

BRADY CORP
Form 10-Q
June 07, 2007

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

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

For the Quarterly Period Ended April 30, 2007

OR

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

For the Transition Period from _____ to _____

Commission File Number 1-14959

BRADY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin

39-0178960

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6555 West Good Hope Road, Milwaukee, Wisconsin 53223

(Address of principal executive offices)

(Zip Code)

(414) 358-6600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of June 4, 2007, there were outstanding 50,481,786 shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

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

	April 30, 2007 (Unaudited)	July 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119,338	\$ 113,008
Short term investments	1,200	11,500
Accounts receivable, less allowance for losses (\$8,828 and \$6,390, respectively)	240,055	187,907
Inventories:		
Finished products	82,295	59,365
Work-in-process	20,437	12,850
Raw materials and supplies	41,548	37,702
Total inventories	144,280	109,917
Prepaid expenses and other current assets	41,738	36,825
Total current assets	546,611	459,157
Other assets:		
Goodwill	724,404	587,642
Other intangible assets	159,384	134,111
Deferred income taxes	37,185	34,135
Other	20,633	10,235
Property, plant and equipment:		
Cost:		
Land	6,299	6,548
Buildings and improvements	85,825	78,418
Machinery and equipment	235,914	198,426
Construction in progress	24,811	12,098
	352,849	295,490
Less accumulated depreciation	180,640	155,584
Net property, plant and equipment	172,209	139,906
Total	\$ 1,660,426	\$ 1,365,186

LIABILITIES AND STOCKHOLDERS INVESTMENT**Current liabilities:**

Accounts payable	\$ 94,415	\$ 78,585
Wages and amounts withheld from employees	62,560	61,778
Taxes, other than income taxes	6,881	6,231
Accrued income taxes	30,897	25,243
Other current liabilities	51,531	46,763
Short-term borrowings and current maturities on long-term obligations	7	20

Total current liabilities	246,291	218,620
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Long-term obligations, less current maturities	500,017	350,018
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Other liabilities	63,719	50,502
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Total liabilities	810,027	619,140
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Stockholders investment:

Class A nonvoting common stock Issued 50,481,743 and 50,481,743 shares, respectively and outstanding 50,423,441 and 50,188,842 shares, respectively	505	505
Class B voting common stock Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	260,342	258,922
Earnings retained in the business	521,567	460,991
Treasury stock 58,302 and 292,901 shares, respectively of Class A nonvoting common stock, at cost	(2,218)	(10,865)
Accumulated other comprehensive income	69,420	35,696
Other	748	762

Total stockholders investment	850,399	746,046
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Total	\$ 1,660,426	\$ 1,365,186
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See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended April 30, (Unaudited)			Nine Months Ended April 30, (Unaudited)		
	2007	2006	Percentage Change	2007	2006	Percentage Change
Net sales	\$ 346,332	\$ 266,494	30.0%	\$ 999,866	\$ 730,103	36.9%
Cost of products sold	177,181	125,739	40.9%	516,426	348,252	48.3%
Gross margin	169,151	140,755	20.2%	483,440	381,851	26.6%
Operating expenses:						
Research and development	8,739	7,314	19.5%	26,353	20,677	27.5%
Selling, general and administrative	114,109	89,215	27.9%	326,119	241,543	35.0%
Total operating expenses	122,848	96,529	27.3%	352,472	262,220	34.4%
Operating income	46,303	44,226	4.7%	130,968	119,631	9.5%
Other income (expense):						
Investment and other income net	385	2,279	-83.1%	917	2,759	-66.8%
Interest expense	(6,428)	(4,496)	43.0%	(16,407)	(8,920)	83.9%
Income before income taxes	40,260	42,009	-4.2%	115,478	113,470	1.8%
Income taxes	11,273	11,763	-4.2%	32,334	31,772	1.8%
Net income	\$ 28,987	\$ 30,246	-4.2%	\$ 83,144	\$ 81,698	1.8%
Per Class A Nonvoting Common Share:						
Basic net income	\$ 0.54	\$ 0.62	-12.9%	\$ 1.54	\$ 1.67	-7.2%
Diluted net income	\$ 0.53	\$ 0.61	-13.1%	\$ 1.52	\$ 1.64	-7.3%
Dividends	\$ 0.14	\$ 0.13	7.7%	\$ 0.42	\$ 0.39	7.7%
Per Class B Voting Common Share:						
Basic net income	\$ 0.54	\$ 0.62	-12.9%	\$ 1.53	\$ 1.65	-6.7%
Diluted net income	\$ 0.53	\$ 0.61	-13.1%	\$ 1.50	\$ 1.62	-6.8%
Dividends	\$ 0.14	\$ 0.13	7.7%	\$ 0.40	\$ 0.37	8.1%

Weighted average common
shares outstanding (in
thousands):

Basic	53,953	48,923	53,860	49,039
Diluted	54,717	49,833	54,704	49,962

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended April 30, (Unaudited)	
	2007	2006
Operating activities:		
Net income	\$ 83,144	\$ 81,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,403	23,973
Gain on foreign currency contract		(1,517)
Deferred income taxes	(2,129)	(3,500)
(Gain) loss on disposal of property, plant & equipment	(182)	188
Provision for losses on accounts receivable	1,800	1,102
Non-cash portion of stock-based compensation expense	5,022	4,275
Changes in operating assets and liabilities (net of effects of business acquisitions):		
Accounts receivable	(21,946)	(25,570)
Inventories	(17,544)	(14,123)
Prepaid expenses and other assets	(14,634)	(2,604)
Accounts payable and accrued liabilities	(2,454)	(3,748)
Income taxes	4,008	(1,657)
Other liabilities	4,169	4,813
Net cash provided by operating activities	79,657	63,330
Investing activities:		
Acquisition of businesses, net of cash acquired	(157,943)	(155,283)
Payments of contingent consideration	(10,906)	
Purchases of short-term investments	(47,100)	(105,800)
Sales of short-term investments	57,400	82,900
Purchases of property, plant and equipment	(42,107)	(26,291)
Purchase of foreign currency contract		(2,134)
Proceeds from sale of property, plant and equipment	1,703	(51)
Other	(8,978)	(1,907)
Net cash used in investing activities	(207,931)	(208,566)
Financing activities:		
Payment of dividends	(22,073)	(19,070)
Proceeds from issuance of common stock	4,144	6,960
Principal payments on debt	(110,674)	(339,051)
Proceeds from issuance of debt	259,300	538,330
Purchase of treasury stock		(27,299)
Income tax benefit from the exercise of stock options	902	3,707
Net cash provided by financing activities	131,599	163,577

Effect of exchange rate changes on cash	3,005	(997)
Net increase in cash and cash equivalents	6,330	17,344
Cash and cash equivalents, beginning of period	113,008	72,970
Cash and cash equivalents, end of period	\$ 119,338	\$ 90,314
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 16,003	\$ 4,572
Income taxes, net of refunds	33,268	30,844
Acquisitions:		
Fair value of assets acquired, net of cash and goodwill	\$ 87,224	\$ 61,602
Liabilities assumed	(33,037)	(23,188)
Goodwill	103,756	116,869
Net cash paid for acquisitions	\$ 157,943	\$ 155,283

See Notes to Condensed Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended April 30, 2007

(Unaudited)

(In thousands, except share and per share amounts)

NOTE A Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the Company or Brady) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of April 30, 2007 and July 31, 2006, its results of operations for the three and nine months ended April 30, 2007 and 2006, and its cash flows for the nine months ended April 30, 2007 and 2006. The condensed consolidated balance sheet as of July 31, 2006 has been derived from the audited consolidated financial statements of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended July 31, 2006.

Reclassifications Certain prior period amounts have been reclassified to conform with the current period presentation.

NOTE B Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended April 30, 2007, are as follows:

	Americas	Europe	Asia-Pacific	Total
Balance as of July 31, 2006	\$ 322,759	\$ 111,792	\$ 153,091	\$ 587,642
Goodwill acquired during the period	74,078	28,459	1,219	103,756
Adjustments for prior year acquisitions	1,159	10,151	4,239	15,549
Translation adjustments	764	9,344	7,349	17,457
Balance as of April 30, 2007	\$ 398,760	\$ 159,746	\$ 165,898	\$ 724,404

The following acquisitions completed during the nine months ended April 30, 2007 increased goodwill by the following amounts:

	Segment	Goodwill
Comprehensive Identification Products, Inc. (CIPI)	Americas, Europe and Asia-Pacific	\$ 19,472
Precision Converters, L.P. (Precision Converters)	Americas	9,574
Scafftag, Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd. (collectively Scafftag)	Americas, Europe and Asia-Pacific	6,386
Asterisco Artes Graficas Ltda. (Asterisco)	Americas	8,436
Modernotecnica SpA (Moderno)	Europe	10,534
Clement Communications, Inc. (Clement)	Americas	14,466

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Sorbent Products Co., Inc. (Sorbent)	Americas, Europe and Asia-Pacific	34,888
Total		\$103,756

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Goodwill also increased \$15,549 during the nine months ended April 30, 2007, as a result of adjustments to the preliminary allocation of the purchase price for acquisitions completed in fiscal 2006 and the recording of \$1,577 for the contingent payment due to the previous owners of QDP Thailand Co., Ltd. (QDPT), which was acquired in fiscal 2006 (see Note E for more information). The largest components of the increase were as a result of adjustments to the preliminary allocation of purchase price related to Tradex Converting AB (Tradex) and Daewon Industry Corporation (Daewon), which added \$10,412 and \$2,515, respectively.

Of the \$10,412 increase in goodwill related to the preliminary allocation of the purchase price for Tradex, \$6,461 of the increase was due to the accrual for planned cost reduction activities contemplated at the date of the acquisition. The accrual consists of \$2,511 for severance and other employee termination costs, \$2,714 for contract termination and facility exit costs, and \$1,236 for changes in the valuation of fixed assets. As of April 30, 2007, the remaining liability from such charges was approximately \$4,037.

Of the \$2,515 increase in goodwill related to the preliminary allocation of the purchase price for Daewon, \$1,829 of the increase was due to the finalization and payment of the purchase price adjustment owed to the former owners of Daewon.

The remaining \$17,457 increase to goodwill during the nine months ended April 30, 2007 was attributable to the effects of foreign currency translation.

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

	April 30, 2007				July 31, 2006			
	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	15	\$ 8,516	\$ (5,741)	\$ 2,775	15	\$ 7,885	\$ (5,134)	\$ 2,751
Trademarks and other	5	4,270	(3,046)	1,224	6	3,328	(2,106)	1,222
Customer relationships	7	139,428	(31,684)	107,744	7	109,955	(17,693)	92,262
Purchased software	5	3,292	(2,378)	914	5	3,288	(1,887)	1,401
Non-compete agreements	4	12,151	(6,016)	6,135	4	9,757	(4,448)	5,309
Unamortized other intangible assets:								
Trademarks	N/A	40,592		40,592	N/A	31,166		31,166
Total		\$ 208,249	\$ (48,865)	\$ 159,384		\$ 165,379	\$ (31,268)	\$ 134,111

The acquisitions completed during the nine months ended April 30, 2007 (see Note E for more information) contributed to the increases in each of the categories of other intangible assets listed above. The increase in customer relationships relates to the acquisitions of CIPI, Precision Converters, Scafftag, Asterisco, Moderno, Clement and

Sorbent which added \$5,633, \$1,415, \$3,279, \$5,133, \$6,570, \$1,400, and \$880 respectively. These assets will be amortized over a weighted average amortization period of 6.4 years. The increase in unamortized trademarks primarily relates to the acquisition of Sorbent, which added \$8,510.

The value of goodwill and other intangible assets in the Condensed Consolidated Financial Statements at April 30, 2007, differs from the value assigned to them in the allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar between the date of acquisition and April 30, 2007.

Amortization expense on intangible assets was \$5,673 and \$4,084 for the three-month periods ended April 30, 2007 and 2006, respectively and \$16,634 and \$9,414 for the nine-month periods ended April 30, 2007 and 2006, respectively. The amortization over each of the next five fiscal years is projected to be \$24,154, \$24,299, \$23,377, \$22,187 and \$18,560 for the years ending July 31, 2007, 2008, 2009, 2010 and 2011, respectively.

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NOTE C Comprehensive Income

Total comprehensive income, which was comprised of net income, foreign currency adjustments and net unrealized gains and losses from cash flow hedges, amounted to approximately \$49,365 and \$34,579 for the three months ended April 30, 2007 and 2006, respectively, and \$116,868 and \$89,399 for the nine months ended April 30, 2007 and 2006, respectively.

NOTE D Net Income Per Common Share

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

Three Months Ended		Nine Months Ended
April 30,		April 30,
2007	2006	2007