higher than the same quarter of the previous year. For the nine months ended April 30, 2003, sales of $410,182,000 were 7.6% higher than the same period last year. Sales of the Company's international operations increased 18.7% for the quarter and 14.6% for the nine-month period ended April 30, 2003. This increase was aided by the positive effect of fluctuations in the exchange rates used to translate financial results into United States currency, which increased international sales by 14.0% in the quarter and 9.6% for the nine-month period ended April 30, 2003. The acquisition of Cleere Advantage Ltd. increased international sales by 0.7% for the quarter. The acquisition of Cleere Advantage Ltd. combined with the acquisition of Safety Signs Service increased international sales by 0.6% for the nine-month period. Sales of the Company's United States operations decreased 0.5% in the quarter and increased 1.2% for the nine-month period ended April 30, 2003. The acquisitions of Temtec, Inc. and TISCOR Inc. increased U.S. sales by 4.4% for the quarter and 3.8% for the nine-month period. U.S. base sales declined 4.9% for the three-month period and 2.6% for the nine-month period ended April 30, 2003. The decrease in the three-month period was due to the continued shift of business away from the United States within the Identification Solutions and Specialty Tapes Group and sales declines when compared to the same period of the prior year, which included higher sales related to the introduction of the ID Pal Identification Product. In addition, the decrease in U.S. base sales for the nine-month period was due to a business disruption caused by the process of converting the North American direct marketing operations to SAP.

The cost of products sold as a percentage of sales decreased from 48.7% to 48.5% for the quarter and increased from 49.2% to 49.5% for the nine-month period ended April 30, 2003 compared to the same periods of the previous year. The decrease for the quarter was due to the growth in the higher margin Graphics & Workplace Solutions Group outpacing growth in the Identification Solutions and Specialty Tapes Group. The increase for the nine-month period was due primarily to the conversion of our North American direct marketing operations to SAP in December 2002, which caused depressed sales levels in that business. Selling, general and administrative (SG&A) expenses as a percentage of sales increased to 39.4% for the quarter compared to 38.1% for the same quarter of the prior year. The increase, as a percentage of sales, was due to higher administrative expenses associated with acquired businesses and increased spending in our European direct marketing operation. For the nine months ended April 30, 2003, this percentage was 40.0% compared to 38.5% for the same period last year. The increase for the nine-month period, as a percentage of sales, was due to higher administrative expenses associated with acquired businesses, increased catalog expansion programs in our European direct marketing operation, temporary expenses related to a North American SAP implementation in the direct marketing operations and general cost increases including pay and benefit cost increases throughout the organization.

Research and development expenditures increased 14.3% for the quarter and 5.1% for the nine months ended April 30, 2003 over the same periods last year. As a percentage of sales, research and development expenses increased from 3.5% to 3.6% for the quarter and were flat at 3.4% for the nine-month period, compared to the prior year.

Operating income was $12,074,000 for the quarter and $28,997,000 for the nine-month period ended April 30, 2003, compared to $12,716,000 and 33,770,000 for the same periods last year because of the factors cited above.

Investment and other income increased $739,000 for the quarter and decreased $38,000 for the nine-month period ended April 30, 2003, compared to the same periods last year due to the net effect of foreign exchange, primarily on intercompany transactions.

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Income before income taxes increased 0.7% for the quarter and decreased 14.0% for the nine-month period ended April 30, 2003, compared to the same periods last year. The Company's effective tax rate was 34.0% for the quarter and for the nine-month period ended April 30, 2003, compared to 34.5% for the quarter and 34.6% for the nine months ended April 30, 2002.

Net income for the three months ended April 30, 2003 increased 1.4% to $8,597,000 compared to $8,475,000 for the same quarter of the previous year. For the nine months ended April 30, 2003, net income decreased 13.2% to $19,613,000 from $22,608,000 for the same period last year. On a class A common share basis, diluted net income for the three months ended April 30, 2003, was $0.37 compared to $0.36 per share for the same quarter of the previous year. For the nine months ended April 30, 2003, class A common share diluted net income was $0.83 compared to $0.96 for the same period last year.

In May 2003, the company announced that it plans to consolidate certain facilities around the world and combine sales and marketing efforts throughout North America and Europe. These efforts will result in a global workforce reduction of about 10%. As a result, the Company expects to incur costs related to this restructuring of $10 to $13 million pretax ($6.6 to $8.6 million after tax), with $7 to $10 million pretax ($4.6 to $6.6 million after tax) occuring in the fourth quarter of fiscal 2003 and the remainder in fiscal 2004. For the current fiscal year, management expects sales to be in the range of $550 to $560 million and earnings to be in the range of $0.90 to $1.00 per diluted class A common share, including the restructuring charges of $0.20 to $0.28 per share. The Company expects sales for the next fiscal year, ending July 31, 2004 of $575 to $610 million and earnings of $1.50 to $1.65 per diluted class A common share, including any charges associated with the restructuring discussed above.

Business Segment Operating Results

Identification Solutions & Specialty Tapes (ISST) Group:

ISST sales increased 2.2% for the three months ended April 30, 2003 and 2.8% for the nine-month period then ended, compared to the same periods last year. Base sales in local currency decreased 3.3% for the three-month period ended April 30, 2003 and 1.1% for the nine-month period then ended. The decrease in base sales was offset by the positive effect of fluctuations in the exchange rates used to translate financial results into United States dollar, which increased sales within the group by 5.5% and 3.6% for the three-month and nine-month periods, respectively. Acquisitions increased sales over the prior year 0.3% for the nine-month period.

North American base sales declined by 8.9% and 4.0% for the three and nine-month periods ended April 30, 2003, respectively. Approximately half of the base sales decline, for the three-month period, was due to higher sales in the prior year resulting from the initial stocking packages for the introduction of the ID Pal identification product. The remaining sales decline was in the electronics, industrial and telecommunications markets, in which production continued to move outside of the United States.

In Asia, base sales increased 5.0% in local currencies, for the three month period ended April 30, 2003 due to increased sales in China and Malaysia, which was partially offset by lower sales in the disk drive market and reductions in the scale of our Korean operations. Base sales decreased 4.5%, in local currencies, for the nine-month period due to a decline in sales to the disk drive market over the same period last year and reductions in the scale of our Korean operations. This decline for the nine-month period was partially offset by strong growth in China and Malaysia.

In local currencies, base sales in Europe decreased 0.2% for the three-month period and increased 3.9% for the nine-month period. The base decrease for the three-month period was due to a weakening economy in Europe. The base increase for the nine-month period, excluding acquisitions, was due to strong performance in the automotive and telecommunications industries. Foreign currency translation increased sales 22.0% for the three-month period and 15.6% for the nine-month period.

Latin American base sales in local currencies increased 39.0% for the three-month period and 35.5% for the nine-month period, while sales in United States dollars increased 2.1% for the three-month period and 2.0% for the nine-month period compared to the same periods last year.

Profit as a percentage of sales decreased from 12.8% to 12.3% for the three-month period ended April 30, 2003 and from 13.4% to 13.2% for the nine-month period compared to the same periods in the prior year. Both decreases were a result of slight declines in gross margin as a percentage of sales.

Graphics & Workplace Solutions Group:

Graphics & Workplace Solutions' sales increased 13.5% for the three-month period and 11.3% for the nine-month period ended April 30, 2003 compared to the same periods last year. Base sales in local currency increased 1.3% in the three-month period and 2.2% for the nine-month period. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into United States dollars, which increased sales within the group by 7.6% in the three-month period and 5.4% for the nine-month period. Sales were also aided by acquisitions, which increased sales 4.5% for the three-month period and 3.7% for the nine-month period, compared to the same periods in the prior year.

North American base sales decreased 0.5% in the three-month period and 0.9% in the nine-month period. For the three-month period, the base sales decline reflects a continued softening in the U.S. direct marketing end markets. In addition to the softening of the end markets in the U.S., base sales in the nine-month period declined due to temporary disruptions related to a SAP implementation in the direct marketing businesses in North America. The acquisitions of Temtec, Inc. and TISCOR Inc. added 6.9% to sales for the three-month period and 5.8% for the nine-month period.

Europe's base sales, in local currencies, increased 3.3% for the three-month period and 4.9% for the nine-month period. The base sales increase for both periods was due to growth in France and Italy, partially offset by slight decreases in Germany and Belgium. In addition to the base sales increase, the positive impact of foreign currency exchange increased sales by 18.7% and 13.8% in the three-month and nine-month periods, respectively, due to the strong Euro. The acquisition of Cleere Advantage Ltd. also increased the region's sales by 1.8% and 0.6% in the three-month and nine-month periods, respectively.

Asia Pacific base sales, in local currencies, increased 4.2% for the three-month period and 11.4% for the nine-month period. The base sales increase for both periods was due to growth in Australia, which was offset slightly by a decline in Japan due to the exit of the direct marketing business earlier this fiscal year. Sales in Asia Pacific were also aided by the acquisition of Safety Signs Service in Australia, which increased the region's sales in the nine-month period by 3.5%.

Latin America base sales, in local currencies, increased 12.3% for the three-month period and 27.5% for the nine-month period. This increase was more than offset by the negative effect of fluctuations in the exchange rates used to translate financial results into United States currency, which decreased sales by 30.4% in the quarter and 31.4% for the nine-month period.

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Profit as a percentage of sales decreased from 26.4% to 24.2% in the three-month period and from 25.1% to 22.2% for the nine-month period. The decrease in both periods was due to lower gross margins in the United States related to the SAP conversion in the North American direct marketing business and profit margins lower than historical base business for acquisitions, due to integration costs.

Financial Condition

The Company's liquidity remains strong. The current ratio as of April 30, 2003 was 2.4, down from the current ratio at July 31, 2002 of 2.8. Cash and cash equivalents were $68,631,000 at April 30, 2003, compared to $75,969,000 at July 31, 2002. The decrease was primarily due to funding the acquisitions of TISCOR Inc., Cleere Advantage Ltd., and Etimark GmbH, investments in property, plant, and equipment, payment of dividends and redemption of preferred stock, offset by strong operating cash flow. Working capital decreased $14,207,000 during the nine months ended April 30, 2003, to $121,557,000.

Cash flow from operations totaled $40,471,000 for the nine months ended April 30, 2003, compared to $41,090,000 for the same period last year. The decrease was the result of lower net income offset by changes in current operating assets and liabilities, in local currencies, compared to the same period of the prior year. Capital expenditures were $11,593,000 in the nine months ended April 30, 2003, compared to $9,513,000 in the same period last year. Cash used in financing activities was $15,127,000 for the nine-month period ended April 30, 2003, resulting primarily from payments of dividends to the Company's stockholders and redemption of preferred stock, offset by proceeds from issuance of common stock associated with employee stock options. Cash flows used in financing activities for the same period last year were $10,641,000 related to payment of dividends and debt payments, offset by proceeds from issuance of common stock associated with employee stock options.

Long-term debt as a percentage of long-term debt plus stockholders' investment was 0.2% and 1.1% at April 30, 2003 and July 31, 2002, respectively. In November 2002, the Company successfully exited a capital lease of a domestic facility. This capital lease represented approximately $3 million of the long-term debt balance at July 31, 2002.

In April 2003, the Company decreased the maximum commitment under its $200 million line of credit with a group of nine banks to $100 million, none of which was being utilized as of April 30, 2003. No borrowings were made under the line of credit during the nine months ended April 30, 2003. At April 30, 2003, approximately $75.3 million of the line of credit (based on certain financial ratios of the Company) was available to the Company. The Company is in compliance with the covenants of the line of credit agreement.

The Company continues to seek opportunities to invest in new products, new markets and strategic acquisitions and joint ventures, which fit its growth strategy. Management believes that its cash and cash equivalents, the cash flow it generates from operating activities and the available line of credit are adequate to meet the Company's current and anticipated investing and financing needs.

The strong liquidity of the Company and its continued strong cash flows enable the company to execute a long-term strategic plan. This strategic plan includes investments, which expand our current market share, open new markets and geographies, develop new products and distribution channels and continue to improve our processes. This strategic plan also includes executing key acquisitions and joint ventures. Even in uncertain economic times, the Company's strong liquidity allows it to continue with investments for the Company's future. Should the Company remain in an unleveraged position during expansionary times, the Company may experience a less rapid rate of growth compared to some of its competitors.

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. However, the following additional information is provided to assist financial statement users.

Operating Leases - These leases generally are entered into only for non-strategic investments (e.g., warehouses, office buildings, computer equipment) for which the economic profile is favorable.

Purchase Commitments - The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the ordinary conduct of business. Such commitments are not in excess of current market prices. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not believe a material amount of penalties will be incurred under these contracts based upon historical experience and current expectations.

Other Contractual Obligations - The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity.

Related Party Transactions - The Company does not have any related party transactions that materially affect the results of operations, cash flow or financial condition.

Forward-Looking Statements

Except for historical information, the Company's reports to the Securities and Exchange Commission on Form 10-K and Form 10-Q and periodic press releases, as well as other public documents and statements, may contain "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by words such as "intend," "anticipate," "assume," "believe," "estimate," "expect," "plan," "project," "will," and other expressions, which refer to future events and trends.

The ability of the Company to attain management's goals and objectives is materially dependent on numerous factors. These factors, which include economic conditions, currency fluctuations, cost of raw materials, reliance on suppliers, new products, acquisitions, intellectual property, environmental issues, political considerations and others, are more fully described in the Company's 2002 Form 10-K filed with the Securities and Exchange Commission. These factors, as well as the uncertain impact of the war with Iraq, other geo-political events and the SARS virus, could cause actual results to differ materially from those in the forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's business operations give rise to market risk exposure due to changes in foreign exchange rates. To manage that risk effectively, the Company enters into hedging transactions, according to established guidelines and policies, that enable it to mitigate the adverse effects of this financial market risk.

The global nature of the Company's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. Dollar. The primary objective of the Company's foreign-exchange risk management is to minimize the impact of currency movements on intercompany transactions and foreign raw-material imports. 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, Japanese Yen and Australian Dollar. The risk of these hedging instruments is not material.

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 consists of entering into approved interest rate derivatives when there is a desire to modify the Company's exposure to interest rates. As of April 30, 2003, the Company has not entered into any interest rate derivatives.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this Form 10-Q, Brady Corporation management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rules 13a-14 and 15d-14(c). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On February 20, 2003, the Company's Board of Directors announced the election of Frank M. Jaehnert as President and Chief Executive Officer, and Katherine M. Hudson as Chairman of the Board, both effective April 1, 2003. Mr. Jaehnert was also appointed to the Company's Board of Directors. Mr. Jaehnert previously served as Senior Vice President of the Company and President of the Company's Identification Solutions and Specialty Tapes Group. From 1996 to 2002 he served as the Company's Chief Financial Officer. From 1995 to 1996 he served as a Financial Director for the Company. Prior to joining the Company in 1995 he held various financial and management positions in both Germany and the United States for Robert Bosch GmbH, headquartered in Stuttgart, Germany. A native of Stuttgart, he holds the equivalent of a master of business administration degree from the University of Stuttgart, Germany. Mrs. Hudson has served as President and Chief Executive Officer of the Company since 1994.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.24 Change of Control Agreement dated May 20, 2003, between Brady Corporation and Frank M. Jaehnert

99.1 Written Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

A report on Form 8-K was filed on February 21, 2003, relating to the election of Frank M. Jaehnert as President and Chief Executive Officer, and Katherine M. Hudson as Chairman of the Board, both effective April 1, 2003.

A report on Form 8-K was furnished on February 21, 2003, relating to the announcement of the Company's fiscal 2003 second quarter results.

A report on Form 8-K was filed on April 15, 2003, relating to the appointment of David R. Hawke as Executive Vice President, and announced a new region-based organization structure.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIGNATURES

BRADY CORPORATION

Date: June 13, 2003 /s/ F. M. Jaehnert
F.M. Jaehnert
President & Chief Executive Officer

Date: June 13, 2003 /s/ D.W. Schroeder
D.W. Schroeder
Sr. Vice President & Chief Financial Officer
(Principal Accounting Officer)
(Principal Financial Officer)

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CERTIFICATIONS

I, Frank M. Jaehnert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brady Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ FRANK M. JAEHNERT

Frank M. Jaehnert
President and Chief Executive Officer

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I, David W. Schroeder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brady Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ DAVID W. SCHROEDER

David W. Schroeder
Senior Vice President and Chief Financial Officer

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