UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended April 30, 2019

OR

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

For the Transition Period from to

Commission File Number 1-14959

BRADY CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin	**39-0178960**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6555 West Good Hope Road, Milwaukee, Wisconsin	**53223**
(Address of principal executive offices)	**(Zip Code)**

(414) 358-6600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐	Smaller reporting company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Nonvoting Common Stock, par value $0.01 per share	BRC	New York Stock Exchange

As of May 21, 2019, there were 49,284,372 outstanding shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Voting Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	April 30, 2019 (Unaudited)	July 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 238,432	$ 181,427
Accounts receivable—net	162,094	161,282
Inventories	119,895	113,071
Prepaid expenses and other current assets	18,746	15,559
Total current assets	539,167	471,339
Property, plant and equipment—net	99,491	97,945
Goodwill	412,378	419,815
Other intangible assets	38,135	42,588
Deferred income taxes	7,068	7,582
Other	19,638	17,662
Total	$ 1,115,877	$ 1,056,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 64,584	$ 66,538
Wages and amounts withheld from employees	52,849	67,619
Taxes, other than income taxes	7,886	8,318
Accrued income taxes	4,378	3,885
Other current liabilities	48,169	44,567
Total current liabilities	177,866	190,927
Long-term obligations	50,303	52,618
Other liabilities	63,164	61,274
Total liabilities	291,333	304,819
Stockholders' equity:		
Class A nonvoting common stock—Issued 51,261,487 shares, and outstanding 49,284,372 and 48,393,617 shares, respectively	513	513
Class B voting common stock—Issued and outstanding, 3,538,628 shares	35	35
Additional paid-in capital	330,051	325,631
Retained earnings	612,474	553,454
Treasury stock—1,977,115 and 2,867,870 shares, respectively, of Class A nonvoting common stock, at cost	(50,083)	(71,120)
Accumulated other comprehensive loss	(68,446)	(56,401)
Total stockholders' equity	824,544	752,112
Total	$ 1,115,877	$ 1,056,931

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Net sales	$ 289,745	$ 298,421	$ 865,367	$ 876,352
Cost of goods sold	143,996	147,339	433,269	435,513
Gross margin	145,749	151,082	432,098	440,839
Operating expenses:				
Research and development	11,437	11,678	33,837	33,512
Selling, general and administrative	94,691	101,695	281,988	299,411
Total operating expenses	106,128	113,373	315,825	332,923
Operating income	39,621	37,709	116,273	107,916
Other income (expense):				
Investment and other income	2,065	31	3,425	1,303
Interest expense	(708)	(761)	(2,137)	(2,453)
Income before income taxes	40,978	36,979	117,561	106,766
Income tax expense	6,197	10,979	22,916	50,657
Net income	$ 34,781	$ 26,000	$ 94,645	$ 56,109
Net income per Class A Nonvoting Common Share:				
Basic	$ 0.66	$ 0.50	$ 1.80	$ 1.09
Diluted	$ 0.65	$ 0.49	$ 1.78	$ 1.07
Dividends	$ 0.21	$ 0.21	$ 0.64	$ 0.62
Net income per Class B Voting Common Share:				
Basic	$ 0.66	$ 0.50	$ 1.79	$ 1.07
Diluted	$ 0.65	$ 0.49	$ 1.76	$ 1.05
Dividends	$ 0.21	$ 0.21	$ 0.62	$ 0.61
Weighted average common shares outstanding (in thousands):				
Basic	52,766	51,747	52,499	51,628
Diluted	53,480	52,729	53,215	52,610

See Notes to Condensed Consolidated Financial Statements.

BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands, Unaudited)

	Three months ended April 30,		Nine months ended April 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 34,781	$ 26,000	$ 94,645	$ 56,109
Other comprehensive loss:				
Foreign currency translation adjustments	(7,337)	(12,834)	(10,641)	(3,549)
Cash flow hedges:				
Net gain recognized in other comprehensive loss	220	657	377	119
Reclassification adjustment for (gains) losses included in net income	(292)	264	(579)	446
	(72)	921	(202)	565
Pension and other post-retirement benefits:				
Net (loss) gain recognized in other comprehensive loss	—	—	(169)	592
Actuarial gain amortization	(124)	(163)	(423)	(434)
	(124)	(163)	(592)	158
Other comprehensive loss, before tax	(7,533)	(12,076)	(11,435)	(2,826)
Income tax expense related to items of other comprehensive loss	(348)	(980)	(610)	(638)
Other comprehensive loss, net of tax	(7,881)	(13,056)	(12,045)	(3,464)
Comprehensive income	$ 26,900	$ 12,944	$ 82,600	$ 52,645

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended April 30,	
	2019	2018
Operating activities:		
Net income	$ 94,645	$ 56,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,836	19,047
Non-cash portion of stock-based compensation expense	10,311	7,581
Deferred income taxes	3,796	26,501
Changes in operating assets and liabilities:		
Accounts receivable	332	(10,710)
Inventories	(9,254)	(7,790)
Prepaid expenses and other assets	(2,204)	480
Accounts payable and other liabilities	(19,176)	(133)
Income taxes	616	(1,863)
Net cash provided by operating activities	96,902	89,222
Investing activities:		
Purchases of property, plant and equipment	(17,528)	(14,755)
Other	(1,810)	(197)
Net cash used in investing activities	(19,338)	(14,952)
Financing activities:		
Payment of dividends	(33,488)	(32,110)
Proceeds from exercise of stock options	20,333	10,011
Proceeds from borrowing on credit facilities	13,637	17,439
Repayment of borrowing on credit facilities	(13,568)	(69,012)
Other	(5,185)	(3,622)
Net cash used in financing activities	(18,271)	(77,294)
Effect of exchange rate changes on cash	(2,288)	(17)
Net increase (decrease) in cash and cash equivalents	57,005	(3,041)
Cash and cash equivalents, beginning of period	181,427	133,944
Cash and cash equivalents, end of period	$ 238,432	$ 130,903

See Notes to Condensed Consolidated Financial Statements.

BRADY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended April 30, 2019
(Unaudited)
(In thousands, except share and per share amounts)

NOTE A — Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the "Company," "Brady," "we," or "our") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of April 30, 2019 and July 31, 2018, its results of operations and comprehensive income for the three and nine months ended April 30, 2019 and 2018, and cash flows for the nine months ended April 30, 2019 and 2018. The condensed consolidated balance sheet as of July 31, 2018, has been derived from the audited consolidated financial statements as of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s annual report on Form 10-K for the year ended July 31, 2018.

NOTE B — New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which simplifies and reduces the complexity of the hedge accounting requirements and better aligns an entity's financial reporting for hedging relationships with its risk management activities. The guidance is effective for interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted. This new guidance will require a modified retrospective adoption approach to existing hedging relationships as of the adoption date. The Company is currently evaluating the impact of this update on its consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-04, "Goodwill and Other, Simplifying the Test for Goodwill Impairment," which simplifies the accounting for goodwill impairment. The new guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. This guidance is effective for annual periods beginning after December 15, 2019, and interim periods thereafter; however, early adoption is permitted for any impairment tests performed after January 1, 2017. The Company has not adopted this guidance, which will only impact the Company's consolidated financial statements if there is a future impairment of goodwill.

In February 2016, the FASB issued ASU 2016-02, "Leases," which replaces the current lease accounting standards. The update requires, among other items, lessees to recognize the assets and liabilities that arise from most leases on the balance sheet and disclose key information about leasing arrangements. This guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The ASU allows for either a full-retrospective or a modified-retrospective approach and early adoption is permitted. In July 2018, the FASB approved an optional transition method to allow companies to apply the new lease standard as of the adoption date and recognize a cumulative-effect adjustment to beginning retained earnings in the period of adoption.

The Company has formed a team to implement the new lease standard and has implemented a third-party software program to track and store its leases. The implementation team has been evaluating the Company’s global lease portfolio, determining the reporting requirements of the new standard, and is in the process of implementing changes to its processes and internal controls to support lease accounting and disclosure requirements. The Company expects to record right-of-use assets and lease liabilities as a result of the new lease standard; however, it is still evaluating the magnitude of the impact on its consolidated financial statements. The Company plans to adopt the new standard effective August 1, 2019 using the optional transition method.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("Topic 606"), which eliminates the transaction and industry-specific revenue recognition guidance and replaced it with a principles-based approach for determining revenue recognition. The new guidance requires revenue recognition when control of the goods or services transfers to the customer, replacing the existing guidance which requires revenue recognition when the risks and rewards transfer to the customer. The Company adopted ASU 2014-09 (and related updates) effective August 1, 2018 using the modified retrospective method to apply this guidance to all contracts at the date of initial application. Results for reporting periods beginning after August 1, 2018 are presented under Topic 606, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.

The results of applying Topic 606 were not material to the Company's consolidated financial condition, results of operations, cash flows, business processes, controls, or systems. Upon adoption, the Company recorded a cumulative adjustment to the opening balance of retained earnings as of August 1, 2018, which resulted in a decrease to retained earnings of $2,137, net of tax. The adjustment was primarily due to a change in timing of when revenue and the related costs for certain extended service-type warranties are recognized, as required per Topic 606.

Refer to Note C "Revenue Recognition" for additional information and required disclosures under the new standard.

NOTE C — Revenue Recognition

The Company’s revenues are primarily from the sale of identification solutions and workplace safety products that are shipped and billed to customers. All revenue is from contracts with customers and is included in "Net sales" on the condensed consolidated statements of income. The Company considers the purchase orders, which in some cases are governed by master sales or distributor agreements, to be its contracts with customers. For each contract, the Company considers the commitment to transfer products, each of which is distinct, to be its identified performance obligations.

Timing

The majority of the Company's revenue is earned and recognized at a point in time through ship-and-bill performance obligations, when control of the product is transferred to the customer, which typically occurs upon shipment or delivery to the customer, depending on freight terms. To determine when control has transferred, the Company considers if there is a present right to payment; and if legal title, physical possession, and the significant risks and rewards of ownership of the asset has transferred to the customer. Once a product has shipped or has been delivered, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Measurement

Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for the transfer of product, which is generally the price stated in the contract specific for each item sold, adjusted for the value of expected returns, discounts, rebates, or other allowances offered to the Company's customers as a reduction of the transaction price. Certain discounts and price assurances are fixed and known at the time of sale. Expected returns and other allowances are variable and are estimated using the expected value method based upon historical experience. Rebates offered to customers are retrospective and typically defined in the master sales or distributor agreements, and therefore are recorded using the most likely amount method based on the terms of the contract. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Payment Terms

While the Company’s standard payment terms are net 30 days, the specific payment terms and conditions in its customer contracts vary. In some cases, customers pay for their goods at time of shipment or upon delivery; in other cases, after appropriate credit evaluation, an open credit line is granted and payment is due in arrears. Contracts with payment in arrears are recognized in the condensed consolidated balance sheet as accounts receivable.

Warranties

The Company offers standard warranty coverage on substantially all products that it sells, and accounts for this standard warranty coverage as an assurance warranty. As such, no transaction price is allocated to the standard warranty, and the Company records a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience.

The Company also sells extended warranty coverage for certain products, which it accounts for as service warranties. In most cases, the extended service warranty is included with the purchase of the product. In applying Topic 606, the Company considers the extended service warranty to be a separate performance obligation in the contract and allocates a portion of the transaction price to the service warranty based on the estimated stand-alone selling price. Under Topic 606, the extended warranty transaction price is initially recorded as deferred revenue on the consolidated balance sheet and recognized on a straight-line basis over the life of the service warranty period. The deferred revenue is considered a contract liability as the Company has a right to payment at the time the product with the related extended service warranty is shipped or delivered and therefore, payment is received in advance of the Company's performance. The balance of contract liabilities as of April 30, 2019, was $2,791. This also represents the amount of unsatisfied performance obligations related to contracts that extend beyond one year. Of this amount, the Company expects to recognize 48% by the end of fiscal 2020, an additional 25% by the end of fiscal 2021, and the balance thereafter. Upon adoption of Topic 606, at the beginning of fiscal 2019, the contract liability balance was $2,796. The current portion of contract liabilities and the non-current portion are included in “Other current liabilities” and “Other liabilities," respectively, on the consolidated balance sheet. During the three and nine months ended April 30, 2019, the Company recognized revenue of $315 and $937, respectively, that was included in the contract liability balance at the beginning of the period, which was from the amortization of extended service warranties.

Practical Expedients

With the exception of the performance obligations related to the extended service warranties, the Company's contracts have an original expected duration of one year or less. As a result, the Company has elected to use the practical expedient to not disclose its remaining performance obligations for contracts that have an original expected length of one year or less.

The Company applied the portfolio approach to its ship-and-bill contracts that have similar characteristics as it reasonably expects that the effects on the financial statements of applying this guidance to the portfolio of contracts would not differ materially from applying this guidance to the individual contracts within the portfolio.

As the Company’s product sale contracts and standard payment terms have a duration of less than one year, it uses the practical expedient applicable to such contracts and does not consider the time value of money.

Sales, use, value-add and other similar taxes assessed by governmental authorities and collected concurrent with revenue-producing activities are excluded from revenue.

The Company accounts for shipping and handling activities that occur after control of the related products transfers to the customer as fulfillment activities and are therefore recognized as revenue at time of shipping.

The Company expenses incremental direct costs of obtaining a contract (e.g., sales commissions) when incurred because the amortization period is generally twelve months or less. Contract costs are expensed in "Selling, general, and administrative expenses" on the condensed consolidated statements of income.

Refer to Note H, "Segment Information," for the Company's disaggregated revenue disclosure.

NOTE D — Additional Balance Sheet Information

Inventories

Inventories as of April 30, 2019, and July 31, 2018, consisted of the following:

	April 30, 2019	July 31, 2018
Finished products	$ 76,117	$ 73,133
Work-in-process	22,240	19,903
Raw materials and supplies	21,538	20,035
Total inventories	$ 119,895	$ 113,071

Property, plant and equipment

Property, plant and equipment is presented net of accumulated depreciation in the amount of $274,476 and $280,778 as of April 30, 2019, and July 31, 2018, respectively.

NOTE E — Other Intangible Assets

Other intangible assets include patents, trademarks, and customer relationships with finite lives being amortized in accordance with the accounting guidance for other intangible assets. The Company also has unamortized indefinite-lived trademarks that are classified as other intangible assets.

The net book value of these assets was as follows:

	April 30, 2019				July 31, 2018			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Customer relationships and other	8	$ 52,203	$ (33,487)	$ 18,716	9	$ 61,944	$ (38,872)	$ 23,072
Unamortized other intangible assets:								
Trademarks	N/A	19,419	—	19,419	N/A	19,516	—	19,516
Total		$ 71,622	$ (33,487)	$ 38,135		$ 81,460	$ (38,872)	$ 42,588

Amortization expense of intangible assets was $1,443 and $1,620 for the three months ended April 30, 2019 and 2018, respectively, and $4,314 and $4,930 for the nine months ended April 30, 2019 and 2018, respectively. The amortization over each of the next five fiscal years is projected to be $5,708, $5,183, $5,144, $5,002 and $2,025 for the fiscal years ending July 31, 2019, 2020, 2021, 2022 and 2023, respectively.

NOTE F — Accumulated Other Comprehensive Loss

Other comprehensive loss consists of foreign currency translation adjustments, unrealized gains and losses from cash flow hedges and net investment hedges, and the unamortized gain on post-retirement plans, net of their related tax effects.

The following table illustrates the changes in the balances of each component of accumulated other comprehensive loss, net of tax, for the nine months ended April 30, 2019:

	Unrealized gain on cash flow hedges	Unamortized gain on post-retirement plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
Beginning balance, July 31, 2018	$ 863	$ 3,302	$ (60,566)	$ (56,401)
Other comprehensive income (loss) before reclassification	233	(169)	(11,252)	(11,188)
Amounts reclassified from accumulated other comprehensive loss	(434)	(423)	—	(857)
Ending balance, April 30, 2019	$ 662	$ 2,710	$ (71,818)	$ (68,446)

The increase in accumulated other comprehensive loss as of April 30, 2019, compared to July 31, 2018, was primarily due to the appreciation of the U.S. dollar against certain other currencies during the nine-month period. The foreign currency translation adjustments column in the table above includes the impact of foreign currency translation, including foreign currency translation on long-term intercompany notes and net investment hedges, net of tax. Of the total $857 in amounts reclassified from accumulated other comprehensive loss, the $434 gain on cash flow hedges was reclassified into cost of goods sold, and the $423 gain on post-retirement plans was reclassified into investment and other income on the condensed consolidated statement of income for the nine months ended April 30, 2019.

The changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended April 30, 2018, were as follows:

	Unrealized gain on cash flow hedges	Unamortized gain on post-retirement plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
Beginning balance, July 31, 2017	$ 109	$ 2,620	$ (47,411)	$ (44,682)
Other comprehensive (loss) income before reclassification	(124)	414	(3,630)	(3,340)
Amounts reclassified from accumulated other comprehensive loss	310	(434)	—	(124)
Ending balance, April 30, 2018	$ 295	$ 2,600	$ (51,041)	$ (48,146)

The increase in accumulated other comprehensive loss as of April 30, 2018, compared to July 31, 2017, was primarily due to the appreciation of the U.S. dollar against certain other currencies during the nine-month period. The foreign currency translation adjustments column in the table above includes the impact of foreign currency translation, including foreign currency translation on long-term intercompany notes and net investment hedges, net of tax. Of the total $124 in amounts reclassified from accumulated other comprehensive loss, the $310 loss on cash flow hedges was reclassified into cost of goods sold, and the $434 gain on post-retirement plans was reclassified into selling, general and administrative expenses ("SG&A") on the condensed consolidated statement of income for the nine months ended April 30, 2018.

The following table illustrates the income tax expense on the components of other comprehensive loss for the three and nine months ended April 30, 2019 and 2018:

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Income tax expense related to items of other comprehensive loss:				
Cash flow hedges	$ 38	$ (262)	$ —	$ (379)
Pension and other post-retirement benefits	—	—	—	(178)
Other income tax adjustments and currency translation	(386)	(718)	(610)	(81)
Income tax expense related to items of other comprehensive loss	$ (348)	$ (980)	$ (610)	$ (638)

NOTE G — Net Income per Common Share

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

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Numerator:				
Income (Numerator for basic and diluted Class A Nonvoting Common Share)	$ 34,781	$ 26,000	$ 94,645	$ 56,109
Less:				
Preferential dividends	—	—	(815)	(799)
Preferential dividends on dilutive stock options	—	—	(13)	(16)
Numerator for basic and diluted income per Class B Voting Common Share	$ 34,781	$ 26,000	$ 93,817	$ 55,294
Denominator: (in thousands)				
Denominator for basic income per share for both Class A and Class B	52,766	51,747	52,499	51,628
Plus: Effect of dilutive stock options and restricted stock units	714	982	716	982
Denominator for diluted income per share for both Class A and Class B	53,480	52,729	53,215	52,610
Net Income per Class A Nonvoting Common Share:				
Basic	$ 0.66	$ 0.50	$ 1.80	$ 1.09
Diluted	$ 0.65	$ 0.49	$ 1.78	$ 1.07
Net Income per Class B Voting Common Share:				
Basic	$ 0.66	$ 0.50	$ 1.79	$ 1.07
Diluted	$ 0.65	$ 0.49	$ 1.76	$ 1.05

Options to purchase 269,606 and 675,329 shares of Class A Nonvoting Common Stock for the three months ended April 30, 2019 and 2018, respectively, and 407,477 and 705,843 shares for the nine months ended April 30, 2019 and 2018, respectively, were not included in the computation of diluted net income per share because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

NOTE H — Segment Information

The Company is organized and managed on a global basis within three operating segments, Identification Solutions, Workplace Safety, and People Identification ("People ID"), which aggregate into two reportable segments that are organized around businesses with consistent products and services: IDS and WPS. The Identification Solutions and People ID operating segments aggregate into the IDS reporting segment, while the WPS reporting segment is comprised solely of the Workplace Safety operating segment. The Company evaluates short-term segment performance based on segment profit and customer sales. Interest expense, investment and other income, income taxes, and certain corporate administrative expenses are excluded when evaluating segment performance.

Net sales by segment and geographic region for the three and nine months ended April 30, 2019 and 2018 is as follows:

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Net sales:				
ID Solutions				
Americas	$ 143,557	$ 139,061	$ 427,671	$ 412,271
Europe	48,984	51,248	145,094	147,623
Asia	21,438	21,845	68,518	68,397
Total	$ 213,979	$ 212,154	$ 641,283	$ 628,291
Workplace Safety				
Americas	$ 25,778	$ 28,790	$ 74,861	$ 81,747
Europe	38,372	44,846	113,816	129,887
Australia	11,616	12,631	35,407	36,427
Total	$ 75,766	$ 86,267	$ 224,084	$ 248,061
Total Company				
Americas	$ 169,335	$ 167,851	$ 502,532	$ 494,018
Europe	87,356	96,094	258,910	277,510
Asia-Pacific	33,054	34,476	103,925	104,824
Total	$ 289,745	$ 298,421	$ 865,367	$ 876,352

Segment profit for the three and nine months ended April 30, 2019 and 2018 is as follows:

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Segment profit:				
ID Solutions	$ 39,892	$ 36,970	$ 119,311	$ 106,896
Workplace Safety	6,099	7,537	16,301	21,037
Total Company	$ 45,991	$ 44,507	$ 135,612	$ 127,933

The following is a reconciliation of segment profit to income before income taxes for the three and nine months ended April 30, 2019 and 2018:

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
Total profit from reportable segments	$ 45,991	$ 44,507	$ 135,612	$ 127,933
Unallocated amounts:				
Administrative costs	(6,370)	(6,798)	(19,339)	(20,017)
Investment and other income	2,065	31	3,425	1,303
Interest expense	(708)	(761)	(2,137)	(2,453)
Income before income taxes	$ 40,978	$ 36,979	$ 117,561	$ 106,766

NOTE I — Fair Value Measurements

In accordance with fair value accounting guidance, 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 unadjusted quoted prices in active markets for identical instruments that are accessible as of the reporting date.

Level 2 — Assets or liabilities for which fair value is based on other significant pricing inputs that are either directly or indirectly observable.

Level 3 — Assets or liabilities for which fair value is based on significant unobservable pricing inputs to the extent little or no market data is available, which result in the use of management's own assumptions.

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at April 30, 2019 and July 31, 2018, according to the valuation techniques the Company used to determine their fair values.

	Inputs Considered As			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Fair Values**	**Balance Sheet Classifications**
April 30, 2019				
Trading securities	$ 15,890	$ —	$ 15,890	Other assets
Foreign exchange contracts	—	532	532	Prepaid expenses and other current assets
Total Assets	$ 15,890	$ 532	$ 16,422	
Foreign exchange contracts	$ —	$ 10	$ 10	Other current liabilities
Total Liabilities	$ —	$ 10	$ 10	
July 31, 2018				
Trading securities	$ 14,383	$ —	$ 14,383	Other assets
Foreign exchange contracts	—	1,077	1,077	Prepaid expenses and other current assets
Total Assets	$ 14,383	$ 1,077	$ 15,460	
Foreign exchange contracts	$ —	$ 3	$ 3	Other current liabilities
Total Liabilities	$ —	$ 3	$ 3	

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

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

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

There have been no transfers of assets or liabilities between the fair value hierarchy levels outlined above during the nine months ended April 30, 2019. In addition, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the nine months ended April 30, 2019.

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

The estimated fair value of the Company's short-term and long-term debt obligations based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities was $52,092 and $55,707 at April 30, 2019 and July 31, 2018, respectively, as compared to the carrying value of $50,303 and $52,618 at April 30, 2019 and July 31, 2018, respectively.

NOTE J — Derivatives and Hedging Activities

The Company utilizes forward foreign exchange currency contracts to reduce the exchange rate risk of specific foreign currency denominated transactions. These contracts typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date, with maturities of less than 18 months, which qualify as cash flow hedges or net investment hedges under the accounting guidance for derivative instruments and hedging activities. The primary objective of the Company’s foreign currency exchange risk management program is to minimize the impact of currency movements due to transactions in other than the respective subsidiaries’ functional currency and to minimize the impact of currency movements on the Company’s net investment denominated in a currency other than the U.S. dollar. To achieve this objective, the Company hedges a portion of known exposures using forward foreign exchange currency contracts. As of April 30, 2019 and July 31, 2018, the notional amount of outstanding forward exchange contracts was $10,231 and $32,667, respectively.

The Company hedges a portion of known exposures using forward exchange contracts. Main exposures are related to transactions denominated in the Euro, Canadian dollar, and Mexican peso. Generally, these risk management transactions will involve the use of foreign currency derivatives to minimize the impact of currency movements on non-functional currency transactions.

Hedge effectiveness is determined by how closely the changes in fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current income.

Cash Flow Hedges

The Company has designated a portion of its foreign exchange contracts as cash flow hedges and recorded these contracts at fair value on the condensed 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 income in the same period or periods during which the hedged transaction affects earnings. As of April 30, 2019 and 2018, unrealized gains of $815 and $65 have been included in OCI, respectively. Balances are reclassified from OCI to income when the hedged transactions impact income. For the three months ended April 30, 2019 and 2018, the Company reclassified gains of $292 and losses of $264 from OCI into income, respectively. For the nine months ended April 30, 2019 and 2018, the Company reclassified gains of $579 and losses of $446 from OCI into income, respectively. At April 30, 2019, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled $6,823, including contracts to sell Euros and contracts to buy Mexican pesos.

Net Investment Hedges

The Company has designated €45 million of Euro-denominated senior unsecured notes as net investment hedges to hedge portions of the Company's net investment in European operations. The Company’s foreign denominated debt obligations are valued under a market approach using publicized spot prices.

Non-Designated Hedges

The Company recognized losses of $6 and $49 for the three and nine months ended April 30, 2019, respectively, and gains of $9 and $29 for the three and nine months ended April 30, 2018, respectively, in “Investment and other income” on the condensed consolidated statements of income related to non-designated hedges.

Fair values of derivative instruments in the condensed consolidated balance sheets were as follows:

	Asset Derivatives				Liability Derivatives			
	April 30, 2019		July 31, 2018		April 30, 2019		July 31, 2018	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments								
Cash flow hedges								
Foreign exchange contracts	Prepaid expenses and other current assets	$ 528	Prepaid expenses and other current assets	$ 1,076	Other current liabilities	$ —	Other current liabilities	$ —
Net investment hedges								
Foreign currency denominated debt	Prepaid expenses and other current assets	—	Prepaid expenses and other current assets	—	Long term obligations	50,332	Long term obligations	52,668
Total derivatives designated as hedging instruments		$ 528		$ 1,076		$ 50,332		$ 52,668
Derivatives not designated as hedging instruments								
Foreign exchange contracts	Prepaid expenses and other current assets	$ 4	Prepaid expenses and other current assets	$ 1	Other current liabilities	$ 10	Other current liabilities	$ 3
Total derivatives not designated as hedging instruments		$ 4		$ 1		$ 10		$ 3

NOTE K – Stockholders' Equity

The following table illustrates the changes in the balances of each component of stockholders' equity for the three months ended April 30, 2019:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at January 31, 2019	$ 548	$ 328,978	$ 588,918	$ (54,498)	$ (60,565)	$ 803,381
Net income	—	—	34,781	—	—	34,781
Other comprehensive loss, net of tax	—	—	—	—	(7,881)	(7,881)
Issuance of shares of Class A Common Stock under stock plan	—	(1,433)	—	4,415	—	2,982
Stock-based compensation expense	—	2,506	—	—	—	2,506
Cash dividends on Common Stock						
Class A — $0.21 per share	—	—	(10,473)	—	—	(10,473)
Class B — $0.21 per share	—	—	(752)	—	—	(752)
Balances at April 30, 2019	$ 548	$ 330,051	$ 612,474	$ (50,083)	$ (68,446)	$ 824,544

The following table illustrates the changes in the balances of each component of stockholders' equity for the nine months ended April 30, 2019:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at July 31, 2018	$ 548	$ 325,631	$ 553,454	$ (71,120)	$ (56,401)	$ 752,112
Net income	—	—	94,645	—	—	94,645
Other comprehensive loss, net of tax	—	—	—	—	(12,045)	(12,045)
Issuance of shares of Class A Common Stock under stock plan	—	(6,100)	—	24,219	—	18,119
Tax benefit and withholdings from deferred compensation distributions	—	209	—	—	—	209
Stock-based compensation expense	—	10,311	—	—	—	10,311
Purchase of shares of Class A Common Stock	—	—	—	(3,182)	—	(3,182)
Cumulative adjustment for ASU 2014-09, net of tax (Note B)	—	—	(2,137)	—	—	(2,137)
Cash dividends on Common Stock						
Class A — $0.64 per share	—	—	(31,291)	—	—	(31,291)
Class B — $0.62 per share	—	—	(2,197)	—	—	(2,197)
Balances at April 30, 2019	$ 548	$ 330,051	$ 612,474	$ (50,083)	$ (68,446)	$ 824,544

The following table illustrates the changes in the balances of each component of stockholders' equity for the three months ended April 30, 2018:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at January 31, 2018	$ 548	$ 325,733	$ 515,872	$ (75,090)	$ (35,090)	$ 731,973
Net income	—	—	26,000	—	—	26,000
Other comprehensive loss, net of tax	—	—	—	—	(13,056)	(13,056)
Issuance of shares of Class A Common Stock under stock plan	—	(16)	—	77	—	61
Stock-based compensation expense	—	1,684	—	—	—	1,684
Purchase of shares of Class A Common Stock	—	—	—	(1,278)	—	(1,278)
Cash dividends on Common Stock						
Class A — $0.21 per share	—	—	(10,003)	—	—	(10,003)
Class B — $0.21 per share	—	—	(734)	—	—	(734)
Balances at April 30, 2018	$ 548	$ 327,401	$ 531,135	$ (76,291)	$ (48,146)	$ 734,647

The following table illustrates the changes in the balances of each component of stockholders' equity for the nine months ended April 30, 2018:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at July 31, 2017	$ 548	$ 322,608	$ 507,136	$ (85,470)	$ (44,682)	$ 700,140
Net income	—	—	56,109	—	—	56,109
Other comprehensive loss, net of tax	—	—	—	—	(3,464)	(3,464)
Issuance of shares of Class A Common Stock under stock plan	—	(3,001)	—	10,879	—	7,878
Tax benefit and withholdings from deferred compensation distributions	—	213	—	(422)	—	(209)
Stock-based compensation expense	—	7,581	—	—	—	7,581
Purchase of shares of Class A Common Stock	—	—	—	(1,278)	—	(1,278)
Cash dividends on Common Stock						
Class A — $0.62 per share	—	—	(29,970)	—	—	(29,970)
Class B — $0.60 per share	—	—	(2,140)	—	—	(2,140)
Balances at January 31, 2018	$ 548	$ 327,401	$ 531,135	$ (76,291)	$ (48,146)	$ 734,647

NOTE L — Income Taxes

The effective income tax rates for the three and nine months ended April 30, 2019, were 15.1% and 19.5%, respectively. The Company expects its ongoing annual effective income tax rate to be in the mid-20 percent range based on its current global business mix. The effective income tax rates for the three and nine months ended April 30, 2019, were lower than the expected income tax rate due to the reversal of certain reserves for uncertain tax positions due to the favorable settlement of such foreign and domestic tax matters, partially offset by an increase in the valuation allowance against foreign tax credit carryforwards.

The effective income tax rates for the three and nine months ended April 30, 2018, were 29.7% and 47.4%, respectively. The income tax rates were significantly impacted by the recognition of additional tax expense of $21,060 primarily due to the enactment of the Tax Cuts and Jobs Act (the "Tax Reform Act") passed in December 2017.

NOTE M — Subsequent Events

On May 21, 2019, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of $0.2125 per share payable on July 31, 2019, to shareholders of record at the close of business on July 10, 2019.

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

Overview

Brady Corporation is a global manufacturer and supplier of identification solutions and workplace safety products that identify and protect premises, products and people. The IDS segment is primarily involved in the design, manufacture, and distribution of high-performance and innovative identification and healthcare products. The WPS segment provides workplace safety and compliance products, half of which are internally manufactured and half of which are externally sourced.

The long-term sales growth and profitability of our segments will depend not only on improved demand in end markets and the overall economic environment, but also on our ability to continuously improve operational excellence, focus on the customer, develop and market innovative new products, and to advance our digital capabilities. In our Identification Solutions ("ID Solutions" or "IDS") business, our strategy for growth includes an increased focus on certain industries and products, a focus on improving the customer buying experience, and increasing investment in research and development ("R&D") to develop new products. In our Workplace Safety ("WPS") business, our strategy for growth includes a focus on workplace safety critical industries, innovative new product offerings, compliance expertise, and improving our digital capabilities.

The following are key initiatives supporting the strategy in fiscal 2019:

- Enhancing our innovation development process and the speed to deliver high-value, innovative products in alignment with our target markets.
- Driving operational excellence and providing our customers with the highest level of customer service.
- Executing sustainable efficiency gains within our selling, general, and administrative structures as well as throughout our global operations by making investments in equipment and machinery to drive automation.
- Expanding and enhancing our digital presence.
- Growing through focused sales and marketing actions in selected vertical markets and strategic accounts.
- Enhancing our global employee development process to attract and retain key talent.

Results of Operations

A comparison of results of operating income for the three and nine months ended April 30, 2019 and 2018, is as follows:

	Three months ended April 30,				Nine months ended April 30,			
(Dollars in thousands)	**2019**	**% Sales**	**2018**	**% Sales**	**2019**	**% Sales**	**2018**	**% Sales**
Net sales	$ 289,745		$ 298,421		$ 865,367		$ 876,352	
Gross margin	145,749	50.3%	151,082	50.6%	432,098	49.9%	440,839	50.3%
Operating expenses:								
Research and development	11,437	3.9%	11,678	3.9%	33,837	3.9%	33,512	3.8%
Selling, general and administrative	94,691	32.7%	101,695	34.1%	281,988	32.6%	299,411	34.2%
Total operating expenses	106,128	36.6%	113,373	38.0%	315,825	36.5%	332,923	38.0%
Operating income	$ 39,621	13.7%	$ 37,709	12.6%	$ 116,273	13.4%	$ 107,916	12.3%

References in this Form 10-Q to “organic sales” refer to sales calculated in accordance with U.S. GAAP, excluding the impact of foreign currency translation and divestitures. The Company's organic sales disclosures exclude the effects of foreign currency translation as foreign currency translation is subject to volatility that can obscure underlying business trends. Management believes that the non-GAAP financial measure of organic sales is meaningful to investors as it provides them with useful information to aid in identifying underlying sales trends in the Company's businesses and facilitating comparisons of sales performance with prior periods. All analytical commentary within the Results of Operations section regarding the change in sales when compared to prior periods are in reference to organic sales.

Sales for the three months ended April 30, 2019, decreased 2.9% to $289.7 million, compared to $298.4 million in the same period of the prior year, which consisted of organic sales growth of 2.4%, that was more than offset by a decrease from foreign currency translation of 3.8% and a divestiture impact of 1.5%. Organic sales grew 4.0% in the IDS segment and declined 1.6% in the WPS segment during the three months ended April 30, 2019, compared to the same period in the prior year. The IDS segment realized sales growth in the Safety and Facility ID, Product ID, and Wire ID product lines, partially offset by a slight decline in the Healthcare ID product line compared to the prior year. The WPS segment realized a slight decline in sales through the digital channel due to the performance of the business in the Americas. Digital sales increased in both Europe and Australia compared to the same period in the prior year. Sales through the catalog channel continued the trend of a low-single digit decline compared to the same period in the prior year.

Sales for the nine months ended April 30, 2019, decreased 1.3% to $865.4 million, compared to $876.4 million in the same period of the prior year, which consisted of organic sales growth of 3.1%, that was more than offset by a decrease from foreign currency translation of 2.8% and a divestiture impact of 1.6%. Organic sales grew 4.4% in the IDS segment and declined 0.2% in the WPS segment during the nine months ended April 30, 2019, compared to the same period in the prior year. The IDS segment realized sales growth in the Safety and Facility ID, Product ID, and Wire ID product lines, partially offset by a decline in the Healthcare ID product line compared to the prior year. The WPS segment realized growth in sales through the digital channel and a low-single digit decline in sales through the catalog channel when compared to the same period in the prior year.

Gross margin decreased 3.5% to $145.7 million for the three months ended April 30, 2019, and decreased 2.0% to $432.1 million for the nine months ended April 30, 2019, compared to $151.1 million and $440.8 million in the same periods of the prior year, respectively. As a percentage of net sales, gross margin decreased to 50.3% for the three months ended April 30, 2019, and 49.9% for the nine months ended April 30, 2019, from 50.6% and 50.3% in the same periods of the prior year, respectively. The decreases in gross margin as a percentage of net sales were primarily due to increased input costs such as freight and personnel costs which were partially mitigated by selected price increases and our ongoing efforts to streamline manufacturing processes and drive operational efficiencies, including increased automation in our manufacturing facilities.

R&D expenses for the three months ended April 30, 2019, decreased 2.1% to $11.4 million, compared to $11.7 million in the same period of the prior year. The decrease in the three-month period was due to the timing of expenditures related to ongoing new product development projects. R&D expenses for the nine months ended April 30, 2019, remained essentially flat at $33.8 million, compared to $33.5 million in the same period of the prior year. The Company remains committed to investing in new product development in connection with our focus on increasing new product sales within our IDS and WPS businesses. Investments in new software and printer updates continue to be the primary focus of R&D expenditures.

Selling, general and administrative expenses ("SG&A") include selling and administrative costs directly attributed to the IDS and WPS segments, as well as certain other corporate administrative expenses including finance, information technology, human resources, and other administrative expenses. SG&A decreased 6.9% to $94.7 million for the three months ended April 30, 2019, and 5.8% to $282.0 million for the nine months ended April 30, 2019, compared to $101.7 million and $299.4 million in the same periods of the prior year, respectively. As a percentage of net sales, SG&A decreased to 32.7% for the three months ended April 30, 2019, and 32.6% for the nine months ended April 30, 2019, from 34.1% and 34.2% in the same periods of the prior year, respectively. Approximately half of the decreases in both the three and nine-month periods were due to the impact of foreign currency translation, and the remainder of the decreases were due to ongoing efficiency activities throughout our SG&A functions and the impact of the sale of a business in the prior year.

Operating income increased 5.1% to $39.6 million for the three months ended April 30, 2019, and 7.7% to $116.3 million for the nine months ended April 30, 2019, compared to $37.7 million and $107.9 million in the same periods of the prior year, respectively. The increases in both the three and nine-month periods were primarily due to increased organic sales and segment profit within the IDS business along with reduced SG&A expenses.

OPERATING INCOME TO NET INCOME

(Dollars in thousands)	Three months ended April 30, 2019	% Sales	Three months ended April 30, 2018	% Sales	Nine months ended April 30, 2019	% Sales	Nine months ended April 30, 2018	% Sales
Operating income	$ 39,621	13.7 %	$ 37,709	12.6 %	$ 116,273	13.4 %	$ 107,916	12.3 %
Other income (expense):								
Investment and other income	2,065	0.7 %	31	— %	3,425	0.4 %	1,303	0.1 %
Interest expense	(708)	(0.2)%	(761)	(0.3)%	(2,137)	(0.2)%	(2,453)	(0.3)%
Income before income tax	40,978	14.1 %	36,979	12.4 %	117,561	13.6 %	106,766	12.2 %
Income tax expense	6,197	2.1 %	10,979	3.7 %	22,916	2.6 %	50,657	5.8 %
Net income	$ 34,781	12.0 %	$ 26,000	8.7 %	$ 94,645	10.9 %	$ 56,109	6.4 %

Investment and other income was $2.1 million and $3.4 million for the three and nine months ended April 30, 2019, compared to $0.0 million and $1.3 million in the same periods of the prior year, respectively. The increases in both the three and nine-month periods were primarily due to an increase in interest income and an increase in the market value of securities held in deferred compensation plans when compared to the same periods in the prior year.

Interest expense decreased to $0.7 million from $0.8 million for the three months ended April 30, 2019, and decreased to $2.1 million from $2.5 million for the nine months ended April 30, 2019, compared to the same periods in the prior year. For both the three and nine-month periods, the decreases in interest expense were due to the Company's declining principal balances under its outstanding debt agreements.

The income tax rate was 15.1% for the three months ended April 30, 2019, compared to 29.7% for the same period in the prior year. The income tax rate was 19.5% for the nine months ended April 30, 2019, compared to 47.4% for the same period of the prior year. Refer to Note L - Income Taxes for additional details regarding income taxes.

Business Segment Operating Results

The Company is organized and managed on a global basis within three operating segments, Identification Solutions, Workplace Safety, and People Identification ("People ID"), which aggregate into two reportable segments that are organized around businesses with consistent products and services: IDS and WPS. The Identification Solutions and People ID operating segments aggregate into the IDS reporting segment, while the WPS reporting segment is comprised solely of the Workplace Safety operating segment. The Company evaluates short-term segment performance based on segment profit and customer sales. Interest expense, investment and other income, income tax expense, and certain corporate administrative expenses are excluded when evaluating segment performance.

The following is a summary of segment information for the three and nine months ended April 30, 2019, and 2018:

	Three months ended April 30,		Nine months ended April 30,	
	2019	2018	2019	2018
SALES GROWTH INFORMATION				
ID Solutions				
Organic	4.0 %	3.7%	4.4 %	3.7 %
Currency	(3.1)%	4.1%	(2.3)%	3.0 %
Total	0.9 %	7.8%	2.1 %	6.7 %
Workplace Safety				
Organic	(1.6)%	1.7%	(0.2)%	(0.1)%
Currency	(5.3)%	7.4%	(3.7)%	5.7 %
Divestitures	(5.3)%	—%	(5.8)%	— %
Total	(12.2)%	9.1%	(9.7)%	5.6 %
Total Company				
Organic	2.4 %	3.2%	3.1 %	2.7 %
Currency	(3.8)%	5.0%	(2.8)%	3.6 %
Divestitures	(1.5)%	—%	(1.6)%	— %
Total	(2.9)%	8.2%	(1.3)%	6.3 %
SEGMENT PROFIT AS A PERCENT OF NET SALES				
ID Solutions	18.6 %	17.4%	18.6 %	17.0 %
Workplace Safety	8.0 %	8.7%	7.3 %	8.5 %
Total	15.9 %	14.9%	15.7 %	14.6 %

ID Solutions

IDS sales increased 0.9% for the three months ended April 30, 2019, which consisted of organic sales growth of 4.0% and a decrease from foreign currency translation of 3.1%, compared to the same period in the prior year. IDS sales increased 2.1% for the nine months ended April 30, 2019, which consisted of organic sales growth of 4.4% and a decrease from foreign currency translation of 2.3%, compared to the same period in the prior year.

Organic sales in the Americas grew in the low-single and mid-single digits for the three and nine months ended April 30, 2019, respectively, compared to the same periods in the prior year. Organic sales growth in the IDS Americas region for the three and nine-month periods was driven by the Safety and Facility ID, Product ID, and Wire ID product lines, partially offset by a decline in the Healthcare ID product line. Organic sales grew in the mid-single digits in the United States for both periods and grew in the low-single and mid-single digits in the rest of the Americas for the three and nine-month periods, respectively. Increased printer and consumables sales throughout the region was a primary driver of the organic sales growth.

Organic sales in Europe grew in the mid-single digits for both the three and nine months ended April 30, 2019, compared to the same periods in the prior year. The IDS Europe region realized organic sales growth in the Safety and Facility ID and Product ID product lines for both the three and nine months ended April 30, 2019, compared to the same periods in the prior year. Organic sales growth was led by Western Europe for the three-month period, while both Western Europe and emerging geographies grew organic sales for the nine-month period. Increased printer consumables and lockout/tagout device sales throughout the region were primary drivers of the organic sales growth.

Organic sales in Asia grew in the low-single digits for both the three and nine months ended April 30, 2019, compared to the same periods in the prior year. The IDS Asia region realized organic sales growth in the Product ID, Safety and Facility ID, and Wire ID product lines for both the three and nine months ended April 30, 2019, compared to the same periods in the prior year. Organic sales grew in the low-single digits within China for both the three and nine-month periods and grew in the low-single and mid-single digits in the rest of Asia for the three and nine-month periods, respectively. Increased printer and consumable sales throughout the region was a primary driver of the organic sales growth.

Segment profit increased to $39.9 million and $119.3 million for the three and nine months ended April 30, 2019, respectively, compared to $37.0 million and $106.9 million for the same periods in the prior year. As a percentage of net sales, segment profit increased to 18.6% for both the three and nine months ended April 30, 2019, from 17.4% and 17.0% for the same periods in the prior year. The increases in segment profit for both the three and nine-month periods were driven by organic sales growth and efficiency gains throughout SG&A.

Workplace Safety

WPS sales decreased 12.2% for the three months ended April 30, 2019, which consisted of an organic sales decline of 1.6%, a decrease from foreign currency translation of 5.3%, and a decrease from a divestiture of 5.3%, compared to the same period in the prior year. Sales through the digital channel decreased slightly due to the performance of the Americas business, while sales through the catalog channel decreased in the low-single digits for the three-month period. WPS sales decreased 9.7% for the nine months ended April 30, 2019, which consisted of an organic sales declined of 0.2%, a decrease from foreign currency translation of 3.7%, and a decrease from a divestiture of 5.8%, compared to the same period in the prior year. Sales through the digital channel grew in the low-single digits while sales through the catalog channel declined in the low-single digits for the nine-month period.

The WPS business in Europe realized low-single digit organic sales growth for both the three and nine months ended April 30, 2019, compared to the same periods in the prior year. The organic sales growth for both the three and nine-month periods was driven primarily by businesses based in France, Belgium, and Germany due to improvements in website functionality, growth in new customers, and key account management. WPS Europe experienced nearly 15% growth in digital channel sales, while catalog sales remained essentially flat during the three and nine months ended April 30, 2019, compared to the same periods in the prior year.

Organic sales in the Americas decreased approximately 10% for the three months ended April 30, 2019 and decreased in the high-single digits for the nine months ended April 30, 2019, compared to the same periods in the prior year. WPS Americas continued to experience the negative impact from the digital platform implemented in the prior year and realized a decline in sales for both the three and nine-month periods. The business transitioned to a new digital platform toward the end of the three months ended January 31, 2019 to address this decline. The functionality of the new digital platform is improved compared to the former digital platform, however, sales have not yet returned to the level experienced prior to the initial platform change from last year. Catalog channel sales declined in the mid-single digits for both the three and nine-month periods due to lower response rates to catalog promotions.

Organic sales in Australia grew in the low-single and mid-single digits for the three and nine months ended April 30, 2019, respectively, compared to the same periods in the prior year. The organic sales growth for the nine-month period was driven by both the digital sales and catalog channels. Digital sales primarily drove the growth for the three-month period. The Australian business is growing its customer base, and its diversified product offering continues to expand into additional target markets such as commercial and industrial construction.

Segment profit decreased to $6.1 million from $7.5 million for the three months ended April 30, 2019, and to $16.3 million from $21.0 million for the nine months ended April 30, 2019, compared to the same periods in the prior year. As a percentage of sales, segment profit decreased to 8.0% from 8.7% for the three months ended April 30, 2019, and to 7.3% from 8.5% for the nine months ended April 30, 2019, compared to the same periods in the prior year. The decreases in segment profit were due to the decrease in sales volumes in the North American business, as well as the divestiture of a business in the prior period and foreign currency translation.

Financial Condition

Cash and cash equivalents increased $57.0 million and decreased $3.0 million during the nine months ended April 30, 2019 and 2018, respectively. The significant changes were as follows:

	Nine months ended April 30,	
(Dollars in thousands)	**2019**	**2018**
Net cash flow provided by (used in):		
Operating activities	$ 96,902	$ 89,222
Investing activities	(19,338)	(14,952)
Financing activities	(18,271)	(77,294)
Effect of exchange rate changes on cash	(2,288)	(17)
Net increase (decrease) in cash and cash equivalents	$ 57,005	$ (3,041)

Net cash provided by operating activities was $96.9 million for the nine months ended April 30, 2019, compared to $89.2 million in the same period of the prior year. The change was driven by an increase in net income adjusted for non-cash items, which was partially offset by an increase in cash used for working capital in support of growth when compared to the same period in the prior year.

Net cash used in investing activities was $19.3 million for the nine months ended April 30, 2019, compared to $15.0 million in the same period of the prior year. The increase in cash used in investing activities was driven by an increase in capital expenditures for the purchase of manufacturing equipment and facility upgrades.

Net cash used in financing activities was $18.3 million during the nine months ended April 30, 2019, compared to $77.3 million in the same period of the prior year. The change was primarily due to a decrease of $51.6 million in net credit facility repayments and an increase of $10.3 million in proceeds from stock option exercises when compared to the same period in the prior year.

On May 13, 2010, the Company completed a private placement of €75.0 million aggregate principal amount of senior unsecured notes to accredited institutional investors. The €75.0 million of senior notes consisted of €30.0 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, which were repaid during fiscal 2017, and €45.0 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company’s domestic subsidiaries.

On September 25, 2015, the Company and certain of its subsidiaries entered into an unsecured $300 million multi-currency revolving loan agreement with a group of six banks. At the Company's option, and subject to certain conditions, the available amount under the revolving loan agreement may be increased from $300 million to $450 million. As of April 30, 2019, there were no borrowings outstanding on the credit facility, and the maximum outstanding balance during the nine months ended April 30, 2019, was $3.4 million. The Company also had letters of credit outstanding under the loan agreement of $3.3 million as of April 30, 2019, and there was $296.7 million available for future borrowing, which can be increased to $446.7 million at the Company's option, subject to certain conditions. The revolving loan agreement has a final maturity date of September 25, 2020. As such, the borrowing is included in "Long-term obligations" on the condensed consolidated balance sheets.

The Company’s debt agreements require it to maintain certain financial covenants, including a ratio of debt to the trailing 12 months EBITDA, as defined in the debt agreements, of not more than a 3.25 to 1.0 ratio (leverage ratio) and the trailing 12 months EBITDA to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of April 30, 2019, the Company was in compliance with these financial covenants, with the leverage ratio, as defined by the agreements, equal to 0.3 to 1.0 and the interest expense coverage ratio equal to 69.4 to 1.0.

The Company's cash balances are generated and held in numerous locations throughout the world. At April 30, 2019, approximately 54% of the Company's cash and cash equivalents were held outside the United States. 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 flow from operating activities and its borrowing capacity are sufficient to fund its anticipated requirements for working capital, capital expenditures, common stock repurchases, scheduled debt repayments, and dividend payments for the next 12 months.

Off-Balance Sheet Arrangements

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

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

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

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

Forward-Looking Statements

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historic information are “forward-looking statements.” These forward-looking statements relate to, among other things, the Company's future financial position, business strategy, targets, projected sales, costs, income, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations.

The use of 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:

- Brady's ability to compete effectively or to successfully execute our strategy
- Brady's ability to develop technologically advanced products that meet customer demands
- Difficulties in protecting our sites, networks, and systems against security breaches
- Decreased demand for the Company's products
- Brady's ability to retain large customers
- Extensive regulations by U.S. and non-U.S. governmental and self regulatory entities
- Risks associated with the loss of key employees
- Divestitures, contingent liabilities from divestitures and the failure to identify, integrate, and grow acquired companies
- Litigation, including product liability claims
- Brady's ability to execute facility consolidations and maintain acceptable operational service metrics
- Foreign currency fluctuations
- The impact of the U.S. Tax Reform Act and any other changes in tax legislation and tax rates
- Potential write-offs of Brady's substantial intangible assets
- Differing interests of voting and non-voting shareholders
- Brady's ability to meet certain financial covenants required by our debt agreements
- 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 within Item 1A of Part I of Brady's Form 10-K for the year ended July 31, 2018.

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 except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to the Company’s annual report on Form 10-K for the year ended July 31, 2018. There has been no material change in this information since July 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Brady Corporation maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports filed by the Company under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports the Company files under the Exchange Act is accumulated and communicated to the Company’s management, including the Company’s principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its Chief Financial Officer and Treasurer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Company’s President and Chief Executive Officer and Chief Financial Officer and Treasurer concluded that the Company’s disclosure controls and procedures are effective as of the end of the period covered by this report.

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of J. Michael Nauman
31.2	Rule 13a-14(a)/15d-14(a) Certification of Aaron J. Pearce
32.1	Section 1350 Certification of J. Michael Nauman
32.2	Section 1350 Certification of Aaron J. Pearce
101	Interactive Data File

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

SIGNATURES

	BRADY CORPORATION
Date: May 23, 2019	/s/ J. MICHAEL NAUMAN
	J. Michael Nauman
	President and Chief Executive Officer
	(Principal Executive Officer)
Date: May 23, 2019	/s/ AARON J. PEARCE
	Aaron J. Pearce
	Chief Financial Officer and Treasurer
	(Principal Financial Officer)

EXHIBIT 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, J. Michael Nauman, certify that:

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

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

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

(4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 23, 2019

/s/ J. MICHAEL NAUMAN

President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Aaron J. Pearce, certify that:

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

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

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

(4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 23, 2019

/s/ AARON J. PEARCE

Chief Financial Officer and Treasurer

(Principal Financial Officer)

EXHIBIT 32.1

SECTION 1350 CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Brady Corporation (the “Company”) certifies to his knowledge that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: May 23, 2019

/s/ J. MICHAEL NAUMAN

President and Chief Executive Officer

(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 32.2

SECTION 1350 CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Brady Corporation (the “Company”) certifies to his knowledge that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Date: May 23, 2019

/s/ AARON J. PEARCE

Chief Financial Officer and Treasurer

(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.