

2010 ANNUAL REPORT

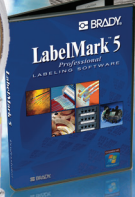


WHEN PERFORMANCE MATTERS MOST™

NOTICE
LOOK OUT
FOR LIFT TRUCKS

PELIGRO
ALMACENAMIENTO
DE QUIMICOS

EXIT



DEAR FELLOW SHAREHOLDERS,

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2010
BRADY
ANNUAL
REPORT



It was good to return to a year of less economic uncertainty after last year's global economic crisis, and we were pleased to see organic growth in all our geographic regions in the second half of the year with overall sales of \$1.3 billion in fiscal 2010. Despite flat organic growth for the full year, we increased our gross profit margins and improved our net income to \$82 million.

In fiscal 2010, we continued to invest in the Brady Business Performance System (BBPS) and new product development, resulting in our most active year in terms of new product launches and LEAN projects, and we also returned to making acquisitions. We remain the leader in our markets, with a strong balance sheet and cash flows well in excess of net income. And I'm happy to report that we increased our dividend once again, marking the 25th consecutive year of dividend increases for Brady shareholders.

This year we focused much of our energy on transforming Brady into a company with best-in-class practices and processes typically only found in much larger top-tier companies. This is necessary now because of our significant growth over the last decade and our plans to continue to grow Brady well beyond today's size.

When Brady was a smaller company, we were very successful operating our businesses with relative independence from each other. The appeal of this approach was that each general manager could control his/her area with great entrepreneurial freedom. The complexity of this model, however, has led to sub-optimization as Brady tripled in size from 2003 to 2008 and we acquired about 35 companies.

At the center of our transformation, we continue to expand BBPS into an enterprise-wide business system that, in addition to LEAN, includes strategy development and deployment, common processes to better understand our markets and customer segments, global strategic sourcing to better leverage our combined purchasing power, and standardized common processes to streamline and increase the efficiency of our administrative, sales and marketing functions.

Looking forward to fiscal 2011 and beyond, our goal is to have significantly more efficient and scalable processes, leverage the size of our company and increase sales and profitability, while preserving the entrepreneurial spirit which has served us so well in the past.

"This year we launched several new initiatives to position Brady for success into the next decade."

We Identify and Protect...

Premises



Products



People



Our vision to be the leader in all our markets remains, and we will continue to invest in new product development to support organic growth and our healthy gross margins. Acquisitions will also continue to play an important part in our growth. We see opportunities for acquisitions in both our core space as well as in close-in adjacencies. And we will continue to invest in our talent – both by filling skill gaps from the outside and increasing our emphasis on internal talent development.

As we close out this decade and look to the next, we believe that we have the vision, strategy, experience, talent and balance sheet to drive future growth and profitability, and our commitment to create long-term shareholder value is stronger than ever.

I thank you for your continued support.

Frank M. Jaehnert
President and CEO

Our strategies for sales growth and operational excellence are key components of the Brady Business Performance System.

Our **sales growth strategies** include:

- Market/Customer Segmentation – Directing our efforts towards the most attractive market and customer segments
- New Spaces – Expanding our offerings in adjacent spaces that can leverage our core competencies and global trends
- New Product Development – Innovation that sets industry standards, and proprietary products that add value to our customers in ways that others can't
- Acquisitions – Acquiring companies that deepen our market penetration, expand our geographic presence or bring new products or technologies to our offering
- E-business/Multi-channel Marketing – Providing twenty-first century customers with buying experiences that meet their needs and preferences

Our **operational excellence initiatives** include:

- Strategic Sourcing – Reducing costs by standardizing and bundling our purchases globally
- Sales & Marketing Productivity and Effectiveness – Focusing our sales and marketing professionals on opportunities with the highest potential
- General and Administrative Efficiency – Streamlining activities in our Finance, HR and IT functions
- Talent Development – Attracting professionals with experience in high-growth companies to complement our seasoned team

FINANCIAL HIGHLIGHTS

2010

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REPORT

FOR THE YEARS ENDED JULY 31:	2010	2009	% CHANGE
(Dollars in thousands except per share amounts)			
RESULTS OF OPERATIONS:			
Net Sales	\$1,259,096	\$1,208,702	4.2%
Operating Income	\$129,456	\$120,373	7.5%
Net Income	\$81,956	\$70,122	16.9%
EBITDA ¹	\$183,646	\$177,024	3.7%
Free Cash Flow ²	\$138,942	\$102,618	35.4%
Capital Expenditures	\$26,296	\$24,027	9.4%
Acquisition Spend	\$30,431	—	—
Depreciation & Amortization	\$53,022	\$54,851	(3.3%)
Research & Development Expense	\$42,621	\$34,181	24.7%
Net Income Per Diluted Common Share:			
Class A Nonvoting	\$1.55	\$1.32	17.4%
Class B Voting	\$1.53	\$1.31	16.8%
Operating Income Margin	10.3%	10.0%	3.0%
Net Income Margin	6.5%	5.8%	12.1%
AS OF JULY 31:	2010	2009	% CHANGE
(Dollars in thousands)			
Working Capital	\$375,184	\$286,955	30.7%
Total Debt	\$444,204	\$391,350	13.5%
Cash & Cash Equivalents	\$314,840	\$188,156	67.3%
Net Debt	\$129,364	\$203,194	(36.3%)
Stockholders' Investment	\$1,005,027	\$951,092	5.7%
Dividend Yield	2.5%	2.3%	8.7%
Number of Global Employees	6,600	6,800	(2.9%)
Weighted Avg. Shares Outstanding (Diluted)	52,946,000	52,866,000	0.1%

(1) EBITDA represents income before interest, income taxes, depreciation and amortization.

(2) Free cash flow represents net cash provided by operating activities less cash used to purchase property, plant and equipment.



Brady Corporation is an international manufacturer and marketer of complete solutions that identify and protect premises, products and people. Founded in 1914, the company is the provider of choice to more than 1 million customers in electronics, telecommunications, manufacturing, electrical, construction, education, medical and a variety of other industries. The Company markets and sells its products domestically and internationally through multiple channels including distributors, direct sales, mail-order catalogs, retail and the Internet. Brady is headquartered in Milwaukee, Wisconsin and has operations in the Americas, Europe and Asia-Pacific. Brady's reputation for innovation, commitment to quality and service, and dedicated employees have made it a world leader in its markets.

HIGHLIGHTS OF THE YEAR

BBPS:

The Brady Business Performance System played a significant role in our 170 bps gross margin expansion in fiscal 2010.



BBPS is more than just a continuous improvement program. It is a systematic approach with a comprehensive set of tools and methodologies designed to ensure sustainable and repeatable process improvements. Its three major components: Strategic Deployment, Lean and Organizational Effectiveness foster a culture of strategic thinking at all levels, simplification of daily activities to maximize productivity, and continuous improvement.

This year we accelerated the expansion of the BBPS system into the sales, general and administrative areas of the company. Now in its third year, BBPS helps us continue to identify significant cost-saving opportunities and operational improvements that lead to enhanced shareholder value.

IN THE NEWS:



SPC, Brady's sorbent business provided over 1 million feet of sweeps, one-half million feet of oil-only booms, and hundreds of thousands of oil-absorbing pads, rolls and nets, to the clean-up of the Deepwater Horizon oil spill in the Gulf of Mexico.

NEW PRODUCTS:

Our strongest year ever of new product launches helped us return to positive organic sales growth in fiscal 2010.



Examples of new products launched in fiscal 2010:

- Printing systems that couple state-of-the-art technology with exceptional user-friendly features including the BMP™ 21 Label Printer for cable and wire identification, and the BMP™ 71 Mobile Printer for electrical and datacom labeling.
- ToughStripe™ Floor Marking tape and signs, the most durable, easy-to-apply and high-visibility solution for industrial floor marking. ToughStripe's low-profile design minimizes tears and scratches, and its high-gloss surface shines like new paint and does not chip or flake when being removed.
- B8088 Halogen-free VTMO Flame Retardant Label, the world's only halogen-free label meeting the most stringent UL flame retardant testing criteria. Ideally suited for consumer electronic devices such as battery packs.
- Transtherm™ Tsoft3US Gap Filler materials designed to conduct heat away from uneven surfaces in electronics products.

ACQUISITIONS:

From 2003 to 2008, Brady made 35 acquisitions. We suspended our acquisition program when the global economic crisis hit in fiscal 2009. After refining our acquisition process, we have now returned to making acquisitions.



Stickolor, a custom-label and nameplate manufacturer in Brazil



Welco, a direct marketer of industrial and commercial workplace equipment in the U.K.



Securimed, a direct marketer of first-aid supplies in France

PRODUCT DIVERSIFICATION

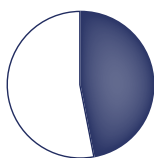
Brady is a global leader in highly fragmented and profitable identification and protection niche markets. Our diverse product offerings serve a broad customer base across all regions of the world.

SAFETY AND FACILITY IDENTIFICATION



Brady's safety & facility products help customers create and maintain safer work environments and comply with regulatory standards.

PERCENTAGE OF TOTAL COMPANY REVENUE:



PRODUCTS

- Signs
- Labels
- Handheld Printers and Supplies
- Benchtop Printers and Supplies
- Lockout/Tagout
- Pipe and Value ID
- Tags
- Software
- Sorbents

MARKETS

- General Manufacturing
- Maintenance
- Safety
- Process Industries
- New Construction
- Environmental Clean-Up
- Nearly all SIC code categories

CHANNELS TO MARKET:

Distribution, Direct Marketing, Direct Sales

GLOBAL TRENDS

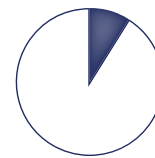
Increasing regulatory environments; growing emphasis on safety in developing countries

WIRE IDENTIFICATION



Brady's labels, sleeves, printers and software provide the total labeling and documentation solution for wire identification

PERCENTAGE OF TOTAL COMPANY REVENUE:



PRODUCTS

- Wire and Cable Markers
- Wrap-Around Sleeves
- Terminal Block Markers
- Patch Panel, Outlet & Faceplate Markers
- Portable & Benchtop Labeling Systems
- Software

MARKETS

- Electrical
- Voice/Data Communications
- General Manufacturing
- Aerospace, Defense and Mass Transit
- New Construction
- Automotive
- Nearly All SIC Code Categories

CHANNELS TO MARKET:

Distribution, Direct Marketing, Direct Sales

GLOBAL TRENDS

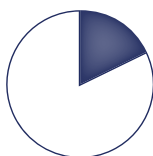
Global urbanization leading to increasing investment in infrastructure construction and mass transit

HIGH PERFORMANCE IDENTIFICATION



Brady uses materials expertise and printing technology to create identification and brand protection solutions that withstand even the harshest environments.

PERCENTAGE OF TOTAL COMPANY REVENUE:



PRODUCTS

- Bar-code labels
- Indicating labels
- Covert and overt brand protection labels
- Handheld and benchtop printers and supplies
- Data collection
- Software
- Laboratory ID
- Asset ID

MARKETS

- Electrical
- Voice/Data Communications
- General Manufacturing
- Aerospace, Defense and Mass Transit
- Consumer Electronics
- Automotive

CHANNELS TO MARKET:

Distribution, Direct Sales, Direct Marketing, Global Account Management

GLOBAL TRENDS

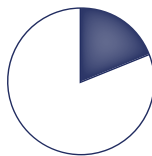
Increasing efforts to combat global counterfeiting; need to manage supply chain complexity due to multiple component outsourcing; growing emphasis on accuracy and tracking in medical and laboratory applications

PRECISION DIE CUT



With state of the art clean rooms and the latest in die-cut technology, Brady provides custom-designed products that seal, insulate, protect, shield or otherwise enhance mechanical performance.

PERCENTAGE OF TOTAL COMPANY REVENUE:



PRODUCTS

- Die-cut adhesives, gaskets & seals
- EMI/RFI shields
- Dampers
- Back light & anti-splinter films
- Antennae, meshes, felts & insulators
- Thermal management solutions
- Test strips, electrodes, drug delivery & wound care

MARKETS

- Mobile handset
- Hard disk drive
- Consumer electronics
- Medical
- Automotive

CHANNELS TO MARKET:

Global Account Management, Direct Sales

GLOBAL TRENDS

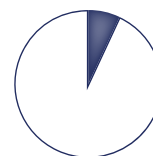
Technology convergence in personal communication and computing devices; smart phones; increased data storage needs

PEOPLE IDENTIFICATION



Brady helps identify people and enhance security by ensuring the right persons are in the right places at the right time.

PERCENTAGE OF TOTAL COMPANY REVENUE:



PRODUCTS

- Name badges
- Employee ID cards
- Time expiring badges
- Lanyards, badge holders & reels
- Visitor management software
- Printers/hardware

MARKETS

- Employee ID
- Visitor management
- Access control

CHANNELS TO MARKET:

Direct Marketing, Direct Sales, Distribution

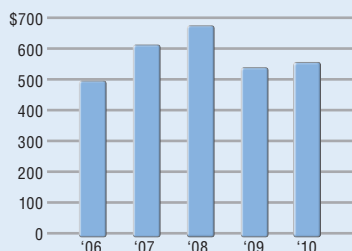
GLOBAL TRENDS

Enhanced emphasis on public and private security, urbanization

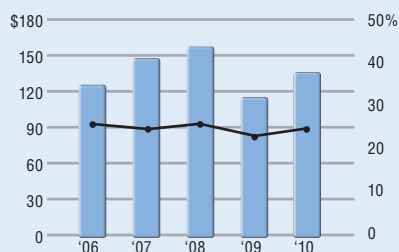
REGIONAL DIVERSIFICATION

AMERICAS REGION

SALES IN \$ MILLIONS

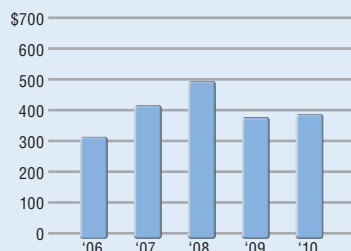


SEGMENT PROFIT IN \$ MILLIONS, AND AS % OF SALES

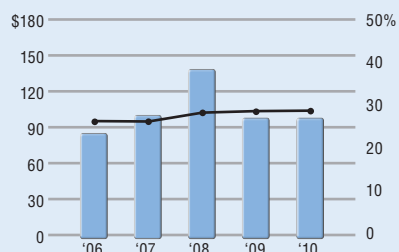


EUROPEAN REGION

SALES IN \$ MILLIONS

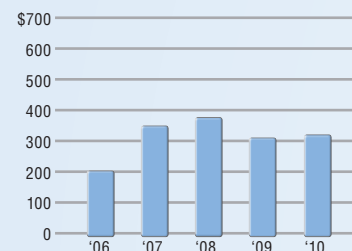


SEGMENT PROFIT IN \$ MILLIONS, AND AS % OF SALES

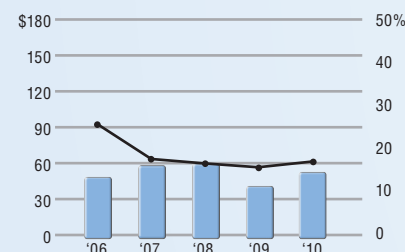


ASIA-PACIFIC REGION

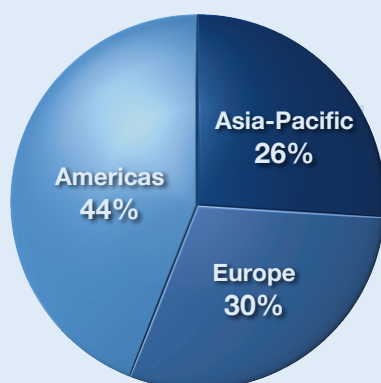
SALES IN \$ MILLIONS



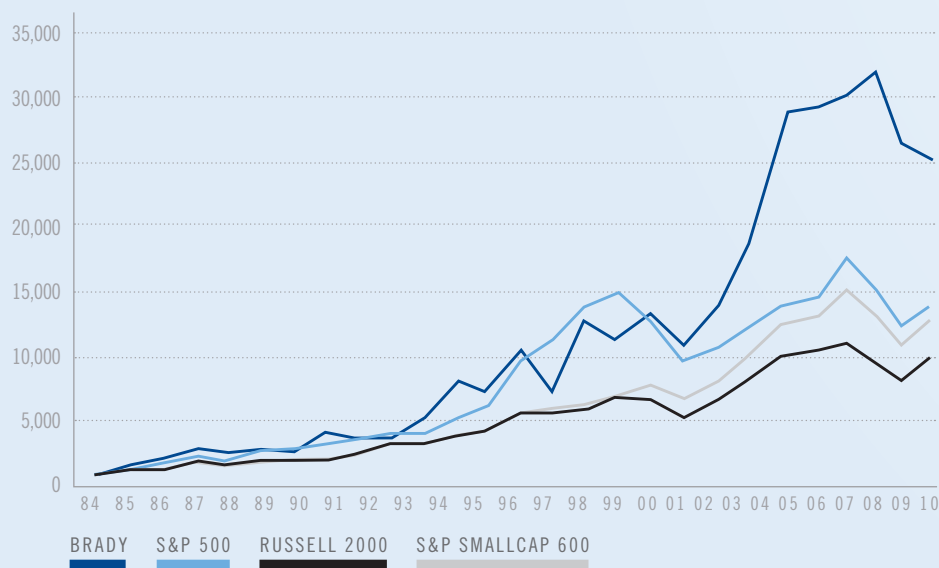
SEGMENT PROFIT IN \$ MILLIONS, AND AS % OF SALES



REGIONAL RESULTS



COMPARISON OF 26 YEAR CUMULATIVE TOTAL RETURN*



* \$1,000 invested on 7/31/84 in stock or index-including reinvestment of dividends. Fiscal year ending July 31.

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SUSTAINABILITY

Brady, through cross functional councils led by key executives, takes a comprehensive approach to sustainability, focusing on the sustainability of the company, our customers and the communities in which we operate.



Sustainable Company – Reducing waste, conserving energy, using natural resources responsibly and focusing on employee safety.



To help reduce its carbon footprint, this year Brady joined the SmartWaySM Transport Partnership, a collaborative effort between the freight industry and the U.S. Environmental Protection Agency to promote greater fuel efficiency and lower emissions from freight. As part of this partnership, Brady has committed to using SmartWay-certified transport carriers for at least 50 percent of its shipping needs.

Brady also worked to conserve energy and reduce costs with:

- The installation of a new geothermic heating/cooling system at Brady's new plant in Egelsbach, Germany
- Use of Power Management software to save energy automatically by shutting down PCs not in use
- Installation of more efficient air compressors at our Somerset and Good Hope Road facilities
- Installation of a VSD compressor, optimization of heating/cooling units and lighting improvements at Brady's Zele site in Belgium resulting in a 25 percent reduction in electricity consumption and a 37 percent reduction in gas consumption.



Sustainable Customers

Designing eco-friendly products for our customers such as halogen-free products including flame retardant labels for consumer electronic devices, wiremarkers and thermal-transfer ribbons; and a new line of plastic safety signs made from 70 percent post-consumer waste.



Sustainable Communities – Developing tomorrow's leaders where we live and work through strategic philanthropy and employee engagement.

Fiscal 2010 highlights include:

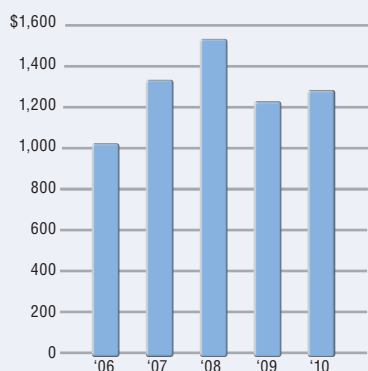
- Charitable giving through the Brady Corporation Foundation and Brady Corporation has increased 10 fold over the past five years.
- Gift-in-kind donations surpass \$1 million.



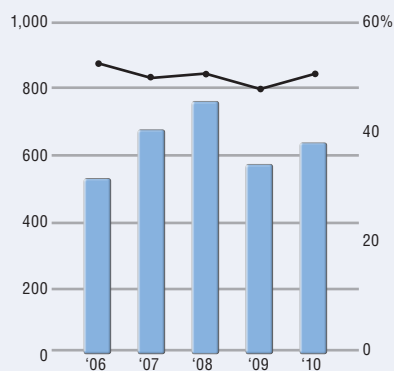
- Projects underwritten by the Brady Corporation Foundation span the globe, from "Brady Corporation Jr.," an interactive exhibit that teaches pre-schoolers about manufacturing at the Betty Brinn Children's Museum in Milwaukee, to dedicating a third China Hope School in Sichuan Province.

FINANCIAL HIGHLIGHTS (for the years ended July 31)

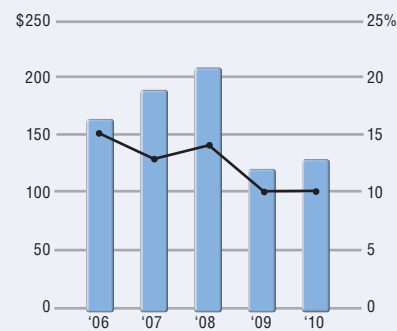
NET SALES IN \$ MILLIONS



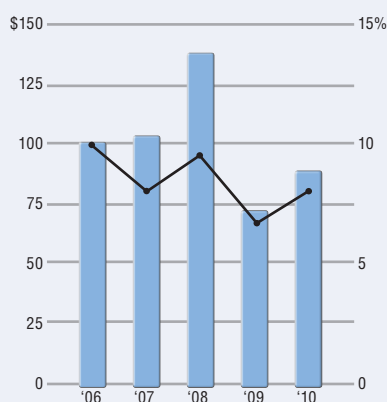
GROSS MARGIN IN \$ MILLION, AND AS % OF SALES



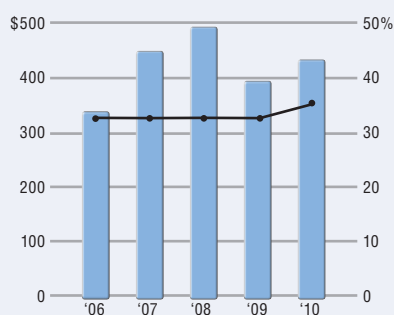
OPERATING INCOME IN \$ MILLION, AND AS % OF SALES



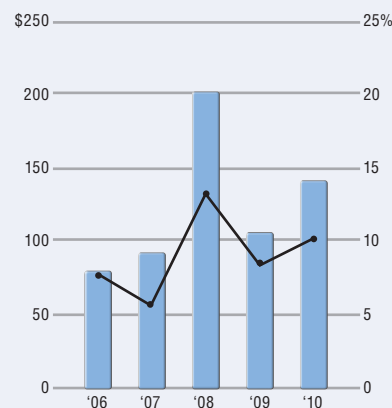
NET INCOME IN \$ MILLION, AND AS % OF SALES



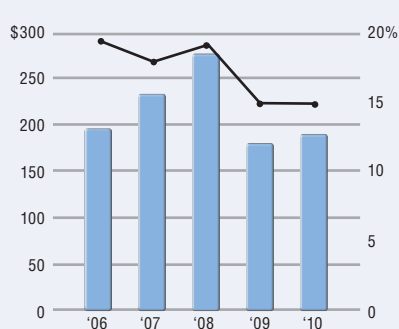
SELLING, GENERAL & ADMINISTRATIVE IN \$ MILLION, AND AS % OF SALES



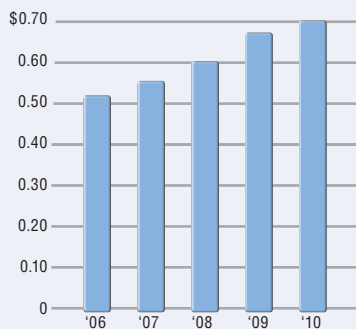
FREE CASH FLOW ⁽¹⁾ IN \$ MILLIONS AND AS % OF SALES



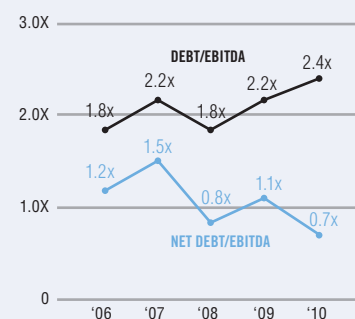
EBITDA ⁽²⁾ IN \$ MILLIONS AND AS % OF SALES



DIVIDEND HISTORY ANNUAL PER SHARE



DEBT/EBITDA & NET DEBT ⁽³⁾/EBITDA



(1) Free cash flow represents net cash provided by operating activities less cash used to purchase property, plant and equipment.

(2) EBITDA represents income before interest, income taxes, depreciation and amortization.

(3) Net debt represents total debt less cash and cash equivalents and short-term investments.

CORPORATE GOVERNANCE & SHAREHOLDER SERVICES

Directors

Frank M. Jaehnert, 53, President, Chief Executive Officer of Brady Corp.

Conrad G. Goodkind, 66, Attorney (Retired) in the law firm of Quarles & Brady LLP

Elizabeth Pungello, 43, Developmental psychologist at the Frank Porter Graham Child Development Institute at the University of North Carolina at Chapel Hill

Robert C. Buchanan, 70, Retired Chairman of the Board of Fox Valley Corporation

Frank W. Harris, 68, President and Chief Executive Officer of Akron Polymer Systems

Chan W. Galbato, 46, Senior Operating Executive, Cerberus Operations & Advisory Company, LLC

Patrick W. Allender, 63, Former Executive Vice President and Chief Financial Officer of Danaher Corporation

Bradley C. Richardson, 52, Executive Vice President and Chief Financial Officer of Diebold Incorporated

Gary Balkema, 55, President of Worldwide Consumer Care Division, Bayer AG

Corporate Officers and Executives

Frank M. Jaehnert
President, CEO and Director

Thomas J. Felmer
Sr. V.P., CFO

Allan J. Klotsche
President — Brady Asia-Pacific and V.P., Brady Corporation

Peter C. Sephton
President — Brady Europe and V.P., Brady Corporation

Matt O. Williamson
President — Brady Americas and V.P., Brady Corporation

Robert L. Tatterson
V.P., Chief Technology Officer

Bentley N. Curran
V.P., Chief Information Officer

Kathy Johnson
V.P., Chief Accounting Officer

Aaron Pearce
V.P., Treasurer, Director of Investor Relations

Analyst and Investor Contact

Aaron Pearce, Vice President, Treasurer and Director of Investor Relations, 414-438-6895.

Annual Meeting

The Brady Corporation Annual Meeting will be at 9 A.M., Thursday, November 18, 2010, at Brady Corporation, 6555 W. Good Hope Road, Milwaukee, Wisconsin. A webcast with highlights will be posted on the Internet at www.investor.bradycorp.com.

Common Shares

Brady Corporation Class A Common Stock trades on the New York Stock Exchange under the symbol BRC. As of September 15, 2010, there were 691 Class A Common Stock shareholders of record and approximately 4,100 beneficial shareholders. There are three Class B Common Stock shareholders.

Quarterly Stock Data

	2008		2009		2010	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
4th Quarter	\$39.04	\$32.99	\$29.41	\$21.33	\$34.75	\$24.37
3rd Quarter	\$34.00	\$28.58	\$23.08	\$14.61	\$35.28	\$27.19
2nd Quarter	\$40.03	\$29.44	\$31.07	\$16.38	\$31.22	\$26.77
1st Quarter	\$43.78	\$34.04	\$39.68	\$25.18	\$33.06	\$27.08

Dividends

Brady has paid dividends on its Common Stock every quarter since going public in June 1984 and the Company has increased the dividend every year for each of the past 25 years. At its September 2010 meeting, the Board of Directors increased the quarterly dividend on Class A Common Stock to \$0.18 per share per quarter or \$0.72 per year. Dividends are normally paid on the last day of business in October, January, April and July.

Dividend Reinvestment

Shareholders of record may have their dividends automatically reinvested in Brady stock through a Dividend Reinvestment Program. For more information on this program, see the description on the Internet at www.investor.bradycorp.com or call Brady's investor relations department at 414-438-6811.

Stock Transfer Agent

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P.O. Box 64584
St. Paul, MN, 55164-0854
www.wellsfargo.com/com/shareowner_services

Brady Information

Brady's Internet site at www.investor.bradycorp.com contains corporate governance information, investor presentations, 10-K, 10-Q and other SEC filings, annual reports, news releases, stock prices, a Brady investment calculator, product information and a variety of other information about Brady.

Information Requests and Investor News Line

Send information requests to Investor Relations, Brady Corporation, P.O. Box 571, Milwaukee, WI 53201-0571, or e-mail investor@bradycorp.com, or call 414-438-6811.

FINANCIAL HIGHLIGHTS

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) Years ended July 31, 2000 through 2010	2000	2001	2002	2003 ²
OPERATING DATA				
Net Sales	\$550,664	\$545,944	\$516,962	\$554,866
Sales Growth %	15.0%	-0.9%	-5.3%	7.3%
Cost of product sold	245,587	257,313	256,186	275,717
Gross Margin	305,077	288,631	260,776	279,149
Gross Margin %	55.4%	52.9%	50.4%	50.3%
Operating expenses:				
Research and development	20,555	20,329	17,271	18,873
Selling, general and administrative	215,231	214,220	199,282	219,861
Restructuring charge - net	—	9,560	2,720	9,589
Total operating expenses	235,786	244,109	219,273	248,323
Operating income	69,291	44,522	41,503	30,826
% of Sales	12.6%	8.2%	8.0%	5.6%
Other income and (expense):				
Investment and other income - net	7,418	686	1,714	1,750
Interest expense	(578)	(418)	(82)	(121)
Net other income (expense)	6,840	268	1,632	1,629
Income before income taxes	76,131	44,790	43,135	32,455
Income taxes	28,930	17,244	14,882	11,035
Net income	\$47,201	\$27,546	\$28,253	\$21,420
% of Sales	8.6%	5.0%	5.5%	3.9%
Net income per Common Share (Diluted):¹				
Class A Nonvoting	\$1.03	\$0.59	\$0.60	\$0.46
Class B Voting	\$1.01	\$0.58	\$0.59	\$0.44
Cash dividends on:¹				
Class A Common Stock	\$0.34	\$0.36	\$0.38	\$0.40
Class B Common Stock	\$0.33	\$0.35	\$0.37	\$0.39
Balance Sheet (at July 31):				
Working Capital	\$116,084	\$123,830	\$135,764	\$123,878
Total Assets	398,134	393,592	420,525	449,519
Long-term Obligations, Less Current Maturities	4,157	4,144	3,751	568
Stockholders' Investment	291,224	302,579	324,242	338,961

2004 ²	2005	2006	2007	2008	2009	2010
\$671,219	\$816,447	\$1,018,436	\$1,362,631	\$1,523,016	\$1,208,702	\$1,259,096
21.0%	21.6%	24.7%	33.8%	11.8%	-20.6%	4.2%
325,858	383,171	492,681	705,587	778,821	631,119	635,799
345,361	433,276	525,755	657,044	744,195	577,583	623,297
51.5%	53.1%	51.6%	48.2%	48.9%	47.8%	49.5%
23,028	25,078	30,443	35,954	40,607	34,181	42,621
248,171	285,746	338,796	449,103	495,904	397,180	435,906
3,181	–	–	–	–	25,849	15,314
274,380	310,824	369,239	485,057	536,511	457,210	493,841
70,981	122,452	156,516	171,987	207,684	120,373	129,456
10.6%	15.0%	15.4%	12.6%	13.6%	10.0%	10.3%
577	1,369	2,403	2,875	4,888	1,800	1,168
(1,231)	(8,403)	(14,231)	(22,934)	(26,385)	(24,901)	(21,222)
(654)	(7,034)	(11,828)	(20,059)	(21,497)	(23,101)	(20,054)
70,327	115,418	144,688	151,928	186,187	97,272	109,402
19,456	33,471	40,513	42,540	53,999	27,150	27,446
\$50,871	\$81,947	\$104,175	\$109,388	\$132,188	\$70,122	\$81,956
7.6%	10.0%	10.2%	8.0%	8.7%	5.8%	6.5%
\$1.07	\$1.64	\$2.07	\$2.00	\$2.41	\$1.32	\$1.55
\$1.05	\$1.63	\$2.05	\$1.98	\$2.39	\$1.31	\$1.53
\$0.42	\$0.44	\$0.52	\$0.56	\$0.60	\$0.68	\$0.70
\$0.40	\$0.42	\$0.50	\$0.54	\$0.58	\$0.66	\$0.68
\$131,706	\$141,560	\$240,537	\$303,359	\$390,524	\$286,955	\$375,184
697,900	850,147	1,365,186	1,698,857	1,850,513	1,583,267	1,746,531
150,019	150,026	350,018	478,575	457,143	346,457	382,940
403,315	497,274	746,046	891,012	1,021,808	951,092	1,005,027

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

In fiscal 2010, the Company posted sales of \$1,259.1 million and net income of \$82.0 million, an increase of 4.2% and 16.9%, respectively, from fiscal 2009. Of the 4.2% increase in sales, organic sales increased 0.2%, the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar increased sales by 2.7%, and fiscal 2010 acquisitions increased sales 1.3%. Regionally, fiscal 2010 sales in the Americas, Europe, and Asia-Pacific increased 3.1%, 3.5%, and 6.7%, respectively, as compared to fiscal 2009.

Net income for fiscal 2010 increased 16.9% to \$82.0 million or \$1.55 per diluted share of Class A Common Stock, compared to \$70.1 million, or \$1.32 per diluted share of Class A Common Stock in fiscal 2009. Fiscal 2010 net income before restructuring related expenses was \$93.4 million, or \$1.76 per diluted share of Class A Common Stock compared to 2009 net income before restructuring related expenses of \$90.2 million, or \$1.71 per diluted share of Class A Common Stock.

In fiscal 2010, the Company generated \$165.2 million of cash from operations, an increase of \$38.6 million from the prior fiscal year. The increase was primarily due to the Company's improvements in working capital and net income.

Results of Operations

**Year Ended July 31, 2010,
Compared to Year Ended July 31, 2009**

The comparability of the operating results for the fiscal years ended July 31, 2010 to July 31, 2009, has been impacted by the following acquisitions completed in fiscal 2010.

Acquisitions:	Segment	Date Completed
Welconstruct Group Limited ("Welco")	Europe	October 2009
Stickolor Industria e Comercio de Auto Adesivos Ltd ("Stickolor")	Americas	December 2009
Securimed SAS ("Securimed")	Europe	March 2010

Fiscal 2010 sales increased \$50.4 million, or 4.2% from fiscal 2009. The 4.2% increase consisted of 0.2% growth in organic sales, 1.3% growth due to acquisitions, and 2.7% growth resulting from the effects of foreign currency translation.

Organic sales, defined as sales in the Company's existing core businesses and regions (exclusive of acquisitions owned less than one year and foreign currency translation effects), were up 0.2% compared to fiscal 2009. The annual organic sales growth of 0.2% varied significantly by quarter. In the first quarter of the year the Company experienced a 15.9% decline in organic sales as the prior year quarter had not yet been impacted by the economic recession. Subsequent to the first quarter the Company experienced sequential growth over the prior period each quarter.

The acquisitions listed above increased sales by \$16.2 million or 1.3% in fiscal 2010. The currency growth reflects fluctuations in the exchange rates used to translate financial results into the United States Dollar which increased sales by \$32.3 million or 2.7% for the year.

The gross margin as a percentage of sales increased to 49.5% in fiscal 2010 from 47.8% in fiscal 2009. The increase in gross margin as a percentage of sales was primarily due to the cost savings generated from restructuring activities as well as lean and continuous improvement activities in fiscal 2010 and 2009.

Research and development expenses increased to \$42.6 million in fiscal 2010 from \$34.2 million in fiscal 2009, and increased as a percentage of sales in fiscal 2010 to 3.4% compared to 2.8% in fiscal 2009. The increase was due to the Company's continued commitment to investing in new product development as well as the increased incentive compensation expenses during fiscal 2010.

Selling, general, and administrative ("SG&A") expenses increased to \$435.9 million in fiscal 2010 as compared to \$397.2 million in fiscal 2009. The increase in SG&A expenses was primarily due to the resumption of payment of certain incentive compensation expenses during fiscal 2010, as well as the effects of the fluctuations in the exchange rates used to translate financial results into the United States dollar. In fiscal 2009, the Company experienced a reduction in SG&A due to the elimination of certain incentive compensation plans during the year. As a percentage of sales, SG&A increased to 34.6% in fiscal 2010 from 32.9% in fiscal 2009.

Restructuring charges were \$15.3 and \$25.8 million during fiscal 2010 and 2009, respectively. In fiscal 2009, \$1.6 million of income tax expense was also incurred related to the anticipated repayment of certain tax holidays due to site consolidation actions. In response to the global economic downturn, the Company implemented a plan to reduce its cost structure. During fiscal 2009 and 2010, the Company incurred costs related to the reduction of its workforce and facility consolidations. Restructuring costs related primarily to employee separation costs, consisting of severance pay, outplacement services, medical, and other related benefits for the Company's work force.

Interest expense decreased to \$21.2 million from \$24.9 million for fiscal 2010 compared to fiscal 2009. In fiscal 2010, the Company repaid approximately \$44.9 million of debt. Interest expense decreased due to the Company's lower principal balance under the previously outstanding debt agreements. The decrease was partially offset by additional interest on the May 2010 private placement, as compared to the prior year.

Other income and expense decreased \$0.6 million in fiscal 2010 to \$1.2 million from \$1.8 million in the prior year. The decrease was primarily due to a decrease in foreign exchange gains, offset by gains on securities held in executive deferred compensation plans.

The Company's effective tax rate was 25.1% for fiscal 2010 compared to 27.9% for fiscal 2009. The decrease in the Company's effective tax rate during fiscal 2010 was primarily due to the mix of profits in low and high tax countries as well as positive impacts from foreign and U.S. income tax audits. The Company anticipates that its fiscal 2011 tax rate will approximate 26%, subject to potential effects of pending and proposed U.S. tax legislation.

On August 10, 2010, the Education Jobs and Medicaid Assistance Act of 2010 was passed in the United States. This law included certain international tax provisions that could increase the Company's tax rate. However, the Company has not yet completed analyzing the impact that this legislation may have on its earnings or financial position.

Net income for the fiscal year ended July 31, 2010, increased 16.9% to \$82.0 million, compared to \$70.1 million for the fiscal year ended July 31, 2009, as a result of the factors noted above. Net income as a percentage of sales increased to 6.5% from 5.8% for the fiscal year

ended July 31, 2010 compared the same period in the prior year. Diluted net income per share increased 17.4% to \$1.55 per share for fiscal 2010 compared to \$1.32 per share for the fiscal year ended July 31, 2009. Fiscal 2010 and 2009 net income before restructuring related expenses was \$93.4 million, or \$1.76 per diluted share of Class A Common Stock, and \$90.2 million, or \$1.71 per diluted share of Class A Common Stock, respectively.

Year Ended July 31, 2009 Compared to Year Ended July 31, 2008

The comparability of the operating results for the fiscal years ended July 31, 2009 to July 31, 2008, has been impacted by the annualized impact of the following acquisitions completed in fiscal 2008.

Acquisitions:	Segment	Date Completed
Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively "Transposafe")	Europe	November 2007
DAWG, Inc. ("DAWG")	Americas	March 2008

Fiscal 2009 sales decreased \$314.3 million, or 20.6% from fiscal 2008. Organic sales, defined as sales in the Company's existing core businesses and regions (exclusive of acquisitions owned less than one year and foreign currency translation effects), were down 16.4% compared to fiscal 2008. The decrease in organic sales was primarily due to the effects of the economic downturn in fiscal 2009. The acquisitions listed above increased sales by \$9.0 million or 0.6% in fiscal 2009. Fluctuations in the exchange rates used to translate financial results into the United States Dollar decreased sales by \$73.2 million or 4.8% for the year.

The gross margin as a percentage of sales decreased to 47.8% in fiscal 2009 from 48.9% in fiscal 2008. The decrease in gross margin as a percentage of sales was primarily due to the sales decline, partially offset by the result of cost reduction actions taken during fiscal 2008 and fiscal 2009.

Research and development expenses decreased to \$34.2 million in fiscal 2009 from \$40.6 million in fiscal 2008, and increased slightly as a percentage of sales in fiscal 2009 to 2.8% compared to 2.7% in fiscal 2008, reflecting the reduced discretionary spending and the Company's continued commitment to investing in new product development.

Selling, general, and administrative ("SG&A") expenses decreased to \$397.2 million in fiscal 2009 as compared to \$495.9 million in fiscal 2008. The decrease in SG&A expenses was primarily related to the savings resulting from restructuring activities that took place during fiscal 2009, a decline in discretionary spending, and reduced incentive compensation expense compared to the prior year. As a percentage of sales, SG&A increased to 32.9% in fiscal 2009 from 32.6% in fiscal 2008.

Restructuring charges were \$25.8 million during fiscal 2009. Additionally, \$1.6 million of income tax expense was also incurred related to the anticipated repayment of certain tax holidays due to site consolidation actions. In response to the global economic downturn, the Company implemented a plan to reduce its cost structure. During

fiscal 2009, the Company incurred costs related to the reduction of its workforce and facility consolidations. Restructuring costs related primarily to employee separation costs, consisting of severance pay, outplacement services, medical, and other related benefits for approximately 25 percent of the Company's work force.

Other income decreased \$3.1 million in fiscal 2009 to \$1.8 million from \$4.9 million in the prior year. The income recorded in fiscal 2009 and fiscal 2008 was primarily due to interest income earned on cash and marketable securities investments. The \$1.8 million of other income recorded in fiscal 2009 consisted of \$2.5 million of interest income and \$0.9 million in foreign exchange gains, partially offset by the \$1.6 million loss of securities held in executive deferred compensation plans. The decrease in interest income in fiscal 2009 was the result of both lower interest rates and decreased cash generated from the operating activities and lower average cash balances.

Interest expense decreased to \$24.9 million from \$26.4 million for fiscal 2009 compared to fiscal 2008. In fiscal 2009, the Company repaid approximately \$87.2 million of debt. As a result of the lower principal balance under the related debt agreement, the Company's interest expense decreased as compared to the prior year.

The Company's effective tax rate was 27.9% for fiscal 2009 compared to 29.0% for fiscal 2008. The decreased tax rate in fiscal 2009 was primarily due to decreased profits in higher tax countries.

Net income for the fiscal year ended July 31, 2009, decreased 47% to \$70.1 million, compared to \$132.2 million for the fiscal year ended July 31, 2008, as a result of the factors noted above. Net income as a percentage of sales decreased to 5.8% from 8.7% for the fiscal year ended July 31, 2009 compared the same period in the prior year. Diluted net income per share decreased 45.2% to \$1.32 per share for fiscal 2009 compared to \$2.41 per share for the fiscal year ended July 31, 2008. Fiscal 2009 net income before restructuring related expenses was \$90.2 million, or \$1.71 per diluted share of Class A Common Stock.

Business Segment Operating Results

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, Europe and Asia Pacific, has a President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each region has its own distinct operations, is managed locally by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. The Company has determined that these regions comprise its operating and reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance. Segment results are as follows:

(Dollars in thousands)	Americas		Europe	Asia-Pacific	Total Regions	Corporate and Eliminations	Total Company					
SALES TO EXTERNAL CUSTOMERS												
Years ended:												
July 31, 2010	\$	551,185	\$	380,121	\$	327,790	\$	1,259,096	—	\$	1,259,096	
July 31, 2009		534,440		367,156		307,106		1,208,702		—	1,208,702	
July 31, 2008		667,106		496,715		359,195		1,523,016		—	1,523,016	
SALES GROWTH INFORMATION												
Year ended July 31, 2010:												
Organic		0.1%		(0.3)%		0.8%		0.2%		—	0.2%	
Currency		1.6%		1.4%		5.9%		2.7%		—	2.7%	
Acquisitions		1.4%		2.4%		0.0%		1.3%		—	1.3%	
Total		3.1%		3.5%		6.7%		4.2%		—	4.2%	
Year ended July 31, 2009:												
Organic		(18.5)%		(18.1)%		(10.3)%		(16.4)%		—	(16.4)%	
Currency		(1.7)%		(9.4)%		(4.2)%		(4.8)%		—	(4.8)%	
Acquisitions		0.3%		1.4%		0.0%		0.6%		—	(0.6)%	
Total		(19.9)%		(26.1)%		(14.5)%		(20.6)%		—	(20.6)%	
SEGMENT PROFIT												
Years ended:												
July 31, 2010	\$	125,169	\$	103,316	\$	52,105	\$	280,590	\$	(14,131)	\$	266,459
July 31, 2009		114,404		99,875		42,575		256,854		(7,952)		248,902
July 31, 2008		157,523		135,426		58,234		351,183		(9,048)		342,135

Net Income Reconciliation

(Dollars in thousands)	Years ended July 31:		
	2010	2009	2008
Total profit for reportable segments	\$ 280,590	\$ 256,854	\$ 351,183
Corporate and eliminations	(14,131)	(7,952)	(9,048)
Unallocated amounts:			
Administrative costs	(121,689)	(102,680)	(134,451)
Restructuring costs	(15,314)	(25,849)	—
Investment and other income – net	1,168	1,800	4,888
Interest expense	(21,222)	(24,901)	(26,385)
Income before income taxes	109,402	97,272	186,187
Income taxes	(27,446)	(27,150)	(53,999)
Net income	\$ 81,956	\$ 70,122	\$ 132,188

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Corporate long-term performance is evaluated based on shareholder value enhancement ("SVE"), which incorporates the cost of capital as a hurdle rate for capital expenditures, new product development, and acquisitions. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology and human resources, which are managed as global functions. Restructuring charges, stock options, interest, investment and other income and income taxes are also excluded when evaluating segment performance.

Americas

Sales in the Americas region increased 3.1% from fiscal 2009 to fiscal 2010, and decreased 19.9% from fiscal 2008 to fiscal 2009. Organic sales grew 0.1% in 2010 and declined 18.5% in 2009. The annual organic sales growth of 0.1% in fiscal 2010 varied significantly during the year. In the first quarter the Americas experienced a 15.2% decline in organic sales as the prior year quarter had not yet been impacted by the economic recession. In the second quarter the Americas experienced a 4.3% decline in organic sales as the economic recession began in the prior year quarter. Subsequent to the first half of the year, Americas experienced sequential growth over the prior period each quarter due to modest improvements in the cable and wire ID, industrial identification, and safety and facility identification markets. The Company's sales volumes of sorbent products increased in the fourth quarter of fiscal 2010 as a result of the clean-up of the Gulf of Mexico oil spill. The acquisition of Stickolor increased sales of the segment by 1.4% and the fluctuations of the exchange rates used to translate financial results into U.S. dollars increased sales by 1.6% in fiscal 2010. The segment experienced declines in organic sales in fiscal 2009 due to the global economic downturn. The decrease in sales also resulted from the declining volumes of the manufacturing and construction sectors, as well as the impact of declining inventories of the Company's distribution partners and other customers. Fluctuations in the exchange rates used to translate financial results into U.S. dollars decreased sales by 1.7% in fiscal 2009 when compared to the prior fiscal year.

In the Americas region, segment profit increased 9.4% to \$125.2 million in fiscal 2010 from \$114.4 million in fiscal 2009. Segment profit as a percentage of sales increased to 22.7% in 2010 from 21.4% in 2009. This increase was primarily due to the segment's commitment to its productivity initiatives including lean manufacturing and strategic sourcing initiatives. Comparing fiscal 2009 to 2008, segment profit decreased 27.4% to \$114.4 million in fiscal 2009 from \$157.5 million in fiscal 2008. Segment profit as a percentage of sales decreased to 21.4% in 2009 from 23.6% in 2008. This decrease was primarily due to the decrease in sales volume, impacting the segment's ability to absorb fixed costs. Cost savings partially offset this decrease. Costs savings came from the restructuring activities in addition to reductions in discretionary spending.

Europe

Sales in the European region increased 3.5% from fiscal 2009 to fiscal 2010, and decreased 26.1% in fiscal 2009 from fiscal 2008. Organic sales declined 0.3% in fiscal 2010 and 18.1% in fiscal 2009 as compared to prior years. The annual organic sales decline of 0.3% varied significantly during the year. In the first quarter Europe experienced a 12.3% decline in organic sales as the prior year

quarter had not yet been impacted by the economic recession. In the second quarter Europe experienced a 1.6% decline in organic sales as the economic recession began in the prior year quarter. Subsequent to the first half of the year, Europe experienced sequential growth over the prior period each quarter. The segment's organic sales volumes in direct marketing businesses and electronic industries improved modestly. The increase was offset by the decline in sales to governmental and public utilities. The acquisitions of Welco and Securimed in fiscal 2010 increased sales by 2.4%. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into the United States dollar, which increased sales within the segment by 1.4% in fiscal 2010. In fiscal 2009 the segment was negatively affected by the fluctuations in the exchange rates, reducing sales by 9.4% as compared to prior periods. Organic sales declined 18.1% in fiscal 2009 as compared to the prior year. The segment's organic sales continued to be adversely impacted by the global economic downturn in fiscal 2009. Organic sales in the private sector to the automotive and electronics markets declined in the Europe segment, with sales to governments and public utilities partially offsetting these declines.

In the Europe region, segment profit increased 3.4% to \$103.3 million in fiscal 2010 from \$99.9 million in fiscal 2009. Segment profit as a percentage of sales remained constant at 27.2% in fiscal 2010 and 2009. The segment maintained its segment profit percent in fiscal 2010 and was able to offset the increased expenses with cost savings initiatives put in place in fiscal 2009 and 2010. Comparing fiscal 2009 to 2008, segment profit as a percentage of sales decreased slightly to 27.2% in 2009 from 27.3% in 2008. The decline in segment profit in fiscal 2009 was attributable to the declining sales volumes and the impact of foreign currency translation. In response to the sales downturn, the segment implemented various cost saving measures during fiscal year 2009 that have generated savings to partially offset the impact of lower sales volumes.

Asia-Pacific

Asia-Pacific sales increased 6.7% from fiscal 2009 to fiscal 2010, and decreased 14.5% in fiscal 2009 from fiscal 2008. Organic sales increased 0.8% in fiscal 2010 and declined 10.3% in fiscal 2009 as compared to prior years. The annual organic sales growth of 0.8% varied significantly during the year. In the first quarter Asia experienced a 20.4% decline in organic sales as the prior year quarter had not yet been impacted by the economic recession. In the second quarter Asia experienced a 25.7% growth in organic sales as the impact of the economic recession in the prior quarter was offset by a heightened focus on high end mobile electronics and strong growth in the data storage market. In the third and fourth quarters Asia experienced growth of 9.4% and 5.2%, respectively. The increase in organic sales in fiscal 2010 was primarily due to the success in higher-end solutions in both the mobile electronics and computer and storage markets. The decline in organic sales in fiscal 2009 was primarily due to the overall decline in the electronics and mobile handset markets and aggressive pricing demands from customers, slightly offset by increased demand for MRO products to support infrastructure development sponsored by government stimulus spending in the region. Foreign currency translation positively impacted the segment's sales by 5.9% in 2010 whereas in fiscal 2009 the segment's sales were negatively impacted by 4.2%, as compared to prior years.

In the Asia-Pacific region, segment profit increased 22.4% to \$52.1 million in fiscal 2010 from \$42.6 million in fiscal 2009. Segment profit as a percentage of sales increased to 15.9% in fiscal 2010 from 13.9% in fiscal 2009. The increase in the segment's profit was primarily due to the commitment to lean manufacturing at all of the segment's facilities. Comparing fiscal 2009 to 2008, segment profit as a percentage of sales declined to 13.9% in 2009 from 16.2% in 2008. The decline in the profit in fiscal 2009 was primarily the result of decreased sales, offset by savings generated from restructuring activities, shortened work weeks, and reduced discretionary spending.

Liquidity and Capital Resources

Cash and cash equivalents were \$314.8 million at July 31, 2010, compared to \$188.2 million at July 31, 2009. The increase of \$126.6 million was the result of cash provided by operations of \$165.2 million, offset by cash used in investing activities of \$48.7 million, and cash provided by financing activities of \$15.3 million. The financing activities included \$94.9 million in proceeds from debt issuance, \$44.9 million debt principal payments, \$2.5 million related to the repurchase of treasury stock, and \$36.8 million in dividend payments. The effects on the fluctuations of the U.S. dollar against other currencies negatively impacted cash by \$5.1 million during fiscal 2010.

The Company's working capital excluding cash as a percentage of sales decreased to 5% in fiscal 2010 from 8% in fiscal 2009. Accounts receivable balances increased \$30.4 million from July 31, 2009 to July 31, 2010. The increase in accounts receivable was due primarily to the impact of foreign currency translation as well as the increase in sales volumes. Inventories increased \$0.9 million from July 31, 2009 to July 31, 2010 due to increased business activity, partially offset by focused inventory reduction initiatives, and the impact of foreign currency translation. Current liabilities increased \$71.3 million over the same period due to the return of the annual incentive compensation plans in fiscal 2010 as well as the impact of foreign currency translation. Annual incentive compensation plans were cancelled for fiscal 2009 due to the Company's financial performance resulting from the economic downturn and as such, no payouts for incentive compensation were made during the first quarter of fiscal 2010. The current maturities of long-term debt also increased to \$61.3 million during fiscal 2010 as principal payments on outstanding debt become due in the next twelve months.

In fiscal 2010, the Company generated \$165.2 million of cash from operations, an increase of \$38.6 million from the prior fiscal year. The increase was primarily due to improvements in the Company's net income and working capital, as discussed above.

Cash used for investing activities totaled \$48.7 million and \$19.0 million in fiscal 2010 and 2009, respectively. Cash used for acquisitions totaled \$30.4 million during fiscal 2010, as compared to \$0.0 and \$29.3 million of cash used for acquisitions in fiscal 2009 and 2008, respectively. The Company did not complete any acquisitions in fiscal 2009. The cash paid in fiscal 2010 for Welco, Stickolor, and Securimed was \$1.8 million, \$18.5 million, and \$10.1 million, respectively. The investing activities also include the settlement of the net investment foreign exchange contract resulting in proceeds of \$6.2 million which is accounted for as component of other comprehensive income ("OCI") on the Consolidated Balance Sheet. In fiscal 2009 the Company reached a settlement with the

former owners of Tradex related to the purchase price of the Tradex acquisition. The Company received approximately \$3.5 million as the result of the settlement during fiscal 2009. Payments of \$0.7 million and \$0.7 million were made during fiscal 2009 to satisfy the earnout and holdback liabilities of the Transposafe and Asterisco acquisitions, respectively.

Capital expenditures were \$26.3 million in fiscal 2010, \$24.0 million in fiscal 2009, and \$26.4 million in fiscal 2008. Capital expenditures in fiscal 2010 were similar to fiscal 2009 reflecting a normalized spend rate.

Financing activities provided \$15.3 million in fiscal 2010, and used \$160.3 million and \$76.9 million in fiscal 2009 and fiscal 2008, respectively. Cash used for dividends to shareholders was \$36.8 million in fiscal 2010, \$35.8 million in fiscal 2009, and \$32.5 million in fiscal 2008. Cash received from the exercise of stock options was \$3.7 million in fiscal 2010, \$1.7 million in fiscal 2009, and \$14.5 million in fiscal 2008. The Company purchased treasury stock of \$2.5 million in fiscal 2010, \$40.3 million in fiscal 2009 and \$42.2 million in fiscal 2008. The Company received proceeds of \$94.9 million from the May 2010 private placement as discussed below.

On November 24, 2008, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"), which will allow the Company to issue and sell, from time to time in one or more offerings, an indeterminate amount of Class A Non-Voting Common Stock and debt securities as it deems prudent or necessary to raise capital at a later date. The shelf registration statement became effective upon filing with the SEC. The Company plans to use the proceeds from any future offerings under the shelf registration for general corporate purposes, including, but not limited to, acquisitions, capital expenditures, and refinancing of debt.

On May 13, 2010, the Company completed a private placement of €75.0 million (approximately \$95.0 million USD) aggregate principal amount of senior unsecured notes to accredited institutional investors. The €75.0 million of senior notes consists of €30.0 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, due May 13, 2017 and €45.0 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for prepaying them prior to maturity. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. These unsecured notes were issued pursuant to a note purchase agreement, dated May 13, 2010. The note purchase agreement requires the Company to maintain a ratio of debt to the trailing twelve months EBITDA, as defined by the agreement, of not more than a 3.5 to 1.0 ratio.

During fiscal 2004 through fiscal 2007, the Company completed three private placement note issuances totaling \$500 million in ten-year fixed rate notes with varying maturity dates to institutional investors at interest rates varying from 5.14% to 5.33%. The notes must be repaid equally over seven years, with initial payment due dates ranging from 2008 to 2011, with interest payable on the notes

due semiannually on various dates throughout the year, which began in December 2004. The private placements were exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. Under the debt agreement, the Company made scheduled principal payments of \$44.9 million, \$21.4 million, and \$21.4 million, during the years ended July 31, 2010, 2009, and 2008, respectively. In June 2009, the Company also completed a cash tender offer to purchase approximately \$65.8 million of its outstanding notes at par without penalty.

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 credit facility may be increased from \$200 million up to \$300 million. Under the credit agreement, 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 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 of the Company. 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. On March 18, 2008, the Company entered into an amendment to the revolving loan agreement which extended the maturity date from October 5, 2011 to March 18, 2013. All other terms of the revolving loan agreement remained the same. As of July 31, 2010, there were no outstanding borrowings under the credit facility.

The Company's debt and revolving loan agreements require it to maintain certain financial covenants. The Company's June 2004, February 2006, March 2007, and May 2010 private placement debt agreements require the Company to maintain a ratio of debt to the trailing twelve months EBITDA, as defined in the debt agreements, of not more than a 3.5 to 1.0 ratio (leverage ratio). As of July 31, 2010, the Company was in compliance with the financial covenant of these debt agreements, with the ratio of debt to EBITDA, as defined by the agreements, equal to 2.2 to 1.0. Additionally, the Company's October 2006 revolving loan agreement requires the Company to maintain a ratio of debt to trailing twelve months EBITDA, as defined by the debt agreement, of not more than a 3.0 to 1.0 ratio. The revolving loan agreement requires the Company's trailing twelve months earnings before interest and taxes ("EBIT") to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of July 31, 2010, the Company was in compliance with the financial covenants of the revolving loan agreement, with the ratio of debt to EBITDA, as defined by the agreement, equal to 2.3 to 1.0 and the interest expense coverage ratio equal to 6.6 to 1.0.

Long-term obligations as a percentage of long-term obligations plus stockholders' investment were 27.6% at July 31, 2010 and 26.7% at July 31, 2009. Long-term obligations increased by \$36.5 million from July 31, 2009 to July 31, 2010 due to the private placement

completed in fiscal 2010 offset by the debt repayments made during the year. The debt repayments consisted of the scheduled installment of \$26.1 million on the 2004 private placement and an installment of \$18.8 million on the 2006 private placement. An additional \$16.4 million was reclassified to current maturities on long-term obligations during fiscal 2010. The decrease in debt was partially offset by the negative impact of foreign currency translation on our euro denominated debt.

Stockholders' investment increased \$53.9 million during fiscal 2010 due to net income of \$82.0 million offset by the dividends paid on Class A and Class B Common Stock of \$34.4 million and \$2.4 million, respectively. The decrease in the accumulated other comprehensive income of \$2.1 million was primarily due to foreign currency translation.

While the Company strives to maximize investment income on its cash, preservation of principal is the first priority. Especially in volatile markets, as the Company has recently experienced, the Company's investment policy is intended to preserve principal as its primary goal, resulting in investment yields lower than those historically achieved.

The Company's growth has historically been funded by a combination of cash provided by operating activities and debt financing. The Company believes that its cash from operations, in addition to its borrowing capacity and ability to obtain additional financing, are sufficient to fund its anticipated requirements for working capital, capital expenditures, restructuring activities, acquisitions, common stock repurchases, scheduled debt repayments, and dividend payments. As of the date of this Form 10-K, the credit and financial markets are in a period of instability and uncertainty that is affecting the availability of credit to borrowers. The Company believes that its current credit arrangements are sound and that the strength of its balance sheet will allow the Company the financial flexibility to respond to both internal growth opportunities and those available through acquisition.

Subsequent Events Affecting Liquidity and Capital Resources

On September 9, 2010, the Company announced an increase in the annual dividend to shareholders of the Company's Class A Common Stock, from \$0.70 to \$0.72 per share. A quarterly dividend of \$0.18 will be paid on October 29, 2010, to shareholders of record at the close of business on October 8, 2010. This dividend represents an increase of 2.9% and is the 25th consecutive annual increase in dividends.

Off-Balance Sheet Arrangements

The Company does not have material off-balance sheet arrangements or related party transactions. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risks discussed in this filing and presented in other Company filings. However, the following additional information is provided to assist financial statement users.

Operating Leases – These leases generally are entered into for investments in facilities such as manufacturing facilities, warehouses and office space, computer equipment and Company vehicles.

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

Other Contractual Obligations – The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity other than those discussed below under "Payments Due Under Contractual Obligations."

Related Party Transactions – The Company evaluated its affiliated party transactions for the period ended July 31, 2010. Based on the evaluation the Company does not have material related party transactions that affect the results of operations, cash flow or financial condition.

Payments Due Under Contractual Obligations

The Company's future commitments at July 31, 2010, for long-term debt, operating lease obligations, purchase obligations, interest obligations and other obligations are as follows (dollars in thousands):

Contractual Obligations	Total	Payments due by period				
		Less than 1 year	1-3 years	3-5 years	More than 5 years	Uncertain timeframe
Long-Term Debt Obligations	\$ 444,204	\$ 61,264	\$ 122,528	\$ 103,778	\$ 156,634	\$ —
Operating Lease Obligations	64,086	21,258	27,874	9,970	4,984	—
Purchase Obligations (1)	73,173	46,490	11,093	12,380	3,210	—
Interest Obligations	103,664	22,909	36,153	22,555	22,047	—
Tax Obligations	17,668	—	—	—	—	17,668
Other Obligations (2)	13,763	1,060	2,361	2,666	7,676	—
Total	\$ 716,558	\$ 152,981	\$ 200,009	\$ 151,349	\$ 194,551	\$ 17,668

(1) Purchase obligations include all open purchase orders as of July 31, 2010.

(2) Other obligations represent expected payments under the Company's postretirement medical, dental, and vision plans as disclosed in Note 3 to the consolidated financial statements.

Inflation and Changing Prices

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

Critical Accounting Estimates

Income Taxes

The Company's effective tax rate is based on pre-tax income and the tax rates applicable to that income in the various jurisdictions in which the Company operates. Significant judgment is required in determining the Company's effective income tax rate and in evaluating its tax positions. The Company adopted the accounting guidance related to the accounting for uncertainty in income taxes on August 1, 2007. The Company establishes liabilities when it is not more likely than not that the Company will realize the full tax benefit of the position. The Company adjusts these liabilities in light of changing facts and circumstances.

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

Goodwill and Intangible Assets

The allocation of purchase price for business combinations requires management estimates and judgment as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocation purposes. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require acceleration of the amortization expense of finite-lived intangible assets. In addition, accounting guidance requires that goodwill and other indefinite-lived intangible assets be tested at least annually for impairment. Changes in management's estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company's financial condition and results of operations. To aid in establishing the value of goodwill and other intangible assets at the time of acquisition, Company policy requires that all acquisitions with a purchase price above \$5 million require the use of external valuations.

The Company has identified five reporting units within its three reportable segments. The Company's methodologies for valuing goodwill are applied consistently on a year-over-year basis; the assumptions used in performing the 2010 impairment calculations were evaluated in light of market and business conditions. Brady continues to believe that the discounted cash flow model and market multiples model provide a reasonable and meaningful fair value estimate based upon the reporting units' projections of future operating results and cash flows and replicates how market participants would value the Company's reporting units.

In performing the Company's annual impairment assessment the Company performed a sensitivity analysis on the material assumptions used in the discounted cash flow valuation models for each of its reporting units. Based on the Company's fiscal 2010 impairment testing and assuming a hypothetical 10% decrease in the estimated fair values of each of its reporting units, the hypothetical fair value of each of the Company's reporting units would have been greater than the carrying value. See Note 1 of the Notes to Consolidated Financial Statements for further information about goodwill and intangible assets.

Reserves and Allowances

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

New Accounting Standards

The information required by this Item is provided in Note 1 of the Notes to Consolidated Financial Statements.

Forward-Looking Statements

Brady believes that certain statements in this report 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-K, 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-K, words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "project" or "plan" or similar terminology are generally intended to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from the length or severity of the current worldwide economic downturn or timing or strength of a subsequent recovery; 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 develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; fluctuations in currency rates versus the US dollar; unforeseen tax consequences; potential write-offs of Brady's substantial intangible assets; Brady's ability to retain significant contracts and customers; risks associated with international operations; Brady's ability to maintain compliance with its debt covenants; technology changes; business interruptions due to implementing business systems; environmental, health and safety compliance costs and liabilities; future competition; interruptions to sources of supply; Brady's ability to realize cost savings from operating initiatives; difficulties associated with exports; risks associated with restructuring plans; risks associated with obtaining governmental approvals and maintaining regulatory compliance; 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. 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.

Risk Factors

Please see the information contained in Item 1A – Risk Factors of Brady's fiscal 2010 Form 10-K.

Quantitative and Qualitative Disclosures About Market Risk

The Company's business operations give rise to market risk exposure due to changes in foreign exchange rates. To manage that risk effectively, the Company enters into hedging transactions, according

to established guidelines and policies that enable it to mitigate the adverse effects of this financial market risk.

The global nature of the Company's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. Dollar. The objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions and minimize the foreign currency translation impact on the Company's European operations. To achieve this objective, the Company hedges a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Singapore Dollar, Swedish Krona, Danish Krone, Japanese Yen, Swiss Franc, and the Korean Won currency. As of July 31, 2010, the notional amount of outstanding forward contracts designated as cash flow hedges was \$45.3 million. Beginning in the third quarter of fiscal 2010, the Company also used forward foreign exchange currency contracts and euro-denominated debt of €75.0 million (approximately \$95.0 million USD) designated as a hedge instrument to hedge portions of the Company's net investments in its European foreign operations.

The Company could be exposed to interest rate risk through its corporate borrowing activities. The objective of the Company's interest rate risk management activities is to manage the levels of the Company's fixed and floating interest rate exposure to be consistent with the Company's preferred mix. The interest rate risk management program allows the Company to enter into approved interest rate derivatives if there is a desire to modify the Company's exposure to interest rates. Such activities require approval of the Board of Directors. As of July 31, 2010, the Company had no interest rate derivatives.

The Company is subject to the risk of changes in foreign currency exchange rates due to its operations in foreign countries. The Company has manufacturing facilities and sells and distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company manufactures, distributes and sells its products. The Company's operating results are principally exposed to changes in exchange rates between the U.S. dollar and the Australian dollar, changes between the U.S. dollar and the Canadian dollar, changes between the U.S. dollar and the Singapore dollar, and changes between the U.S. dollar and the Chinese Yuan. Changes in foreign currency exchange rates for the Company's foreign subsidiaries reporting in local currencies are generally reported as a component of stockholders' investment. The Company's unfavorable currency translation adjustment recorded in fiscal 2010 and 2009 as a separate component of stockholders' investment was (\$5.0) million and (\$75.5) million, respectively. As of July 31, 2010 and 2009, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$141.4 million and \$242.9 million, respectively. The potential decrease in the net current assets as of July 31, 2010 from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately \$14.1 million. This sensitivity analysis assumes a parallel shift in all major foreign currency exchange rates versus the U.S. dollar. Exchange rates rarely move in the same direction relative to the U.S. dollar considering the offset

of the euro-denominated debt designated as a net investment hedge of the Company's European foreign operations. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Brady Corporation
Milwaukee, WI

We have audited the accompanying consolidated balance sheets of Brady Corporation and subsidiaries (the "Company") as of July 31, 2010 and 2009, and the related consolidated statements of income, stockholders' investment, and cash flows for each of the three years in the period ended July 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of July 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 21, 2010, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Milwaukee, WI
September 21, 2010

Brady Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

July 31, 2010 and 2009

(in thousands, except share amounts)	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 314,840	\$ 188,156
Accounts receivable – net	221,621	191,189
Inventories:		
Finished products	52,906	53,244
Work-in-process	13,146	13,159
Raw materials and supplies	28,620	27,405
Total inventories	94,672	93,808
Prepaid expenses and other current assets	37,839	36,274
Total current assets	668,972	509,427
Other assets:		
Goodwill	768,600	751,173
Other intangibles assets	103,546	115,754
Deferred income taxes	39,103	36,374
Other non-current assets	20,808	18,551
Property, plant and equipment:		
Cost:		
Land	6,265	6,335
Buildings and improvements	101,138	96,968
Machinery and equipment	289,727	283,301
Construction in progress	9,873	7,869
	407,003	394,473
Less accumulated depreciation	261,501	242,485
Property, plant and equipment – net	145,502	151,988
Total	\$ 1,746,531	\$ 1,583,267
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable	\$ 96,702	\$ 83,793
Wages and amounts withheld from employees	67,285	36,313
Taxes, other than income taxes	7,537	6,262
Accrued income taxes	10,138	5,964
Other current liabilities	50,862	45,247
Current maturities on long-term obligations	61,264	44,893
Total current liabilities	293,788	222,472
Long-term obligations, less current maturities	382,940	346,457
Other liabilities	64,776	63,246
Total liabilities	741,504	632,175
Commitments and contingencies (See Note 9)		
Stockholders' investment:		
Common stock:		
Class A Nonvoting – Issued 51,261,487 and 51,261,487 shares, respectively; (aggregate liquidation preference of \$42,628 and \$42,628 at July 31, 2010 and 2009, respectively)	513	513
Class B Voting – Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	304,205	298,466
Earnings retained in the business	718,512	673,342
Treasury stock – 2,175,771 and 2,270,927 shares, respectively of Class A nonvoting common stock, at cost	(66,314)	(69,823)
Accumulated other comprehensive income	50,905	53,051
Other	(2,829)	(4,492)
Total stockholders' investment	1,005,027	951,092
Total	\$ 1,746,531	\$ 1,583,267

See notes to consolidated financial statements.

Brady Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Years Ended July 31, 2010, 2009 and 2008

(in thousands, except per share amounts)	2010	2009	2008
Net sales	\$ 1,259,096	\$ 1,208,702	\$ 1,523,016
Cost of products sold	<u>635,799</u>	<u>631,119</u>	<u>778,821</u>
Gross margin	623,297	577,583	744,195
Operating expenses:			
Research and development	42,621	34,181	40,607
Selling, general and administrative	435,906	397,180	495,904
Restructuring charges	<u>15,314</u>	<u>25,849</u>	<u>—</u>
Total operating expenses	<u>493,841</u>	<u>457,210</u>	<u>536,511</u>
Operating income	129,456	120,373	207,684
Other income (expense):			
Investment and other income – net	1,168	1,800	4,888
Interest expense	<u>(21,222)</u>	<u>(24,901)</u>	<u>(26,385)</u>
Net other expense	<u>(20,054)</u>	<u>(23,101)</u>	<u>(21,497)</u>
Income before income taxes	109,402	97,272	186,187
Income taxes	<u>27,446</u>	<u>27,150</u>	<u>53,999</u>
Net income	<u>\$ 81,956</u>	<u>\$ 70,122</u>	<u>\$ 132,188</u>
Net income per common share:			
Class A Nonvoting:			
Basic	<u>\$ 1.56</u>	<u>\$ 1.33</u>	<u>\$ 2.44</u>
Diluted	<u>\$ 1.55</u>	<u>\$ 1.32</u>	<u>\$ 2.41</u>
Dividends	<u>\$ 0.70</u>	<u>\$ 0.68</u>	<u>\$ 0.60</u>
Class B Voting:			
Basic	<u>\$ 1.55</u>	<u>\$ 1.32</u>	<u>\$ 2.42</u>
Diluted	<u>\$ 1.53</u>	<u>\$ 1.31</u>	<u>\$ 2.39</u>
Dividends	<u>\$ 0.68</u>	<u>\$ 0.66</u>	<u>\$ 0.58</u>
Weighted average Class A and Class B common shares outstanding:			
Basic	<u>52,402</u>	<u>52,559</u>	<u>54,168</u>
Diluted	<u>52,946</u>	<u>52,866</u>	<u>54,873</u>

See notes to consolidated financial statements.

Brady Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

Years Ended July 31, 2010, 2009 and 2008

(in thousands, except per share amounts)	Common stock	Additional Paid-In Capital	Earnings Retained in the Business	Treasury Stock	Accumulated Other Comprehensive Income	Other	Total Comprehensive Income
Balances at July 31, 2007	<u>\$ 541</u>	<u>\$ 266,203</u>	<u>\$ 540,238</u>	<u>\$ —</u>	<u>\$ 83,376</u>	<u>\$ 654</u>	
Net income	—	—	132,188	—	—	—	\$ 132,188
Net currency translation adjustment and other	—	—	—	—	44,785	—	<u>44,785</u>
Total comprehensive income							<u>\$ 176,973</u>
Issuance of 464,963 shares of Class A Common Stock under stock option plan	5	5,553	—	8,941	—	—	
Other (Note 6)	2	6,147	—	—	—	(6,149)	
Cumulative impact of adoption of FIN 48	—	—	(903)	—	—	—	
Tax benefit from exercise of stock options and deferred compensation distributions	—	4,638	—	—	—	—	
Stock-based compensation expense	—	10,228	—	—	—	—	
Purchase of 1,349,136 shares of Class A Common Stock	—	—	—	(42,175)	—	—	
Cash dividends on Common Stock							
Class A — \$.60 per share	—	—	(30,400)	—	—	—	
Class B — \$.58 per share	—	—	(2,064)	—	—	—	
Balances at July 31, 2008	<u>\$ 548</u>	<u>\$ 292,769</u>	<u>\$ 639,059</u>	<u>\$ (33,234)</u>	<u>\$ 128,161</u>	<u>\$ (5,495)</u>	
Net income	—	—	70,122	—	—	—	\$ 70,122
Net currency translation adjustment and other	—	—	—	—	(75,110)	—	<u>(75,110)</u>
Total comprehensive income							<u>\$ (4,988)</u>
Issuance of 138,934 shares of Class A Common Stock under stock option plan	—	(1,995)	—	3,678	—	—	
Other (Note 6)	—	(1,744)	—	—	—	1,003	
Tax benefit from exercise of stock options and deferred compensation distributions	—	1,336	—	—	—	—	
Stock-based compensation expense (Note 1)	—	8,099	—	—	—	—	
Purchase of 1,344,664 shares of Class A Common Stock	—	—	—	(40,267)	—	—	
Cash dividends on Common Stock							
Class A — \$.68 per share	—	—	(33,492)	—	—	—	
Class B — \$.66 per share	—	—	(2,347)	—	—	—	
Balances at July 31, 2009	<u>\$ 548</u>	<u>\$ 298,466</u>	<u>\$ 673,342</u>	<u>\$ (69,823)</u>	<u>\$ 53,051</u>	<u>\$ (4,492)</u>	
Net income	—	—	81,956	—	—	—	\$ 81,956
Net currency translation adjustment and other	—	—	—	—	(2,146)	—	<u>(2,146)</u>
Total comprehensive income							<u>\$ 79,810</u>
Issuance of 215,447 shares of Class A Common Stock under stock option plan	—	(2,788)	—	6,505	—	—	
Other (Note 6)	—	(2,512)	—	(459)	—	1,663	
Tax benefit from exercise of stock options and deferred compensation distributions	—	1,318	—	—	—	—	
Stock-based compensation expense (Note 1)	—	9,721	—	—	—	—	
Purchase of 102,067 shares of Class A Common Stock	—	—	—	(2,537)	—	—	
Cash dividends on Common Stock							
Class A — \$.70 per share	—	—	(34,368)	—	—	—	
Class B — \$.68 per share	—	—	(2,418)	—	—	—	
Balances at July 31, 2010	<u>\$ 548</u>	<u>\$ 304,205</u>	<u>\$ 718,512</u>	<u>\$ (66,314)</u>	<u>\$ 50,905</u>	<u>\$ (2,829)</u>	

See notes to consolidated financial statements.

Brady Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended July 31, 2010, 2009 and 2008

(in thousands)	2010	2009	2008
Operating activities:			
Net income	\$ 81,956	\$ 70,122	\$ 132,188
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	53,022	54,851	60,587
Deferred income taxes	(6,834)	(8,640)	(2,759)
Loss on sale of property, plant and equipment	20	383	1,672
Non-cash portion of stock-based compensation expense	9,721	7,731	10,228
Non-cash portion of restructuring	2,260	2,469	—
Changes in operating assets and liabilities (net of effects of business acquisitions):			
Accounts receivable	(29,479)	53,389	(3,704)
Inventories	426	34,749	16,224
Prepaid expenses and other assets	(3,502)	(2,423)	(629)
Accounts payable and accrued liabilities	51,268	(78,684)	18,641
Income taxes	5,258	(9,673)	(7,234)
Other liabilities	1,122	2,371	340
Net cash provided by operating activities	165,238	126,645	225,554
Investing activities:			
Acquisitions of businesses, net of cash acquired	(30,431)	—	(29,346)
Purchase price adjustment	—	3,514	—
Payments of contingent consideration	—	(1,405)	(5,798)
Purchases of short-term investments	—	—	(10,350)
Sales of short-term investments	—	—	29,550
Purchases of property, plant and equipment	(26,296)	(24,027)	(26,407)
Proceeds from net investment hedge	6,248	—	—
Other	1,798	2,874	3,143
Net cash used in investing activities	(48,681)	(19,044)	(39,208)
Financing activities:			
Payment of dividends	(36,786)	(35,839)	(32,464)
Proceeds from issuance of common stock	3,717	1,683	14,500
Principal payments on debt	(44,893)	(87,224)	(39,443)
Proceeds from issuance of debt	94,915	—	18,000
Purchase of treasury stock	(2,537)	(40,267)	(42,175)
Income tax benefit from the exercise of stock options and deferred compensation distributions	1,318	1,336	4,638
Other	(459)	—	—
Net cash provided by (used in) financing activities	15,275	(160,311)	(76,944)
Effect of exchange rate changes on cash	(5,148)	(17,489)	6,107
Net increase (decrease) in cash and cash equivalents	126,684	(70,199)	115,509
Cash and cash equivalents, beginning of year	188,156	258,355	142,846
Cash and cash equivalents, end of year	\$ 314,840	\$ 188,156	\$ 258,355
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	\$ 21,626	\$ 26,047	\$ 26,308
Income taxes, net of refunds	30,870	48,766	51,834
Acquisitions:			
Fair value of assets acquired, net of cash	\$ 15,366	\$ —	\$ 21,508
Liabilities assumed	(5,201)	—	(9,038)
Goodwill	20,266	—	16,876
Net cash paid for acquisitions	\$ 30,431	\$ —	\$ 29,346

See notes to consolidated financial statements.

Brady Corporation and Subsidiaries

Notes To Consolidated Financial Statements

Years Ended July 31, 2010, 2009 and 2008

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies

Nature of Operations – Brady Corporation (“Brady” or the “Company”) is an international manufacturer and marketer of identification solutions and specialty products which identify and protect premises, products and people. Brady’s core capabilities in manufacturing, printing systems, precision engineering and materials expertise make it a leading supplier to the Maintenance, Repair and Operations (“MRO”) market and to the Original Equipment Manufacturing (“OEM”) market.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Brady Corporation and its subsidiaries (the “Company”), all of which are wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation – The Company has reclassified certain prior year financial statement amounts to conform to their current year presentation. The Company reclassified the “Proceeds from sale of property, plant, and equipment” line item to the “Other” Investing activities line item on the Consolidated Statements of Cash Flows for the years ended July 31, 2009 and 2008. This reclassification had no effect on total assets, net income, or earnings per share.

Use of Estimates – 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 of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events – On September 9, 2010, the Company announced an increase in the annual dividend to shareholders of the Company’s Class A Common Stock, from \$0.70 to \$0.72 per share. A quarterly dividend of \$0.18 will be paid on October 29, 2010, to shareholders of record at the close of business on October 8, 2010. This dividend represents an increase of 2.9% and is the 25th consecutive annual increase in dividends.

Fair Value of Financial Instruments – The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable and accounts payable) is a reasonable estimate of the fair value of these instruments due to their short-term nature. The Company adopted guidance related to fair value measurements on August 1, 2008 as it relates to financial assets and liabilities. The Company adopted the new accounting guidance on fair value measurements for its nonfinancial assets and liabilities on August 1, 2009. See Note 5 for more information regarding the fair value of long-term debt and Note 10 for fair value measurements.

Cash Equivalents – The Company considers all highly liquid investments with original maturities of three months or less when acquired to be cash equivalents, which are recorded at cost. The Company’s cash equivalents include variable rate demand note (“VRDN”) securities issued by various agencies that include a put feature to the original issuer or the issuer’s agent. The Company’s VRDN investments are generally federal tax-exempt instruments of high credit quality, secured by direct-pay letters of credit from major financial institutions. These investments have variable rates tied to short-term interest rates. Interest rates are reset weekly and these VRDN investments can be tendered for sale upon notice (generally no longer than seven days). Although the Company’s VRDN securities are issued and rated as long-term securities (with maturities through 2029), they are priced and traded as short-term investments.

The Company classifies the variable rate demand note securities with put features, where the issuer holds the obligation, as cash equivalents. The investments are carried at cost or par value, which approximates the fair value. As of July 31, 2010, the recorded value of the VRDNs held by the Company was \$66.1 million and there were no realized or unrealized gains or losses related to the Company’s securities. As of July 31, 2010, all VRDNs held by the Company were classified as “cash and cash equivalents” on the Consolidated Balance Sheets. The Company did not hold any VRDNs as of July 31, 2009.

Accounts Receivables – Accounts receivables are stated net of allowances for doubtful accounts of \$7,137 and \$7,931 as of July 31, 2010 and 2009, respectively. No single customer comprises more than 10% of the Company’s consolidated net sales in 2010, 2009, or 2008, or 10% of the Company’s consolidated accounts receivable as of July 31, 2010 or 2009. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at different rates, based upon the age of the receivable and the Company’s historical collection experience.

Inventories – Inventories are stated at the lower of cost or market. Cost has been determined using the last-in, first-out (“LIFO”) method for certain domestic inventories (approximately 20% of total inventories at July 31, 2010 and approximately 19% of total inventories at July 31, 2009) and the first-in, first-out (“FIFO”) or average cost methods for other inventories. Had all domestic inventories been accounted for on a FIFO basis instead of on a LIFO basis, the carrying value would have increased by \$9,178 and \$9,348 at July 31, 2010 and 2009, respectively.

Depreciation – The cost of buildings and improvements and machinery and equipment is being depreciated over their estimated useful lives using primarily the straight-line method for financial reporting purposes. The estimated useful lives range from 3 to 33 years as shown below.

Asset Category:	Range of Useful Lives
Buildings and improvements	10 to 33 Years
Computer systems	5 Years
Machinery and equipment	3 to 10 Years

Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the respective asset.

Goodwill and other Intangible Assets – The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed on a straight-line basis, over the estimated periods benefited. Intangible assets with indefinite useful

lives and goodwill are not subjected to amortization. These assets are assessed for impairment annually and when deemed necessary. Goodwill at July 31, 2010 and 2009 did not include any accumulated impairment losses.

Changes in the carrying amount of goodwill for the years ended July 31, 2010 and 2009 are as follows:

	Americas	Europe	Asia-Pacific	Total
Balance as of July 31, 2008	\$ 412,977	\$ 189,650	\$ 186,480	\$ 789,107
Adjustments for prior year acquisitions	275	(52)	(2,713)	(2,490)
Translation adjustments and other	(3,117)	(23,347)	(8,980)	(35,444)
Balance as of July 31, 2009	\$ 410,135	\$ 166,251	\$ 174,787	\$ 751,173
Current year acquisitions	13,370	6,896	—	20,266
Translation adjustments and other	1,513	(9,958)	5,606	(2,839)
Balance as of July 31, 2010	\$ 425,018	\$ 163,189	\$ 180,393	\$ 768,600

Goodwill increased \$17,427 during fiscal 2010 due to the recent acquisition activity and the net effects of foreign currency translation. Of the \$17,427 increase in goodwill, \$778 resulted from the acquisition of certain assets of Welco, a division of Welconstruct Group Limited ("Welco") in the first quarter of fiscal 2010, \$13,370 resulted from the acquisition of Stickolor Industria e Comercio de Auto Adesivos Ltda. ("Stickolor") in the second quarter of fiscal 2010, and \$6,118 resulted from the acquisition of Securimed SAS ("Securimed") in the third quarter of fiscal 2010. The increase in goodwill was offset by the negative net effect of foreign currency translation of \$2,839 during fiscal 2010.

In November 2008, the Company reached a settlement of the original purchase price with the former owners of Tradex Converting AB ("Tradex"), which the Company acquired in May 2006, resulting in a purchase price decrease of \$3,514, which decreased goodwill in Europe and Asia Pacific, accordingly. Goodwill increased \$1,024 during fiscal 2009 as a result of the \$749 payment of an earnout to the former owners of Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively, "Transposafe"), and the \$275 final tax adjustments for Sorbent Products Company ("SPC"). Goodwill

decreased \$35,444 during fiscal 2009 due to the effects of foreign currency translation.

Adjustments to the preliminary allocation of purchase price for the acquisitions completed in fiscal 2007 were made in fiscal 2008, of which the largest adjustment related to the final purchase price adjustments for Comprehensive Identification Products, Inc ("CIP"), which added \$3,948. Of the \$3,948 increase in goodwill attributed to the allocation of the purchase price for CIP, \$1,246 related to the accounting for uncertainty in income taxes, \$1,250 related to an accrual for employee termination costs, \$809 related to various exit costs associated with the closure of a facility, and the remaining \$643 related to tax and other liabilities existing at the time of acquisition. As of July 31, 2010 and 2009, the remaining liability from these charges was approximately \$374 and \$612, respectively.

Other intangible assets include patents, trademarks, customer relationships, non-compete agreements and other intangible assets with finite lives being amortized in accordance with accounting guidance for goodwill and other intangible assets. The net book value of these assets was as follows:

	July 31, 2010				July 31, 2009			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$9,314	\$(7,855)	\$1,459	5	\$8,976	\$(7,165)	\$1,811
Trademarks and other	7	8,823	(5,685)	3,138	7	7,703	(5,121)	2,582
Customer relationships	7	152,720	(95,996)	56,724	7	144,625	(76,912)	67,713
Non-compete agreements	4	11,930	(11,059)	871	4	11,502	(9,656)	1,846
Other	4	3,309	(3,297)	12	4	3,311	(3,296)	15
Unamortized other intangible assets:								
Trademarks	N/A	41,342	—	41,342	N/A	41,787	—	41,787
Total		\$ 227,438	\$ (123,892)	\$ 103,546		\$ 217,904	\$ (102,150)	\$ 115,754

The value of other intangible assets in the Consolidated Balance Sheet at July 31, 2010, 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 July 31, 2010.

Amortization expense of intangible assets during fiscal 2010, 2009, and 2008 was \$21,462, \$22,828, and \$25,422, respectively. The amortization over each of the next five fiscal years is projected to be \$20,194; \$13,128; \$9,894; \$5,137; and \$4,532 for the years ending July 31, 2011, 2012, 2013, 2014 and 2015, respectively.

Impairment of Long-Lived and Other Intangible Assets – The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived and other finite-lived intangible assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on fair value of the assets generally estimated by the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. If impairment is determined to exist, any related impairment loss is calculated based on the fair value of the asset. Based on the assessments completed in fiscal 2010, there has been no impairment of the Company's long-lived and other intangible assets.

Impairment of Goodwill and Indefinite-lived Intangible Assets – Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. Annual impairment tests are performed by the Company in the fourth quarter of each year.

During the fourth quarter of fiscal 2010, the Company conducted a goodwill impairment assessment. The assessment included comparing the carrying amount of net assets, including goodwill, of each reporting unit to its respective fair value as of May 1, 2010, the Company's assessment date. Fair value was determined using the weighted average of a discounted cash flow and market participant analysis for each reporting unit. As the estimated fair value of each of the Company's reporting units exceeded its carrying amount, management concluded that no impairment existed as of May 1, 2010. The Company's methodologies for valuing goodwill are applied consistently on a year-over-year basis. No indications of impairment have been identified between the date of the interim assessments and July 31, 2010.

During the fourth quarter of fiscal 2010, the Company conducted an indefinite-lived intangible asset impairment assessment. The assessment included comparing the carry amount of the indefinite-lived intangible asset to the fair value of those assets as of May 1, 2010, the Company's assessment date. Fair value was determined using the weighted average discounted revenue stream analysis for each indefinite-lived intangible. Because the estimated fair value of each of the Company's indefinite-lived intangibles exceeded its carrying amount, management concluded that no impairment existed as of May 1, 2010. The Company's methodologies for valuing indefinite-lived intangible assets are applied consistently on a year-over-year basis. No indications of impairment have been identified between the date of the interim assessments and July 31, 2010.

Catalog Costs and Related Amortization – The Company accumulates all direct costs incurred, net of vendor cooperative advertis-

ing payments, in the development, production, and circulation of its catalogs on its balance sheet until such time as the related catalog is mailed. The catalogs are subsequently amortized into selling, general, and administrative expense over the expected sales realization cycle, which is one year or less. Consequently, any difference between the estimated and actual revenue stream for a particular catalog and the related impact on amortization expense is neutralized within a period of one year or less. The estimate of the expected sales realization cycle for a particular catalog is based on the Company's historical sales experience with identical or similar catalogs, an assessment of prevailing economic conditions and various competitive factors. The Company tracks subsequent sales realization, reassesses the marketplace, and compares its findings to the previous estimate, and adjusts the amortization of future catalogs, if necessary. At July 31, 2010 and 2009, \$11,496 and \$13,511, respectively, of prepaid catalog costs were included in prepaid expenses and other current assets.

Revenue Recognition – Revenue is recognized when it is both earned and realized or realizable. The Company's policy is to recognize revenue when title to the product, ownership and risk of loss have transferred to the customer, persuasive evidence of an arrangement exists and collection of the sales proceeds is reasonably assured, all of which generally occur upon shipment of goods to customers. The majority of the Company's revenue relates to the sale of inventory to customers, and revenue is recognized when title and the risks and rewards of ownership pass to the customer. Given the nature of the Company's business and the applicable rules guiding revenue recognition, the Company's revenue recognition practices do not contain estimates that materially affect the results of operations, with the exception of estimated returns and credit memos. The Company provides for an allowance for estimated product returns and credit memos which is recognized as a deduction from sales at the time of the sale. As of July 31, 2010 and 2009, the Company had a reserve of \$3,963 and \$6,208, respectively.

Sales Incentives – The Company accounts for cash consideration (such as sales incentives and cash discounts) given to its customers or resellers as a reduction of revenue rather than an operating expense.

Shipping and Handling Fees and Costs – Amounts billed to a customer in a sale transaction related to shipping and handling fees are reported as net sales and the related costs incurred for shipping and handling are reported as cost of goods sold.

Advertising Costs – Advertising costs are expensed as incurred, except catalog and mailer costs as outlined above. Advertising expense for the years ended July 31, 2010, 2009, and 2008 were \$72,000, \$77,395, and \$85,908, respectively.

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 or restricted 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 expire 10 years from the date of grant. Restricted shares have an issuance price equal to the fair market value of the underlying stock at the date of grant. The Company also granted restricted shares in fiscal 2008 that have an issuance price equal to the fair market value of the underlying stock at the date of grant. The restricted shares vest at the end of a five-year period and upon meeting certain financial performance conditions; these shares are referred to herein as “performance-based restricted shares.”

As of July 31, 2010, the Company has reserved 5,108,736 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 2,210,000 shares of Class A Nonvoting Common Stock for future issuance of stock options and restricted

shares 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 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 years ended July 31, 2010, 2009, and 2008 was \$9,721 (\$5,930 net of taxes), \$7,731 (\$4,716 net of taxes), and \$10,228 (\$6,239 net of taxes), respectively. As of July 31, 2010, total unrecognized compensation cost related to share-based compensation awards was \$12,941 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.0 years.

The Company has estimated the fair value of its performance-based and service-based option awards granted after August 1, 2005 using the Black-Scholes option-pricing model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

Black-Scholes Option Valuation Assumptions	2010		2009		2008	
	Performance-Based Options	Service-Based Options	Performance-Based Options	Service-Based Options	Performance-Based Options	Service-Based Options
Expected term (in years)	6.57	5.94	N/A	5.96	6.57	6.04
Expected volatility	38.72%	39.88%	N/A	36.07%	33.68%	32.05%
Expected dividend yield	3.02%	3.01%	N/A	2.03%	1.58%	1.62%
Risk-free interest rate	3.03%	2.63%	N/A	1.75%	4.66%	3.44%
Weighted-average market value of underlying stock at grant date	\$ 28.73	\$ 28.68	N/A	\$ 21.26	\$ 35.35	\$ 38.22
Weighted-average exercise price	\$ 29.78	\$ 28.68	N/A	\$ 21.26	\$ 35.35	\$ 38.22
Weighted-average fair value of options granted	\$ 8.70	\$ 8.77	N/A	\$ 6.30	\$ 12.83	\$ 11.94

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 grant.

Effective February 17, 2010, the Compensation Committee of the Board of Directors of the Company approved an amendment to the performance-based stock options issued on August 1, 2005. Pursuant to the amendment, the term of the performance-based stock options has been extended to ten years from five years resulting in an incremental expense of \$354 (\$216 net of taxes), which was recorded in the quarter ended April 30, 2010. Also, the amendment provides that during the extension period, executives may exercise the performance-based stock options following a termination only if the termination is as a result of the executive's death or disability or qualifies as a retirement. The Company's Chief Executive Officer, Chief Financial Officer, and its three named executive officers currently have the following exercisable performance-based stock options affected by this amendment: Frank M. Jaehnert, 60,000 options; Thomas J. Felmer,

20,000 options; Allan J. Klotsche, 30,000 shares; Peter C. Sephton, 30,000 options; and Matthew O. Williamson, 30,000 options.

The Company granted 525,000 performance-based options during fiscal 2010, with a weighted average exercise price of \$29.78 and a weighted average fair value of \$8.70. The Company also granted 921,500 service-based options during fiscal 2010, with a weighted average exercise price of \$28.68 and a weighted average fair value of \$8.77.

The Company granted 210,000 performance-based restricted shares during fiscal 2008, with a grant price and fair value of \$32.83. The Company did not grant any performance-based restricted shares during fiscal 2010 or 2009. As of July 31, 2010, all of the performance-based restricted shares granted in fiscal 2008 remain outstanding.

Research and Development – Amounts expended for research and development are expensed as incurred.

Other comprehensive income – Other comprehensive income consists of foreign currency translation adjustments, net unrealized gains and losses from cash flow hedges and net investment hedges, the unamortized gain on the post-retirement medical, dental and vision plans and their related tax effects. The components of accumulated other comprehensive income were as follows:

	July 31, 2010	July 31, 2009
Unrealized gain (loss) on cash flow hedges, net of tax of \$172 and \$17, respectively	\$ (321)	\$ (53)
Proceeds from net investment hedge, net of tax of \$2,437 and \$0, respectively	3,811	—
Unamortized gain on post-retirement medical, dental and vision plan, net of tax of \$1,480 and \$1,964, respectively	1,357	1,942
Cumulative translation adjustments	46,058	51,162
Accumulated other comprehensive income	\$ 50,905	\$ 53,051

Foreign Currency Translation – Foreign currency assets and liabilities are translated into United States dollars at end of period rates of exchange, and income and expense accounts are translated at the weighted average rates of exchange for the period. Resulting translation adjustments are included in other comprehensive income.

Income Taxes – The Company accounts for income taxes in accordance with accounting guidance, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The Company recognizes the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs.

Risk Management Activities – The Company is exposed to market risk, such as changes in interest rates and currency exchange rates. The Company does not hold or issue derivative financial instruments for trading purposes.

Foreign Currency Hedging – The objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions and minimize the foreign currency translation impact on the Company's European operations. While the Company's risk management objectives and strategies are driven from an economic perspective, the Company attempts, where possible and practical, to ensure that the hedging strategies it engages in can be treated as "hedges" from an accounting perspective or otherwise result in accounting treatment where the earnings effect of the hedging instrument provides substantial offset (in the same period) to the earnings effect of the hedged item. Generally, these risk management transactions will involve the use of foreign currency derivatives to protect against exposure resulting from products purchased in a currency differing from the selling unit's currency.

The Company utilizes forward foreign exchange currency contracts to reduce the exchange rate risk of specific foreign currency denominated transactions. These contracts typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date, with maturities of less than 12 months, which qualify as cash flow hedges under the accounting guidance for derivative instruments and hedging activities. The primary objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements due to products purchased in other than the respective subsidiaries' functional currency. To achieve this objective, the Company hedges a portion of known exposures using forward foreign exchange currency contracts. The fair value of these instruments at July 31, 2010 and 2009 was a liability of \$(673) and \$(248), respectively. As of July 31, 2010, the notional amount of outstanding forward exchange contracts was \$45.3 million. See Note 12 for more information regarding the Company's derivative instruments and hedging activities.

The Company has designated a portion of its foreign exchange contracts as cash flow hedges and recorded these contracts at fair value on the Consolidated Balance Sheets. For these instruments, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. At July 31, 2010 and July 31, 2009, unrealized losses of \$493 and \$35 have been included in OCI, respectively. All balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings.

The Company also utilizes foreign currency denominated debt designated as hedge instruments to hedge portions of the Company's net investments in European foreign operations. As of July 31, 2010, the Company had €75.0 million foreign denominated debt outstanding designated as a net investment hedge of the Company's net investment in its European foreign operations. See Note 12 for more information regarding the Company's derivative instruments and hedging activities. For net investment hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. Any ineffective portions are to be recognized in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation.

The Company also enters into forward exchange contracts to create economic hedges to manage foreign exchange risk exposure. The fair value of these instruments at July 31, 2010 and 2009 was \$40 and \$130, respectively. The Company has not designated these derivative contracts as hedge transactions, and accordingly, the mark-to-market impact of these derivatives is recorded each period in current earnings.

Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current earnings. The amount of hedge ineffectiveness was not significant for the fiscal years ended July 31, 2010, 2009, and 2008, respectively.

New Accounting Standards – In October 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance that provides amendments to the criteria for separating consideration in multiple-deliverable revenue arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing GAAP. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the guidance. The Company adopted the guidance on August 1, 2010. Based on the Company’s evaluation, the new guidance will not have a material impact on the Company’s consolidated results of operations and financial condition.

In March 2010, the FASB ratified a consensus of the FASB Emerging Issues Task Force that recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development arrangements. This consensus would require its provisions be met in order for an entity to recognize consideration that is contingent upon achievement of a substantive milestone as revenue in its entirety in the period in which the milestone is achieved. In addition, this consensus would require disclosure of certain information with respect to arrangements that contain milestones. The Company adopted the guidance on August 1, 2010. Based on the Company’s evaluation, the new guidance will not have an impact on the Company’s consolidated results of operations and financial condition.

2. Acquisitions of Businesses

The Company completed three business acquisitions during the fiscal year ended July 31, 2010 and did not complete any business acquisitions during the fiscal year ended July 31, 2009. The Company also completed two business acquisitions during the fiscal year ended July 31, 2008. All of these transactions were accounted for using the purchase method of accounting; therefore, the results of operations are included in the accompanying consolidated financial statements only since their acquisition dates.

Fiscal 2010

In March 2010, the Company acquired Securimed SAS (“Securimed”), based in Coudekerque, France for \$10,132. Securimed is a leading French supplier and distributor of customized first-aid kits and supplies, and related healthcare products including personal protection, disinfection and hygiene products, diagnosis materials, and products for emergency response. The Securimed business is included in the Company’s Europe segment.

In December 2009, the Company acquired Stickolor Industria e Comercio de Auto Adesivos Ltda. (“Stickolor”), based in São Paulo, Brazil for \$18,459. Stickolor manufactures screen-printed custom labels, overlays and nameplates for automobiles, tractors, motorcycles, electronics, white goods and general industrial markets. The Stickolor business is included in the Company’s Americas segment.

In October 2009, the Company acquired certain assets of the Welco division of Welconstruct Group Limited, based in the United Kingdom for \$1,840. The Welco division conducts a direct marketing business consisting of sales of storage, handling, office and workplace products, and equipment via catalog and the internet to industrial and commercial markets under the name and title “Welco.” The Welco business is included in the Company’s Europe segment.

The following table summarizes the combined estimated fair values of the assets acquired and liabilities assumed at the date of the acquisitions.

	2010
Current assets net of cash	\$ 5,313
Property, plant & equipment	743
Goodwill	20,266
Customer relationships	7,970
Trademarks	1,340
Total assets acquired net of cash	35,632
Liabilities assumed	5,201
Net assets acquired	\$ 30,431

Purchased identifiable intangible assets for the three business acquisitions closed during the twelve months ended July 31, 2010 totaled \$9,310 and will be amortized on a straight-line basis over lives ranging from three to ten years.

The results of the operations of the acquired businesses have been included since the respective dates of acquisition in the accompanying consolidated financial statements. The Company has evaluated the initial purchase price allocations for the acquisitions completed within the past 12 months as additional information relative to the fair value of assets and liabilities of the acquired businesses becomes known. As a result of the review no significant changes have resulted to the initial purchase price allocations. Pro forma information related to the acquisitions during the twelve months ended July 31, 2010 is not included because the impact on the Company’s consolidated results of operations is considered to be immaterial.

Fiscal 2009

The Company did not complete any business acquisitions in fiscal 2009.

Fiscal 2008

In November 2007 the Company acquired Transposafe, based near Amsterdam, the Netherlands with operations in Belgium, Germany, and Poland for \$24,778. Transposafe specializes in security sealing and identification solutions for protecting assets during transport. The Transposafe business is included in the Company’s Europe segment.

The purchase agreement for Transposafe included a provision for contingent payments based upon meeting certain performance conditions over a two-year period of time subsequent to the acquisition. The total maximum contingent payment of approximately \$3,000 was placed in an escrow account for the acquisition of Transposafe. During fiscal 2009, \$700 was paid out of the escrow account to satisfy the earnout and holdback liabilities of the Transposafe acquisition. During fiscal 2010, the remainder of the earnout was returned to Brady, and the holdback was released to the previous owners.

In March 2008, the Company acquired DAWG, based in Terryville, Connecticut for \$4,568. DAWG is an Internet marketer of sorbents,

spill containment products, safety-storage cabinets, first aid kits, and other products that help keep facilities safe and clean. The DAWG business is included in the Company's Americas segment.

The following table summarizes the combined estimated fair values of the assets acquired and liabilities assumed at the date of the acquisitions.

	2008
Current assets net of cash	\$ 8,373
Property, plant & equipment	348
Goodwill	16,876
Customer relationships	10,008
Trademarks	2,341
Other intangible assets	<u>438</u>
Total assets acquired net of cash	38,384
Liabilities assumed	<u>9,038</u>
Net assets acquired	<u>\$ 29,346</u>

Purchased identifiable intangible assets for the two business acquisitions closed during the twelve months ended July 31, 2008 totaled \$12,787. This included \$12,637 of identifiable intangible assets that will be amortized on a straight-line basis over lives ranging from five to nine years and \$150 of indefinite-lived assets related to the DAWG trademark.

The results of the operations of the acquired businesses have been included since the respective dates of acquisition in the accompanying consolidated financial statements. Pro forma information related to the acquisitions during the twelve months ended July 31, 2008 is not included because the impact on the Company's consolidated results of operations is considered to be immaterial.

In the fiscal year ended July 31, 2007, the Company acquired Scafftag and Asterisco, amongst five other businesses. The purchase agreements for Scafftag and Asterisco each included provisions for contingent payments based upon meeting certain performance conditions over a period of time subsequent to the acquisition. The total maximum contingent payments of \$5,200 have not been accrued as liabilities on the accompanying consolidated financial statements as the payments are based on attaining certain financial results. Approximately \$4,900 of the contingency related to the Asterisco acquisition had been placed in an escrow account in compliance with the terms of the purchase agreement. During fiscal 2008, the Company paid the former owners of Asterisco \$200 to satisfy the terms of the earnout agreement, while the remaining \$4,700 was returned to Brady due to the acquired business not meeting certain performance criteria. The purchase agreement of Asterisco also included a holdback provision of approximately \$2,300 that was recorded as a liability in the accompanying consolidated financial statements at July 31, 2008. A payment of \$700 was paid during fiscal 2009 to satisfy the holdback liabilities of the Asterisco acquisition. The remainder of the holdback liabilities shall be released in accordance with the terms of the agreement.

3. Employee Benefit Plans

The Company provides postretirement medical, dental and vision benefits (the "Plan") for eligible regular full and part-time domestic employees (including spouses) outlined by the plan. Postretirement benefits are provided only if the employee was hired prior to April 1, 2008, and retires 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 accounting guidance on defined benefit pension and other postretirement plans requires full recognition of the funded status of defined benefit and other postretirement plans on the balance sheet as an asset or a liability. The guidance also continues to require that unrecognized prior service costs/credits, gains/losses, and transition obligations/assets be recorded in Accumulated Other Comprehensive Income, thus not changing the income statement recognition rules for such plans.

The Plan is unfunded and recorded as a liability in the accompanying consolidated balance sheets as of July 31, 2010 and 2009. The following table provides a reconciliation of the changes in the Plan's accumulated benefit obligations during the years ended July 31:

	2010	2009
Obligation at beginning of year	\$ 14,311	\$ 12,199
Service cost	662	672
Interest cost	795	842
Actuarial loss	967	766
Benefit payments	(834)	(667)
Plan amendments	(169)	—
Separation benefits	—	1,178
Curtailments	—	(679)
Settlements	<u>(455)</u>	<u>—</u>
Obligation at end of year	<u>\$ 15,277</u>	<u>\$ 14,311</u>

The voluntary retiree medical savings account plan was terminated effective December 31, 2009. Employer match account balances were prorated and paid to participants through a settlement of \$455, and the remaining reduction in the liability resulted in a plan amendment of \$169 as of July 31, 2010.

As discussed in Note 11, the fiscal 2009 restructuring charges included employee separation costs. Employee separation costs of \$1,178 have been included in the separation benefits above as the costs directly relate to the postretirement medical, dental and vision benefits. In addition, the reduction in workforce during fiscal 2009 resulted in a partial plan curtailment, reducing the accumulated benefit obligation by \$679 as of July 31, 2009.

As of July 31, 2010 and 2009, amounts recognized as liabilities in the accompanying consolidated balance sheets consist of:

	2010	2009
Current liability	\$ 1,060	\$ 825
Noncurrent liability	14,217	13,486
	<u>\$ 15,277</u>	<u>\$ 14,311</u>

As of July 31, 2010 and 2009, pre-tax amounts recognized in accumulated other comprehensive income in the accompanying consolidated balance sheets consist of:

	2010	2009
Net actuarial gain	\$ 2,252	\$ 3,425
Prior service credit	585	481
	<u>\$ 2,837</u>	<u>\$ 3,906</u>

Net periodic benefit cost for the Plan for fiscal years 2010, 2009, and 2008 includes the following components:

	2010	2009	2008
Years ended July 31, Net periodic postretirement benefit cost included the following components:			
Service cost – benefits attributed to service during the period	\$ 662	\$ 672	\$ 919
Prior service cost	(64)	(70)	(33)
Interest cost on accumulated post-retirement benefit obligation	795	842	771
Amortization of unrecognized gain	(206)	(308)	(295)
Curtailment loss	—	393	—
Periodic postretirement benefit cost	<u>\$ 1,187</u>	<u>\$ 1,529</u>	<u>\$ 1,362</u>

The estimated actuarial gain and prior service credit that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost over the next fiscal year are \$76 and \$82, respectively. The termination of the voluntary retiree medical savings account plan resulted in a reduction in the liability for the one-time settlement of \$455 and the one-time plan amendment of \$169 as of July 31, 2010. The reduction in workforce resulted in a one-time curtailment gain of \$679 and the accelerated recognition of the previously unrecognized prior service cost of \$106, offset by a one-time separation benefit charge of \$1,178, resulting in a net curtailment loss of \$393 as of July 31, 2009.

The following assumptions were used in accounting for the Plan:

	2010	2009	2008
Weighted average discount rate used in determining accumulated postretirement benefit obligation liability	4.5%	5.5%	6.8%
Weighted average discount rate used in determining net periodic benefit cost	5.5%	6.8%	6.3%
Assumed health care trend rate used to measure APBO at July 31	8.0%	8.0%	8.0%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	5.5%	5.5%	5.5%
Fiscal year the ultimate trend rate is reached	2016	2015	2013

The assumed health care cost trend rate has a significant effect on the amounts reported for the Plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on future service and interest cost	\$ 11	\$ (11)
Effect on accumulated postretirement benefit obligation at July 31, 2010	155	(141)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the years ending July 31:

2011	\$ 1,060
2012	1,150
2013	1,211
2014	1,283
2015	1,383
2016 through 2020	7,676

The Company has retirement and profit-sharing plans covering substantially all full-time domestic employees and certain of its foreign subsidiaries. Contributions to the plans are determined annually or quarterly, according to the respective plans, based on earnings of the respective companies and employee contributions. At July 31, 2010 and 2009, \$7,540 and \$5,512, respectively, of accrued profit-sharing contributions were included in other current liabilities and other long-term liabilities on the accompanying consolidated balance sheets.

The Company also has deferred compensation plans for directors, officers and key executives which are discussed below. At July 31, 2010 and 2009, \$10,398 and \$10,175, respectively, of deferred compensation was included in current and other long-term liabilities in the accompanying consolidated balance sheets.

During fiscal 1998, the Company adopted a new deferred compensation plan that invests solely in shares of the Company's Class A Nonvoting Common Stock. Participants in a predecessor phantom stock plan were allowed to convert their balances in the old plan to this new plan. The new plan was funded initially by the issuance of shares of Class A Nonvoting Common Stock to a Rabbi Trust. All deferrals into the new plan result in purchases of Class A Nonvoting Common Stock by the Rabbi Trust. No deferrals are allowed into a predecessor plan. Shares held by the Rabbi Trust are distributed to participants upon separation from the Company as defined in the plan agreement.

During fiscal 2002, the Company adopted a new deferred compensation plan that allows future contributions to be invested in shares of the Company's Class A Nonvoting Common Stock or in certain other investment vehicles. Prior deferred compensation deferrals must remain in the Company's Class A Nonvoting Common Stock. All participant deferrals into the new plan result in purchases of Class A Nonvoting Common Stock or certain other investment vehicles by the Rabbi Trust. Balances held by the Rabbi Trust are distributed to participants upon separation from the Company as defined in the plan agreement. On May 1, 2006, the plan was amended to require that deferrals into the Company's Class A Nonvoting Common Stock must remain in the Company's Class A Nonvoting Common Stock and be distributed in shares of the Company's Class A Nonvoting Common Stock.

The amounts charged to expense for the retirement and profit sharing described above were \$12,547, \$11,765, and \$17,275 during the years ended July 31, 2010, 2009, and 2008, respectively.

4. Income Taxes

Income (loss) before income taxes consists of the following:

	Years ended July 31,		
	2010	2009	2008
United States	\$ 4,423	\$ (383)	\$ 46,388
Other Nations	104,979	97,655	139,799
Total	<u>\$ 109,402</u>	<u>\$ 97,272</u>	<u>\$ 186,187</u>

Income taxes consist of the following:

	Years ended July 31,		
	2010	2009	2008
Current income tax expense:			
United States	\$ 474	\$ 3,486	\$ 13,943
Other Nations	32,800	31,223	41,794
States (U.S.)	1,006	1,081	1,021
	<u>34,280</u>	<u>35,790</u>	<u>56,758</u>
Deferred income tax (benefit) expense:			
United States	(4,929)	(7,633)	29
Other Nations	(1,942)	(1,693)	(2,793)
States (U.S.)	37	686	5
	<u>(6,834)</u>	<u>(8,640)</u>	<u>(2,759)</u>
Total	<u>\$ 27,446</u>	<u>\$ 27,150</u>	<u>\$ 53,999</u>

Deferred income taxes result from temporary differences in the recognition of revenues and expenses for financial statement and income tax purposes.

The approximate tax effects of temporary differences are as follows:

	July 31, 2010		
	Assets	Liabilities	Total
Inventories	\$ 6,666	\$ —	\$ 6,666
Prepaid catalog costs	16	(2,299)	(2,283)
Employee benefits	1,910	7	1,917
Accounts receivable	2,033	—	2,033
Other, net	6,512	(1,519)	4,993
Current	<u>17,137</u>	<u>(3,811)</u>	<u>13,326</u>
Fixed Assets	1,734	(9,270)	(7,536)
Intangible Assets	1,970	(26,969)	(24,999)
Capitalized R&D expenditures	7,953	—	7,953
Deferred compensation	22,100	—	22,100
Postretirement benefits	7,573	—	7,573
Tax credit carry-forwards and net operating losses	48,140	—	48,140
Less valuation allowance	(27,510)	—	(27,510)
Other, net	199	(6,429)	(6,230)
Noncurrent	<u>62,159</u>	<u>(42,668)</u>	<u>19,491</u>
Total	<u>\$ 79,296</u>	<u>\$ (46,479)</u>	<u>\$ 32,817</u>

	July 31, 2009		
	Assets	Liabilities	Total
Inventories	\$ 7,229	\$ —	\$ 7,229
Prepaid catalog costs	—	(3,363)	(3,363)
Employee benefits	1,682	—	1,682
Accounts receivable	1,924	—	1,924
Other, net	<u>6,903</u>	<u>(1,821)</u>	<u>5,082</u>
Current	<u>17,738</u>	<u>(5,184)</u>	<u>12,554</u>
Fixed Assets	1,901	(9,498)	(7,597)
Intangible Assets	2,134	(21,026)	(18,892)
Capitalized R&D expenditures	1,400	—	1,400
Deferred compensation	18,934	—	18,934
Postretirement benefits	7,202	—	7,202
Tax credit carry-forwards and net operating losses	45,057	—	45,057
Less valuation allowance	(25,670)	—	(25,670)
Other, net	<u>250</u>	<u>(3,676)</u>	<u>(3,426)</u>
Noncurrent	<u>51,208</u>	<u>(34,200)</u>	<u>17,008</u>
Total	<u>\$ 68,946</u>	<u>\$ (39,384)</u>	<u>\$ 29,562</u>

Tax loss carry-forwards at July 31, 2010 are comprised of:

- Foreign net operating loss carry-forwards of \$84,092, of which \$68,285 have no expiration date and the remainder of which expire within the next 5 years.
- State net operating loss carry-forwards of \$68,464, which expire from 2014 to 2030.
- Foreign tax credit carry-forwards of \$16,598, which expire from 2018 to 2020.
- State research and development credit carry-forwards of \$2,198, which expire from 2017 to 2024.

The valuation allowance increased by \$1,840 and \$176 for the fiscal years ended July 31, 2010 and 2009, respectively. If realized or reversed in future periods, substantially all of the valuation allowance would impact the income tax rate.

Rate Reconciliation

A reconciliation of the tax computed by applying the statutory U.S. federal income tax rate to income before income taxes to the total income tax expense is as follows:

	Years ended July 31,		
	2010	2009	2008
Tax at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.6%	1.6%	0.2%
International rate differential	(9.8)%	(8.6)%	(5.9)%
Non-creditable withholding taxes	1.8%	—	—
Rate variances arising from foreign subsidiary distributions	(2.6)%	(3.4)%	(1.3)%
Adjustments to tax accruals and reserves	(0.5)%	5.8%	1.2%
Research and development tax credits	(0.3)%	(1.5)%	(0.2)%
Other, net	<u>0.9%</u>	<u>(1.0)%</u>	<u>—</u>
Effective tax rate	<u>25.1%</u>	<u>27.9%</u>	<u>29.0%</u>

The Company is eligible for tax holidays on the earnings of certain subsidiaries in Asia, including China, India, Thailand, and the Philippines. The benefits realized as a result of these tax holidays reduced the consolidated effective tax rate by approximately 2.3%, 3.3%, and 1.9% during the years ended July 31, 2010, 2009, and 2008, respectively. These tax holidays are in the process of expiring and are anticipated to be fully exhausted by December 31, 2012.

Uncertain Tax Positions

On August 1, 2007, the Company adopted guidance regarding uncertain tax positions. The guidance requires application of a “more likely than not” threshold to the recognition and derecognition of tax positions. The adoption resulted in a \$903 reduction to earnings retained in the business as of August 1, 2007. Upon adoption, the Company also reclassified \$15,907 from accrued income taxes to other liabilities in the Company’s consolidated balance sheets.

A reconciliation of unrecognized tax benefits (excluding interest and penalties) is as follows:

Unrecognized Tax Benefits	
Balance at August 1, 2007 (date of adoption)	<u>\$ 13,731</u>
Additions based on tax positions related to the current year (1)	3,003
Additions for tax positions of prior years (1)	580
Reductions for tax positions of prior years	(579)
Lapse of statute of limitations	(1,435)
Settlements with tax authorities	—
Cumulative Translation Adjustments and other	<u>717</u>
Balance at July 31, 2008	<u>\$ 16,017</u>
Additions based on tax positions related to the current year	2,526
Additions for tax positions of prior years (1)	4,056
Reductions for tax positions of prior years	(934)
Lapse of statute of limitations	(944)
Settlements with tax authorities	60
Cumulative Translation Adjustments and other	<u>(1,319)</u>
Balance at July 31, 2009	<u>\$ 19,462</u>
Additions based on tax positions related to the current year	1,989
Additions for tax positions of prior years	3,934
Reductions for tax positions of prior years	(6,672)
Lapse of statute of limitations	(194)
Settlements with tax authorities	(1,054)
Cumulative Translation Adjustments and other	<u>203</u>
Balance at July 31, 2010	<u>\$ 17,668</u>

(1) Includes acquisitions.

Included in the balance of total unrecognized tax benefits (excluding interest and penalties) at July 31, 2010 and 2009 are potential benefits of approximately \$17,668 and \$19,117, respectively, that if recognized, would lower the Company's effective income tax rate.

The Company recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of income.

Interest expense is recognized on the amount of potentially underpaid taxes associated with the Company's tax positions, beginning in the first period in which interest starts accruing under the respective tax law and continuing until the tax positions are settled. During the years ended July 31, 2010, 2009, and 2008 the Company recognized \$33, \$427, and \$96 of interest expense, respectively, and \$780, \$414, and \$208 of penalties, respectively, related to the reserve for uncertain tax positions, net of amounts reversing due to reductions for tax positions of prior years, statute of limitations, and settlements. At July 31, 2010, 2009, and 2008 the Company had \$2,473, \$2,551, and \$2,146, respectively, accrued for interest on unrecognized tax benefits. Penalties are accrued if the tax position does not meet the minimum statutory threshold to avoid the payment of a penalty. At July 31, 2010, 2009, and 2008, the Company had \$1,592, \$776, and \$384, respectively, accrued for penalties on unrecognized tax benefits.

The Company estimates that it is reasonably possible that the unrecognized tax benefits may be reduced by \$3,000 within twelve months as a result of the resolution of worldwide tax matters, tax audit settlements, and/or statute expirations.

During the year ended July 31, 2010, the Company recognized tax benefits associated with certain international and domestic tax positions being resolved and the lapse of statutes of limitations, including the conclusion of the U.S. Internal Revenue Service audit of the Company's fiscal year ended July 31, 2006, 2007, and 2008.

The Company and its subsidiaries file income tax returns in the U.S., various state, and foreign jurisdictions. The following table summarizes the open tax years for the Company's major jurisdictions:

Jurisdiction	Open Tax Years
United States – Federal	F'09 – F'10
France	F'06 – F'10
Germany	F'03 – F'10
United Kingdom	F'08 – F'10

Unremitted Earnings

The Company does not provide for U.S. deferred taxes on cumulative earnings of non-U.S. affiliates and associated companies that have been reinvested indefinitely. These earnings relate to ongoing operations and at July 31, 2010, were approximately \$442,815. These earnings have been reinvested in non-U.S. business operations and the Company does not intend to repatriate these earnings to fund U.S. operations.

5. Long-Term Obligations

On May 13, 2010, the Company completed a private placement of €75.0 million (approximately \$95.0 million USD) aggregate principal amount of senior unsecured notes to accredited institutional investors. The €75.0 million of senior notes consists of €30.0 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, due May 13, 2017 and €45.0 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to maturity. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. These unsecured notes were issued pursuant to a note purchase agreement, dated May 13, 2010. The note purchase agreement requires the Company to maintain a ratio of debt to the trailing twelve months EBITDA, as defined by the agreement, of not more than a 3.5 to 1.0 ratio.

During fiscal 2004 through fiscal 2007, the Company completed three private placement note issuances totaling \$500 million in ten-year fixed rate notes with varying maturity dates to institutional investors at interest rates varying from 5.14% to 5.33%. The notes must be repaid equally over seven years, with initial payment due dates ranging from 2008 to 2011, with interest payable on the notes due semiannually on various dates throughout the year, which began in December 2004. The private placements were exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. Under the debt agreement, the Company made scheduled principal payments of \$21.4 million, \$21.4 million, and \$44.9 million during the years ended July 31, 2008, 2009, and 2010, respectively. In June 2009, the Company also completed a cash tender offer to purchase approximately \$65.8 million of its outstanding notes at par without penalty.

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 credit facility may be increased from \$200 million up to \$300 million. Under the credit agreement, 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 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 of the Company. 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.

On March 18, 2008, the Company entered into an amendment to the revolving loan agreement which extended the maturity date from October 5, 2011 to March 18, 2013. All other terms of the revolving loan agreement remained the same. As of July 31, 2010, there were no outstanding borrowings under the credit facility.

The Company's debt and revolving loan agreements require it to maintain certain financial covenants. The Company's June 2004, February 2006, March 2007, and May 2010 private placement debt agreements require the Company to maintain a ratio of debt to the trailing twelve months EBITDA, as defined in the debt agreements, of not more than a 3.5 to 1.0 ratio (leverage ratio). As of July 31, 2010, the Company was in compliance with the financial covenant of these debt agreements, with the ratio of debt to EBITDA, as defined by the agreements, equal to 2.2 to 1.0. Additionally, the Company's October 2006 revolving loan agreement requires the Company to maintain a ratio of debt to trailing twelve months EBITDA, as defined by the debt agreement, of not more than a 3.0 to 1.0 ratio. The revolving loan agreement requires the Company's trailing twelve months earnings before interest and taxes ("EBIT") to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of July 31, 2010, the Company was in compliance with the financial covenants of the revolving loan agreement, with the ratio of debt to EBITDA, as defined by the agreement, equal to 2.3 to 1.0 and the interest expense coverage ratio equal to 6.6 to 1.0.

Long-term obligations consist of the following as of July 31:

	2010	2009
Euro-denominated notes payable in 2017 at a fixed rate of 3.71%	\$ 45,615	\$ —
Euro-denominated notes payable in 2020 at a fixed rate of 4.24%	52,132	—
USD-denominated notes payable through 2017 at a fixed rate of 5.33%	75,000	93,750
USD-denominated notes payable through 2016 at a fixed rate of 5.30%	156,857	183,000
USD-denominated notes payable through 2014 at a fixed rate of 5.14%	<u>114,600</u>	<u>114,600</u>
	\$ 444,204	\$ 391,350
Less current maturities	<u>\$ (61,264)</u>	<u>\$ (44,893)</u>
	<u>\$ 382,940</u>	<u>\$ 346,457</u>

The estimated fair value of the Company's long-term obligations, based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities, was \$467,479 and \$412,678 at July 31, 2010 and July 31, 2009, respectively, as compared to the carrying value of \$444,204 and \$391,350 at July 31, 2010 and July 31, 2009, respectively.

Maturities on long-term debt are as follows:

Years ending July 31,	
2011	\$ 61,264
2012	61,264
2013	61,264
2014	61,264
2015	42,514
Thereafter	156,634
Total	<u>\$ 444,204</u>

The Company had outstanding letters of credit of \$1,564, and \$1,674 at July 31, 2010 and 2009, respectively.

6. Stockholders' Investment

Information as to the Company's capital stock at July 31, 2010 and 2009 is as follows:

	July 31, 2010			July 31, 2009		
	Shares Authorized	Shares Issued	(thousands) Amount	Shares Authorized	Shares Issued	(thousands) Amount
Preferred Stock, \$.01 par value	5,000,000			5,000,000		
Cumulative Preferred Stock:						
6% Cumulative	5,000			5,000		
1972 Series	10,000			10,000		
1979 Series	30,000			30,000		
Common Stock, \$.01 par value:						
Class A Nonvoting	100,000,000	51,261,487	\$ 513	100,000,000	51,261,487	\$ 513
Class B Voting	10,000,000	3,538,628	<u>35</u>	10,000,000	3,538,628	<u>35</u>
			<u>\$ 548</u>			<u>\$ 548</u>

Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of \$.01665 per share. Thereafter, any further dividend in that fiscal year must be paid on each share of Class A Common Stock and Class B Common Stock on an equal basis.

Other than as required by law, holders of the Class A Common Stock are not entitled to any vote on corporate matters, unless, in each of the three preceding fiscal years, the \$.01665 preferential dividend described above has not been paid in full. Holders of the Class A Common Stock are entitled to one vote per share for the entire fiscal year immediately following the third consecutive fiscal year in which the preferential dividend is not paid in full. Holders of Class B Common Stock are entitled to one vote per share for the election of directors and for all other purposes.

Upon liquidation, dissolution or winding up of the Company, and after distribution of any amounts due to holders of Cumulative Preferred Stock, holders of the Class A Common Stock are entitled to receive the sum of \$0.835 per share before any payment or distribution to holders of the Class B Common Stock. Thereafter, holders of the Class B Common Stock are entitled to receive a payment or

distribution of \$0.835 per share. Thereafter, holders of the Class A Common Stock and Class B Common Stock share equally in all payments or distributions upon liquidation, dissolution or winding up of the Company.

The preferences in dividends and liquidation rights of the Class A Common Stock over the Class B Common Stock will terminate at any time that the voting rights of Class A Common Stock and Class B Common Stock become equal.

During fiscal 2008 and fiscal 2009, the Company's Board of Directors authorized share repurchase plans for the Company's Class A Nonvoting Common Stock. The share repurchase plans were implemented by purchasing shares in the open market or privately negotiated transaction, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. The Company reacquired approximately 1,345,000 and 1,349,000 shares of its Class A Common Stock for \$40.3 million and \$42.2 in fiscal 2009 and 2008, respectively, in connection with its stock repurchase plans. The Company reacquired 102,067 shares of its Class A Common Stock for \$2.5 million in fiscal 2010. As of July 31, 2010, there remained 204,133 shares to purchase in connection with this share repurchase plan.

The following is a summary of other activity in stockholders' investment for the years ended July 31, 2010, 2009, and 2008:

	Unearned Restricted Stock	Deferre Compensation	Shares Held in Rabbi Trust, at cost	Total
Balances at July 31, 2007	\$ —	\$ 13,575	\$ (12,921)	\$ 654
Shares at July 31, 2007		724,417	724,417	
Sale of shares at cost	—	(1,121)	1,154	33
Purchase of shares at cost	—	1,189	(1,189)	—
Issuance of restricted stock	(6,892)	—	—	(6,892)
Amortization of restricted stock	710	—	—	710
Balances at July 31, 2008	\$ (6,182)	\$ 13,643	\$ (12,956)	\$ (5,495)
Shares at July 31, 2008		690,539	690,539	
Sale of shares at cost	—	(1,655)	1,223	(432)
Purchase of shares at cost	—	1,294	(1,294)	—
Amortization of restricted stock	1,435	—	—	1,435
Balances at July 31, 2009	\$ (4,747)	\$ 13,282	\$ (13,027)	\$ (4,492)
Shares at July 31, 2009		671,650	671,650	
Sale of shares at cost	—	(1,247)	1,536	289
Purchase of shares at cost	—	813	(813)	—
Amortization of restricted stock	1,374	—	—	1,374
Balances at July 31, 2010	\$ (3,373)	\$ 12,848	\$ (12,304)	\$ (2,829)
Shares at July 31, 2010		614,988	614,988	

Prior to 2002, all Brady Corporation deferred compensation was invested in the Company's Class A Nonvoting Common Stock. In 2002, the Company adopted a new deferred compensation plan which allowed investing in other investment funds in addition to the Company's Class A Nonvoting Common Stock. Under this plan, participants were allowed to transfer funds between the Company's Class A Nonvoting Common Stock and the other investment funds. On May 1, 2006 the plan was amended with the provision that deferrals into the Company's Class A Nonvoting Common Stock must remain in the Company's Class A Nonvoting Common Stock and be distributed in shares of the Company's Class A Nonvoting Common Stock. At July 31, 2010, the deferred compensation balance in stockholders' investment represents the investment at the original cost of shares held in the Company's Class A Nonvoting Common Stock for the deferred compensation plan prior to 2002 and the investment at the cost of shares held in the Company's Class A Nonvoting Common Stock for the plan subsequent to 2002, adjusted for the plan amendment on May 1, 2006. The balance of shares held in the Rabbi Trust represents the investment in the Company's Class A Nonvoting Common Stock at the original cost of all the Company's Class A Nonvoting Common Stock held in deferred compensation plans.

The Company's Employee Monthly Stock Investment Plan ("the Plan") provides that eligible employees may authorize a fixed dollar amount between \$20 and \$500 per month to be deducted from their pay. The funds deducted are forwarded to the Plan administrator and are

used to purchase the Company's Class A Nonvoting Common Stock at the market price. As part of the Plan, Brady pays all brokerage fees for stock purchases and dividend reinvestments.

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 or restricted 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 2006 expire five years from the grant date. All other performance-based options expire 10 years from the date of grant. Restricted shares have an issuance price equal to the fair market value of the underlying stock at the date of grant. The shares generally vest at the end of a five-year period and upon meeting certain

financial performance conditions. These shares are referred to herein as “performance-based restricted shares.”

As of July 31, 2010, the Company has reserved 5,108,736 shares of Class A Nonvoting Common Stock for outstanding stock options and

restricted shares and 2,210,000 shares of Class A Nonvoting Common Stock remain for future issuance of stock options and restricted shares under the various plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

Changes in the options are as follows:

	Option Price	Options Outstanding	Weighted Average Exercise Price
Balance, July 31, 2007	\$ 9.59-\$40.37	<u>4,182,739</u>	\$ 26.36
Options granted	35.10 - 38.31	977,500	37.41
Options exercised	9.59 - 38.19	(763,708)	19.02
Options cancelled	14.16 - 30.37	<u>(411,326)</u>	36.42
Balance, July 31, 2008	\$ 9.59-\$40.37	<u>3,985,205</u>	\$ 29.43
Options granted	17.23 - 35.42	614,000	21.26
Options exercised	9.59 - 38.19	(138,934)	15.75
Options cancelled	20.95 - 38.31	<u>(479,665)</u>	35.02
Balance, July 31, 2009	\$ 13.31-\$40.37	<u>3,980,606</u>	\$ 27.96
Options granted	24.78 - 33.28	1,446,500	29.08
Options exercised	14.16 - 31.54	(241,403)	18.16
Options cancelled	15.28 - 38.31	<u>(76,967)</u>	31.91
Balance, July 31, 2010	\$ 13.31-\$40.37	<u>5,108,736</u>	\$ 28.69

The total fair value of options vested during the fiscal years ended July 31, 2010, 2009, and 2008 was \$5,548, \$6,559, and \$8,626, respectively. The total intrinsic value of options exercised during the fiscal years ended July 31, 2010, 2009, and 2008 was \$3,004, \$2,156, and \$14,479, respectively.

There were 3,100,955, 2,831,311, and 2,399,742 options exercisable with a weighted average exercise price of \$28.85, \$27.46, and \$24.42

at July 31, 2010, 2009, and 2008, respectively. The cash received from the exercise of options during the fiscal years ended July 31, 2010, 2009, and 2008 was \$3,717, \$1,683, and \$14,500 respectively. The tax benefit on options exercised during the fiscal years ended July 31, 2010, 2009, and 2008 was \$866, \$779, and \$4,185, respectively.

The following table summarizes information about stock options outstanding at July 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Outstanding and Exercisable	
	Number of Shares Outstanding at July 31, 2010	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares Exercisable at July 31, 2010	Weighted Average Exercise Price
Up to \$14.99	275,000	1.9	\$ 13.55	275,000	\$ 13.55
\$15.00 to \$29.99	3,076,233	6.9	25.16	1,274,929	21.18
\$30.00 and up	<u>1,757,503</u>	5.9	37.23	<u>1,551,026</u>	37.16
Total	<u>5,108,736</u>	6.3	28.69	<u>3,100,955</u>	28.85

As of July 31, 2010, the aggregate intrinsic value of the number of options outstanding and the number of options exercisable was \$14,097 and \$11,520, respectively. The Company granted 210,000

performance-based restricted shares during fiscal 2008, with a grant price and fair value of \$32.83. As of July 31, 2010, 210,000 performance-based restricted shares were outstanding.

7. Segment Information

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Corporate long-term performance is evaluated based on shareholder value enhancement ("SVE"), which incorporates the cost of capital as a hurdle rate for capital expenditures, new product development, and acquisitions. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology, human resources and other administration, which are managed as global functions. Restructuring charges, stock options, interest, investment and other income and income taxes are also excluded when evaluating performance.

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, Europe and Asia-Pacific,

has a President that reports directly to the Company's chief operating decision maker, it's Chief Executive Officer. Each region has its own distinct operations, is managed locally by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. The Company has determined that these regions comprise its operating and reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

Intersegment sales and transfers are recorded at cost plus a standard percentage markup. Intercompany profit is eliminated in consolidation. It is not practicable to disclose enterprise-wide revenue from external customers on the basis of product or service.

	Americas	Europe	Asia-Pacific	Total Region	Corporate and Eliminations	Total Company
Year ended July 31, 2010:						
Revenues from external customers	\$ 551,185	\$ 380,121	\$ 327,790	\$ 1,259,096	—	\$ 1,259,096
Intersegment revenues	43,136	4,456	18,188	65,780	\$(65,780)	—
Depreciation and amortization expense	21,142	8,088	15,749	44,979	8,043	53,022
Segment profit	125,169	103,316	52,105	280,590	(14,131)	266,459
Assets	754,753	313,204	362,653	1,430,610	315,921	1,746,531
Expenditures for property, plant and equipment	8,502	1,535	9,946	19,983	6,313	26,296
Year ended July 31, 2009:						
Revenues from external customers	\$ 534,440	\$ 367,156	\$ 307,106	\$ 1,208,702	—	\$ 1,208,702
Intersegment revenues	45,853	4,310	18,534	68,697	\$(68,697)	—
Depreciation and amortization expense	22,022	8,467	15,957	46,446	8,405	54,851
Segment profit	114,404	99,875	42,575	256,854	(7,952)	248,902
Assets	703,559	298,717	341,605	1,343,881	239,386	1,583,267
Expenditures for property, plant and equipment	8,422	3,326	5,848	17,596	6,431	24,027
Year ended July 31, 2008:						
Revenues from external customers	\$ 667,106	\$ 496,715	\$ 359,195	\$ 1,523,016	—	\$ 1,523,016
Intersegment revenues	54,677	8,511	25,995	89,183	\$(89,183)	—
Depreciation and amortization expense	24,856	11,172	15,482	51,510	9,077	60,587
Segment profit	157,523	135,426	58,234	351,183	(9,048)	342,135
Assets	755,770	396,058	397,531	1,549,359	301,154	1,850,513
Expenditures for property, plant and equipment	7,535	4,714	5,269	17,518	8,889	26,407

	Years ended July 31,		
	2010	2009	2008
Net income reconciliation:			
Total profit for reportable segments	\$ 280,590	\$ 256,854	\$ 351,183
Corporate and eliminations	(14,131)	(7,952)	(9,048)
Unallocated amounts:			
Administrative costs	(121,689)	(102,680)	(134,451)
Restructuring costs	(15,314)	(25,849)	—
Investment and other income – net	1,168	1,800	4,888
Interest expense	(21,222)	(24,901)	(26,385)
Income before income taxes	109,402	97,272	186,187
Income taxes	(27,446)	(27,150)	(53,999)
Net income	\$ 81,956	\$ 70,122	\$ 132,188

	Revenues* Years ended July 31,			Long-lived Assets** As of years ended July 31,		
	2010	2009	2008	2010	2009	2008
Geographic information:						
United States	\$521,318	\$510,703	\$622,618	\$507,481	\$519,932	\$532,273
China	156,842	199,893	192,048	118,953	123,078	131,810
Other	646,716	566,589	794,036	391,214	375,905	440,021
Eliminations	(65,780)	(68,483)	(85,686)	—	—	—
Consolidated total	\$ 1,259,096	\$ 1,208,702	\$ 1,523,016	\$ 1,017,648	\$ 1,018,915	\$ 1,104,104

* Revenues are attributed based on country of origin.

** Long-lived assets consist of property, plant, and equipment, other intangible assets and goodwill.

8. Net Income Per Common Share

Net income per Common Share is computed by dividing net income (after deducting the applicable preferential Class A Common Stock dividends) by the weighted average Common Shares outstanding of 52,402,387 for 2010, 52,558,657 for 2009, and 54,167,746 for 2008. The preferential dividend on the Class A Common Stock of \$.01665 per share has been added to the net income per Class A Common Share for all years presented.

In June 2008, the Financial Accounting Standards Board ("FASB") issued accounting guidance addressing whether instruments granted in share-based payment transactions are participating securities prior

to vesting, and therefore need to be included in the earnings allocation in computing earnings per share. This guidance requires that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends be considered participating securities in undistributed earnings with common shareholders. The Company adopted the guidance during the first quarter of fiscal 2010. As a result of the adoption, the dividends on the Company's performance-based restricted shares, granted in fiscal 2008, are included in the basic and diluted net income per share calculations for all periods presented. The adoption and retrospective application of this guidance reduced Class A diluted net income per share as previously reported for fiscal year 2009 by \$0.01 and reduced Class A and Class B basic net income per share for fiscal year 2008 by \$0.01.

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:

	Years ended July 31,		
	2010	2009	2008
Numerator:			
Net income (numerator for basic and diluted Class A net income per share)	\$81,956	\$70,122	\$132,188
Less:			
Restricted stock dividends	(147)	(144)	(95)
Numerator for basic and diluted Class A net income per share	\$ 81,809	\$ 69,978	\$ 132,093
Less:			
Preferential dividends	(816)	(823)	(847)
Preferential dividends on dilutive stock options	(11)	(11)	(13)
Numerator for basic and diluted Class B net income per share	\$ 80,982	\$ 69,144	\$ 131,233
Denominator:			
Denominator for basic net income per share for both Class A and B	52,402	52,559	54,168
Plus: effect of dilutive stock options	544	307	705
Denominator for diluted net income per share for both Class A and B	52,946	52,866	54,873
Class A common stock net income per share calculation:			
Basic	\$ 1.56	\$ 1.33	\$ 2.44
Diluted	\$ 1.55	\$ 1.32	\$ 2.41
Class B common stock net income per share calculation:			
Basic	\$ 1.55	\$ 1.32	\$ 2.42
Diluted	\$ 1.53	\$ 1.31	\$ 2.39

Options to purchase 2,832,337, 2,764,308, and 1,599,792, shares of Class A common stock were excluded from the computations of diluted net income per share for years ended July 31, 2010, 2009, and

2008, respectively, because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

9. Commitments and Contingencies

The Company has entered into various non-cancellable operating lease agreements. Rental expense charged to operations on a straight-line basis was \$23,712, \$25,971, and \$27,443 for the years ended July 31, 2010, 2009, and 2008, respectively. Future minimum lease payments required under such leases in effect at July 31, 2010 are as follows, for the years ending July 31:

2011	\$	21,258
2012		16,799
2013		11,075
2014		6,696
2015		3,274
Thereafter		<u>4,984</u>
	\$	<u>64,086</u>

In the normal course of business, the Company is named as a defendant in various lawsuits in which claims are asserted against the Company. In the opinion of management, the liabilities, if any, which may ultimately result from lawsuits are not expected to have a material adverse effect on the consolidated financial statements of the Company.

10. Fair Value Measurements

The Company adopted new accounting guidance on fair value measurements on August 1, 2008 as it relates to financial assets and liabilities. The Company adopted the new accounting guidance on fair value measurements for its nonfinancial assets and liabilities on August 1, 2009. The accounting guidance applies to other accounting pronouncements that require or permit fair value measurements, defines fair value based upon an exit price model, establishes a framework for measuring fair value, and expands the applicable disclosure requirements. The accounting guidance indicates, among other things, that a fair value measurement assumes that a transaction

to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

The Company also adopted new guidance on disclosure requirements for fair value measurements on February 1, 2010. The guidance requires previous fair value hierarchy disclosures to be further disaggregated by class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. In addition, significant transfers between Levels 1 and 2 of the fair value hierarchy are required to be disclosed. The adoption did not have an impact on the Consolidated Financial Statements of the Company. In addition, the fair value disclosure amendments also require more detailed disclosures of the changes in Level 3 instruments. These changes will not become effective until interim and annual periods beginning after December 15, 2010 and are not expected to have an impact on the Consolidated Financial Statements of the Company.

The accounting guidance on fair value measurements establishes a fair market value hierarchy for the pricing inputs used to measure fair market value. The Company's assets and liabilities measured at fair market value are classified in one of the following categories:

Level 1 – Assets or liabilities for which fair value is based on quoted market prices in active markets for identical instruments as of the reporting date.

Level 2 – Assets or liabilities for which fair value is based on valuation models for which pricing inputs were either directly or indirectly observable.

Level 3 – Assets or liabilities for which fair value is based on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The following tables set forth by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at July 31, 2010, and July 31, 2009, according to the valuation techniques the Company used to determine their fair values.

	Fair value measurements using inputs considered as				Balance Sheet Classification
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	
July 31, 2009:					
Trading Securities	\$ 8,239	\$ —	\$ —	\$ 8,239	Other assets
Foreign exchange contracts – cash flow hedges	—	—	—	—	Prepaid expenses and other current assets
Foreign exchange contracts	—	130	—	—	Prepaid expenses and other current assets
Total Assets	<u>\$ 8,239</u>	<u>\$ 130</u>	<u>\$ —</u>	<u>\$ 8,239</u>	
Foreign exchange contracts – cash flow hedges	<u>\$ —</u>	<u>\$ 248</u>	<u>\$ —</u>	<u>\$ 248</u>	Other current liabilities
Total Liabilities	<u>\$ —</u>	<u>\$ 248</u>	<u>\$ —</u>	<u>\$ 248</u>	
July 31, 2010:					
Trading Securities	\$ 8,757	\$ —	\$ —	\$ 8,757	Other assets
Foreign exchange contracts – cash flow hedges	—	156	—	156	Prepaid expenses and other current assets
Foreign exchange contracts	—	24	—	24	Prepaid expenses and other current assets
Total Assets	<u>\$ 8,757</u>	<u>\$ 180</u>	<u>\$ —</u>	<u>\$ 8,937</u>	
Foreign exchange contracts – cash flow hedges	<u>\$ —</u>	<u>\$ 829</u>	<u>\$ —</u>	<u>\$ 829</u>	Other current liabilities
Foreign exchange contracts	—	64	—	64	Other current liabilities
Foreign currency denominated debt – net investment hedge	—	97,747	—	97,747	Long term obligations, less current maturities
Total Liabilities	<u>\$ —</u>	<u>\$ 98,640</u>	<u>\$ —</u>	<u>\$ 98,640</u>	

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

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

Foreign currency exchange contracts: The Company's foreign currency exchange contracts were classified as Level 2, as the fair value was based on the present value of the future cash flows using external models that use observable inputs, such as interest rates, yield curves and foreign currency exchange rates. See Note 12, "Derivatives and Hedging Activities" for additional information.

Foreign currency denominated debt — net investment hedge: The Company's foreign currency denominated debt designated as a net investment hedge was classified as Level 2, as the fair value was based on the present value of the future cash flows using external models that use observable inputs, such as interest rates, yield curves and foreign currency exchange rates. See Note 12, "Derivatives and Hedging Activities" for additional information.

There have been no transfers of assets or liabilities between the fair value hierarchy levels, outlined above, during the fiscal years ended July 31, 2010 and 2009.

The Company's financial instruments, other than those presented in the disclosures above, include cash, accounts receivable, accounts payable, accrued liabilities and short-term and long-term debt. The fair values of cash, accounts receivable, accounts payable, accrued liabilities and short-term debt approximated carrying values because of the short-term nature of these instruments.

Disclosures for nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, were required prospectively beginning August 1, 2009. During the three and twelve months ended July 31, 2010, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition other than the acquisitions of Welco, Stickolor, and Securimed which are valued using level 2 inputs. See Note 2, "Acquisitions" for further information.

11. Restructuring

In fiscal 2009, in response to the global economic downturn, the Company took several measures to address its cost structure. In addition to a company-wide salary freeze and decreased discretionary spending, the Company reduced its workforce by 25%. The Company reduced its workforce through voluntary and involuntary separation programs, voluntary retirement programs, and facility consolidations. As a result of these actions, the Company recorded restructuring charges of \$25,849

in fiscal 2009. The restructuring charges included \$20,911 of employee separation costs, \$2,101 of non-cash fixed asset write-offs, \$1,194 of other facility closure related costs, \$1,275 of contract termination costs, and \$368 of non-cash stock option expense.

The Company continued executing its restructuring actions that were announced in the fiscal year ended July 31, 2009 throughout the fiscal year ended July 31, 2010. As a result of these actions, the Company recorded restructuring charges of \$5,717 and \$15,314 during the three and twelve months ended July 31, 2010, respectively. The fiscal 2010 restructuring charges consisted of \$10,850 of employee separation

costs, \$2,260 of non-cash fixed asset write-offs, \$1,493 of other facility closure related costs, and \$711 of contract termination costs. Of the \$15,314 of restructuring charges recorded during the fiscal year ended July 31, 2010, \$7,158 was incurred in the Americas, \$5,350 was incurred in Europe, and \$2,806 was incurred in Asia-Pacific. The costs related to these restructuring activities have been recorded on the consolidated statements of income as restructuring charges. The Company expects the majority of the remaining cash payments to be made within the next twelve months.

A reconciliation of the Company's restructuring activity for fiscal 2009 and 2010 is as follows:

	Employee Related	Asset Write-offs	Other	Total
Beginning balance, July 31, 2008	\$ —	\$ —	\$ —	\$ —
Restructuring charge	21,279	2,101	2,469	25,849
Non-cash write-offs	(368)	(2,101)	—	(2,469)
Other separation benefits	(1,178)	—	—	(1,178)
Cash payments	(15,288)	—	(1,592)	(16,880)
Ending balance, July 31, 2009	\$ 4,445	\$ —	\$ 877	\$ 5,322
Restructuring charge	10,850	2,260	2,204	15,314
Non-cash write-offs	—	(2,260)	—	(2,260)
Cash payments	(9,240)	—	(2,975)	(12,215)
Ending balance, July 31, 2010	\$ 6,055	\$ —	\$ 106	\$ 6,161

The other separation benefits for the period ended July 31, 2009 include charges of approximately \$1,178 directly related to postretirement medical, dental and vision benefits. See Note 3 for discussion on employee benefits.

12. Derivatives and Hedging Activities

The Company utilizes forward foreign exchange currency contracts to reduce the exchange rate risk of specific foreign currency denominated transactions. These contracts typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date, with maturities of less than 12 months, which qualify as cash flow hedges under the accounting guidance for derivative instruments and hedging activities. The primary objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements due to products purchased in other than the respective subsidiaries' functional currency. To achieve this objective, the Company hedges a portion of known exposures using forward foreign exchange currency contracts. As of July 31, 2010 and 2009, the notional amount of outstanding forward exchange contracts was \$45,328 and \$30,929, respectively.

Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current earnings. The amount of hedge ineffectiveness was not significant for the years ended July 31, 2010, 2009, and 2008.

The Company hedges a portion of known exposure using forward exchange contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Singapore Dollar, Swedish Krona, Danish Krone, Japanese Yen, Swiss Franc, and the Korean Won. Generally, these risk management transactions will involve the use of foreign currency derivatives to protect against exposure resulting from sales and identified inventory or other asset purchases.

The Company has designated a portion of its foreign exchange contracts as cash flow hedges and recorded these contracts at fair value on the Consolidated Balance Sheets. For these instruments, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. At July 31, 2010 and July 31, 2009, unrealized losses of \$493 and \$35 have been included in OCI, respectively. All balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings.

At July 31, 2010, the Company had \$156 of forward exchange contracts designated as cash flow hedges included in "Prepaid expenses and other current assets" on the accompanying Consolidated Balance Sheet. At July 31, 2009, \$130 of the Company's forward exchange contracts not designated as hedging instruments were included in "Prepaid ex-

penses and other current assets,” on the accompanying Consolidated Balance Sheet. At July 31, 2010 and July 31, 2009, the Company had \$829 and \$248 respectively, of forward exchange contracts designated as hedge instruments included in “Other current liabilities” on the accompanying Consolidated Balance Sheet. At July 31, 2010 and July 31, 2009, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$32,020 and \$21,793, respectively, including contracts to sell Euros, Canadian Dollars, Australian Dollars, British Pounds, U.S. Dollars, and Swiss Franc.

On May 13, 2010, the Company completed the private placement of €75.0 million (approximately \$95.0 million USD) aggregate principal amount of senior unsecured notes to accredited institutional investors. The Company entered into certain foreign currency denominated debt obligations to selectively hedge portions of its net investment in European foreign operations. As net investment hedges, the currency effects of the debt obligations are reflected in the foreign currency translation adjustments component of accumulated other comprehensive income where they offset gains and losses recorded on the Company’s net investment in European operations. The Company’s

foreign denominated debt obligations are valued under a market approach using publicized spot prices.

Additionally, during fiscal 2010, the Company used forward foreign exchange currency contracts designated as hedge instruments to hedge portions of the Company’s net investments in European foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. Any ineffective portions are to be recognized in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At July 31, 2010, the Company had no forward foreign exchange currency contracts designated as net investment hedges included in “Prepaid expenses and other current assets” on the Consolidated Balance Sheet.

Fair values of derivative instruments in the Consolidated Balance Sheets were as follows:

Derivatives designated as hedging instruments	Asset Derivatives				Liability Derivatives			
	July 31, 2010		July 31, 2009		July 31, 2010		July 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash flow hedges:								
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 156	Prepaid expenses and other current assets	\$ —	Other current liabilities	\$ 829	Other current liabilities	\$ 248
Net investment hedges:								
Foreign currency denominated debt	Prepaid expenses and other current assets	\$ —	Prepaid expenses and other current assets	\$ —	Long term obligations, less current maturities	\$ 97,747	Long term obligations, less current maturities	\$ —
Total derivatives designated as hedging instruments		\$ 156		\$ —		\$ 98,576		\$ 248
Derivatives not designated as hedging instruments:								
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 24	Prepaid expenses and other current assets	\$ 130	Other current liabilities	\$ 64	Other current liabilities	\$ —
Total derivatives not designated as hedging instruments		\$ 24		\$ 130		\$ 64		\$ —

The pre-tax effects of derivative instruments designated as cash flow hedges on the Consolidated Statements of Income consisted of the following:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	\$ 493	\$ 152	Cost of goods sold	\$ (80)	\$ (815)	Cost of goods sold	\$ —	\$ 132
Total	\$ 493	\$ 152		\$ (80)	\$ (815)		\$ —	\$ 132

The pre-tax effects of derivative instruments designated as net investment hedges on the Consolidated Balance Sheet consisted of the following:

Derivatives in Net Investment Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	\$ 6,248	\$ —	Investment and other income — net	\$ —	\$ —	Investment and other income — net	\$ —	\$ —
Foreign currency denominated debt	\$ (2,833)	\$ —	Investment and other income — net	\$ —	\$ —	Investment and other income — net	\$ —	\$ —
Total	\$ 3,415	\$ —		\$ —	\$ —		\$ —	\$ —

The pre-tax effects of derivative instruments not designated as hedging instruments on the Consolidated Statements of Income consisted of the following:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2010	2009
Foreign exchange contracts	Other income (expense)	\$ (40)	\$ 693
Total		\$ (40)	\$ 693

13. Unaudited Quarterly Financial Information

	Quarters				Total
	First	Second	Third	Fourth	
2010					
Net Sales	\$ 318,486	\$ 295,829	\$ 321,887	\$ 322,894	\$ 1,259,096
Gross Margin	157,443	146,918	160,197	158,739	623,297
Operating Income*	35,557	23,902	35,914	34,083	129,456
Net Income	21,668	15,001	23,695	21,592	81,956
Net Income Per Class A Common Share:					
Basic	0.41	0.29	0.45	0.41	1.56
Diluted	0.41	0.29	0.45	0.41	1.55
2009					
Net Sales	\$ 378,317	\$ 266,449	\$ 276,733	\$ 287,203	\$ 1,208,702
Gross Margin	181,146	126,142	134,173	136,122	577,583
Operating Income*	56,194	4,618	29,272	30,289	120,373
Net Income	37,110	(4,150)	17,960	19,202	70,122
Net Income Per Class A Common Share:					
Basic	0.70	(0.08)	0.34	0.37	1.33
Diluted	0.69	(0.08)	0.34	0.36	1.32

* Fiscal 2010 had before tax restructuring charges by quarter of \$3,601, \$3,649, \$2,347, and \$5,717 for a total of \$15,314. Fiscal 2009 had before tax restructuring charges by quarter of \$1,639, \$19,408, \$2,229, and \$2,573 for a total of \$25,849.

Certifications - The certifications of Brady's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures have been filed as Exhibits 31.1 and 31.2 to Brady's Form 10-K filed on September 21, 2010.

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