



2009 ANNUAL REPORT

**OUR PRODUCTS CAN WITHSTAND FRIGID COLD, BLAZING HEAT, AND HARSH CHEMICALS.**





YEARS ENDED JULY 31	2008	2009	% CHANGE
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(Dollars in thousands except per share amounts)

**RESULTS OF OPERATIONS**

Net Sales	\$1,523,016	\$1,208,702	-20.6%
Operating Income	\$207,684	\$120,373	-42.0%
Net Income	\$132,188	\$70,122	-47.0%
Return On Invested Capital <sup>1</sup>	10.3%	6.4%	-37.9%
Net Income Per Diluted Common Share			
Class A Nonvoting	\$2.41	\$1.33	-44.8%
Class B Voting	\$2.39	\$1.31	-45.2%
Operating Income Margin	13.6%	10.0%	—
Net Income Margin	8.7%	5.8%	—

**OTHER INFORMATION**

Working Capital	\$390,524	\$286,955	-26.5%
Total Debt	\$478,574	\$391,350	-18.2%
Stockholders' Investment	\$1,021,808	\$951,092	-6.9%
Research & Development	\$40,607	\$34,181	-15.8%
Cash Flow from Operations	\$225,554	\$126,645	-43.9%
Capital Expenditures	\$26,407	\$24,027	-9.0%
Depreciation & Amortization	\$60,587	\$54,851	-9.5%
Acquisition Spend	\$29,346	\$0	-100.0%
Dividend Yield	1.6%	2.3%	43.8%
Trailing 12 Months P/E Ratio	15.2	22.1	45.4%
Current Ratio	2.3	2.3	0.0%
Weighted Avg. Shares Outstanding (Diluted)	54,872,664	52,866,116	-3.7%

<sup>1</sup> Return on invested capital is calculated by taking net income plus tax-effected interest expense divided by the average of the last five quarters short-term and long-term debt plus total stockholders' investment.



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 500,000 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.



**AND OUR BUSINESS CAN WITHSTAND THE WORST ECONOMIC CRISIS IN NEARLY 100 YEARS.**

Dear Fellow Shareholders,

Fiscal 2009 was a very challenging year. We were off to a very good start; the first quarter was the best quarter in the history of the company in terms of profit. But we could already see big black clouds forming on the horizon in what turned out to be the worst recession since the Great Depression.

None of us, nor any economist, politician or business leader knew at that time how bad things could get. To ensure the future of the company and preserve profitability and cash flow we decided to act quickly and drastically adjusted our cost structure. The most painful decision we had to make was to reduce our global workforce by approximately 25 percent, freeze salaries and wages, and cancel bonuses for everyone in the company. In addition we significantly cut back discretionary spending, worked with suppliers to reduce purchase prices, reduced capital expenditures and working capital, and stopped making acquisitions.

Our fast and aggressive actions to reduce our cost structure not only preserved profitability, cash flow and a strong balance sheet, but also allowed us to invest in multiple areas to strengthen the company's competitive position. In particular, we maintained or stepped up our investments in new product development, e-commerce, the Brady Business Performance System (BBPS) and several new software systems to increase productivity. You can read more about these investments in the following pages.

As a sign of confidence in our continued financial strength, we also decided to increase our dividend. This marks the 24th consecutive year of dividend increases.

In financial terms, we ended the year with sales of \$1.209 billion, down \$314 million from last year, with net income of \$90 million excluding restructuring charges (\$70 million including restructuring charges), down \$42 million from last year, with strong cash flow from operations of \$127 million.

Our first priority continues to be creating long-term shareholder value, and our vision to be the market leader in all our businesses remains unchanged. As we look to fiscal 2010, we are excited about our prospects, our financial strength, our brands, the quality of our products and the commitment of our employees. We look into the future with confidence as we anticipate the investments we have made in 2009, and will continue to make in 2010, will position us well for the eventual economic recovery.

I thank you for your support.

Frank M. Jaehnert  
President and CEO

BRADY'S 2009 FORM 10-K IS AVAILABLE IN ITS ENTIRETY ELECTRONICALLY AT [WWW.INVESTOR.BRADYCORP.COM](http://WWW.INVESTOR.BRADYCORP.COM). PRINTED COPIES MAY BE REQUESTED DIRECTLY THROUGH BRADY'S INVESTOR RELATIONS DEPARTMENT BY CALLING (414) 438-6918 OR VIA E-MAIL AT [INVESTOR@BRADYCORP.COM](mailto:INVESTOR@BRADYCORP.COM).



WHEN PERFORMANCE MATTERS MOST.



# IN GOOD TIMES AND BAD, WE IDENTIFY AND PROTECT PREMISES, PRODUCTS, AND PEOPLE.

Brady products are not your average labels, signs and die-cut parts. These products perform no matter what – in extreme manufacturing temperatures, in chemicals and weather exposure, some even in electrical blackouts – providing critical information that protects premises, products and people, whenever and wherever it's needed. And Brady sets the standard for precision, quality, durability and reliability.



## PREMISES

Brady Facility ID and Safety products that help customers create and maintain safer work environments and comply with regulatory standards, including signs, labels, lockout/tagout devices, pipe and valve tags, and sorbents; Brady ID products for marking wires and cables, patch panels, outlets and faceplates; and Brady ID Systems including handheld and benchtop printers, software and supplies.



## PRODUCTS

High-Performance Identification products designed to withstand even the harshest environments, including bar-code labels, water-indicating labels, brand-protection labels, RFID labels and tags, and laboratory identification; labels and sleeves for wire identification in aerospace, defense and mass transit applications; and precision die-cut parts including die-cut adhesives, gaskets, seals, EMR/RFI shields, dampers, back light, anti-splinter films, antennae, meshes, felt insulators, thermal management solutions, and application equipment.



## PEOPLE

People Identification products and accessories that enhance security including name badges, employee ID cards, time-expiring badges, lanyards, badge holders and reels, visitor management software, printers and hardware; and precision die-cut products including test strips, electrodes, drug delivery and wound care materials that help ensure accuracy and effectiveness in research and medical applications.

## BRADY LEADERSHIP:

# Brady Celebrates 10 Years on the NYSE

Frank Jaehnert (center) rings the bell to open trading for the day at the NYSE. Joining Frank in the celebration are (left to right) Board Member Patrick Allender; Board Member Bradley Richardson; Vice President, Treasurer and Director of Investor Relations Barb Bolens; Board Secretary Hoyt Stastney; Chief Financial Officer Tom Felmer; Board Member Conrad Goodkind; Board Member Robert Buchanan; Frank Jaehnert; NYSE Executive Vice President Scott Cutler; Board Member Elizabeth Pungello; Board Member Frank Jarc; Board Member Chan Galbato; Executive Assistant Gail Hahn; Board Member Richard Bemis; and Board Member Frank Harris.



# IN TOUGH TIMES, SOME PEOPLE SIT TIGHT. WE INVEST FOR THE FUTURE.

## DRIVING GROWTH:

### INVESTMENT IN REDEFINING ACQUISITION STRATEGY

In fiscal 2009, Brady took advantage of a slowdown in acquisition activity to prepare and plan for future growth. The company engaged in comprehensive research to identify the most attractive future acquisitions by understanding global market trends where Brady's core competencies could be best leveraged. Brady also invested in capabilities and talent that compliment the organization's regional approach with a more global view and refreshed Brady's acquisition strategy with a new, highly systematic and disciplined process.



## BBPS:

### INVESTMENT IN GLOBAL PROCESSES

The Brady Business Performance System, introduced last year, incorporates a focus on strategy, an emphasis on building organizational effectiveness, and Lean principles for a systematic approach to eliminating waste throughout the company. Since its launch, BBPS has become the new way Brady works. Equally important was the global roll-out of Strategy Deployment, a comprehensive series of planning and implementation events designed to achieve strategic, long-term breakthrough objectives that go beyond historical measures.

## PRODUCTIVITY IMPROVEMENTS:

### INVESTMENT IN SOFTWARE SYSTEMS AND PROGRAMS

Brady invested in new software systems and implemented new processes to improve productivity, enhance efficiency, and lower costs in areas like accounts receivable, human resources and sales management.

- "Salesforce.com" for standardized and improved sales pipeline management
- "Workday" for standardizing and automating human resource transactions
- "Get Paid" for better managed accounts receivable and faster collections

## CAPITAL EXPENDITURES:

### INVESTMENT IN EQUIPMENT

Despite an unprecedented economic slowdown, Brady made capital investments of nearly \$24 million at its facilities around the world, including purchasing a new Flexo 6-color press for custom printing, which expanded capacity leading to new orders for specialty products including anti-counterfeiting labels.



Mark Andy XP5000

## E-BUSINESS:

### INVESTMENT IN REACHING MORE CUSTOMERS



Brady continued to invest in changing the way customers interact and access Brady on the Web. By focusing on multi-channel marketing including telemarketing and e-mail campaigns, and search engine optimization, Brady is using e-business to expand the customer base by providing more buying options. Recent launches include 48 design-your-own applications and 7 successful SAP go-lives.





# THE ECONOMY MAY HAVE SLOWED DOWN, BUT OUR NEW PRODUCT DEVELOPMENT ACCELERATED.



Brady continued to invest in research and development of proprietary products in fiscal 2009. The function has made significant progress in reducing new product development cycle time, expanding the pipeline of new products to be launched in fiscal 2010 and beyond, and increasing global capacity to service customer needs and deliver cutting-edge products.

## NEW PRODUCTS DEVELOPED IN FISCAL 2009 INCLUDE

- an enhanced line of PermaSleeve™ wire markers that are fully RoHS (Restriction of Hazardous Substances) compliant. RoHS regulations were established both in the European Union and in China to restrict certain heavy metals in electronic products in order to reduce groundwater contamination caused by disposed electronics in landfills.
- BMP 21 portable printer for wire identification and general labeling offering a broad selection of specialized labeling materials



- a new version of Brady's popular Powermark™ printer for the Chinese safety and facility identification market

- LabelMark™ Pro 5 software for advanced OEM label design & printing



## EXPANDING R&D CENTERS IN ASIA:

Product growth opportunities continue in the Asia/Pacific region and Brady will be there with enhanced Research and Development support for innovation with a new Brady Innovation Center in Beijing, China, and a new materials and systems engineering laboratory in Singapore to open in fiscal 2010.



# WHILE OTHER COMPANIES WERE LOOKING FOR A WAY TO SURVIVE, WE STARTED WORKING ON WAYS TO SUSTAIN.



## STRATEGY FOR SUSTAINABILITY

Sustainability has been defined as meeting today's needs without compromising the ability to do so in the future. While it is often linked to environmental or "green" initiatives, it is really more than that. Good sustainability programs not only benefit the environment and society, but also yield positive shareholder value, and are simply the right thing to do. Brady introduced its framework for sustainability in fiscal 2009.

### SUSTAINABLE COMPANY: IMPROVING OUR ENVIRONMENTAL FOOTPRINT

- Improving energy efficiency practices to reduce CO<sub>2</sub> emissions
- Significant waste reduction in all business areas
- Reducing power consumption with energy efficiency projects, and reducing paper consumption
  - For example, in fiscal 2009, by replacing aging air-cooled chillers in one of Brady's Milwaukee facilities, energy consumption was reduced by more than 1 million kilowatt hours, and 1,250 lbs. of refrigerant was replaced with a more environmentally-friendly coolant

### SUSTAINABLE CUSTOMERS: WORKING TO MEET THE NEEDS OF OUR CUSTOMERS

- Supporting customers' sustainability efforts with products and services designed for positive environmental impact, and that meet recognized standards for materials content and environmentally conscious design

### SUSTAINABLE COMMUNITIES: A DEDICATION TO BUILDING COMMUNITY PARTNERSHIPS

- Investing in community organizations and programs with a focus on leadership development and education
- Continuing to provide safe workplaces globally



## FROM OLD NEWSPAPERS TO NEW ECO-FRIENDLY PRODUCTS

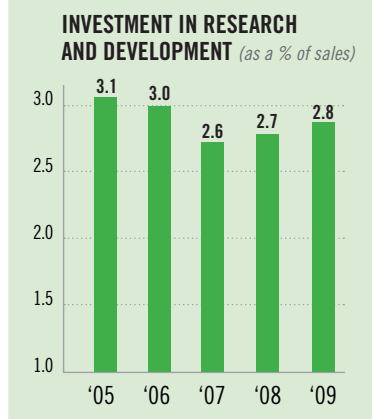
Brady's and SPC's new Re-Form™ Eco-Friendly Sorbents, used by customers to contain leaks and absorb spills, are made from a minimum of 80 percent recycled cellulose including newsprint. Brady employees provide post-consumer waste by donating old newspapers that would otherwise end up in landfills.



## NURTURING TOMORROW'S LEADERS

Brady employees volunteer to mentor students from Clarke Street School in Milwaukee where the Brady Corporation Foundation has pledged \$500,000 to fund college educations upon high school graduation for second-grade students.

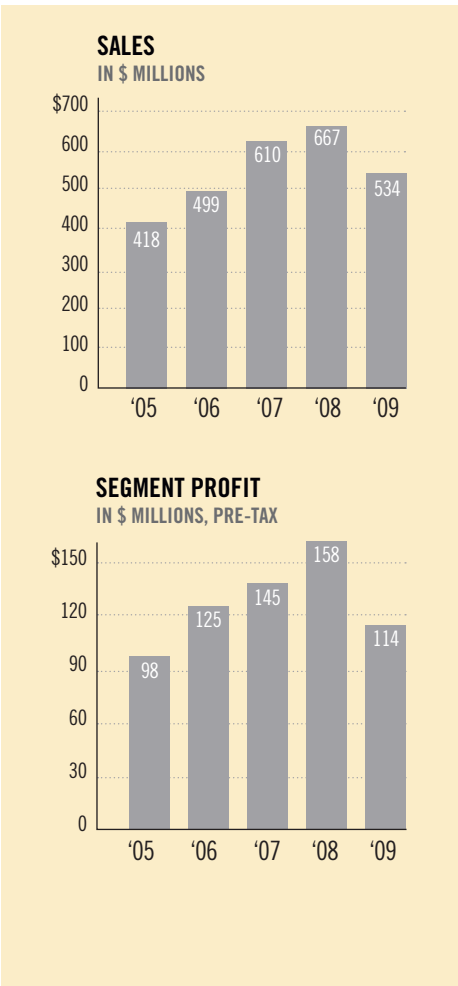
Brady has also donated more than \$1 million in products, including the VariQuest™ Visual Learning Tools to schools and community groups throughout the country.



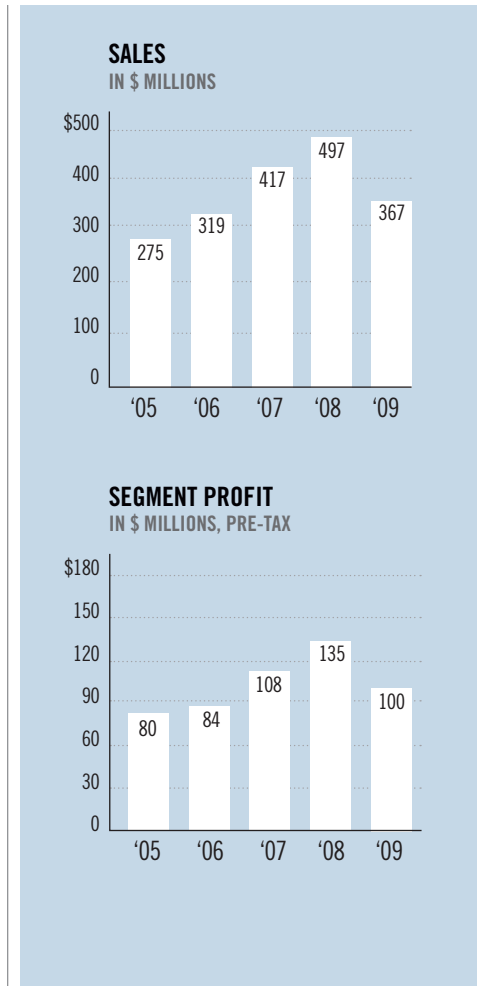


# 2009 REGIONAL REVIEW

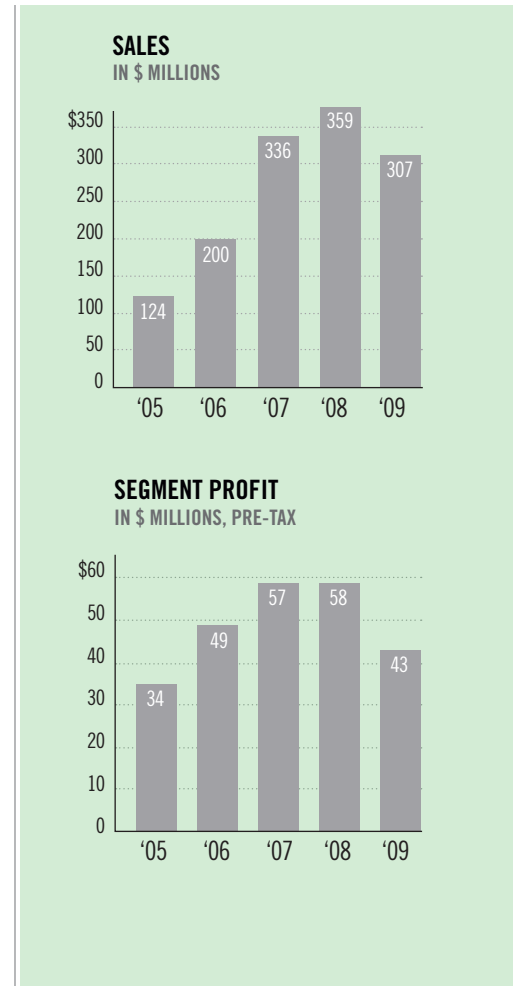
## BRADY AMERICAS



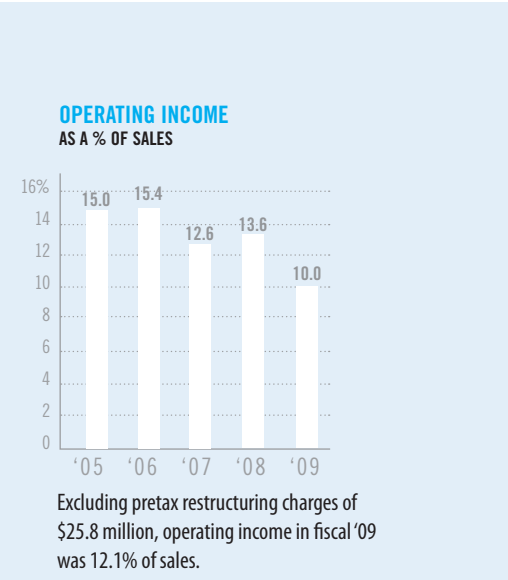
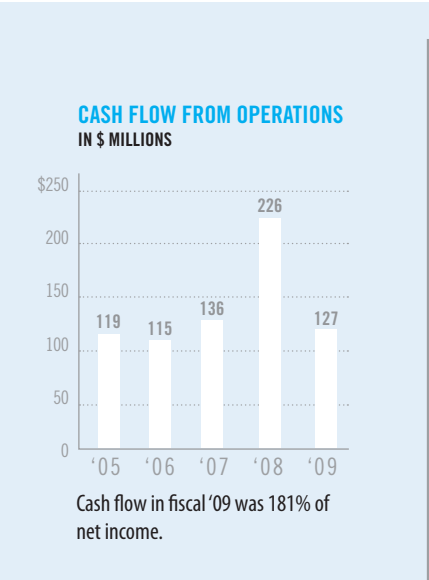
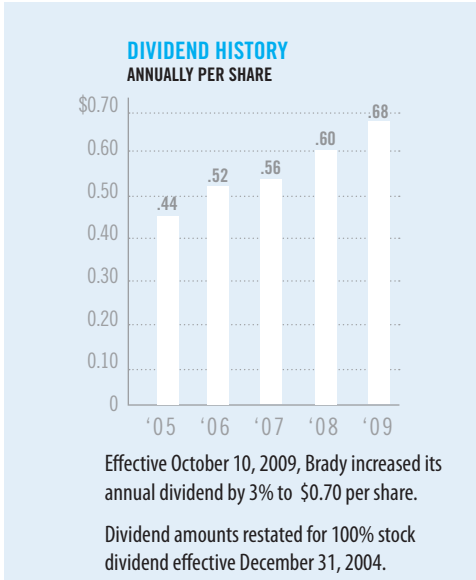
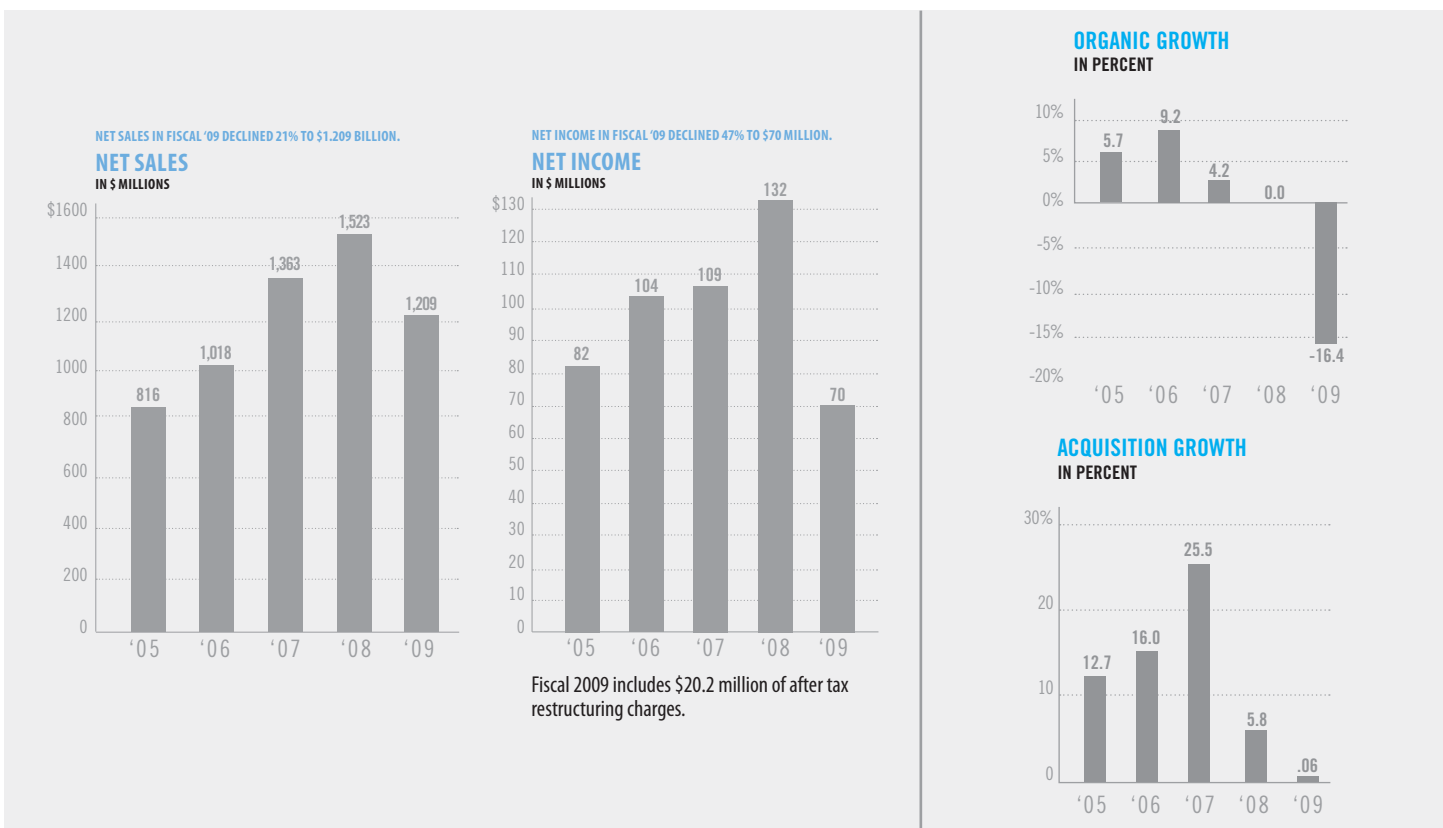
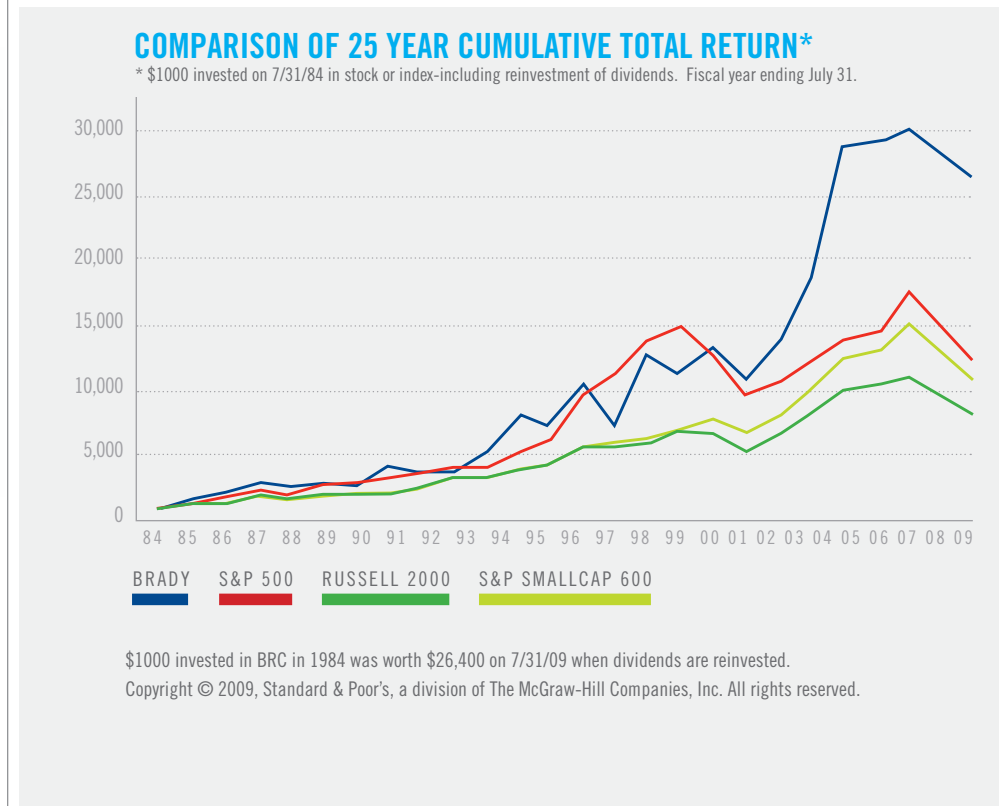
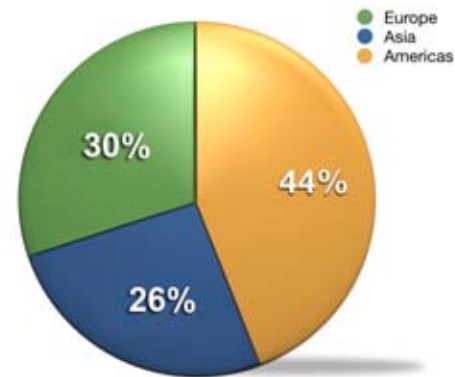
## BRADY EUROPE



## BRADY ASIA-PACIFIC



## REGIONAL SALES



# FINANCIAL REVIEW

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) Years ended July 31, 1999 through 2009	1999	2000	2001	2002	2003 <sup>2</sup>	2004 <sup>2</sup>	2005	2006	2007	2008	2009
<b>OPERATING DATA</b>											
Net Sales	\$479,025	\$550,664	\$545,944	\$516,962	\$554,866	\$671,219	\$816,447	\$1,018,436	\$1,362,631	\$1,523,016	\$1,208,702
Sales Growth %	3.4%	15.0%	-0.9%	-5.3%	7.3%	21.0%	21.6%	24.7%	33.8%	11.8%	-20.6%
Cost of product sold	216,060	245,587	257,313	256,186	275,717	325,858	383,171	492,681	705,587	778,821	631,119
Gross Margin	262,965	305,077	288,631	260,776	279,149	345,361	433,276	525,755	657,044	744,195	577,583
Gross Margin %	54.9%	55.4%	52.9%	50.4%	50.3%	51.5%	53.1%	51.6%	48.2%	48.9%	47.8%
Operating expenses:											
Research and development	17,116	20,555	20,329	17,271	18,873	23,028	25,078	30,443	35,954	40,607	34,181
Selling, general and administrative	182,688	215,231	214,220	199,282	219,861	248,171	285,746	338,796	449,103	495,904	397,180
Restructuring charge - net	(611)	—	9,560	2,720	9,589	3,181	—	—	—	—	25,849
Total operating expenses	199,193	235,786	244,109	219,273	248,323	274,380	310,824	369,239	485,057	536,511	457,210
Operating income	63,772	69,291	44,522	41,503	30,826	70,981	122,452	156,516	171,987	207,684	120,373
% of Sales	13.3%	12.6%	8.2%	8.0%	5.6%	10.6%	15.0%	15.4%	12.6%	13.6%	10.0%
<b>Other income and (expense):</b>											
Investment and other income - net	1,455	7,418	686	1,714	1,750	577	1,369	2,403	2,875	4,888	1,800
Interest expense	(445)	(578)	(418)	(82)	(121)	(1,231)	(8,403)	(14,231)	(22,934)	(26,385)	(24,901)
Net other income	1,010	6,840	268	1,632	1,629	(654)	(7,034)	(11,828)	(20,059)	(21,497)	(23,101)
Income before income taxes	64,782	76,131	44,790	43,135	32,455	70,327	115,418	144,688	151,928	186,187	97,272
Income taxes	25,198	28,930	17,244	14,882	11,035	19,456	33,471	40,513	42,540	53,999	27,150
Net income	\$39,584	\$47,201	\$27,546	\$28,253	\$21,420	\$50,871	\$81,947	\$104,175	\$109,388	\$132,188	\$70,122
% of Sales	8.3%	8.6%	5.0%	5.5%	3.9%	7.6%	10.0%	10.2%	8.0%	8.7%	5.8%
<b>Net income per Common Share (Diluted):<sup>1</sup></b>											
Class A Nonvoting	\$0.87	\$1.03	\$0.59	\$0.60	\$0.46	\$1.07	\$1.64	\$2.07	\$2.00	\$2.41	\$1.33
Class B Voting	\$0.85	\$1.01	\$0.58	\$0.59	\$0.44	\$1.05	\$1.63	\$2.05	\$1.98	\$2.39	\$1.31
<b>Cash dividends on:<sup>1</sup></b>											
Class A Common Stock	\$0.32	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42	\$0.44	\$0.52	\$0.56	\$0.60	\$0.68
Class B Common Stock	\$0.31	\$0.33	\$0.35	\$0.37	\$0.39	\$0.40	\$0.42	\$0.50	\$0.54	\$0.58	\$0.66
<b>Balance Sheet (at July 31)</b>											
Working Capital	\$129,884	\$116,084	\$123,830	\$135,764	\$123,878	\$131,706	\$141,560	\$240,537	\$303,359	\$390,524	\$286,955
Total Assets	351,120	398,134	393,592	420,525	449,519	697,900	850,147	1,365,186	1,698,857	1,850,513	1,583,267
Long-term Obligations, Less Current Maturities	1,402	4,157	4,144	3,751	568	150,019	150,026	350,018	478,575	457,143	346,457
Stockholders' Investment	260,564	291,224	302,579	324,242	338,961	403,315	497,274	746,046	891,012	1,021,808	951,092

<sup>1</sup> Restated for 100% stock dividend effective December 31, 2004.

<sup>2</sup> Certain 2003 and 2004 items have been reclassified to conform with 2005 presentation.

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

## Overview

In fiscal 2009, the Company posted sales of \$1,208.7 million and net income of \$70.1 million, a decrease of 20.6% and 47.0%, respectively, from fiscal 2008. Of the 20.6% decrease in sales, organic sales declined 16.4%, the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar reduced sales by 4.8%, partially offset by a 0.6% increase from acquisitions. Regionally, sales in the Americas, Europe, and Asia-Pacific decreased 19.9%, 26.1%, and 14.5%, respectively.

Net income for fiscal 2009 declined 47.0% to \$70.1 million or \$1.33 per diluted share of Class A Common Stock, compared to \$132.2 million, or \$2.41 per diluted share of Class A Common Stock in fiscal 2008. Fiscal 2009 net income before restructuring related expenses was \$90.3 million, or \$1.71 per diluted share of Class A Common Stock.

In fiscal 2009, the Company generated \$126.6 million of cash from operations, a decrease of \$98.9 million from the prior fiscal year. The decrease was the result of decreased net income as discussed above and the increase in working capital. The increase in working capital was due to the decrease in other current liabilities resulting from the cash payment of the fiscal 2008 bonus and the elimination of the fiscal 2009 bonus accrual, offset by decreases in inventory and accounts receivable.

## Results of Operations

### 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 workforce.

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 as compared to fiscal 2008. In fiscal 2009, the Company repaid approximately \$87.2 million of debt. As a result of the lower principle 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 as 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 44.8% to \$1.33 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 \$90.3 million, or \$1.71 per diluted share of Class A Common Stock.

### Year Ended July 31, 2008, Compared to Year Ended July 31, 2007

The comparability of the operating results for the fiscal years ended July 31, 2008 to July 31, 2007, has been impacted by the following acquisitions completed in fiscal 2008, as well as the annualized impact of the acquisitions completed in fiscal 2007.

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 2008 sales increased \$160.4 million, or 11.8% from fiscal 2007. 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 effects), were flat compared to fiscal 2007. The acquisitions listed above and the annualized impact of the fiscal 2007 acquisitions increased sales by \$78.7 million or 5.8% in fiscal 2008 compared to fiscal 2007. Fluctuations in the exchange rates used to translate financial results into the United States dollar resulted in a sales increase of \$81.7 million or 6.0% for the year.

The gross margin as a percentage of sales increased to 48.9% in fiscal 2008 from 48.2% in fiscal 2007. The increase in gross margin as a percentage of sales was primarily the result of cost reduction actions taken during fiscal 2007 and fiscal 2008.

Research and development expenses increased to \$40.6 million in fiscal 2008 from \$36.0 million in fiscal 2007, and increased slightly as a percentage of sales in fiscal 2008 to 2.7% compared to 2.6% in fiscal 2007, reflecting the Company's continued commitment to investing in new product development.

Selling, general, and administrative ("SG&A") expenses increased to \$495.9 million in fiscal 2008 as compared to \$449.1 million in fiscal 2007. The increase in SG&A expenses was primarily the result of the effect of currencies and acquisitions made during fiscal 2007 and fiscal 2008. As a percentage of sales, SG&A decreased to 32.6% in fiscal 2008 from 33.0% in fiscal 2007.

Investment and other income increased \$2.0 million in fiscal 2008 to \$4.9 million from \$2.9 million in the prior year. The income recorded in fiscal 2008 and fiscal 2007 was primarily due to interest income earned on cash and marketable securities investments. The \$4.9 million of investment and other income recorded in fiscal 2008 consisted of \$5.9 million of interest income, partially offset by \$1.0 million in foreign exchange losses. The increase in interest income in fiscal 2008 was the result of both increased net income and working capital initiatives that have increased cash balances.

Interest expense increased to \$26.4 million from \$22.9 million for fiscal 2008 as compared to fiscal 2007. The increase in interest expense was mainly due to interest on the \$150 million private placement of senior notes that the Company completed in the third quarter of fiscal 2007.

The Company's effective tax rate was 29.0% for fiscal 2008 as compared to 28.0% for fiscal 2007. The increased tax rate in fiscal 2008 was primarily due to increased profits in higher tax countries.

Net income for the fiscal year ended July 31, 2008, increased 20.8% to \$132.2 million, compared to \$109.4 million for the fiscal year ended July 31, 2007, as a result of the factors noted above. Diluted net income per share increased 20.5% to \$2.41 per share for fiscal 2008 compared to \$2.00 per share for the fiscal year ended July 31, 2007.



## 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. In applying the criteria set forth in Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures about Segments of an Enterprise and Related Information," the Company has determined that these regions comprise its 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
<b>SALES TO EXTERNAL CUSTOMERS</b>						
Years ended:						
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
July 31, 2007 .....	609,855	416,514	336,262	1,362,631	—	1,362,631
<b>SALES GROWTH INFORMATION</b>						
Years 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) %
Year ended July 31, 2008:						
Organic .....	0.9 %	(0.4) %	(1.1) %	0.0 %	—	0.0 %
Currency .....	2.0 %	10.6 %	7.6 %	6.0 %	—	6.0 %
Acquisitions .....	6.5 %	9.1 %	0.3 %	5.8 %	—	5.8 %
Total .....	9.4 %	19.3 %	6.8 %	11.8 %	—	11.8 %
<b>SEGMENT PROFIT</b>						
Years ended:						
July 31, 2009 .....	\$ 114,404	\$ 99,875	\$ 42,575	\$ 256,854	\$ (7,952)	\$ 248,903
July 31, 2008 .....	157,523	135,426	58,234	351,183	(9,048)	342,135
July 31, 2007 .....	144,583	107,552	57,236	309,371	(10,485)	298,886

## NET INCOME RECONCILIATION

(Dollars in thousands)	Year ended:		
	July 31, 2009	July 31, 2008	July 31, 2007
Total profit for reportable segments .....	\$ 256,854	\$ 351,183	\$ 309,371
Corporate and eliminations .....	(7,952)	(9,048)	(10,485)
Unallocated amounts:			
Administrative costs .....	(102,680)	(134,451)	(126,899)
Restructuring costs .....	(25,849)	—	—
Investment and other income – net .....	1,800	4,888	2,875
Interest expense .....	(24,901)	(26,385)	(22,934)
Income before income taxes .....	97,272	186,187	151,928
Income taxes <sup>(1)</sup> .....	(27,150)	(53,999)	(42,540)
Net income .....	\$ 70,122	\$ 132,188	\$ 109,388

(1) In fiscal 2009, in response to the global economic downturn, the Company initiated several measures to address its cost structure, including the reduction in its workforce and decreased discretionary spending. In addition to the restructuring charges, \$1.6 million of income tax expense was incurred related to the anticipated repayment of certain tax holidays due to site consolidation actions.

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

### Americas

Sales in the Americas region decreased 19.9% from fiscal 2008 to fiscal 2009, and increased 9.4% from fiscal 2007 to fiscal 2008. Organic sales declined 18.5% in 2009 and grew 0.9% in 2008. 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. The organic growth in fiscal 2008 was due to strong performance in the education and OEM markets, offset partially by the softness in the manufacturing, construction, and utility markets. The acquisition of DAWG, Inc. ("DAWG") in fiscal 2008 added 0.3% to fiscal 2009 sales. The acquisitions of Comprehensive Identification Products, Inc. ("CIPI"), Precision Converters L.P. ("Precision Converters"), Scafftag Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd (collectively "Scafftag"), Asterisco Artes Graficas Ltda. ("Asterisco"), Clement Communications, Inc. ("Clement") and Sorbent Products Co., Inc. ("SPC") in fiscal 2007 and DAWG in fiscal 2008 added 6.5% to fiscal 2008 sales. Fluctuations in the exchange rates used to translate financial results into U.S. dollars decreased sales in the segment by 1.7% in fiscal 2009 and increased sales by 2.0% in fiscal 2008, when compared to the prior fiscal years.

In the Americas region, 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. Comparing fiscal 2008 to 2007, segment profit as a percentage of sales decreased slightly to 23.6% in 2008 from 23.7% in 2007. This decrease was primarily due to the slowing growth in high margin organic sales during fiscal 2008, mostly offset by cost control efforts and improvements made in the prior year to lower performing businesses.

### Europe

Sales in the European region decreased 26.1% in fiscal 2009 from fiscal 2008, and increased 19.3% in fiscal 2008 from fiscal 2007. Organic sales declined 18.1% in fiscal 2009 and 0.4% in fiscal 2008 as compared to prior years. 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. The

decline in organic sales in fiscal 2008 was primarily the result of a weakening European economy as well as tough comparables over the prior year due to the implementation of "No Smoking" legislation in the U.K. and France, as these sales did not recur in fiscal 2008. Sales were negatively affected by fluctuations in the exchange rates used to translate financial results into the United States dollar, which decreased sales within the segment by 9.4% in fiscal 2009. Foreign currency translation increased the segment's sales 10.6% in 2008. The acquisition of Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively "Transposafe") in fiscal 2008 added 1.4% to the region's sales in fiscal 2009 and the acquisitions of CIPI, Scafftag, Modernotecnica SpA ("Moderno"), and SPC in fiscal 2007 and Transposafe in fiscal 2008 added 9.1% to the region's sales in fiscal 2008.

In the Europe region, segment profit decreased 26.3% to \$99.9 million in fiscal 2009 from \$135.4 million in fiscal 2008. Segment profit as a percentage of sales decreased slightly to 27.2% in fiscal 2009 from 27.3% in fiscal 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. Comparing fiscal 2008 to 2007, segment profit as a percentage of sales increased to 27.3% in 2008 from 25.8% in 2007. The increase in segment profit in fiscal 2008 was driven by the sales increases noted above in addition to the realization of savings from cost reduction activities taken at the end of fiscal 2007.

### Asia-Pacific

Asia-Pacific sales decreased 14.5% in fiscal 2009, and increased 6.8% in fiscal 2008 from fiscal 2007. Organic sales declined 10.3% in fiscal 2009 and declined 1.1% in fiscal 2008. 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. The decline in organic sales in fiscal 2008 primarily resulted from a drop in sales to OEM customers in the mobile handset market, in addition to the competitive, less profitable business the Company chose to deemphasize. Declines in the mobile handset business were partially offset by solid growth in the smaller business lines of high performance labels, safety and facility identification, and hard disk drives during fiscal 2008. Foreign currency translation decreased the region's sales by 4.2% from fiscal 2009 and increased the region's sales by 7.6% in fiscal 2008, as compared to prior years.

In the Asia-Pacific region, segment profit decreased 26.9% to \$42.6 million in fiscal 2009 from \$58.2 million in fiscal 2008. Segment profit as a percentage of sales decreased to 13.9% in fiscal 2009 from 16.2% in fiscal 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.



Comparing fiscal 2008 to 2007, segment profit as a percentage of sales declined to 16.2% in 2008 from 17.0 % in 2007. The decline in segment profit as a percentage of sales in fiscal 2008 was due to the industry mix shift from high-end, feature rich mobile phones to low-end basic mobile phones and continued pricing pressures within the mobile handset supply chain, partially offset by activities initiated in fiscal 2007.

### Liquidity and Capital Resources

Cash and cash equivalents were \$188.2 million at July 31, 2009, compared to \$258.4 million at July 31, 2008. The decrease in the cash of \$70.2 million was the result of cash provided by operations of \$126.6 million, offset by cash used in investing activities of \$19.0 million, cash used in financing activities of \$160.3 million, including \$87.2 million related to debt payments, \$40.3 million related to the repurchase of treasury stock, and \$35.8 million dividend payments, and the effects on the fluctuations of the U.S. dollar against other currencies, which negatively impacted cash in the amount of \$17.5 million during fiscal 2009.

Accounts receivable balances decreased \$71.3 million from July 31, 2008 to July 31, 2009. The decrease in accounts receivable was due primarily to the decline in sales volumes and the impact of foreign currency translation on the Company's foreign accounts receivables. Inventories decreased \$40.8 million from July 31, 2008 to July 31, 2009 due to reduced business activity, focused inventory reduction initiatives, and the impact of foreign currency translation. Current liabilities decreased \$86.1 million over the same period primarily due to a reduction in wages payable resulting from reduced headcount, cancellation of incentive compensation plans for fiscal 2009, and reduction of accrued income taxes, offset by an increase in the Company's current maturities on long term debt.

The Company has maintained strong operating cash flow, which totaled \$126.6 million for fiscal 2009, \$225.6 million for fiscal 2008 and \$136.0 million for fiscal 2007. The decrease in operating cash flow from fiscal 2008 to fiscal 2009 was the result of a decline in net income of \$62.1 million and the changes in working capital discussed above.

The Company did not complete any acquisitions during fiscal 2009, compared to \$29.3 million and \$159.5 million of cash used for acquisitions in fiscal 2008 and 2007, respectively. The Company has 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. Contingent consideration payments of \$4.4 million, \$1.2 million, and \$0.2 million were made during fiscal 2008 to satisfy the earnout and holdback liabilities of the fiscal 2006 acquisitions of Daewon Industry Corporation and STOPware, Inc., and the fiscal 2007 acquisition of Asterisco, respectively.

Capital expenditures were \$24.0 million in fiscal 2009, \$26.4 million in fiscal 2008 and \$51.9 million in fiscal 2007. Capital expenditures in fiscal 2009 were similar to fiscal 2008 reflecting a normalized spend rate. The Company's capital expenditures slowed in fiscal 2008, following two years of significant spending due to the global implementation of SAP in addition to the expansion of facilities in various countries. Fiscal 2007 capital expenditures included \$9.8 million in spending on implementing SAP in 16 of Brady's global operations and ultimately increasing the coverage of business units operating SAP to approximately 80% of total revenue in fiscal 2009. The remainder of the increase in capital expenditures in fiscal 2007 was due to expansions in China, Canada, India, Mexico, the Philippines, Slovakia and other locations.

Financing activities used \$160.3 million in fiscal 2009, used \$76.9 million in fiscal 2008 and provided \$129.4 million in fiscal 2007. Cash used for dividends to shareholders was \$35.8 million in fiscal 2009, \$32.5 million in fiscal 2008, and \$30.1 million in fiscal 2007. Cash received from the exercise of stock options was \$1.7 million in fiscal 2009, \$14.5 million in fiscal 2008, and \$6.8 million in fiscal 2007. The Company purchased treasury stock of \$40.3 in fiscal 2009 and \$42.2 million in fiscal 2008; however, it did not purchase treasury stock in fiscal 2007. 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, 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 shares of its Class A Common Stock for \$40.3 million in fiscal 2009 in connection with its stock repurchase plans. The Company reacquired approximately 1,349,000 shares of its Class A Common Stock for \$42.2 million in fiscal 2008. As of July 31, 2009, the Company was authorized to purchase up to approximately 306,000 additional shares in connection with the share repurchase plans.

On May 28, 2009, the Company commenced a cash tender offer to purchase up to \$100 million aggregate principal amount of its outstanding Series 2004-A Senior Notes due 2014, Series 2006-A Senior Notes due 2016, and Series 2007-A Senior Notes due 2017. On June 29, 2009, the Company completed the purchase of approximately \$65.8 million aggregate principal amount of its senior notes pursuant to this tender offer. The purchase price for the notes included the payment of the face value of the notes plus accrued and unpaid interest from the last interest payment date to and including the date of close. The Company utilized cash on hand to fund the purchase of the notes.

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 March 23, 2007, the Company completed the private placement of \$150 million in ten-year fixed notes at 5.33% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2011 with interest payable on the notes semiannually on September 23 and March 23, which began in September 2007. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's U.S.- based subsidiaries. The Company used the net proceeds of the offering to reduce outstanding indebtedness under the Company's revolving loan agreement and fund its ongoing strategic growth plans. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The penalties under the agreement have been waived for early prepayment. The agreement also requires the Company to maintain a financial covenant. On June 29, 2009, the Company purchased \$35.4 million of the outstanding aggregate principal amount of the Series 2007-A Senior Notes from certain note-holders.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain standard conditions, the available amount under the new credit facility may be increased from \$200 million up to \$300 million. Under the 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 excluding all extraordinary non-cash items 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, 2009, there were no outstanding borrowings under the credit facility.

On February 14, 2006, the Company completed the private placement of \$200 million in ten-year fixed notes at 5.3%

interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2010 with interest payable on the notes semiannually on August 14 and February 14, which began in August 2006. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to finance acquisitions completed in fiscal 2006 and 2007 and for general corporate purposes. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The penalties under the agreement have been waived for early prepayment. The agreement also requires the Company to maintain a financial covenant. On June 29, 2009, the Company purchased \$17.0 million of the outstanding aggregate principal amount of the Series 2006-A Senior Notes from certain note-holders.

On June 30, 2004, the Company finalized a debt offering of \$150 million of 5.14% unsecured senior notes due in 2014 in an offering exempt from the registration requirements of the Securities Act of 1933. The debt offering was in conjunction with the Company's acquisition of EMED. The notes will be paid over seven years beginning in 2008, with interest payable on the notes being due semiannually on June 28 and December 28, which began in December 2004. The Company used the proceeds of the offering to reduce outstanding indebtedness under the Company's revolving credit facilities used to initially fund the EMED acquisition. The debt has certain prepayment penalties for repaying the debt prior to its maturity date. Under the debt agreement, the Company paid equal installments of \$21.4 million in June 2008 and June 2009. The penalties under the agreement have been waived for early prepayment. The agreement also requires the Company to maintain a financial covenant. On June 29, 2009, the Company purchased \$13.4 million of the outstanding aggregate principal amount of the Series 2004-A Senior Notes from certain note-holders.

The Company's debt and revolving loan agreements require it to maintain certain financial covenants. The Company's June 2004, February 2006, and March 2007 debt agreements require the Company to maintain a ratio of debt to the trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the debt agreements, of not more than a 3.5 to 1.0 ratio (leverage ratio). 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. As of July 31, 2009, 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 2.1 to 1.0. Additionally, 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, 2009, 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 2.1 to 1.0 and the interest expense coverage ratio equal to 5.2 to 1.0.

Long-term obligations as a percentage of long-term obligations plus stockholders' investment were 26.7% at July 31, 2009, and 30.9% at July 31, 2008. Long-term obligations decreased by \$110.7 million from July 31, 2008 to July 31, 2009 due to the debt repayments in fiscal 2009. The debt repayments consisted of the scheduled \$21.4 million on the 2004 private placement in addition to the prepayment of \$65.8 million. An additional \$23.5 million was reclassified to current maturities on long-term obligations. Stockholders' investment decreased \$70.7 million during fiscal 2009 primarily due to dividends on Class A and Class B Common Stock of \$33.5 million and \$2.3 million, respectively, the repurchase of treasury shares of \$40.3 million, and changes in accumulated other comprehensive income of \$75.1 million, partially offset by net earnings of \$70.1 million and the stock-based compensation expense of \$8.1 million in additional paid in capital. The decrease in the accumulated other comprehensive income was primarily due to the foreign currency translation.

The Company intends to fund its short-term and long-term operating cash requirements, including its fiscal 2010 dividend payments and 2010 debt payments, primarily through net cash provided by operating activities.

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 sources of borrowings, 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 substantial instability and uncertainty that is affecting the availability of credit to borrowers. The Company believes 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 acquisitions.

#### Subsequent Events Affecting Liquidity and Capital Resources

The Company has evaluated subsequent events through the date these financial statements were issued, September 28, 2009.

On September 10, 2009, the Board of Directors announced

an increase in the annual dividend to shareholders of the Company's Class A Common Stock, from \$0.68 to \$0.70 per share. A quarterly dividend of \$0.175 will be paid on October 30, 2009, to shareholders of record at the close of business on October 9, 2009. This dividend represents an increase of 3% and is the 24th consecutive annual increase in dividends since the Company went public in 1984.

By unanimous written consent effective September 24, 2009, the holders of the Company's Class B Common Stock approved the Brady Corporation 2010 Omnibus Incentive Stock Plan (the "2010 Omnibus Plan") and the Brady Company 2010 Nonqualified Stock Option Plan for Non-employee Directors (the "2010 Directors Plan"). Under the terms of the 2010 Omnibus Plan, pursuant to which 3,000,000 shares of the Company's Class A Common Stock have been authorized for issuance, the Company may grant nonqualified stock options, incentive stock options, shares of restricted stock and restricted stock units to eligible employees of the Company and its affiliates. The 2010 Omnibus Plan, which became effective upon shareholder approval, provides that after December 31, 2009, no further awards or grants shall be made under the Company's 2006 Omnibus Incentive Stock Plan. Under the terms of the 2010 Directors Plan, pursuant to which 200,000 shares of the Company's Class A Common Stock have been authorized for issuance, each non-employee Director is granted an option to purchase 10,000 shares of the Company's common stock two weeks after first becoming a director and 8,400 shares of the Company's common stock on an annual basis thereafter. The 2010 Directors Plan became effective upon shareholder approval.

#### 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, when the economic profile is favorable.

**Purchase Commitments** — The Company has purchase commitments for materials, supplies, services, and property, plant and equipment entered into in the ordinary course of business. Such commitments are not in excess of current market prices.

Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for early termination. The Company does not believe a material amount of penalties will be incurred under these contracts based upon historical experience and current expectations.

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

**Related Party Transactions** — 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, 2009, for long-term debt, operating lease obligations, purchase obligations, interest obligations and other obligations are as follows (dollars in thousands):

Contractual Obligations	PAYMENTS DUE BY PERIOD					
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years	Uncertain Timeframe
Long-Term Debt Obligations . . . . .	\$ 391,350	\$ 44,893	\$ 122,529	\$ 122,528	\$ 101,400	\$ —
Operating Lease Obligations . . . . .	67,172	22,613	29,865	11,468	3,226	—
Purchase Obligations <sup>(1)</sup> . . . . .	55,879	29,864	11,640	14,375	—	—
Interest Obligations . . . . .	83,926	21,469	33,331	20,444	8,682	—
Tax Obligations . . . . .	19,462	—	—	—	—	19,462
Other Obligations <sup>(2)</sup> . . . . .	14,311	825	1,755	2,009	9,722	—
<b>Total . . . . .</b>	<b>\$ 632,100</b>	<b>\$ 119,664</b>	<b>\$ 199,120</b>	<b>\$ 170,824</b>	<b>\$ 123,030</b>	<b>\$ 19,462</b>

(1) Purchase obligations include all open purchase orders as of July 31, 2009.

(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, under Item 8 of this report.

#### Inflation and Changing Prices

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

#### Critical Accounting Estimates

##### 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 Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") on August 1, 2007. The Company establishes FIN 48 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 FIN 48 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, SFAS No. 142,



“Goodwill and Other Intangible Assets,” 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 must be further evaluated in a more detailed review.

The Company has identified five reporting units within its three reportable segments in accordance with SFAS No. 142. The Company’s methodologies for valuing goodwill are applied consistently on a year-over-year basis; the assumptions used in performing the 2009 impairment calculations were evaluated in light of market and business conditions. Brady continues to believe that the discounted cash flow model provides 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 2009 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 income tax contingencies. These reserves 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 report, 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 report, 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 retain significant contracts and customers; future competition; Brady’s ability to develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; interruptions to sources of supply; environmental, health and safety compliance costs and liabilities; Brady’s ability to realize cost savings from operating initiatives; Brady’s ability to attract and retain key talent; difficulties associated with exports; risks associated with international operations; fluctuations in currency rates versus the US dollar; technology changes; potential write-offs of Brady’s substantial intangible assets; Brady’s ability to maintain its debt covenants; unforeseen tax consequences; risks associated with obtaining governmental approvals and maintaining regulatory compliance for new and existing products; business interruptions due to implementing business systems; and numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive and regulatory nature contained from time to time in Brady’s U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the “Risk Factors” section located in Item 1A of Part I of Brady’s fiscal 2009 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 of Brady’s fiscal 2009 Form 10-K— Risk Factors.

#### Quantitative and Qualitative Disclosures About Market Risk

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

The global nature of the Company’s business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The primary objective of the Company’s foreign-currency exchange risk management is to minimize the impact of currency movements of foreign product imports. To achieve this objective, the Company hedges a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Swedish Krona and Chinese Yuan currency. As of July 31, 2009, the amount of outstanding foreign exchange contracts was \$30.9 million.

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 Board approval. As of July 31, 2009, 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 European currencies, primarily the euro, changes 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 shareholders’ equity. The Company’s unfavorable currency translation adjustment recorded in fiscal 2009 was \$(75.5) million. The Company’s favorable currency translation adjustment recorded in fiscal 2008 was \$46.8 million. As of July 31, 2009 and 2008, the Company’s foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$242.9 million and \$294.5 million, respectively. The potential decrease in the net current assets as of July 31, 2009 from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately \$24.3 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. 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, 2009 and 2008, and the related consolidated statements of income, stockholders’ investment, and cash flows for each of the three years in the period ended July 31, 2009. 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 financial position of Brady Corporation and subsidiaries at July 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2009, 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, 2009, 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 28, 2009, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
Milwaukee, WI  
September 28, 2009



**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*July 31, 2009 and 2008*

ASSETS (in thousands)	2009	2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 188,156	\$ 258,355
Accounts receivable, less allowance for losses (\$7,931 and \$10,059, respectively) .....	191,189	262,461
<b>INVENTORIES:</b>		
Finished products .....	53,244	75,665
Work-in-process .....	13,159	21,187
Raw materials and supplies .....	27,405	37,767
Total inventories .....	93,808	134,619
Prepaid expenses and other current assets .....	36,274	43,650
Total current assets .....	509,427	699,085
<b>OTHER ASSETS:</b>		
Goodwill .....	751,173	789,107
Other intangibles assets .....	115,754	144,791
Deferred income taxes .....	36,374	25,943
Other non-current assets .....	18,551	21,381
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Cost:		
Land .....	6,335	6,490
Buildings and improvements .....	96,968	98,646
Machinery and equipment .....	283,301	282,232
Construction in progress .....	7,869	6,040
	394,473	393,408
Less accumulated depreciation .....	242,485	223,202
Property, plant and equipment — net .....	151,988	170,206
Total .....	\$ 1,583,267	\$ 1,850,513
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable .....	\$ 83,793	\$ 118,209
Wages and amounts withheld from employees .....	36,313	82,354
Taxes, other than income taxes .....	6,262	10,234
Accrued income taxes .....	5,964	21,523
Other current liabilities .....	45,247	54,810
Current maturities on long-term obligations .....	44,893	21,431
Total current liabilities .....	222,472	308,561
Long-term obligations, less current maturities .....	346,457	457,143
Other liabilities .....	63,246	63,001
Total liabilities .....	\$ 632,175	\$ 828,705
Commitments and contingencies (See Note 9) .....		
<b>STOCKHOLDERS' INVESTMENT:</b>		
<b>Common stock:</b>		
Class A Nonvoting — Issued 51,261,487 and 51,261,487 shares, respectively; (aggregate liquidation preference of \$42,803 and \$42,628 at July 31, 2009 and 2008, respectively) .....	513	513
Class B Voting — Issued and outstanding 3,538,628 shares .....	35	35
Additional paid-in capital .....	298,466	292,769
Earnings retained in the business .....	673,342	639,059
Treasury stock — 2,270,927 and 1,046,191 shares, respectively of Class A nonvoting common stock, at cost .....	(69,823)	(33,234)
Accumulated other comprehensive income .....	53,051	128,161
Other .....	(4,492)	(5,495)
Total stockholders' investment .....	951,092	1,021,808
Total .....	\$ 1,583,267	\$ 1,850,513

See notes to consolidated financial statements.

**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*Years Ended July 31, 2009, 2008 and 2007*

(In thousands, except per share amounts)	2009	2008	2007
	(In thousands, except per share amounts)		
Net sales .....	\$ 1,208,702	\$ 1,523,016	\$ 1,362,631
Cost of products sold .....	631,119	778,821	705,587
Gross margin .....	577,583	744,195	657,044
<b>OPERATING EXPENSES:</b>			
Research and development .....	34,181	40,607	35,954
Selling, general and administrative .....	397,180	495,904	449,103
Restructuring charges .....	25,849	—	—
Total operating expenses .....	457,210	536,511	485,057
Operating income .....	120,373	207,684	171,987
<b>OTHER INCOME (EXPENSE):</b>			
Investment and other income — net .....	1,800	4,888	2,875
Interest expense .....	(24,901)	(26,385)	(22,934)
Net other expense .....	(23,101)	(21,497)	(20,059)
Income before income taxes .....	97,272	186,187	151,928
Income taxes .....	27,150	53,999	42,540
Net income .....	\$ 70,122	\$ 132,188	\$ 109,388
<b>NET INCOME PER COMMON SHARE:</b>			
<b>Class A Nonvoting:</b>			
Basic .....	\$ 1.33	\$ 2.45	\$ 2.03
Diluted .....	\$ 1.33	\$ 2.41	\$ 2.00
Dividends .....	\$ 0.68	\$ 0.60	\$ 0.56
<b>Class B Voting:</b>			
Basic .....	\$ 1.32	\$ 2.43	\$ 2.01
Diluted .....	\$ 1.31	\$ 2.39	\$ 1.98
Dividends .....	\$ 0.66	\$ 0.58	\$ 0.54
<b>WEIGHTED AVERAGE CLASS A AND CLASS B COMMON SHARES OUTSTANDING</b>			
Basic .....	52,559	54,168	53,907
Diluted .....	52,866	54,873	54,741

See notes to consolidated financial statements.



**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT**  
*Years Ended July 31, 2009, 2008 and 2007*

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	EARNINGS RETAINED IN THE BUSINESS	TREASURY STOCK	ACCUMULATED OTHER COMPRE- HENSIVE INCOME	OTHER	TOTAL COMPREHENSIVE INCOME
Balances at July 31, 2006	\$ 540	\$ 258,922	\$ 460,991	\$ (10,865)	\$ 35,696	\$ 762	
Net income	—	—	109,388	—	—	—	\$ 109,388
Net currency translation adjustment and other	—	—	—	—	44,256	—	44,256
Total comprehensive income	—	—	—	—	—	—	\$ 153,644
Issuance of 104,781 shares of Class A Common Stock under stock option plan	1	(4,037)	—	10,865	—	—	
Other (Note 6)	—	108	—	—	—	(108)	
Tax benefit from exercise of stock options and deferred compensation distributions	—	4,303	—	—	—	—	
Stock-based compensation expense	—	6,907	—	—	—	—	
Adjustment to adopt SFAS No. 158, net of tax of \$1,551	—	—	—	—	3,424	—	
Cash dividends on Common Stock:							
Class A — \$.56 per share	—	—	(28,218)	—	—	—	
Class B — \$.54 per share	—	—	(1,923)	—	—	—	
Balances at July 31, 2007	\$ 541	\$ 266,203	\$ 540,238	\$ —	\$ 83,376	\$ 654	
Net income	—	—	132,188	—	—	—	\$ 132,188
Net currency translation adjustment and other	—	—	—	—	44,785	—	44,785
Total comprehensive income	—	—	—	—	—	—	\$ 176,973
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	\$ 548	\$ 292,769	\$ 639,059	\$ (33,234)	\$ 128,161	\$ (5,495)	
Net income	—	—	70,122	—	—	—	\$ 70,122
Net currency translation adjustment and other	—	—	—	—	(75,110)	—	(75,110)
Total comprehensive income	—	—	—	—	—	—	\$ (4,988)
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	\$ 548	\$ 298,466	\$ 673,342	\$ (69,823)	\$ 53,051	\$ (4,492)	

See notes to consolidated financial statements.

**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*Years Ended July 31, 2009, 2008 and 2007*

(Dollars in thousands)	2009	2008	2007
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 70,122	\$ 132,188	\$ 109,388
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	54,851	60,587	53,856
Deferred income taxes	(8,640)	(2,759)	70
Loss on sale of property, plant and equipment	383	1,672	13
Non-cash portion of stock-based compensation expense	7,731	10,228	6,907
Non-cash portion of restructuring	2,469	—	—
Changes in operating assets and liabilities (net of effects of business acquisitions):			
Accounts receivable	53,389	(3,704)	(17,021)
Inventories	34,749	16,224	(12,323)
Prepaid expenses and other assets	(2,423)	(629)	(13,307)
Accounts payable and accrued liabilities	(78,684)	18,641	8,058
Income taxes	(9,673)	(7,234)	(6,821)
Other liabilities	2,371	340	7,198
Net cash provided by operating activities	126,645	225,554	136,018
<b>INVESTING ACTIVITIES:</b>			
Acquisitions of businesses, net of cash acquired	—	(29,346)	(159,475)
Purchase price adjustment	3,514	—	—
Payments of contingent consideration	(1,405)	(5,798)	(10,906)
Purchases of short-term investments	—	(10,350)	(68,100)
Sales of short-term investments	—	29,550	60,400
Purchases of property, plant and equipment	(24,027)	(26,407)	(51,940)
Proceeds from sale of property, plant and equipment	796	880	2,166
Other	2,078	2,263	(9,184)
Net cash used in investing activities	(19,044)	(39,208)	(237,039)
<b>FINANCING ACTIVITIES:</b>			
Payment of dividends	(35,839)	(32,464)	(30,141)
Proceeds from issuance of common stock	1,683	14,500	6,829
Principal payments on debt	(87,224)	(39,443)	(110,70)
Proceeds from issuance of debt	—	18,000	259,300
Purchase of treasury stock	(40,267)	(42,175)	—
Excess income tax benefit from the exercise of stock options and deferred compensation distributions	1,336	4,638	4,303
Net cash (used in) provided by financing activities	(160,311)	(76,944)	129,421
Effect of exchange rate changes on cash	(17,489)	6,107	1,438
Net (decrease) increase in cash and cash equivalents	(70,199)	115,509	29,838
Cash and cash equivalents, beginning of year	258,355	142,846	113,008
Cash and cash equivalents, end of year	\$ 188,156	\$ 258,355	\$ 142,846
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest, net of capitalized interest	\$ 26,047	\$ 26,308	\$ 19,842
Income taxes, net of refunds	48,766	51,834	49,233
Acquisitions:			
Fair value of assets acquired, net of cash	\$ —	\$ 21,508	\$ 87,398
Liabilities assumed	—	(9,038)	(33,248)
Goodwill	—	16,876	105,325
Net cash paid for acquisitions	\$ —	\$ 29,346	\$ 159,475

See notes to consolidated financial statements.



## 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.

**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** — The Company has evaluated subsequent events through the date these financial statements were issued, September 28, 2009.

On September 10, 2009, the Board of Directors announced an increase in the annual dividend to shareholders of the Company’s Class A Common Stock, from \$0.68 to \$0.70 per share. A quarterly dividend will be paid on October 30, 2009, to shareholders of record at the close of business on October 9, 2009. This dividend represents an increase of 3% and is the 24th consecutive annual increase in dividends since the Company went public in 1984.

By unanimous written consent effective September 24, 2009, the holders of the Company’s Class B Common Stock approved the Brady Corporation 2010 Omnibus Incentive Stock Plan (the “2010 Omnibus Plan”) and the Brady Corporation 2010 Nonqualified Stock Option Plan for Non-employee Directors (the “2010 Directors Plan”). Under the terms of the 2010 Omnibus Plan, pursuant to which 3,000,000 shares of the Company’s Class A Common Stock have been authorized for issuance, the Company may grant nonqualified stock options, incentive stock options, shares of restricted stock and restricted stock units to eligible employees of the Company and its affiliates. The 2010 Omnibus Plan, which became effective upon shareholder approval, provides that after December 31, 2009, no further awards or grants shall be made under the Company’s 2006 Omnibus Incentive Stock Plan. Under the terms of the 2010 Directors Plan, pursuant to which 200,000 shares of the Company’s Class A Common Stock have been authorized for issuance, each non-employee Director is granted an option to purchase 10,000 shares of the Company’s common

stock two weeks after first becoming a director and 8,400 shares of the Company’s common stock on an annual basis thereafter. The 2010 Directors Plan became effective upon shareholder approval.

**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 Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”, on August 1, 2008 as it relates to financial assets and liabilities. The impact of this adoption has not been material to the Company’s consolidated financial statements. SFAS No. 157 (“SFAS 157”) will be effective for the Company’s nonfinancial assets and liabilities on August 1, 2009, the first day of the Company’s next fiscal year. 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.

**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 19% of total inventories at July 31, 2009 and approximately 22% of total inventories at July 31, 2008) 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 \$9,348 and \$9,530 at July 31, 2009 and 2008, 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
Mainframe computing equipment	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.

Changes in the carrying amount of goodwill for the years ended July 31, 2009 and 2008, are as follows:

	Americas	Europe	Asia- Pacific	Total
Balance as of July 31, 2007	\$ 404,074	\$ 163,699	\$ 169,677	\$ 737,450
Goodwill acquired during the period	3,615	13,261	—	16,876
Adjustments for prior year acquisitions	2,564	(2,928)	3,902	3,538
Translation adjustments	2,724	15,618	12,901	31,243
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

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.

The following acquisitions completed in fiscal 2008 increased goodwill during the year ended July 31, 2008 by the following amounts:

	Segment	Goodwill
Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively “Transposafe”)	Europe	\$ 13,261
DAWG, Inc. (“DAWG”)	Americas	3,615
Total		\$ 16,876

Goodwill also increased in fiscal 2008 as a result of adjustments to the preliminary allocation of purchase price for the acquisitions completed in fiscal 2007, of which the largest adjustment related to the final purchase price adjustments for Comprehensive Identification Products, Inc (“CIPI”), which

added \$3,948. Of the \$3,948 increase in goodwill attributed to the allocation of the purchase price for CIPI, \$1,246 related to the adoption of Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, (FIN 48)”, \$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, 2009 and 2008, the remaining liability from these charges was approximately \$612 and \$769, respectively. Goodwill increased \$1,467 related to the fiscal 2007 acquisition of Sorbent Products Co., Inc. (“SPC”), primarily due to an adjustment in income taxes. The increase in goodwill related to the acquisitions of CIPI and SPC was partially offset by a tax adjustment of \$1,893 associated with the fiscal 2006 acquisition of Identicam Systems relating to a deferred tax asset existing at the time of acquisition. During fiscal year 2008, the Company finalized the purchase price allocation of the SPC acquisition between the segments, resulting in a transfer of goodwill from Europe to the Americas.

The remaining \$31,234 increase in goodwill during fiscal 2008 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 SFAS No. 142, “Goodwill and Other Intangible Assets.” The net book value of these assets was as follows:

	July 31, 2009				July 31, 2008			
	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
<b>Amortized other intangible assets:</b>								
Patents	5	\$ 8,976	\$ (7,165)	\$ 1,811	5	\$ 8,603	\$ (6,592)	\$ 2,011
Trademarks and other	7	7,703	(5,121)	2,582	7	8,079	(4,688)	3,391
Customer relationships	7	144,625	(76,912)	67,713	7	151,704	(59,101)	92,603
Non-compete agreements	4	11,502	(9,656)	1,846	4	12,222	(8,446)	3,776
Other	4	3,311	(3,296)	15	4	3,299	(3,294)	5
<b>Unamortized other intangible assets:</b>								
Trademarks	N/A	41,787	—	41,787	N/A	43,005	—	43,005
Total		\$ 217,904	\$ (102,150)	\$ 115,754		\$ 226,912	\$ (82,121)	\$ 144,791



The value of other intangible assets in the Consolidated Balance Sheet at July 31, 2009, 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, 2009.

Amortization expense of intangible assets during fiscal 2009, 2008, and 2007 was \$22,828, \$25,422, and \$21,882, respectively. The amortization over each of the next five fiscal years is projected to be \$22,652, \$19,087, \$11,914, \$8,616, and \$4,038 for the years ending July 31, 2010, 2011, 2012, 2013 and 2014, 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 2009, there have been no indications of impairment in the Company's long-lived and other intangible assets.

**Impairment of Goodwill and Indefinite-lived Intangible Assets** — The Company evaluates goodwill and indefinite-lived intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets" which addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill and indefinite-lived intangible assets not be amortized, but instead be tested for impairment on at least an annual basis.

During the third quarter of fiscal 2009, the Company conducted a goodwill impairment assessment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets". The assessment included comparing the carrying amount of net assets, including goodwill, of each reporting unit to its respective fair value as of February 28, 2009, the date of the assessment. Fair value was determined using the weighted average of a discounted cash flow and market participant analysis for each reporting unit. Because the estimated fair value of each of the Company's reporting units exceeded its carrying amount, management concluded that no impairment existed as of February 28, 2009. Due to the economic conditions during the second quarter of fiscal 2009, the Company completed its assessment prior to the Company's annual assessment date of May 1, 2009. The Company further conducted an assessment as of the annual assessment date and concluded that no impairment existed as of May 1, 2009. No indications of impairment have been identified between the date of the interim assessments and July 31, 2009.

During the fourth quarter of fiscal 2009, the Company conducted an indefinite-lived intangible asset impairment analysis in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The assessment included comparing the carry amount of the indefinite-lived intangible asset to the fair value of those assets as of May 1, 2009, the Company's assessment date. Fair value was determined using the weighted average of a discounted revenue stream and market participant 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, 2009. No indications of impairment have been identified between the date of the interim assessments and July 31, 2009.

**Catalog Costs and Related Amortization** — The Company accumulates all direct costs incurred, net of vendor cooperative advertising 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, 2009 and 2008, \$13,511 and \$13,214, 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. 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.

**Sales Incentives** — In accordance with the Financial Accounting Standard Board's Emerging Issues Task Force Issue ("EITF") No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product," 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** — The Company accounts for shipping and handling fees and costs in accordance with EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." Under EITF No. 00-10 amounts billed to a customer in a sale transaction related to shipping costs are reported as net sales and the related costs incurred for shipping 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, 2009, 2008 and 2007 were \$77,395, \$85,908 and \$75,452, 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 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. They 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, 2009, the Company has reserved 4,296,875 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 660,330 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.

Effective August 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment." In accordance with this standard, the Company recognizes the compensation cost of all share-based awards using the grant-date fair value of those awards (the "fair-value-based" method). The expense is recognized 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, 2009, 2008, and 2007 was \$7,731 (\$4,716 net of taxes), \$10,228 (\$6,239

net of taxes), and \$6,907 (\$4,213 net of taxes), respectively. As discussed in Note 11, an additional \$368 (\$224 net of taxes) of non-cash stock option expense was taken related to the restructuring in fiscal 2009. As of July 31, 2009, total unrecognized compensation cost related to share-based compensation awards was \$11,757, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.5 years.

The Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified-prospective-transition method. Under that transition method, compensation cost recognized during fiscal 2009, 2008, and 2007 included: (a) compensation costs for all share-based payments granted prior to, but not yet vested as of August 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to August 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Prior periods are not restated under this method of adoption.

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	2009		2008		2007	
	Performance-Based Options	Service-Based Options	Performance-Based Options	Service-Based Options	Performance-Based Options	Service-Based Options
Expected term (in years) .....	N/A	5.96	6.57	6.04	6.57	6.07
Expected volatility .....	N/A	36.07%	33.68%	32.05%	34.66%	33.99%
Expected dividend yield .....	N/A	2.03%	1.58%	1.62%	1.51%	1.46%
Risk-free interest rate .....	N/A	1.75%	4.66%	3.44%	4.90%	4.52%
Weighted-average market value of underlying stock at grant date .....	N/A	\$ 21.26	\$ 35.35	\$ 38.22	\$ 33.32	\$ 38.17
Weighted-average exercise price .....	N/A	\$ 21.26	\$ 35.35	\$ 38.22	\$ 33.32	\$ 38.17
Weighted-average fair value of options granted .....	N/A	\$ 6.30	\$ 12.83	\$ 11.94	\$ 12.57	\$ 13.56

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 March 4, 2009, the Compensation Committee of the Board of Directors of the Company approved an amendment to the granting agreement under which the Company issued performance-based stock options on August 2, 2004. Pursuant to the amendment, the exercise period for the performance-based stock options was extended to ten years from five years resulting in an incremental expense of \$191 (\$116 net of taxes) in fiscal 2009. Also, the amendment provided 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 two of its 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; Peter C. Sephton, 30,000 options; and Matthew O. Williamson, 30,000 options.

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, 2009, 210,000 performance-based shares were 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 other investments, the unamortized gain on the post-retirement

medical, dental and vision plan and their related tax effects. The components of accumulated other comprehensive income were as follows:

	July 31, 2009	July 31, 2008
Unrealized (loss) gain on cash flow hedges and securities in deferred compensation plans, net of tax of \$17 and \$263, respectively .....	\$ (53)	\$ (971)
Unamortized gain on post-retirement medical, dental and vision plan, net of tax of \$1,964 and \$2,663, respectively	1,942	2,493
Cumulative translation adjustments	51,162	126,639
Accumulated other comprehensive income .....	\$ 53,051	\$ 128,161

**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 SFAS No. 109, "Accounting for Income Taxes," 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. Beginning August 1, 2007, 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. Prior to August 1, 2007,

the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

**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.

**Currency Rate Hedging** — The primary objectives of the foreign exchange risk management activities are to mitigate the impact of potential foreign exchange fluctuations on the Company's financial results and its economic well-being. 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 primarily utilizes forward exchange contracts with maturities of less than 12 months, which are designated as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on products purchased in a currency differing from the selling unit's currency. The fair value of these instruments at July 31, 2009 and 2008 was \$(248) and \$(96), respectively. As of July 31, 2009, the notional amount of outstanding forward exchange contracts was \$30.9 million. See Note 12 for more information regarding the Company's derivative instruments and hedging activities.

The Company accounts for its hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." For derivative instruments designated as cash flow hedges under SFAS No. 133, the Company records these contracts at fair value on the Consolidated Balance Sheets. The effective portion of the gain or loss on these derivatives 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.

The Company also enters into cash flow hedge contracts to create economic hedges to manage foreign exchange risk exposure. The fair value of these instruments at July 31, 2009 was \$130. The Company has not designated these derivative contracts as hedge transactions under SFAS No. 133, 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. Any ineffective portions are to be recognized in earnings immediately as a component

of investment and other income. The amount of hedge ineffectiveness was not significant for the years ended July 31, 2009, 2008 and 2007.

**New Accounting Standards** — The Company adopted SFAS No. 157, "Fair Value Measurements," on August 1, 2008 as it relates to financial assets and liabilities. The impact of this adoption was not material to the Company's financial statements. SFAS No. 157 will be effective for the Company's nonfinancial assets and liabilities on August 1, 2009, the first day of the Company's next fiscal year. SFAS No. 157 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. SFAS No. 157 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. See Note 10 for more information regarding the Company's fair value measurements.

Effective August 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of SFAS No. 115," to allow companies to choose to elect, at specified dates, to measure eligible financial instruments at fair value. At the date of adoption of SFAS No. 159, the Company did not elect the fair value option for any of its financial assets or financial liabilities.

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities." SFAS No. 161 requires expanded quantitative, qualitative, and credit-risk disclosures about an entity's derivative instruments and hedging activities. This statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 during fiscal 2009. See Note 12 for more information regarding the Company's derivative instruments and hedging activities.

In June 2008, the FASB issued Staff Position on EITF Issue 03-6 ("FSP 03-6"), "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP 03-6 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. This staff position will be effective for fiscal years and interim periods beginning after December 15, 2008. The Company is in the process of evaluating the impact that will result from adopting FSP 03-6 on the Company's results of operations and financial disclosures when the standard is adopted during the first quarter of fiscal 2010.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) requires acquiring entities to recognize all the assets and liabilities assumed in a transaction at fair values as of the acquisition date, but changes the accounting treatment for certain items, including:



- a) Acquisition costs will generally be expensed as incurred;
- b) Non-controlling interests in subsidiaries will be valued at fair value at the acquisition date and classified as a separate component of equity;
- c) Liabilities related to contingent consideration will be re-measured at fair value in each subsequent reporting period;
- d) Restructuring costs associated with a business combination will generally be expensed after the acquisition date; and
- e) In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date.

SFAS No. 141(R) applies to business combinations for which the acquisition date is on or after August 1, 2009. The impact of SFAS No. 141(R) on the Company's future consolidated financial statements will depend on the size and nature of future acquisitions.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP 107-1 amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," to require disclosures about fair value of financial instruments for interim periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company expects to adopt this FSP for the interim period ending October 31, 2009. The Company is in the process of evaluating the impact that will result from adopting FSP No. 107-1 and APB 28-1 on the Company's financial disclosures when such guidance is adopted.

In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, "Accounting for Assets and Liabilities Assumed in a Business Combination That Arise From Contingencies" (FSP FAS 141(R)-1). FSP FAS 141(R)-1 amends and clarifies SFAS No. 141(R), "Business Combinations," to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This standard will be applied on a prospective basis for business combinations after July 31, 2009. The impact of SFAS No. 141(R)-1 on our future consolidated financial statements will depend on the size and nature of future acquisitions.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 defines subsequent events as events or transactions that occur after the balance sheet date, but before the financial statements are issued. It defines two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at the balance sheet date, and non-recognized subsequent events, which provide evidence about conditions that did not exist at the balance sheet date, but arose before the financial statements were issued. Recognized subsequent events are required to be

recognized in the financial statements, and non-recognized subsequent events are required to be disclosed. The statement requires entities to disclose the date through which subsequent events have been evaluated, and the basis for that date. SFAS No. 165 is consistent with current practice and did not have any impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS 167 makes changes to the overall consolidation analysis. SFAS No. 167 is effective as of the beginning of fiscal years that begin after November 15, 2009. The Company expects to adopt this standard on August 1, 2010. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 167 on the Company's results of operations and financial disclosures when such statement is adopted.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Policies." SFAS No. 168 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Policies." SFAS No. 168 outlines the reorganization of current GAAP into a topical format that eliminates the current GAAP hierarchy. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company expects to adopt this standard during the first quarter of fiscal 2010. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 168 on the Company's financial disclosures when such statement is adopted.

## 2. Acquisitions of Businesses

The Company did not complete any acquisitions during the fiscal year ended July 31, 2009; however, it completed two business acquisitions during the fiscal year ended July 31, 2008, and seven business acquisitions during the fiscal year ended July 31, 2007. 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 2008

The Company acquired the following companies in fiscal 2008 for a total combined purchase price, net of cash acquired, of \$29,346. A brief description of each company acquired during the year is included below:

- Tranposafe is headquartered near Amsterdam, the Netherlands with operations in Belgium, Germany, and Poland. Transposafe specializes in security sealing and identification solutions for protecting assets during transport. Transposafe was acquired in November 2007.
- DAWG is headquartered in Terryville, Connecticut. 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. DAWG was acquired in March 2008.

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.

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

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

Of the \$16,876 allocated to goodwill, approximately \$3,600 is expected to be deductible for tax purposes.

The fiscal 2008 acquisitions were determined to be immaterial individually and in the aggregate, so no pro-forma disclosures were required.

### Fiscal 2007

The Company acquired the following companies in fiscal 2007 for a total combined purchase price, net of cash acquired, of \$159,475. A brief description of each company acquired during the year is included below:

- CIPI, was formerly headquartered in Burlington, Massachusetts, with operations in Hong Kong, China and the Netherlands. CIPI is a market leader in badging accessories used to identify and track employees and visitors in a variety of settings including businesses, healthcare facilities, special events and government buildings. CIPI was acquired in August 2006.
- Precision Converters L.P ("Precision Converters") is located in Dallas, Texas and is a supplier of die-cut products to the medical market with a specific focus on disposable, advanced wound-care products. Precision Converters was acquired in October 2006.
- Scafftag Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd (collectively "Scafftag") is located in Barry, Wales, U.K., with operations in Australia and in the United States and a sales office in the United Arab Emirates. Scafftag is an industry leader in safety identification and facility management products in the U.K., specializing in products that help companies meet legislative requirements for safety standards in the oil and gas, construction and scaffolding industries. Scafftag was acquired in December 2006.

• Asterisco Artes Graficas Ltda. ("Asterisco") is located in SaoPaulo, Brazil and is a leading manufacturer of industrial high-performance labels in Brazil, specializing in custom labels printed on film materials for the electronics, automotive, pharmaceutical and other industries. Asterisco was acquired in December 2006.

• Modernotecnica SpA ("Moderno") is located in Milan, Italy and is a wire-identification manufacturer serving the Maintenance, Repair and Operations market with products used primarily in the electrical industry. Moderno was acquired in December 2006.

• Clement Communications, Inc. ("Clement") is located in Concordville, Pennsylvania and is a direct marketer of posters, newsletters, guides and handbooks that address safety, quality, teamwork, sales employment practices, customer service and OSHA regulations. Clement was acquired in February 2007.

• SPC is headquartered in Somerset, New Jersey, with operations in Belgium and Hong Kong. SPC is a leading manufacturer and marketer of synthetic sorbent materials used in a variety of industrial maintenance and environmental applications for spill clean-up, containment and control. SPC was acquired in April 2007.

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 earnout and holdback liabilities of the Asterisco acquisition and the remaining liability was eliminated.



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

Current assets .....	\$	38,148
Property, plant & equipment .....		12,158
Goodwill .....		105,325
Customer relationships .....		23,897
Trademarks .....		11,232
Non-compete agreements .....		967
Other intangible assets .....		996
Total assets acquired .....		192,723
Liabilities assumed .....		33,248
Net assets acquired .....	\$	159,475

Of the \$105,325 allocated to goodwill, approximately \$72,134 was deductible for tax purposes.

The fiscal 2007 acquisitions were determined to be immaterial individually and in the aggregate, so no pro-forma disclosures were required.

The purchase agreements for Texit, a manufacturer and distributor of wire markers and cable-management products; QDP Thailand Co., Ltd. ("QDPT"), a designer and manufacturer of high-precision components for the electronic, medical and automotive industries, specializing in precision laminating, stamping and contract assembly; and STOPware, Inc. ("Stopware"), a manufacturer of visitor-badging and lobby-security software used to identify and track visitors each included provisions for contingent payments based upon meeting certain performance conditions over a period of time subsequent to the acquisition. In fiscal 2007, QDPT combined its operations with TPS in a facility in Klongluang, Pathumthani, Thailand. In fiscal 2006 and 2007, \$1,800 and \$2,577, respectively, of the conditions were met and recorded in goodwill; payments of \$3,377 were made during fiscal 2007 to satisfy the contingent payment requirements. The remaining \$1,000 liability was paid in fiscal 2008 for the acquisition of Stopware. The holdback provision included in the purchase agreements of QDPT of \$310 was paid in fiscal 2007. The holdback provisions included in the purchase agreements of Daewon Industry Corporation ("Daewon") and Stopware of \$200 and \$4,350, respectively, were paid in fiscal 2008. Daewon is a manufacturer and supplier of pressure sensitive, die-cut adhesive components for the mobile handset and electronics industry. As of July 31, 2009 all required payments have been made.

### 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. During fiscal 2008, the Plan was amended to include only employees hired prior to April 1, 2008. 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 Company funds benefit costs on a pay-as-you-go basis.

In October 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement requires full recognition of the funded status of defined benefit and other postretirement plans on the balance sheet as an asset or a liability. SFAS No. 158 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, 2009 and 2008. The following table provides a reconciliation of the changes in the Plan's accumulated benefit obligations during the years ended July 31:

	2009	2008
Obligation at beginning of year .....	\$ 12,199	\$ 11,705
Service cost .....	672	919
Interest cost .....	842	771
Actuarial loss (gain) .....	766	(96)
Benefit payments .....	(667)	(687)
Plan amendments .....	—	(413)
Separation benefits .....	1,178	—
Curtailments .....	(679)	—
Obligation at end of fiscal year .....	\$ 14,311	\$ 12,199

As discussed in Note 11, the fiscal 2009 restructuring charges included employee separation costs. Approximately, \$1,178 of employee separation costs have been included in the separation benefits above as the costs directly relate to the postretirement medical, dental and vision benefits.

In November 2008, the Company announced it would take several measures to address its cost structure. In addition to a reduction in its contract labor and decreased discretionary spending, the Company announced it would reduce its workforce. The reduction in workforce was accounted for as a partial plan curtailment and reduced the accumulated benefit obligation by \$679 as of July 31, 2009.

As of July 31, 2009 and 2008, amounts recognized as liabilities in the accompanying consolidated balance sheets consist of:

	2009	2008
Current liability .....	\$ 825	\$ 511
Noncurrent liability .....	13,486	11,688
	\$ 14,311	\$ 12,199

As of July 31, 2009 and 2008, pre-tax amounts recognized in accumulated other comprehensive income in the accompanying consolidated balance sheets consist of:

	2009	2008
Net actuarial gain .....	\$ 3,425	\$ 4,499
Prior service credit .....	481	657
	\$ 3,906	\$ 5,156

Net periodic benefit cost for the Plan for fiscal years 2009, 2008 and 2007 includes the following components:

	Year Ended July 31,		
	2009	2008	2007
Net periodic postretirement benefit cost included the following components:			
Service cost — benefits attributed to service during the period .....	\$ 672	\$ 919	\$ 967
Prior service cost .....	(70)	(33)	(33)
Interest cost on accumulated postretirement benefit obligation .....	842	771	797
Amortization of unrecognized gain .....	(308)	(295)	(119)
Curtailment loss .....	393	—	—
Periodic postretirement benefit cost .....	\$ 1,529	\$ 1,362	\$ 1,612

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 \$202 and \$64, respectively. 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:

	2009	2008	2007
Weighted average discount rate used in determining accumulated postretirement benefit obligation liability .....	5.5%	6.8%	6.3%
Weighted average discount rate used in determining net periodic benefit cost .....	6.8%	6.3%	6.0%
Assumed health care trend rate used to measure APBO at July 31 .....	8.0%	8.0%	9.0%
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 .....	2015	2013	2011

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	\$ 73	\$ (83)
Effect on accumulated postretirement benefit obligation at July 31, 2009 .....	110	(119)

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

2010 .....	\$ 825
2011 .....	840
2012 .....	915
2013 .....	978
2014 .....	1,031
2015 through 2019 .....	5,823

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, 2009 and 2008, \$5,512 and \$6,633, 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, 2009 and 2008, \$10,175 and \$11,095, 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, profit sharing and deferred compensation plans described above were \$11,765, \$17,275, and \$14,990 during the years ended July 31, 2009, 2008 and 2007, respectively.

## 4. Income Taxes

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

	Year Ended July 31,		
	2009	2008	2007
United States.....	\$ (383)	\$ 46,388	\$ 58,538
Other Nations .....	97,655	139,799	93,390
Total .....	\$ 97,272	\$ 186,187	\$ 151,928

*Income taxes consist of the following:*

	Year Ended July 31,		
	2009	2008	2007
Current income tax expense:			
United States.....	\$ 3,486	\$ 13,943	\$ 5,439
Other Nations .....	31,223	41,794	34,835
States (U.S.) .....	1,081	1,021	2,336
	35,790	56,758	42,610
Deferred income tax (benefit) expense:			
United States.....	(7,633)	29	2,728
Other Nations .....	(1,693)	(2,793)	(4,151)
States (U.S.) .....	686	5	1,353
	(8,640)	(2,759)	(70)
Total .....	\$ 27,150	\$ 53,999	\$ 42,540

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, 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.....	6,903	(1,821)	5,082
Current .....	17,738	(5,184)	12,554
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 rating losses .....	45,057	—	45,057
Less valuation allowance.....	(25,670)	—	(25,670)
Other, net.....	250	(3,676)	(3,426)
Noncurrent .....	51,208	(34,200)	17,008
Total .....	\$ 68,946	\$ (39,384)	\$ 29,562

	July 31, 2009		
	Assets	Liabilities	Total
Inventories.....	\$ 7,594	\$ —	\$ 7,594
Prepaid catalog costs .....	—	(3,076)	(3,076)
Employee benefits .....	3,546	—	3,546
Accounts receivable .....	2,197	—	2,197
Other, net.....	5,467	(45)	5,422
Current .....	18,804	(3,121)	15,683
Fixed Assets.....	434	(6,857)	(6,423)
Intangible Assets .....	2,656	(18,292)	(15,636)
Capitalized R&D expenditures .....	1,866	—	1,866
Deferred compensation .....	17,033	—	17,033
Postretirement benefits .....	7,017	—	7,017
Tax credit carry-forwards and net rating losses .....	26,630	—	26,630
Less valuation allowance.....	(25,494)	—	(25,494)
Other, net.....	573	(2,308)	(1,735)
Noncurrent .....	30,715	(27,457)	3,258
Total .....	\$ 49,519	\$ (30,578)	\$ 18,941

Tax loss carry forwards at July 31, 2009 are comprised of:

- Foreign net operating loss carry-forwards of \$73,450, of which \$48,402 have no expiration date and the remainder of which expire within the next 5 years.
- State net operating loss carry-forwards of \$60,717, which expire from 2014 to 2029.
- Foreign tax credit carry-forwards of \$16,028, which expire from 2018 to 2019.
- R&D credit carry-forwards of \$800, which expire in 2029.
- State credit carry-forwards of \$1,670, which expire from 2017 to 2024.

### 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,		
	2009	2008	2007
Tax at statutory rate .....	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit .....	1.6%	0.2%	1.6%
International rate differential .....	(8.6%)	(5.9%)	(3.3%)
Rate variances arising from foreign subsidiary distributions .....	(3.4%)	(1.3%)	(2.7%)
Adjustments to tax accruals and reserves .....	5.8%	1.2%	(2.0%)
Research and development tax credits .....	(1.5%)	(0.2%)	(0.5%)
Other, net.....	(1.0%)	—	(0.1%)
Effective tax rate.....	27.9%	29.0%	28.0%

The valuation allowance increased by \$176 and \$5,807 during the fiscal years ended July 31, 2009 and 2008, respectively. If realized or reversed in future periods, substantially all of the

valuation allowance would impact the income tax rate.

The international rate differential for the year ended July 31, 2009 includes the recognition of \$1,611 of tax expense related to the repayment of tax holidays due to the restructuring and consolidation of certain Asian operations. Favorable geographic mix of pre-tax earnings more than offset the increase in income tax accruals and the tax holiday repayment, resulting in a decrease in the effective tax rate from 29.0% for the year ended July 31, 2008 to 27.9% for the year ended July 31, 2009.

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 3.3%, 1.9%, and 1.5% during the years ended July 31, 2009, 2008, and 2007, respectively. These tax holidays are in the process of expiring and are anticipated to be fully exhausted by December 31, 2012.

### Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48")

The Company adopted FIN 48 on August 1, 2007. The adoption resulted in a \$903 reduction to earnings retained in the business as of August 1, 2007. Upon adoption of FIN 48, 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:

<b>BALANCE AT AUGUST 1, 2007 (DATE OF ADOPTION)</b>	\$ 13,731
Additions based on tax positions related to the current year <sup>(1)</sup>	3,003
Additions for tax positions of prior years <sup>(1)</sup>	580
Reductions for tax positions of prior years	(579)
Lapse of statute of limitations	(1,435)
Settlements and effective settlements with tax authorities	—
Cumulative Translation Adjustments and other	717
<b>BALANCE AT JULY 31, 2008</b>	\$ 16,017
Additions based on tax positions related to the current year	2,526
Additions for tax positions of prior years <sup>(1)</sup>	4,056
Reductions for tax positions of prior years	(934)
Lapse of statute of limitations	(944)
Settlements and effective settlements with tax authorities	60
Cumulative Translation Adjustments and other	(1,319)
<b>BALANCE AT JULY 31, 2009</b>	\$ 19,462

<sup>(1)</sup> Includes acquisitions.

Included in the balance of total unrecognized tax benefits (excluding interest and penalties) at July 31, 2009 and 2008 are potential benefits of approximately \$19,117 and \$10,952, respectively, that if recognized, would affect the Company's effective income tax rate. The increase in the unrecognized tax benefits that would reverse through the Company's



effective tax rate is due to the pending adoption of SFAS No. 141(R), "Business Combinations."

The Company is currently in the early stages of being audited by several taxing authorities including the U.S. Internal Revenue Service for the fiscal years ended July 31, 2006 and 2007. Although the timing of resolution or closure of audits are uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could change in the next 12 months. Given the number of years remaining subject to examination throughout the globe, the Company is unable to reasonably estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

During all years presented, the Company recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of income. Therefore, no change was necessary upon adoption of FIN 48.

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, 2009 and 2008, the Company recognized \$427 and \$96 of interest expense, respectively, and \$414 and \$208 of penalties, respectively, related to the reserve for uncertain tax positions, net of amounts reversing due to statute of limitations and settlements. At July 31, 2009 and 2008, the Company had \$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, 2009 and 2008, the Company had \$776 and \$384, respectively, accrued for penalties on unrecognized tax benefits.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and 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'06 –F'09
France	F'06 –F'09
Germany	F'06 –F'09
United Kingdom	F'08 –F'09

#### Unremitted Earnings

The Company's policy is to remit earnings from foreign subsidiaries only to the extent any resultant foreign income taxes are creditable in the United States. Accordingly, the Company does not currently provide for the additional United States and foreign income taxes which would become payable upon remission of undistributed earnings of foreign subsidiaries. The cumulative undistributed earnings of such subsidiaries at July 31, 2009 amounted to approximately \$449,542.

## 5. Long-Term Obligations

The Company has completed three private placements totaling \$500 million in ten-year fixed 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 paid equal installments of \$21.4 million in June 2008 and June 2009. In June 2009, the Company completed a cash tender offer to purchase approximately \$65.8 million of its outstanding notes.

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 excluding all extraordinary non-cash items 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, 2009, 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, and March 2007 debt agreements require the Company to maintain a ratio of debt to the trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the debt agreements, of not more than a 3.5 to 1.0 ratio (leverage ratio). 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. Additionally, 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). The debt agreements also require the aggregate net book value of the assets sold or otherwise disposed of by the Company and its subsidiaries in all dispositions, as defined in the agreements, in any fiscal year of the Company not exceed 15% of consolidated tangible net worth. As of July 31, 2009, the Company was in compliance with the financial covenants of its debt and revolving loan agreements.

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

	2009	2008
Various bank loans	\$ —	\$ 3
Fixed debt	391,350	478,571
	391,350	478,574
Less current maturities	\$ (44,893)	\$ (21,431)
	\$ 346,457	\$ 457,143

The fair value of the Company's long-term obligations

approximates \$ 412,678 at July 31, 2009. The fair value of the Company's long-term obligations is estimated based on quoted market prices for similar issue and on the current rates offered for debt of similar maturities.

Maturities on long-term debt are as follows:

Years Ending July 31,	
2010	\$ 44,893
2011	61,264
2012	61,264
2013	61,264
2014	61,264
Thereafter	101,401
Total	\$ 391,350

The Company had outstanding letters of credit of \$1,674 and \$1,959 at July 31, 2009 and 2008, respectively.

## 6. Stockholders' Investment

Information as to the Company's capital stock at July 31, 2009 and 2008 is as follows:

	July 31, 2009			July 31, 2008		
	Shares Authorized	Shares Issued	Amount (in thousands)	Shares Authorized	Shares Issued	Amount (in thousands)
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	35	10,000,000	3,538,628	35
			\$ 548			\$ 548

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 \$.0835 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 \$.0835 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.

In March 2008, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to one million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan was implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. As of July 31, 2008, there remained 650,864 shares to purchase in connection with this share repurchase plan. During the year ended July 31, 2009, the Company acquired 650,864 shares of its Class A Nonvoting Common Stock authorized for

repurchase under this plan for \$21,539. Share repurchases under this plan were completed in the quarter ended October 31, 2008.

In September 2008, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to one million additional shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. During the 12 months ended July 31, 2009, the Company acquired 693,800 shares of its Class A Nonvoting Common Stock under this plan for \$18,728. As of July 31, 2009, there remained 306,200 shares to purchase in connection with this share repurchase plan.

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. They 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, 2009, the Company has reserved 4,296,875 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 660,330 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.

The following is a summary of other activity in stockholders' investment for the years ended July 31, 2009, 2008 and 2007:

	Unearned Restricted Stock	Deterred Compensation	Shares Held in Rabbi Trust, at Cost	Total
Balances at July 31, 2006	\$ —	\$ 17,602	\$ (16,840)	\$ 762
Shares at July 31, 2006		1,012,914	1,012,914	
Sale of shares at cost	—	(5,242)	5,134	(108)
Purchase of shares at cost	—	1,215	(1,215)	—
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	

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, 2009, 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.

Changes in the options are as follows:

	Option Price	Options Outstanding	Weighted Average Exercise Price
Balance, July 31, 2006	\$9.59 - \$40.37	3,815,052	\$ 23.27
Options granted	32.93 - 38.19	908,000	36.74
Options exercised	9.59 - 28.84	(397,682)	17.13
Options cancelled	16.00 - 40.37	(142,631)	35.40
Balance, July 31, 2007	\$9.59 - \$40.37	4,182,739	\$ 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	(411,326)	36.42
Balance, July 31, 2008	\$9.59 - \$40.37	3,985,205	\$ 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	(479,665)	35.02
Balance, July 31, 2009	\$13.31 - \$40.37	3,980,606	\$ 27.96

The total fair value of options vested during the fiscal years ended July 31, 2009, 2008 and 2007 was \$6,559, \$8,626 and \$4,687, respectively. The total intrinsic value of options exercised during the fiscal years ended July 31, 2009, 2008 and 2007 was \$2,156, \$14,479, and \$8,272, respectively.

There were 2,831,311, 2,399,742, and 2,300,239 options exercisable with a weighted average exercise price of \$27.46, \$24.42 and \$21.07 at July 31, 2009, 2008 and 2007, respectively.

The cash received from the exercise of options during the fiscal years ended July 31, 2009, 2008, and 2007 was \$1,683, \$14,500, and \$6,829, respectively. The cash received from the tax benefit on options exercised during the fiscal years ended July 31, 2009, 2008, and 2007 was \$779, \$4,185, and \$1,492, respectively.

The following table summarizes information about stock options outstanding at July 31, 2009:

Range of Exercise Prices	Number of Shares Outstanding at July 31, 2009	Options Outstanding	Options Outstanding and Exercisable		
			Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Shares Exercisable at July 31, 2009
Up to \$14.99	291,800	2.8	\$ 13.58	291,800	\$ 13.58
\$15.00 to \$29.99	1,875,469	5.8	21.26	1,285,469	21.43
\$30.00 and up	1,813,337	6.4	37.20	1,254,042	36.87
Total	3,980,606	5.8	27.96	2,831,311	27.46



As of July 31, 2009, the aggregate intrinsic value of the number of options outstanding and the number of options outstanding and exercisable was \$20,017 and \$14,965, 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, 2009, 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, acquisitions, and long-term lines of business. Segment profit or loss does not include certain administrative costs, interest, foreign exchange gain or loss, other expenses not allocated to a segment, and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

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. In applying the criteria set forth in SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has determined that these regions comprise its reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

Subsequent to the first quarter of fiscal 2008, the Company made several reporting and organizational changes in which the leadership, operations, and administrative functions of the two businesses in the Americas region were consolidated. As a result of the changes, the Company changed the number of reporting segments from four to three during the fourth quarter of fiscal 2008.

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, 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
Year ended July 31, 2007:						
Revenues from external customers	\$ 609,855	\$ 416,514	\$ 336,262	\$ 1,362,631	\$ —	\$ 1,362,631
Intersegment revenues	52,595	6,511	23,554	82,660	(82,660)	—
Depreciation and amortization expense	23,643	8,363	16,913	48,919	4,937	53,856
Segment profit	144,583	107,552	57,236	309,371	(10,485)	298,886
Assets	781,868	347,827	376,645	1,506,340	192,517	1,698,857
Expenditures for property, plant and equipment	19,834	5,849	15,301	40,984	10,956	51,940

	Years Ended July 31,		
	2009	2008	2007
Net income reconciliation:			
Total profit for reportable segments	\$ 256,854	\$ 351,183	\$ 309,371
Corporate and eliminations	(7,952)	(9,048)	(10,485)
Unallocated amounts:			
Administrative costs	(102,680)	(134,451)	(126,899)
Restructuring costs	(25,849)	—	—
Investment and other income – net	1,800	4,888	2,875
Interest expense	(24,901)	(26,385)	(22,934)
Income before income taxes	97,272	186,187	151,928
Income taxes	(27,150)	(53,999)	(42,540)
Net Income	\$ 70,122	\$ 132,188	\$ 109,388

	REVENUES*			LONG-LIVED ASSETS**		
	Years Ended July 31,			As of Years Ended July 31,		
	2009	2008	2007	2009	2008	2007
Geographic information:						
United States	\$ 510,703	\$ 622,618	\$ 589,013	\$ 519,932	\$ 532,273	\$ 537,182
China	199,893	192,048	184,413	123,078	131,810	121,181
Other	566,589	794,036	671,865	375,905	440,021	403,462
Eliminations	(68,483)	(85,686)	(82,660)	—	—	—
Consolidated total	\$ 1,208,702	\$ 1,523,016	\$ 1,362,631	\$ 1,018,915	\$ 1,104,104	\$ 1,061,825

\* 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 52,558,657 for 2009, 54,167,746 for 2008, and 53,906,769 for 2007. 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.

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,		
	2009	2008	2007
<b>NUMERATOR</b>			
Net income (numerator for basic and diluted Class A net income per share)	\$ 70,122	\$ 132,188	\$ 109,388
Less:			
Preferential dividends	(823)	(847)	(836)
Preferential dividends on dilutive stock options	(11)	(13)	(15)
Numerator for basic and diluted Class B net income per share	\$ 69,288	\$ 131,328	\$ 108,537
<b>DENOMINATOR:</b>			
Denominator for basic net income per share for both Class A and B	52,559	54,168	53,907
Plus: effect of dilutive stock options	307	705	834
Denominator for diluted net income per share for both Class A and B	52,866	54,873	54,741
Class A common stock net income per share calculation:			
Basic	\$ 1.33	\$ 2.45	\$ 2.03
Diluted	\$ 1.33	\$ 2.41	\$ 2.00
Class B common stock net income per share calculation:			
Basic	\$ 1.32	\$ 2.43	\$ 2.01
Diluted	\$ 1.31	\$ 2.39	\$ 1.98

Options to purchase 2,764,308, 1,599,792, and 1,132,750 shares of Class A common stock were excluded from the computations of diluted net income per share for years ended July 31, 2009, 2008, and 2007, 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 \$25,971, \$27,443 and \$22,779 for the years ended July 31, 2009, 2008 and 2007, respectively. Future minimum lease payments required under such leases in effect at July 31, 2009 are as follows, for the years ending July 31:

2010 .....	\$	22,613
2011 .....		16,897
2012 .....		12,968
2013 .....		6,898
2014 .....		4,570
Thereafter .....		3,226
	\$	67,172

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

As discussed in Note 1, the Company adopted SFAS No. 157, "Fair Value Measurements", on August 1, 2008. SFAS 157 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.

SFAS 157 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. At July 31, 2009, \$8,239 of the mutual funds held for the Company's deferred compensation plans were valued using Level 1 pricing inputs. The Company's deferred compensation investments are included in "Other assets" on the accompanying Consolidated Balance Sheets.

**Level 2** — Assets or liabilities for which fair value is based on valuation models for which pricing inputs were either directly or indirectly observable. At July 31, 2009, \$248 of the Company's forward exchange contracts designated as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," were valued using Level 2 pricing inputs. These contracts are included in "Other current liabilities" on the accompanying Consolidated Balance Sheets. At July 31, 2009, \$130 of the Company's forward exchange contracts not designated as hedging instruments under SFAS No. 133 were valued using Level 2 pricing inputs and are included in "Prepaid expenses and other current

assets", on the accompanying Consolidated Balance Sheets, respectively. See Note 12 for additional information regarding the Company's hedging and derivatives activities.

**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. As of July 31, 2009, none of the Company's assets or liabilities were valued using Level 3 pricing inputs.

## 11. Restructuring

In November 2008, in response to the global economic downturn, the Company announced it would take several measures to address its cost structure. In addition to a reduction in its contract labor and decreased discretionary spending, the Company announced it would reduce its workforce.

The Company implemented a plan to reduce 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 during fiscal 2009. The year-to-date restructuring charges consisted of \$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. Of the \$25,849 of restructuring charges recorded during the year ended July 31, 2009, \$13,928 was incurred in the Americas, \$7,730 was incurred in Europe, and \$4,191 was incurred in Asia-Pacific. The charges for employee separation costs consisted of severance pay, outplacement services, medical and other related benefits. The costs related to these restructuring activities have been recorded on the consolidated statements of income as restructuring charges. An additional restructuring related expense of \$1,611 is included in income tax expense as it relates to the repayment of a tax holiday in Asia resulting from plant consolidation.

The Company expects the majority of the remaining cash payments to be made within the next 12 months.

A reconciliation of the Company's restructuring activity for fiscal 2009 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

The other separation benefits include charges of approximately \$1,178 directly related to postretirement medical, dental and vision benefits which are included in the SFAS 106 liability. See Note 3 for discussion on employee benefits.

## 12. Derivatives and Hedging Activities

The Company primarily 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 SFAS No. 133, "Accounting 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 on intercompany transactions and foreign raw-material imports. To achieve this objective, the Company hedges a portion of known exposures using forward foreign exchange currency contracts. As of July 31, 2009, the notional amount of outstanding forward exchange contracts was \$30,929.

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. Any ineffective portions are to be recognized in earnings immediately as a component of investment and other income. The amount of hedge ineffectiveness was not significant for the years ended July 31, 2009, 2008, and 2007.

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

The Company has designated a portion of its foreign exchange contracts as cash flow hedges under SFAS No. 133, 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. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current earnings. At July 31, 2009 and 2008, unrealized losses of \$35 and \$567 have been included in OCI, respectively. All balances are expected to be reclassified from OCI to earnings during the next 12 months when the hedged intercompany transactions impact earnings. At July 31, 2009 and at July 31, 2008, the Company included \$248 and \$96, respectively, of forward exchange contracts in "Other current liabilities" on the accompanying Consolidated Balance Sheet. At July 31, 2009, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$21,793, including contracts to sell Euros, Canadian Dollars, Australian Dollars, British Pounds, Danish Krona, and U.S. Dollars.

Additionally, during fiscal 2009, the Company entered into cash flow hedge contracts to create economic hedges to manage foreign exchange risk exposure. The Company has not designated these derivative contracts as hedge transactions under SFAS No. 133, and accordingly, the mark-to-market impact of these derivatives is recorded each period in current earnings. At July 31, 2009, \$130 of the Company's forward exchange contracts not designated as hedging instruments under SFAS No. 133 were included in "Prepaid expenses and other current assets," on the accompanying Consolidated Balance Sheets. At July 31, 2009, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$9,136 consisted of contracts to buy Euros.

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

	Asset Derivatives				Liability Derivatives			
	July 31, 2009		July 31, 2008		July 31, 2009		July 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts .....	Prepaid expenses and other current assets	\$ —	Prepaid expenses and other current assets	\$ —	Other current liabilities	\$ 248	Other current liabilities	\$ 96
Total derivatives designated as hedging instruments under Statement 133 .....		\$ —		\$ —		\$ 248		\$ 96
Foreign exchange contracts .....	Prepaid expenses and other current assets	\$ 130	Prepaid expenses and other current assets	\$ —	Other current liabilities	\$ —	Other current liabilities	\$ —
Total derivatives not designated as hedging instruments under Statement 133 .....		\$ 130		\$ —		\$ —		\$ —



The pre-tax effects of derivative instruments designated as cash flow hedges under SFAS No. 133 on the Consolidated Statements of Income consisted of the following:

Derivatives in Statement 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
	2009	2008
Foreign exchange contracts	\$ 152	\$ (325)
Total	\$ 152	\$ (325)

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)	
	2009	2008
Investment and other income – net	\$ (815)	\$ 253
Total	\$ (815)	\$ 253

Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2009	2008
Investment and other income – net	\$ 132	\$ —
Total	\$ 132	\$ —

The pre-tax effects of derivative instruments not designated as hedging instruments under SFAS No. 133 on the Consolidated Statements of Income consisted of the following:

Derivatives Not Designated as Hedging Instruments Under Statement 133	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2009	2008
Foreign exchange contracts	Other income (expense)	\$ 693	\$ —
Total		\$ 693	\$ —

### 13. Unaudited Quarterly Financial Information

	Quarters					Total
	First	Second	Third	Fourth		
<b>2009</b>						
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	0.37	1.33	
<b>2008</b>						
Net Sales	\$ 380,134	\$ 364,124	\$ 381,909	\$ 396,849	\$ 1,523,016	
Gross Margin	187,667	175,023	189,576	191,929	744,195	
Operating Income	58,338	42,444	52,582	54,320	207,684	
Net Income	36,370	26,690	34,353	34,775	132,188	
Net Income Per Class A Common Share:						
Basic	0.67	0.49	0.64	0.65	2.45	
Diluted	0.66	0.48	0.63	0.64	2.41	

\* Fiscal 2009 had a net before tax restructuring charge by quarter of \$1,639, \$19,408, \$2,229, and \$2,573 for a total of \$25,849.

\*\* Fiscal 2009 included a net after tax restructuring charge by quarter of \$1,180, \$13,974, \$1,605, and \$3,464 (including \$1,611 income tax expense) for a total of \$20,224.

**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 28, 2009. Additionally, on October 20, 2008, the Company filed with the New York Stock Exchange ("NYSE") an annual certification regarding our compliance with NYSE's corporate governance listing standards as required by NYSE Rule 302A.12(a).

## Corporate Governance & Shareholder Services

### Common Shares

Brady Corporation Class A Common Stock trades on the New York Stock Exchange under the symbol BRC. As of September 23, 2009, there were 715 Class A Common Stock shareholders of record and about 4,100 beneficial shareholders. There are three Class B Common Stock shareholders.

### Quarterly Stock Data

	2007*		2008		2009	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
4th Quarter	\$37.73	\$32.73	\$39.04	\$32.99	\$29.41	\$21.33
3rd Quarter	\$38.37	\$30.91	\$34.00	\$28.58	\$23.08	\$14.61
2nd Quarter	\$40.52	\$35.70	\$40.03	\$29.44	\$31.07	\$16.38
1st Quarter	\$38.68	\$33.16	\$43.78	\$34.04	\$39.68	\$25.18

\*2007 stock data reported in Form 10-K based on adjusted closing prices.

### 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 24 years. At its September 2009 meeting, the Board of Directors increased the quarterly dividend on Class A Common Stock to \$0.175 per share, or \$0.70 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](http://www.investor.bradycorp.com) or call Brady's investor line at 414-438-6918.

### 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](http://www.wellsfargo.com/com/shareowner_services)

### Brady Information

Brady's Internet site at [www.investor.bradycorp.com](http://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

A phone system at 414-438-6918 enables you to listen to financial news highlights, request printed 10-K and other financial information, request dividend reinvestment information or be transferred to an investor relations representative. Or you may send your information requests to Investor Relations, Brady Corporation, P.O. Box 571, Milwaukee, WI 53201-0571, or e-mail [investor@bradycorp.com](mailto:investor@bradycorp.com).

### Analyst and Investor Contact

Barbara Bolens, Vice President, Treasurer and Director of Investor Relations, 414-438-6940.

### Annual Meeting

The Brady Corporation Annual Meeting will be at 9 A.M., Thursday, November 19, 2009, 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](http://www.investor.bradycorp.com).

### Directors

**Frank M. Jaehnert, 52**, President, CEO of Brady Corp.

**Conrad G. Goodkind, 65**, Retired Attorney in the law firm of Quarles & Brady LLP

**Elizabeth Pungello, 42**, Developmental psychologist at the Frank Porter Graham Child Development Institute at the University of North Carolina at Chapel Hill

**Robert C. Buchanan, 69**, Retired Chairman of the Board of Fox Valley Corporation

**Richard A. Bemis, 68**, Co-chairman of the Board of Directors of Bemis Manufacturing Company

**Frank W. Harris, 67**, President and CEO of Akron Polymer Systems

**Gary E. Nei, 65**, Chairman of Nei-Turner Media

**Frank R. Jarc, 67**, Consultant

**Chan W. Galbato, 46**, Consultant, CWG Hillside Investments

**Patrick W. Allender, 62**, Former Executive Vice President and Chief Financial Officer of Danaher Corporation

**Bradley C. Richardson, 51**, Executive Vice President, Corporate Strategy and Chief Financial Officer of Modine Manufacturing Company

### Corporate Officers and Executives

**Frank M. Jaehnert**  
President, CEO and Director

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

**Barbara Bolens**  
V.P., Treasurer, Director of Investor Relations

**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

**Patrick Ference**  
V.P. Human Resources

# BRADY WORLDWIDE LOCATIONS

## UNITED STATES

Brady Corporation  
P.O. Box 571  
Milwaukee, WI 53201

Brady Worldwide, Inc.  
6555 W. Good Hope Rd.  
Milwaukee, WI 53223

Tobey Research & Innovation Center  
2221 W. Camden Rd.  
Milwaukee, WI 53209

Brady Coated Products  
2230 W. Florist Ave.  
Milwaukee, WI 53201

Brady People ID  
209 Middlesex Turnpike  
Burlington, MA 01803

Brady Precision Converting  
1801 Big Town Blvd., Suite 100  
Mesquite, TX 75149

Brady Varitronics  
6835 Winnetka Circle  
Brooklyn Park, MN 55428

Clement Communications, Inc.  
10 LaCruce Avenue  
P.O. Box 36  
Concordville, PA 19331

DAWG Inc.  
25 Lassy Court, Plymouth Industrial Park  
Terryville, CT 06786

Electromark  
6188 West Port Bay Road  
Wolcott, NY 14590

Emedco  
2491 Wehrle Drive  
Williamsville, NY 14221

IDenticard Systems  
P.O. Box 5349  
Lancaster, PA 17606-5349

Personnel Concepts  
3200 E. Guasti Road, Suite 300  
Ontario, CA 91761

Seton Identification Products  
20 Thompson Rd.  
Branford, CT 06405

Sorbent Products Co., Inc.  
645 Howard Avenue  
Somerset, NJ 08876

STOPware  
1710 Zanker Road, Suite 202  
San Jose, CA 95112

Teklynx International  
2221 W. Camden Road  
Milwaukee, WI 53225

TISCOR  
10815 Rancho Bernardo Rd., Suite 205  
San Diego, CA 92127

## AUSTRALIA

Brady Australia Pty. Ltd.  
Seton Australia Pty. Ltd.  
Accidental Health & Safety Pty. Ltd.  
S4-S6 Regents Park Estate  
391 Park Rd.  
Regents Park, NSW 2143  
Australia

Brady Australia – Perth  
959 Abernathy Road  
High Wycombe, WA

Carroll Australasia Pty. Ltd.  
3/29 Crescent Street  
Holroyd 2142  
NSW, Australia

## BELGIUM

Brady N.V.  
Lindestraat 20  
9240 Zele – Belgium

Brady N.V. – Sorbent Products Co. Inc.  
Atealaan 71, I.Z. Klein Gent,  
Herentals, B-2200 Belgium

Transposafe Systems  
Horizon Park  
Leuvensesteenweg 510  
Zaventem, Belgium

## BRAZIL

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Seton Brasil  
Asterisco Artes Graficas Ltda.  
Av. Ceci, 238  
Centro Empresarial Tamboaré  
06460-120 Barueri  
Sao Paulo, Brazil

W.H.B. do Brasil Ltda.  
Brady Manaus  
Av. Solimões, 2100  
Distrito Industrial da Suframa  
69075-200 Manaus  
Amazonas, Brazil

## CANADA

W.H.B. Identification Solutions, Inc.  
Seton – Canada and IDenticam  
355 Applecreek Blvd.  
Markham, Ontario  
L3R 9X7 Canada

## CHINA

Brady (Beijing) Co. Ltd.  
Unit 8401., Plant #8,  
3 Yong Chang North Road, BDA,  
Beijing 100176, P.R. China

Brady Technology (Wuxi) Co., Ltd.  
#7 Xi Kun Road  
Wuxi-Singapore Industrial Park  
Wuxi, Jiangsu, PRC 214028

Brady (Shenzhen) Co. Ltd.  
Shenzhen Branch  
Unit A, B, 5/F, Hi-Tech Building  
7 Industrial Road Shekou,  
Shenzhen PRC 518067

Brady (Dong Guan) Co. Ltd.  
Guan Cheng Hi-Tech Park  
Shilong Road, Guanlong Road Section  
Guan Cheng District  
Don Guan City, Guang Dong 523119

Brady Co. Ltd.  
#705-711, Zuzhou CIQ Tower  
98 Suhui Road  
Suzhou Industrial Park  
PRC 215021

Brady Technology (LangFang) Co., Ltd.  
CEC Langfang Industrial Park  
Jingming Rd.  
Langfang Economic and Technical Development Zone  
Langfang, Hebei 065001 PRC

Brady Investment Management (Shanghai) Co., Ltd.  
19F China Fortune Tower  
1658 Century Avenue  
Pudong, Shanghai PRC 200122

CIPI (Xiamen) Ltd.  
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