

BRADY CORP  
Form 10-Q  
December 06, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-Q**

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

**For the Quarterly Period Ended October 31, 2007**

**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 ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

As of December 1, 2007, there were outstanding 50,867,054 shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Voting Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**BRADY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(DOLLARS IN THOUSANDS)

|                                                                                    | <b>October 31,<br/>2007<br/>(Unaudited)</b> | <b>July 31, 2007</b> |
|------------------------------------------------------------------------------------|---------------------------------------------|----------------------|
| <b>ASSETS</b>                                                                      |                                             |                      |
| <b>Current assets:</b>                                                             |                                             |                      |
| Cash and cash equivalents                                                          | \$ 170,599                                  | \$ 142,846           |
| Short term investments                                                             | 16,490                                      | 19,200               |
| Accounts receivable, less allowance for losses (\$9,583 and \$9,109, respectively) | 256,558                                     | 239,569              |
| Inventories:                                                                       |                                             |                      |
| Finished products                                                                  | 78,793                                      | 80,486               |
| Work-in-process                                                                    | 22,710                                      | 21,309               |
| Raw materials and supplies                                                         | 39,853                                      | 37,983               |
| Total inventories                                                                  | 141,356                                     | 139,778              |
| Prepaid expenses and other current assets                                          | 44,289                                      | 42,020               |
| <b>Total current assets</b>                                                        | <b>629,292</b>                              | <b>583,413</b>       |
| <b>Other assets:</b>                                                               |                                             |                      |
| Goodwill                                                                           | 753,908                                     | 737,450              |
| Other intangible assets                                                            | 146,439                                     | 149,761              |
| Deferred income taxes                                                              | 30,379                                      | 32,508               |
| Other                                                                              | 23,156                                      | 21,111               |
| <b>Property, plant and equipment:</b>                                              |                                             |                      |
| Cost:                                                                              |                                             |                      |
| Land                                                                               | 6,388                                       | 6,332                |
| Buildings and improvements                                                         | 92,735                                      | 90,688               |
| Machinery and equipment                                                            | 254,703                                     | 248,356              |
| Construction in progress                                                           | 18,585                                      | 18,107               |
|                                                                                    | 372,411                                     | 363,483              |
| Less accumulated depreciation                                                      | 197,073                                     | 188,869              |
| <b>Net property, plant and equipment</b>                                           | <b>175,338</b>                              | <b>174,614</b>       |
| <b>Total</b>                                                                       | <b>\$ 1,758,512</b>                         | <b>\$ 1,698,857</b>  |

**LIABILITIES AND STOCKHOLDERS' INVESTMENT****Current liabilities:**

|                                                                       |    |        |    |        |
|-----------------------------------------------------------------------|----|--------|----|--------|
| Accounts payable                                                      | \$ | 97,171 | \$ | 91,596 |
| Wages and amounts withheld from employees                             |    | 55,073 |    | 73,622 |
| Taxes, other than income taxes                                        |    | 9,592  |    | 8,461  |
| Accrued income taxes                                                  |    | 18,513 |    | 24,677 |
| Other current liabilities                                             |    | 62,156 |    | 60,254 |
| Short-term borrowings and current maturities on long-term obligations |    | 21,440 |    | 21,444 |

|                                  |  |         |  |         |
|----------------------------------|--|---------|--|---------|
| <b>Total current liabilities</b> |  | 263,945 |  | 280,054 |
|----------------------------------|--|---------|--|---------|

|                                                       |  |         |  |         |
|-------------------------------------------------------|--|---------|--|---------|
| <b>Long-term obligations, less current maturities</b> |  | 478,573 |  | 478,575 |
|-------------------------------------------------------|--|---------|--|---------|

|                          |  |        |  |        |
|--------------------------|--|--------|--|--------|
| <b>Other liabilities</b> |  | 62,850 |  | 49,216 |
|--------------------------|--|--------|--|--------|

|                          |  |         |  |         |
|--------------------------|--|---------|--|---------|
| <b>Total liabilities</b> |  | 805,368 |  | 807,845 |
|--------------------------|--|---------|--|---------|

**Stockholders' investment:**

|                                                                                                      |  |         |  |         |
|------------------------------------------------------------------------------------------------------|--|---------|--|---------|
| Class A nonvoting common stock Issued and outstanding 50,847,654 and 50,586,524 shares, respectively |  | 508     |  | 506     |
| Class B voting common stock Issued and outstanding 3,538,628 shares                                  |  | 35      |  | 35      |
| Additional paid-in capital                                                                           |  | 276,304 |  | 266,203 |
| Earnings retained in the business                                                                    |  | 567,605 |  | 540,238 |
| Accumulated other comprehensive income                                                               |  | 108,050 |  | 83,376  |
| Other                                                                                                |  | 642     |  | 654     |

|                                       |  |         |  |         |
|---------------------------------------|--|---------|--|---------|
| <b>Total stockholders' investment</b> |  | 953,144 |  | 891,012 |
|---------------------------------------|--|---------|--|---------|

|              |    |           |    |           |
|--------------|----|-----------|----|-----------|
| <b>Total</b> | \$ | 1,758,512 | \$ | 1,698,857 |
|--------------|----|-----------|----|-----------|

See Notes to Condensed Consolidated Financial Statements

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

|                                                            | Three Months Ended October 31,<br>(Unaudited) |            | Percentage<br>Change |
|------------------------------------------------------------|-----------------------------------------------|------------|----------------------|
|                                                            | 2007                                          | 2006       |                      |
| Net sales                                                  | \$ 380,134                                    | \$ 332,259 | 14.4%                |
| Cost of products sold                                      | 192,467                                       | 168,131    | 14.5%                |
| Gross margin                                               | 187,667                                       | 164,128    | 14.3%                |
| Operating expenses:                                        |                                               |            |                      |
| Research and development                                   | 8,978                                         | 8,532      | 5.2%                 |
| Selling, general and administrative                        | 120,351                                       | 103,655    | 16.1%                |
| Total operating expenses                                   | 129,329                                       | 112,187    | 15.3%                |
| Operating income                                           | 58,338                                        | 51,941     | 12.3%                |
| Other income (expense):                                    |                                               |            |                      |
| Investment and other income    net                         | 118                                           | 638        | -81.5%               |
| Interest expense                                           | (6,720)                                       | (4,735)    | 41.9%                |
| Income before income taxes                                 | 51,736                                        | 47,844     | 8.1%                 |
| Income taxes                                               | 15,366                                        | 13,396     | 14.7%                |
| Net income                                                 | \$ 36,370                                     | \$ 34,448  | 5.6%                 |
| Per Class A Nonvoting Common Share:                        |                                               |            |                      |
| Basic net income                                           | \$ 0.67                                       | \$ 0.64    | 4.7%                 |
| Diluted net income                                         | \$ 0.66                                       | \$ 0.63    | 4.8%                 |
| Dividends                                                  | \$ 0.15                                       | \$ 0.14    | 7.1%                 |
| Per Class B Voting Common Share:                           |                                               |            |                      |
| Basic net income                                           | \$ 0.65                                       | \$ 0.63    | 3.2%                 |
| Diluted net income                                         | \$ 0.64                                       | \$ 0.62    | 3.2%                 |
| Dividends                                                  | \$ 0.13                                       | \$ 0.12    | 8.3%                 |
| Weighted average common shares outstanding (in thousands): |                                               |            |                      |
| Basic                                                      | 54,350                                        | 53,734     |                      |
| Diluted                                                    | 55,121                                        | 54,605     |                      |

See Notes to Condensed Consolidated Financial Statements.



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

|                                                                                               | Three Months Ended<br>October 31,<br>(Unaudited) |           |
|-----------------------------------------------------------------------------------------------|--------------------------------------------------|-----------|
|                                                                                               | 2007                                             | 2006      |
| Operating activities:                                                                         |                                                  |           |
| Net income                                                                                    | \$ 36,370                                        | \$ 34,448 |
| Adjustments to reconcile net income to net cash provided by operating activities:             |                                                  |           |
| Depreciation and amortization                                                                 | 14,168                                           | 12,927    |
| Deferred income taxes                                                                         | (666)                                            | (542)     |
| Loss on disposal of property, plant & equipment                                               | 712                                              | 204       |
| Non-cash portion of stock-based compensation expense                                          | 3,257                                            | 1,559     |
| Changes in operating assets and liabilities (net of effects of business acquisitions):        |                                                  |           |
| Accounts receivable                                                                           | (10,880)                                         | (21,119)  |
| Inventories                                                                                   | 1,337                                            | (6,539)   |
| Prepaid expenses and other assets                                                             | (4,417)                                          | (4,818)   |
| Accounts payable and accrued liabilities                                                      | (13,278)                                         | (9,638)   |
| Income taxes                                                                                  | 6,086                                            | 4,437     |
| Other liabilities                                                                             | 1,201                                            | 1,443     |
| Net cash provided by operating activities                                                     | 33,890                                           | 12,362    |
| Investing activities:                                                                         |                                                  |           |
| Acquisition of businesses, net of cash acquired                                               |                                                  | (45,173)  |
| Payments of contingent consideration                                                          | (1,200)                                          | (7,500)   |
| Purchases of short-term investments                                                           | (5,150)                                          |           |
| Sales of short-term investments                                                               | 7,860                                            | 11,500    |
| Purchases of property, plant and equipment                                                    | (7,395)                                          | (14,544)  |
| Other                                                                                         | (1,375)                                          | (539)     |
| Net cash used in investing activities                                                         | (7,260)                                          | (56,256)  |
| Financing activities:                                                                         |                                                  |           |
| Payment of dividends                                                                          | (8,100)                                          | (7,463)   |
| Proceeds from issuance of common stock                                                        | 4,134                                            | 531       |
| Principal payments on debt                                                                    | (5)                                              | (23,226)  |
| Proceeds from issuance of debt                                                                |                                                  | 48,220    |
| Income tax benefit from the exercise of stock options and deferred compensation distributions | 2,712                                            | 162       |
| Net cash (used in) provided by financing activities                                           | (1,259)                                          | 18,224    |
| Effect of exchange rate changes on cash                                                       | 2,382                                            | 171       |
| Net increase (decrease) in cash and cash equivalents                                          | 27,753                                           | (25,499)  |



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|                                                    |            |           |
|----------------------------------------------------|------------|-----------|
| Cash and cash equivalents, beginning of period     | 142,846    | 113,008   |
| Cash and cash equivalents, end of period           | \$ 170,599 | \$ 87,509 |
| Supplemental disclosures of cash flow information: |            |           |
| Cash paid during the period for:                   |            |           |
| Interest, net of capitalized interest              | \$ 9,298   | \$ 5,368  |
| Income taxes, net of refunds                       | 1,782      | 9,393     |
| Acquisitions:                                      |            |           |
| Fair value of assets acquired, net of cash         | \$         | \$ 27,589 |
| Liabilities assumed                                |            | (6,610)   |
| Goodwill                                           |            | 24,194    |
| Net cash paid for acquisitions                     | \$         | \$ 45,173 |

See Notes to Condensed Consolidated Financial Statements.

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**BRADY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Three Months Ended October 31, 2007

(Unaudited)

(In thousands, except share and per share amounts)

**NOTE A Basis of Presentation**

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the Company or Brady) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments and the impact of adopting Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) (see Note I for further information) as of August 1, 2007, necessary to present fairly the financial position of the Company as of October 31, 2007 and July 31, 2007, and its results of operations and cash flows for the three months ended October 31, 2007 and 2006. The condensed consolidated balance sheet as of July 31, 2007 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended July 31, 2007.

**NOTE B Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the quarter ended October 31, 2007, are as follows:

|                                         | <b>Brady<br/>Americas</b> | <b>Direct<br/>Marketing<br/>&amp;<br/>People ID<br/>Americas</b> | <b>Europe</b> | <b>Asia-Pacific</b> | <b>Total</b> |
|-----------------------------------------|---------------------------|------------------------------------------------------------------|---------------|---------------------|--------------|
| Balance as of July 31, 2007             | \$ 143,775                | \$ 260,299                                                       | \$ 163,699    | \$ 169,677          | \$ 737,450   |
| Adjustments for prior year acquisitions | (731)                     | 422                                                              | (269)         | 3,765               | 3,187        |
| Translation adjustments                 | 684                       | 1,552                                                            | 6,897         | 4,138               | 13,271       |
| Balance as of October 31, 2007          | \$ 143,728                | \$ 262,273                                                       | \$ 170,327    | \$ 177,580          | \$ 753,908   |

Goodwill increased \$3,187 during the three months ended October 31, 2007 as a result of adjustments to the preliminary allocation of the purchase price for acquisitions completed in fiscal 2007. The largest component of the increase related to the acquisition of Comprehensive Identification Products, Inc. (CIPI), which added \$3,668 and was partially offset by a reduction to goodwill of \$548 related to the adoption of FIN 48 (see Note I for further information). Of the \$3,668 increase in goodwill attributed to the allocation of the purchase price for CIPI, \$1,609 related to the adoption of FIN 48, \$1,250 was for employee termination costs, and the remaining \$809 related to various exit costs associated with the closure of a facility. The remaining \$13,271 increase to goodwill during the quarter was attributable to the effects of foreign currency translation.

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Other intangible assets include patents, trademarks, customer relationships, non-compete agreements and other intangible assets with finite lives being amortized in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. The net book value of these assets was as follows:

|                                      | October 31, 2007                                      |                             |                             |                   | July 31, 2007                                         |                             |                             |                   |
|--------------------------------------|-------------------------------------------------------|-----------------------------|-----------------------------|-------------------|-------------------------------------------------------|-----------------------------|-----------------------------|-------------------|
|                                      | Weighted<br>Average<br>Amortization Period<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value | Weighted<br>Average<br>Amortization Period<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
| Amortized other intangible assets:   |                                                       |                             |                             |                   |                                                       |                             |                             |                   |
| Patents                              | 15                                                    | \$ 8,407                    | \$ (6,089)                  | \$ 2,318          | 15                                                    | \$ 8,392                    | \$ (5,913)                  | \$ 2,479          |
| Trademarks and other                 | 5                                                     | 4,747                       | (3,460)                     | 1,287             | 5                                                     | 4,510                       | (3,250)                     | 1,260             |
| Customer relationships               | 7                                                     | 136,758                     | (42,252)                    | 94,506            | 7                                                     | 134,125                     | (36,674)                    | 97,451            |
| Non-compete agreements               | 4                                                     | 11,666                      | (6,897)                     | 4,769             | 4                                                     | 11,364                      | (6,294)                     | 5,070             |
| Other                                | 5                                                     | 3,297                       | (2,729)                     | 568               | 5                                                     | 3,297                       | (2,554)                     | 743               |
| Unamortized other intangible assets: |                                                       |                             |                             |                   |                                                       |                             |                             |                   |
| Trademarks                           | N/A                                                   | 42,991                      |                             | 42,991            | N/A                                                   | 42,758                      |                             | 42,758            |
| Total                                |                                                       | \$ 207,866                  | \$ (61,427)                 | \$ 146,439        |                                                       | \$ 204,446                  | \$ (54,685)                 | \$ 149,761        |

The value of goodwill and other intangible assets in the Condensed Consolidated Financial Statements at October 31, 2007 differs from the value assigned to them in the allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar between the date of acquisition and October 31, 2007.

Amortization expense on intangible assets was \$5,905 and \$5,240 for the three-month periods ended October 31, 2007 and 2006, respectively. The amortization over each of the next five fiscal years is projected to be \$24,131, \$23,138, \$22,265, \$18,674 and \$9,595 for the years ending July 31, 2008, 2009, 2010, 2011 and 2012, respectively.

**NOTE C Comprehensive Income**

Total comprehensive income, which was comprised of net income, foreign currency translation adjustments, net unrealized gains and losses from cash flow hedges and other investments, the unamortized gain on the post-retirement medical, dental and vision plan, and their related tax effects amounted to approximately \$61,044 and \$38,621 for the three months ended October 31, 2007 and 2006, respectively.

**Table of Contents****NOTE D 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:

|                                                                           | <b>Three Months Ended October<br/>31,</b> |             |
|---------------------------------------------------------------------------|-------------------------------------------|-------------|
|                                                                           | <b>2007</b>                               | <b>2006</b> |
| Numerator:                                                                |                                           |             |
| Net income (numerator for basic and diluted Class A net income per share) | \$ 36,370                                 | \$ 34,448   |
| Less:                                                                     |                                           |             |
| Preferential dividends                                                    | (846)                                     | (836)       |
| Preferential dividends on dilutive stock options                          | (13)                                      | (15)        |
| Numerator for basic and diluted Class B net income per share              | \$ 35,511                                 | \$ 33,597   |
| Denominator:                                                              |                                           |             |
| Denominator for basic net income per share for both Class A and Class B   | 54,350                                    | 53,734      |
| Plus: Effect of dilutive stock options                                    | 771                                       | 871         |
| Denominator for diluted net income per share for both Class A and Class B | 55,121                                    | 54,605      |
| Class A Nonvoting Common Stock net income per share:                      |                                           |             |
| Basic                                                                     | \$ 0.67                                   | \$ 0.64     |
| Diluted                                                                   | \$ 0.66                                   | \$ 0.63     |
| Class B Voting Common Stock net income per share:                         |                                           |             |
| Basic                                                                     | \$ 0.65                                   | \$ 0.63     |
| Diluted                                                                   | \$ 0.64                                   | \$ 0.62     |

Options to purchase 1,280,500 and 629,500 shares of Class A Nonvoting Common Stock were not included in the computation of diluted net income per share for the quarters ended October 31, 2007 and 2006, respectively, because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

**Table of Contents****NOTE E Segment Information**

The Company's reportable segments are businesses that are each managed separately. As a result of recent organizational changes within the executive leadership team in which management of the manufacturing facilities was aligned with the geographic region of the facility, the Company has revised its reportable segments and has restated the corresponding segment information from its previous geographical based structure for the prior year. The Company has four reportable segments: Brady Americas, Direct Marketing & People ID Americas, Europe and Asia-Pacific. The Brady Americas reportable segment includes businesses that focus on MRO market products and OEM market products sold to customers in North and South America through distributors or a direct sales force. The Direct Marketing & People ID Americas reportable segment includes businesses that market their products through business-to-business direct mail, catalogs, and telemarketing, distribution and a direct sales force in North and South Americas. The Europe and Asia-Pacific reportable segments have not changed from prior year disclosures. Following is a summary of segment information for the three months ended October 31, 2007 and 2006:

|                                      | <b>Brady<br/>Americas</b> | <b>Direct<br/>Marketing<br/>&amp;<br/>People ID<br/>Americas</b> | <b>Europe</b> | <b>Asia-Pacific</b> | <b>Subtotals</b> | <b>Corporate<br/>and<br/>Eliminations</b> | <b>Totals</b> |
|--------------------------------------|---------------------------|------------------------------------------------------------------|---------------|---------------------|------------------|-------------------------------------------|---------------|
| Three months ended October 31, 2007: |                           |                                                                  |               |                     |                  |                                           |               |
| Revenues from external customers     | \$ 105,235                | \$ 69,540                                                        | \$ 108,914    | \$ 96,445           | \$ 380,134       |                                           | \$ 380,134    |
| Intersegment revenues                | 14,405                    | 621                                                              | 2,985         | 6,140               | 24,151           | (24,151)                                  |               |
| Segment profit                       | 24,459                    | 19,648                                                           | 29,900        | 19,390              | 93,397           | (2,237)                                   | 91,160        |
| Assets                               | 358,028                   | 414,809                                                          | 358,222       | 398,990             | 1,530,049        | 228,463                                   | 1,758,512     |
| Three months ended October 31, 2006: |                           |                                                                  |               |                     |                  |                                           |               |
| Revenues from external customers     | \$ 82,759                 | \$ 64,184                                                        | \$ 92,365     | \$ 92,951           | \$ 332,259       |                                           | \$ 332,259    |
| Intersegment revenues                | 12,218                    | 712                                                              | 786           | 5,991               | 19,707           | (\$19,707)                                |               |
| Segment profit                       | 20,715                    | 16,803                                                           | 23,005        | 22,137              | 82,660           | (2,810)                                   | 79,850        |
| Assets                               | 270,585                   | 392,697                                                          | 258,039       | 370,067             | 1,291,388        | 127,871                                   | 1,419,259     |

Following is a reconciliation of segment profit to income before income taxes for the three months ended October 31, 2007 and 2006:

|                                       | <b>Three months ended:<br/>October 31,</b> |             |
|---------------------------------------|--------------------------------------------|-------------|
|                                       | <b>2007</b>                                | <b>2006</b> |
| Total profit from reportable segments | \$ 93,397                                  | \$ 82,660   |
| Corporate and eliminations            | (2,237)                                    | (2,810)     |

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|                             |           |           |
|-----------------------------|-----------|-----------|
| Unallocated amounts:        |           |           |
| Administrative costs        | (32,822)  | (27,909)  |
| Investment and other income | 118       | 638       |
| Interest expense            | (6,720)   | (4,735)   |
| Income before income taxes  | 51,736    | 47,844    |
| Income taxes                | (15,366)  | (13,396)  |
| Net income                  | \$ 36,370 | \$ 34,448 |

**Table of Contents****NOTE F Stock-Based Compensation**

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock to employees. Additionally, the Company has a nonqualified stock option plan for non-employee directors under which stock options to purchase shares of Class A Nonvoting Common Stock are available for grant. The options have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest ratably over a three-year period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Options issued under these plans, referred to herein as service-based options, generally expire 10 years from the date of grant. The Company also grants stock options to certain executives and key management employees that vest upon meeting certain financial performance conditions over the vesting schedule described above. These options are referred to herein as performance-based options. Performance-based options granted in fiscal 2007 and forward expire 10 years from the date of grant.

As of October 31, 2007, the Company has reserved 4,182,608 shares of Class A Nonvoting Common Stock for outstanding stock options and 1,721,000 shares of Class A Nonvoting Common Stock for future issuance of stock options under the various plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

The Company accounts for share-based compensation awards in accordance with SFAS No. 123(R), Share Based Payment. In accordance with this standard, the Company recognizes the compensation cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense recognized by the Company during the three months ended October 31, 2007 and 2006 was \$3,257 (\$1,987 net of taxes) and \$1,559 (\$951 net of taxes), respectively. As of October 31, 2007, total unrecognized compensation cost related to share-based compensation awards was approximately \$12,906 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of approximately 1.9 years.

The Company has estimated the fair value of its performance-based option awards granted during the three months ended October 31, 2007 and 2006 using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

| Black-Scholes Option Valuation Assumptions                       | October<br>31,2007 | October<br>31,2006 |
|------------------------------------------------------------------|--------------------|--------------------|
| Expected term (in years)                                         | 6.57               | 6.57               |
| Expected volatility                                              | 33.68%             | 34.66%             |
| Expected dividend yield                                          | 1.58%              | 1.51%              |
| Risk-free interest rate                                          | 4.66%              | 4.90%              |
| Weighted-average market value of underlying stock at grant date  | \$ 35.35           | \$ 33.32           |
| Weighted-average exercise price                                  | \$ 35.35           | \$ 33.32           |
| Weighted-average fair value of options granted during the period | \$ 12.83           | \$ 12.57           |

The Company uses historical data regarding stock option exercise behaviors to estimate the expected term of options granted based on the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company's stock. The expected dividend yield is based on the Company's historical dividend payments and historical yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date for the length of time corresponding to the expected term of the option. The market value is obtained by taking the average of the high and the low stock price on the date of the grant.

The Company did not grant any service-based options during the three months ended October 31, 2007 and 2006.

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A summary of stock option activity under the Company's share-based compensation plans for the three months ended October 31, 2007 is presented below:

| Options                         | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|-----------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Outstanding at July 31, 2007    | 4,182,739 | \$ 26.36                                 |                                                         |                                 |
| New grants                      | 268,000   | \$ 35.35                                 |                                                         |                                 |
| Exercised                       | (261,130) | \$ 15.83                                 |                                                         |                                 |
| Forfeited or expired            | (7,001)   | \$ 35.34                                 |                                                         |                                 |
| Outstanding at October 31, 2007 | 4,182,608 | \$ 27.43                                 | 6.9                                                     | \$ 40,873                       |
| Exercisable at October 31, 2007 | 2,225,776 | \$ 22.37                                 | 5.7                                                     | \$ 32,498                       |

The total intrinsic value of options exercised during the three months ended October 31, 2007 and 2006, based upon the average market price during the period, was approximately \$6,393 and \$634, respectively. The total fair value of stock options vested during the three months ended October 31, 2007 and 2006, was approximately \$47 and \$59, respectively.

**NOTE G: Stockholders' Equity**

In September 2007, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to 1 million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on 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 October 31, 2007, the Company did not reacquire any shares under the repurchase plan.

**NOTE H: Employee Benefit Plans**

The Company provides postretirement medical, dental and vision benefits (the Plan) for all regular full and part-time domestic employees (including spouses) who retire on or after attainment of age 55 with 15 years of credited service. Credited service begins accruing at the later of age 40 or date of hire. All active employees first eligible to retire after July 31, 1992, are covered by an unfunded, contributory postretirement healthcare plan where employer contributions will not exceed a defined dollar benefit amount, regardless of the cost of the program. Employer contributions to the plan are based on the employee's age and service at retirement.

The Company accounts for postretirement benefits other than pensions in accordance with SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Company funds benefit costs on a pay-as-you-go basis. There have been no changes to the components of net periodic benefit cost or the amount that the Company expects to fund in fiscal 2008 from those reported thereto in Note 3 to the consolidated financial statements included in the Company's latest annual report on Form 10-K for the year ended July 31, 2007.



**Table of Contents****NOTE I: Income Taxes**

On August 1, 2007, the Company adopted FIN 48. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, and disclosure and transition issues.

The adoption of FIN 48 resulted in a \$900 charge to earnings retained in the business as of August 1, 2007 and a change in the classification of the liability on the balance sheet from accrued income taxes to other liabilities. As of August 1, 2007, the Company's liability for uncertain tax positions was \$15,900. Unrecognized tax benefits of \$10,500 would affect the Company's effective tax rate if recognized.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes on the accompanying condensed consolidated statement of income. At August 1, 2007, the Company had accrued \$2,200 for the potential payment of interest which is included in the \$15,900 liability for uncertain tax positions. The amounts recognized in income taxes for interest and penalties during the quarter ended October 31, 2007 were not significant.

The Company and its subsidiaries file income tax returns in the US federal jurisdiction, and various state and foreign jurisdictions. The following table summarized the open tax years for the Company's major jurisdictions:

| Jurisdiction             | Open Tax Years |      |
|--------------------------|----------------|------|
| United States    Federal | F 04           | F 07 |
| France                   | F 04           | F 07 |
| Germany                  | F 03           | F 07 |
| United Kingdom           | F 05           | F 07 |

Approximately \$2,000 of unrecognized tax benefits relate to items that are affected by expiring statute of limitations within the next 12 months.

**NOTE J: New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement provides guidance on how to measure the fair value of assets and liabilities utilizing a fair value hierarchy to classify the sources of information used in the measurement calculation. SFAS No. 157 also provides new disclosure rules for assets and liabilities measured at fair value based on their level in the fair value hierarchy. This new statement will be effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 157 and therefore is unable to disclose the impact SFAS No. 157 will have on its financial position and results of operations when such statement is adopted.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose the fair value option to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. This new statement will be effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 159 and therefore is unable to disclose the impact SFAS No. 159 will have on its financial position and results of operations when such statement is adopted.

**NOTE K: Subsequent Event**

On December 3, 2007, the Company announced that David Mathieson resigned as chief financial officer of the company, effective December 31, 2007. The Company's President and CEO, Frank M. Jaehnert, will assume the additional duties of chief financial officer until a successor is named.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

Brady is an international manufacturer and marketer of identification solutions and specialty materials that identify and protect premises, products, and people. Its products include high-performance labels and signs, printing systems and software, label-application and data-collection systems, safety devices and precision die-cut materials. Founded in 1914, the Company serves customers in electronics, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation and a variety of other industries. The Company manufactures and sells products domestically and internationally through multiple channels including direct sales, distributor sales, mail-order catalogs, telemarketing, retail and electronic access through the Internet. The Company operates manufacturing or distribution facilities in Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, India, Italy, Japan, Malaysia, Mexico, The Netherlands, Norway, Poland, Singapore, Slovakia, South Korea, Sweden, Thailand, the United Kingdom and the United States. Brady sells through subsidiaries or sales offices in these countries, with additional sales through a dedicated team of international sales representatives in Hong Kong, the Philippines, Spain, Taiwan, Turkey and the United Arab Emirates. The Company further markets its products to parts of Eastern Europe, the Middle East, Africa and Russia. The Company believes that its reputation for innovation, commitment to quality and service, and dedicated employees have made it a world leader in the markets it serves.

Sales for the quarter ended October 31, 2007, were up 14.4% to \$380.1 million, compared to \$332.3 million in the same period of fiscal 2007. Of the increase in sales, organic growth accounted for 1.7%, acquisitions added 7.5% and the effects of fluctuations in the exchange rates used to translate financial results into the United States Dollar added 5.2%. Net income for the quarter ended October 31, 2007, was \$36.4 million or \$0.66 per diluted Class A Nonvoting Common Share, up 5.6% from \$34.4 million or \$0.63 per diluted Class A Nonvoting Common Share reported in the first quarter of last fiscal year.

**Results of Operations**

The comparability of the operating results for the three months ended October 31, 2007 to the prior year has been significantly impacted by the following acquisitions completed in fiscal 2007.

**Acquisitions**

|                                                                                 |                                                                                          |                               |
|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------|
| CIPi                                                                            | Segment<br>Direct<br>Marketing &<br>People ID<br>Americas,<br>Europe and<br>Asia-Pacific | Date Completed<br>August 2006 |
| Precision Converters, L.P. ( Precision Converters )                             | Brady Americas                                                                           | October 2006                  |
| Scafftag, Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd. (collectively Scafftag ) | Brady<br>Americas,<br>Europe and<br>Asia-Pacific                                         | December 2006                 |
| Asterisco Artes Graficas Ltda. ( Asterisco )                                    | Brady Americas                                                                           | December 2006                 |
| Modernotecnica SpA ( Moderno )                                                  | Europe                                                                                   | December 2006                 |
| Clement Communications, Inc. ( Clement )                                        | Direct<br>Marketing &<br>People ID<br>Americas                                           | February 2007                 |
| Sorbent Products Co., Inc. ( SPC )                                              | Brady<br>Americas,<br>Europe and                                                         | April 2007                    |



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Sales for the three months ended October 31, 2007 were up 14.4% compared to the same period in fiscal 2007. The increase was comprised of an increase of 1.7% attributed to organic growth, an increase of 5.2% due to the effect of currencies on sales, and an increase of 7.5% due to the acquisitions listed in the above table. The organic growth for the quarter ended October 31, 2007, was due primarily to an 8.2% increase in Brady Americas' sales and a 2.4% increase in Direct Marketing & People ID Americas' sales, partially offset by a 3.3% decline in Asia-Pacific sales. The Europe segment's organic sales were flat in the quarter.

Gross margin as a percentage of sales remained constant at 49.4% for the quarter ended October 31, 2007, compared to the same period of the previous year. Excluding the acquisitions completed in the last fiscal year, gross margin as a percentage of sales has improved slightly.

Research and development ( R&D ) expenses increased 5.2% to \$9.0 million for the three months ended October 31, 2007, compared to \$8.5 million for the same period in the prior year. As a percentage of sales, R&D expenses represented a lower percentage of sales, declining to 2.4% in the first quarter of fiscal 2008 from 2.6% in the first quarter of fiscal 2007. The majority of the decline in R&D expense as a percentage of sales was due to acquisitions completed in the last year. The acquisitions added \$25.0 million in revenue and had minimal R&D expense.

SG&A expenses increased 16.1% to \$120.4 million for the three months ended October 31, 2007, as compared to \$103.7 million for the same period in the prior year. This expected increase was due to acquisitions completed in fiscal 2007, the continued implementation of SAP in many of our locations around the world and investments made to generate new customers within our direct marketing businesses. As a percentage of sales, SG&A expenses increased to 31.7% in the first quarter of fiscal 2008 from 31.2% in the same period of fiscal 2007, due to the reasons noted above.

Investment and other income decreased to \$0.1 million for the quarter ended October 31, 2007 from \$0.6 million for the quarter ended October 31, 2006. Interest income earned in the first quarter of fiscal 2008 was \$1.2 million, as compared to \$0.4 million in the first quarter of fiscal 2007, due to the higher cash and marketable securities investment balances maintained in fiscal 2008. Also included in this income statement heading, the Company recorded losses from the net effect of changes in foreign currency exchange rates on specific transactions of \$1.1 million in the first quarter of fiscal 2008, as compared to a gain of \$0.2 million in the first quarter of fiscal 2007.

Interest expense increased to \$6.7 million for the quarter ended October 31, 2007 from \$4.7 million for the quarter ended October 31, 2006. The increase in interest expense was due to interest on the \$150 million private placement of senior notes that the Company completed in the third quarter of fiscal 2007, partially offset by the interest on the borrowings under our revolving credit facility in the first quarter of fiscal 2007. During the first quarter of fiscal 2008, the Company did not borrow under the revolving credit facility.

The Company's effective tax rate was 29.7% for the quarter ended October 31, 2007, and 28.0% for the same period of the previous year. The increase in the effective rate was due to a shift of a higher percentage of the Company's pre-tax income to higher tax rate countries. The Company expects the full year effective tax rate for fiscal 2008 to be approximately 29%.

Net income for the three months ended October 31, 2007, increased 5.6% to \$36.4 million, compared to \$34.4 million for the same quarter of the previous year. Net income as a percentage of sales decreased to 9.6% for the quarter ended October 31, 2007 from 10.4% for the same period in the prior year. The decrease was primarily due to the increase in SG&A expenses, the increase in interest expense and the increase in the Company's effective tax rate.

**Table of Contents*****Business Segment Operating Results***

Effective August 1, 2007, the Company revised its reportable segments as a result of organizational changes within the executive leadership team. Management of the Company now evaluates results based on the following businesses: Brady Americas, Direct Marketing & People ID Americas, Europe, and Asia-Pacific.

| (Dollars in thousands)             | Brady<br>Americas | Direct<br>Marketing<br>&<br>People ID<br>Americas | Europe     | Asia-<br>Pacific | Subtotals  | Corporate<br>and<br>Eliminations | Total      |
|------------------------------------|-------------------|---------------------------------------------------|------------|------------------|------------|----------------------------------|------------|
| <b>SALES TO EXTERNAL CUSTOMERS</b> |                   |                                                   |            |                  |            |                                  |            |
| Three months ended:                |                   |                                                   |            |                  |            |                                  |            |
| October 31, 2007                   | \$ 105,235        | \$ 69,540                                         | \$ 108,914 | \$ 96,445        | \$ 380,134 |                                  | \$ 380,134 |
| October 31, 2006                   | \$ 82,759         | \$ 64,184                                         | \$ 92,365  | \$ 92,951        | \$ 332,259 |                                  | \$ 332,259 |
| <b>SALES GROWTH INFORMATION</b>    |                   |                                                   |            |                  |            |                                  |            |
| Three months ended                 |                   |                                                   |            |                  |            |                                  |            |
| October 31, 2007                   |                   |                                                   |            |                  |            |                                  |            |
| Organic                            | 8.2%              | 2.4%                                              | 0.3%       | -3.3%            | 1.7%       |                                  | 1.7%       |
| Currency                           | 1.8%              | 1.2%                                              | 9.6%       | 6.7%             | 5.2%       |                                  | 5.2%       |
| Acquisitions                       | 17.2%             | 4.7%                                              | 8.0%       | 0.3%             | 7.5%       |                                  | 7.5%       |
| Total                              | 27.2%             | 8.3%                                              | 17.9%      | 3.7%             | 14.4%      |                                  | 14.4%      |

**SEGMENT PROFIT**

|                                   |           |           |           |           |           |            |           |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|------------|-----------|
| Three months ended:               |           |           |           |           |           |            |           |
| October 31, 2007                  | \$ 24,459 | \$ 19,648 | \$ 29,900 | \$ 19,390 | \$ 93,397 | \$ (2,237) | \$ 91,160 |
| October 31, 2006                  | \$ 20,715 | \$ 16,803 | \$ 23,005 | \$ 22,137 | \$ 82,660 | \$ (2,810) | \$ 79,850 |
| Percentage increase<br>(decrease) | 18.1%     | 16.9%     | 30.0%     | (12.4%)   | 13.0%     | (20.4%)    | 14.2%     |

**SEGMENT PROFIT RECONCILIATION (Dollars in thousands)**

|                                       | Three months ended:    |                     |
|---------------------------------------|------------------------|---------------------|
|                                       | October<br>31,<br>2007 | October 31,<br>2006 |
| Total profit from reportable segments | \$ 93,397              | \$ 82,660           |
| Corporate and eliminations            | (2,237)                | (2,810)             |
| Unallocated amounts:                  |                        |                     |
| Administrative costs                  | (32,822)               | (27,909)            |
| Investment and other income           | 118                    | 638                 |
| Interest expense                      | (6,720)                | (4,735)             |
| Income before income taxes            | 51,736                 | 47,844              |
| Income taxes                          | (15,366)               | (13,396)            |
| Net income                            | \$ 36,370              | \$ 34,448           |

The Company evaluates performance of the businesses using sales and segment profit. Segment profit or loss does not include certain administrative costs, such as the cost of finance, stock options, information technology and human resources, which are managed as global functions. Interest, investment and other income and income taxes are also excluded when evaluating performance.

**Table of Contents***Brady Americas:*

Brady Americas sales increased 27.2% for the quarter ended October 31, 2007, compared to the same period in the prior year. Organic growth accounted for 8.2% in the first quarter of fiscal 2008 compared to the same period last year. Fluctuations in the exchange rates used to translate financial results into the U.S. dollar increased sales by 1.8% in the quarter. Sales in the region were also aided by the fiscal 2007 acquisitions of Precision Converters, Scafftag, Asterisco and SPC, which increased sales by 17.2% for the quarter. The organic growth in the quarter was driven by strong growth across most of the major markets, including electrical and wire identification, safety and industrial identification, laboratory and aerospace, and defense and mass transit. The growth was slightly offset by a continued softness in the electric utility market due to the weak housing market.

Segment profit increased 18.1% to \$24.5 million for the quarter ended October 31, 2007, compared to \$20.7 million for the same period in the prior year. As a percentage of sales, segment profit decreased to 23.2% for the quarter ended October 31, 2007 from 25.0% for the same period in the prior year. The decline in segment profit as a percentage of sales was mainly due to acquisitions made in the last 12 months, with a smaller decline due to reductions in the base business profit percentage as gross margin declines were partially offset by selling expense reductions.

*Direct Marketing & People ID Americas:*

Direct Marketing & People ID Americas sales increased 8.3% for the quarter ended October 31, 2007, compared to the same period in the prior year. Organic growth accounted for 2.4% in the first quarter of fiscal 2008 compared to the same period last year. Fluctuations in the exchange rates used to translate financial results into the U.S. dollar increased sales by 1.2% in the quarter. Sales in the region were also aided by the fiscal 2007 acquisitions of CIPI and Clement, which increased sales by 4.7% for the quarter. The organic growth in the quarter was driven by strong results in our regulatory business and slightly positive growth in the non-residential construction markets, partially offset by softness experienced in the manufacturing sector and a proactively managed shift away from less profitable sales in one of our businesses.

Segment profit increased 16.9% to \$19.6 million for the quarter ended October 31, 2007, compared to \$16.8 million for the same period in the prior year. As a percentage of sales, segment profit increased to 28.3% in the first quarter of fiscal 2008 from 26.2% in the first quarter of fiscal 2007. The improvement was due to the continued integration of acquisitions and cost control efforts, partially offset by the investments made to generate new customers.

*Europe:*

Europe sales increased 17.9% for the quarter ended October 31, 2007, compared to the same period in the prior year. Organic growth was essentially flat at a 0.3% increase in the quarter as compared to the same period last year. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into the U.S. dollar, which increased sales within the region by 9.6% in the quarter. The fiscal 2007 acquisitions of CIPI, Scafftag, Moderno and SPC increased sales by 8.0%. By market within the region, the direct marketing business experienced strong organic growth as we continued the momentum built up last year in France, in the United Kingdom and in Germany. Modest organic growth was achieved by the Brady brand MRO business, the high-performance labeling business and the wire identification business. In contrast, the OEM electronics business continued to decline as business continues to migrate to Asia.

Segment profit increased 30.0% to \$29.9 million for the quarter ended October 31, 2007, compared to \$23.0 million for the same period of the prior year. As a percentage of sales, segment profit increased to 27.5% in the first quarter of fiscal 2008 from 24.9% in the first quarter of fiscal 2007. The improvement in the segment profit rate was due to the continued focus on more profitable product lines, the integration of acquisitions, as well as other cost reduction activities. Acquisitions completed in the last 12 months were slightly dilutive to the segment profit rate in the first quarter of fiscal 2008.

*Asia-Pacific:*

Asia-Pacific sales increased 3.7% for the quarter ended October 31, 2007, compared to the same period in the prior year. Organic sales decreased 3.3% in the quarter as compared to the same period last year. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into the U.S. dollar, which increased

sales within the region by 6.7% in the quarter. The fiscal 2007 acquisitions of CIPI, Scafftag and SPC had a minimal impact on sales in the quarter by increasing sales by 0.3%. The negative organic growth for the quarter was due to a double-digit reduction within the mobile handset business, which began in the second quarter of fiscal 2007, and a smaller reduction in the high performance labeling business. The relatively small hard disk drive business experienced a double-digit sales increase in the first quarter of fiscal 2008, as did the relatively new and small consumer electronics business. The safety and facility identification business, wire identification business, direct marketing business and people identification business also continued to grow during the quarter.



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Segment profit decreased 12.4% to \$19.4 million for the quarter ended October 31, 2007, compared to \$22.1 million for the same period in the prior year. As a percentage of sales, segment profit decreased to 20.1% in the first quarter of fiscal 2008 from 23.8% in the first quarter of fiscal 2007. The decreases were due primarily to the decreased sales volume described above as compared to the first quarter of fiscal 2007, as well as pricing pressure received from our customers, partially offset by cost control efforts and improving productivity.

**Financial Condition**

The Company's current ratio as of October 31, 2007, was 2.4 compared to 2.1 at July 31, 2007. Cash and cash equivalents were \$170.6 million at October 31, 2007, compared to \$142.8 million at July 31, 2007. Additionally, there were \$16.5 million of short-term investments outstanding at October 31, 2007, compared to \$19.2 million outstanding at July 31, 2007. Working capital increased \$61.9 million during the quarter ended October 31, 2007, to \$365.3 million from \$303.4 million at July 31, 2007. Accounts receivable increased \$17.0 million for the quarter due to increased sales volume and foreign currency translation. Inventories increased \$1.6 million for the quarter, due to foreign currency translation. The net decrease in current liabilities was \$16.1 million for the quarter. The decrease was composed of a significant decrease in accrued wages due to the payment of incentives in the first quarter of fiscal 2008 related to the incentives earned in the year ended July 31, 2007, and a decrease in accrued income taxes as the adoption of FIN 48 required a reclassification of a portion of the current payable recorded at July 31, 2007 to long-term liabilities, partially offset by an increase in accounts payable due to foreign currency translation.

Cash flow from operating activities totaled \$33.9 million for the quarter ended October 31, 2007, compared to \$12.4 million for the same period last year. The increase was the result of a \$1.9 million increase in net income, a \$1.2 million increase in depreciation and amortization on the intangible assets acquired in fiscal 2007, and significant decreases in the change in accounts receivable and inventory balances as compared to the changes reported in the first quarter of fiscal 2007.

Contingent consideration payments of \$1.2 million were paid during the quarter ended October 31, 2007 to satisfy the earnout liability and the holdback liability of the Stopware acquisition completed in fiscal 2006. Capital expenditures were \$7.4 million for the quarter ended October 31, 2007, compared to \$14.5 million in the same period last year. Fiscal 2007 capital expenditures included approximately \$9 million spent on the expansions in China, Canada, India, Slovakia, and other locations which were not repeated in fiscal 2008. Net cash used in financing activities was \$1.3 million for the quarter ended October 31, 2007, due to the payment of dividends, partially offset by the proceeds from the issuance of common stock. Net cash provided by financing activities for the same period last year was \$18.2 million due to net borrowings on the revolving loan agreement, partially offset by the payment of dividends.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain standard conditions, the available amount under the new credit facility may be increased from \$200 million up to \$300 million.

Under the 5-year agreement, which has a final maturity date of October 5, 2011, 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) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). A commitment fee is payable on the unused amount of the facility. The agreement requires the Company to maintain two financial covenants. As of October 31, 2007, the Company was in compliance with the covenants of the agreement.

The credit agreement restricts the amount of certain types of payments, including dividends, which can be made annually to \$50 million plus an amount equal to 75% of consolidated net income for the prior fiscal year. The Company believes that based on historic dividend practice, this restriction would not impede the Company in following a similar dividend practice in the future. During the quarter ended October 31, 2007, the Company did not borrow or repay any amounts under the credit agreement. As of October 31, 2007, there were no outstanding borrowings under the credit agreement.

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On March 23, 2007, the Company completed the private placement of \$150 million in ten-year fixed notes at 5.3% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2011 with interest payable on the notes semiannually on September 23 and March 23, beginning in September 2007. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to reduce outstanding indebtedness under the Company's revolving loan agreement and fund its ongoing strategic growth plan. 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 the maturity date. The agreement also requires the Company to maintain a financial covenant. As of October 31, 2007, the Company was in compliance with this covenant.

On February 14, 2006, the Company completed the private placement of \$200 million in ten-year fixed notes at 5.3% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2010 with interest payable on the notes semiannually on August 14 and February 14, beginning in August 2006. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to finance acquisitions completed in fiscal 2006 and fiscal 2007. 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 the maturity date. The agreement also requires the Company to maintain a financial covenant. As of October 31, 2007, the Company was in compliance with this covenant.

On June 30, 2004, the Company finalized a debt offering of \$150 million of 5.14% unsecured senior notes due in 2014 in an offering exempt from the registration requirements of the Securities Act of 1933. The debt offering was in conjunction with the Company's acquisition of EMED. The notes will be amortized over seven years beginning in 2008, with interest payable on the notes semiannually on June 28 and December 28, beginning in December 2004. The Company used the proceeds of the offering to reduce outstanding indebtedness under the Company's revolving credit facilities used to initially fund the EMED acquisition. The debt has certain prepayment penalties for repaying the debt prior to its maturity date. The agreement also requires the Company to maintain a financial covenant. As of October 31, 2007, the Company was in compliance with this covenant.

On November 16, 2007, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A Common Stock of \$0.15 per share payable on January 31, 2008 to shareholders of record at the close of business on January 10, 2008.

The Company believes that its continued strong cash flows from operations and existing borrowing capacity will enable it to execute its long-term strategic plan. This strategic plan includes investments, which expand its 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.

### **Subsequent Event**

On December 3, 2007, the Company announced that David Mathieson resigned as chief financial officer of the company, effective December 31, 2007. The Company's President and CEO, Frank M. Jaehnert, will assume the additional duties of chief financial officer until a successor is named.

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**Off-Balance Sheet Arrangements** The Company does not have material off-balance sheet arrangements or related-party transactions. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risk factors described in this and other Company filings. However, the following additional information is provided to assist those reviewing the Company's financial statements.

**Operating Leases** These leases generally are entered into for investments in facilities, such as manufacturing facilities, warehouses and office buildings, computer equipment and Company vehicles, 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 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. In connection with the adoption of FIN 48 as of August 1, 2007, the Company is unable to determine the period in which the cash settlement of the liability associated with FIN 48 will occur with the respective taxing authority. As such, the Company has excluded the liability associated with FIN 48 from the contractual obligations table.

**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**

Brady believes that certain statements in this Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements related to future, not past, events included in this Form 10-Q, including, without limitation, statements regarding Brady'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 are forward-looking statements. When used in this Form 10-Q, words such as may, will, expect, intend, estimate, anticipate, believe, should, project or plan or similar terminology are used 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 future financial performance of major markets Brady serves, which include, without limitation, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation; difficulties in making and integrating acquisitions; risks associated with newly acquired businesses; Brady's ability to retain significant contracts and customers; future competition; Brady's ability to develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; interruptions to sources of supply; environmental, health and safety compliance costs and liabilities; Brady's ability to realize cost savings from operating initiatives; Brady's ability to attract and retain key talent; difficulties associated with exports; risks associated with international operations; fluctuations in currency rates versus the US dollar; technology changes; potential write-offs of Brady's substantial intangible assets; risks associated with obtaining governmental approvals and maintaining regulatory compliance for new and existing products; business interruptions due to implementing business systems; 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 located in Item 1A of Part I of Brady's Form 10-K for the year ended July 31, 2007. 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.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

The global nature of the Company's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. Dollar. The primary objective of the Company's foreign currency 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, Australian Dollar, Singapore Dollar, Swedish Krona, Korean Won and Chinese Yuan currency.

The Company could be exposed to interest rate risk through its corporate borrowing activities. The objective of the Company's interest rate risk management activities is to manage the levels of the Company's fixed and floating interest rate exposure to be consistent with the Company's preferred mix. The interest rate risk management program allows the Company to enter into approved interest rate derivatives if there is a desire to modify the Company's exposure to interest rates. As of October 31, 2007, the Company had no interest rate derivatives.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act.

The Company is in the process of implementing its enterprise resource planning system, SAP, to many of its locations around the world. This implementation has resulted in certain changes to business processes and internal controls impacting financial reporting. Management is taking the necessary steps to monitor and maintain appropriate internal controls during this period of change.

There were no other changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

The annual meeting of shareholders was held on November 16, 2007. At the meeting, the following persons were elected to serve as the Company's directors by the affirmative vote of 100% of the 3,538,628 shares of Class B Voting Common Stock until the next annual meeting of shareholders and until their successors have been elected:

Patrick W. Allender

Richard A. Bemis

Robert C. Buchanan

Chan W. Galbato

Conrad G. Goodkind

Frank W. Harris

Frank M. Jaehnert

Frank R. Jarc

Gary E. Nei

Elizabeth I. Pungello

Bradley C. Richardson

ITEM 6. Exhibits

(a) Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Frank M. Jaehnert

31.2 Rule 13a-14(a)/15d-14(a) Certification of David Mathieson

32.1 Section 1350 Certification of Frank M. Jaehnert

32.2 Section 1350 Certification of David Mathieson

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

**SIGNATURES**

**BRADY CORPORATION**

Date: December 6, 2007

/s/ F. M. Jaehnert  
F. M. Jaehnert  
President & Chief Executive Officer

Date: December 6, 2007

/s/ David Mathieson  
David Mathieson  
Senior Vice President & Chief Financial  
Officer (Principal Accounting Officer)  
(Principal Financial Officer)