

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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

**For the Quarterly Period Ended October 31, 2015**

**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**

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

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**Wisconsin**  
(State or other jurisdiction of  
incorporation or organization)

**39-0178960**  
(I.R.S. Employer  
Identification No.)

**6555 West Good Hope Road, Milwaukee, Wisconsin**  
(Address of principal executive offices)

**53223**  
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).    Yes ☒    No ☐

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

Large accelerated filer                      ☒  
Non-accelerated filer                      ☐

Accelerated filer                                              ☐  
Smaller reporting company                                              ☐

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

As of November 18, 2015, there were 47,041,462 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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BRADY CORPORATION  
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**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**
**BRADY CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands)

|                                                                                                                                                      | <b>October 31, 2015</b> | <b>July 31, 2015</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------|
|                                                                                                                                                      | <b>(Unaudited)</b>      |                      |
| <b>ASSETS</b>                                                                                                                                        |                         |                      |
| <b>Current assets:</b>                                                                                                                               |                         |                      |
| Cash and cash equivalents                                                                                                                            | \$ 110,610              | \$ 114,492           |
| Accounts receivable—net                                                                                                                              | 159,174                 | 157,386              |
| Inventories:                                                                                                                                         |                         |                      |
| Finished products                                                                                                                                    | 63,500                  | 66,700               |
| Work-in-process                                                                                                                                      | 17,458                  | 16,958               |
| Raw materials and supplies                                                                                                                           | 21,059                  | 20,849               |
| Total inventories                                                                                                                                    | 102,017                 | 104,507              |
| Prepaid expenses and other current assets                                                                                                            | 35,407                  | 32,197               |
| <b>Total current assets</b>                                                                                                                          | 407,208                 | 408,582              |
| <b>Other assets:</b>                                                                                                                                 |                         |                      |
| Goodwill                                                                                                                                             | 430,972                 | 433,199              |
| Other intangible assets                                                                                                                              | 66,242                  | 68,888               |
| Deferred income taxes                                                                                                                                | 20,811                  | 22,310               |
| Other                                                                                                                                                | 17,508                  | 18,704               |
| <b>Property, plant and equipment:</b>                                                                                                                |                         |                      |
| Cost:                                                                                                                                                |                         |                      |
| Land                                                                                                                                                 | 5,097                   | 5,284                |
| Buildings and improvements                                                                                                                           | 93,803                  | 94,423               |
| Machinery and equipment                                                                                                                              | 257,602                 | 270,086              |
| Construction in progress                                                                                                                             | 2,901                   | 2,164                |
|                                                                                                                                                      | 359,403                 | 371,957              |
| Less accumulated depreciation                                                                                                                        | 253,295                 | 260,743              |
| <b>Property, plant and equipment—net</b>                                                                                                             | 106,108                 | 111,214              |
| <b>Total</b>                                                                                                                                         | <b>\$ 1,048,849</b>     | <b>\$ 1,062,897</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>                                                                                                      |                         |                      |
| <b>Current liabilities:</b>                                                                                                                          |                         |                      |
| Notes payable                                                                                                                                        | \$ 9,173                | \$ 10,411            |
| Accounts payable                                                                                                                                     | 72,703                  | 73,020               |
| Wages and amounts withheld from employees                                                                                                            | 29,726                  | 30,282               |
| Taxes, other than income taxes                                                                                                                       | 7,026                   | 7,250                |
| Accrued income taxes                                                                                                                                 | 9,609                   | 7,576                |
| Other current liabilities                                                                                                                            | 41,723                  | 38,194               |
| Current maturities on long-term debt                                                                                                                 | —                       | 42,514               |
| <b>Total current liabilities</b>                                                                                                                     | 169,960                 | 209,247              |
| <b>Long-term obligations, less current maturities</b>                                                                                                | 241,434                 | 200,774              |
| <b>Other liabilities</b>                                                                                                                             | 64,697                  | 65,188               |
| <b>Total liabilities</b>                                                                                                                             | 476,091                 | 475,209              |
| <b>Stockholders' investment:</b>                                                                                                                     |                         |                      |
| Class A nonvoting common stock—Issued 51,261,487 and 51,261,487 shares, respectively, and outstanding 47,040,129 and 47,781,184 shares, respectively | 513                     | 513                  |
| Class B voting common stock—Issued and outstanding, 3,538,628 shares                                                                                 | 35                      | 35                   |
| Additional paid-in capital                                                                                                                           | 313,879                 | 314,403              |
| Earnings retained in the business                                                                                                                    | 422,589                 | 414,069              |
| Treasury stock—4,221,358 and 3,480,303 shares, respectively, of Class A nonvoting common stock, at cost                                              | (107,420)               | (93,234)             |
| Accumulated other comprehensive loss                                                                                                                 | (53,426)                | (45,034)             |
| Other                                                                                                                                                | (3,412)                 | (3,064)              |
| <b>Total stockholders' investment</b>                                                                                                                | 572,758                 | 587,688              |
| <b>Total</b>                                                                                                                                         | <b>\$ 1,048,849</b>     | <b>\$ 1,062,897</b>  |

See Notes to Condensed Consolidated Financial Statements.



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

|                                                                         | <b>Three months ended October 31,</b> |                  |
|-------------------------------------------------------------------------|---------------------------------------|------------------|
|                                                                         | <b>(Unaudited)</b>                    |                  |
|                                                                         | <b>2015</b>                           | <b>2014</b>      |
| Net sales                                                               | \$ 283,073                            | \$ 310,240       |
| Cost of products sold                                                   | 143,724                               | 160,079          |
| Gross margin                                                            | 139,349                               | 150,161          |
| Operating expenses:                                                     |                                       |                  |
| Research and development                                                | 8,569                                 | 9,631            |
| Selling, general and administrative                                     | 100,678                               | 109,279          |
| Restructuring charges                                                   | —                                     | 4,278            |
| Total operating expenses                                                | 109,247                               | 123,188          |
| Operating income                                                        | 30,102                                | 26,973           |
| Other (expense) income:                                                 |                                       |                  |
| Investment and other (expense) income                                   | (759)                                 | 323              |
| Interest expense                                                        | (2,151)                               | (2,891)          |
| Earnings from continuing operations before income taxes                 | 27,192                                | 24,405           |
| Income tax expense                                                      | 8,489                                 | 8,906            |
| Earnings from continuing operations                                     | \$ 18,703                             | \$ 15,499        |
| Loss from discontinued operations, net of income taxes                  | —                                     | (1,915)          |
| Net earnings                                                            | <u>\$ 18,703</u>                      | <u>\$ 13,584</u> |
| Earnings from continuing operations per Class A Nonvoting Common Share: |                                       |                  |
| Basic                                                                   | \$ 0.37                               | \$ 0.30          |
| Diluted                                                                 | \$ 0.37                               | \$ 0.30          |
| Earnings from continuing operations per Class B Voting Common Share:    |                                       |                  |
| Basic                                                                   | \$ 0.35                               | \$ 0.29          |
| Diluted                                                                 | \$ 0.35                               | \$ 0.29          |
| Loss from discontinued operations per Class A Nonvoting Common Share:   |                                       |                  |
| Basic                                                                   | \$ —                                  | \$ (0.03)        |
| Diluted                                                                 | \$ —                                  | \$ (0.04)        |
| Loss from discontinued operations per Class B Voting Common Share:      |                                       |                  |
| Basic                                                                   | \$ —                                  | \$ (0.04)        |
| Diluted                                                                 | \$ —                                  | \$ (0.04)        |
| Net earnings per Class A Nonvoting Common Share:                        |                                       |                  |
| Basic                                                                   | \$ 0.37                               | \$ 0.27          |
| Diluted                                                                 | \$ 0.37                               | \$ 0.26          |
| Dividends                                                               | \$ 0.20                               | \$ 0.20          |
| Net earnings per Class B Voting Common Share:                           |                                       |                  |
| Basic                                                                   | \$ 0.35                               | \$ 0.25          |
| Diluted                                                                 | \$ 0.35                               | \$ 0.25          |
| Dividends                                                               | \$ 0.19                               | \$ 0.18          |
| Weighted average common shares outstanding (in thousands):              |                                       |                  |
| Basic                                                                   | 51,029                                | 51,251           |
| Diluted                                                                 | 51,089                                | 51,313           |

See Notes to Condensed Consolidated Financial Statements.

**BRADY CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Dollars in Thousands)

|                                                                           | <b>Three months ended October 31,</b> |             |
|---------------------------------------------------------------------------|---------------------------------------|-------------|
|                                                                           | <b>(Unaudited)</b>                    |             |
|                                                                           | <b>2015</b>                           | <b>2014</b> |
| Net earnings                                                              | \$ 18,703                             | \$ 13,584   |
| Other comprehensive loss:                                                 |                                       |             |
| Foreign currency translation adjustments:                                 |                                       |             |
| Net loss recognized in other comprehensive loss                           | (6,483)                               | (24,303)    |
| Reclassification adjustment for gains included in net earnings            | —                                     | (34,697)    |
|                                                                           | (6,483)                               | (59,000)    |
| Net investment hedge translation adjustments                              | 871                                   | 8,151       |
| Long-term intercompany loan translation adjustments:                      |                                       |             |
| Net loss recognized in other comprehensive loss                           | (1,424)                               | (1,350)     |
| Reclassification adjustment for gains included in net earnings            | —                                     | (393)       |
|                                                                           | (1,424)                               | (1,743)     |
| Cash flow hedges:                                                         |                                       |             |
| Net (loss) gain recognized in other comprehensive loss                    | (260)                                 | 601         |
| Reclassification adjustment for (gains) losses included in net earnings   | (457)                                 | 21          |
|                                                                           | (717)                                 | 622         |
| Pension and other post-retirement benefits:                               |                                       |             |
| Actuarial gain amortization                                               | (161)                                 | (214)       |
| Prior service credit amortization                                         | (622)                                 | (81)        |
|                                                                           | (783)                                 | (295)       |
| Other comprehensive loss, before tax                                      | (8,536)                               | (52,265)    |
| Income tax benefit (expense) related to items of other comprehensive loss | 144                                   | (3,326)     |
| Other comprehensive loss, net of tax                                      | (8,392)                               | (55,591)    |
| Comprehensive income (loss)                                               | \$ 10,311                             | \$ (42,007) |

See Notes to Condensed Consolidated Financial Statements.

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

|                                                                                                     | Three months ended October 31,<br>(Unaudited) |            |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------|------------|
|                                                                                                     | 2015                                          | 2014       |
| Operating activities:                                                                               |                                               |            |
| Net earnings                                                                                        | \$ 18,703                                     | \$ 13,584  |
| Adjustments to reconcile net income to net cash provided by operating activities:                   |                                               |            |
| Depreciation and amortization                                                                       | 8,889                                         | 10,123     |
| Non-cash portion of stock-based compensation expense                                                | 2,596                                         | 1,319      |
| Non-cash portion of restructuring charges                                                           | —                                             | 196        |
| Loss on sale of business, net                                                                       | —                                             | 426        |
| Deferred income taxes                                                                               | 726                                           | 2,346      |
| Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures): |                                               |            |
| Accounts receivable                                                                                 | (3,342)                                       | (3,916)    |
| Inventories                                                                                         | 1,368                                         | (7,077)    |
| Prepaid expenses and other assets                                                                   | (3,081)                                       | (2,999)    |
| Accounts payable and accrued liabilities                                                            | 2,402                                         | 2,897      |
| Income taxes                                                                                        | 2,109                                         | 1,705      |
| Net cash provided by operating activities                                                           | 30,370                                        | 18,604     |
| Investing activities:                                                                               |                                               |            |
| Purchases of property, plant and equipment                                                          | (2,334)                                       | (11,451)   |
| Sale of business, net of cash retained                                                              | —                                             | 8,771      |
| Other                                                                                               | 1,539                                         | 592        |
| Net cash used in investing activities                                                               | (795)                                         | (2,088)    |
| Financing activities:                                                                               |                                               |            |
| Payment of dividends                                                                                | (10,183)                                      | (10,191)   |
| Proceeds from issuance of common stock                                                              | —                                             | 91         |
| Purchase of treasury stock                                                                          | (16,160)                                      | —          |
| (Repayments) proceeds from borrowing on credit facilities                                           | (2,738)                                       | 33,286     |
| Debt issuance costs                                                                                 | (803)                                         | —          |
| Income tax on equity-based compensation, and other                                                  | (1,007)                                       | (1,296)    |
| Net cash (used in) provided by financing activities                                                 | (30,891)                                      | 21,890     |
| Effect of exchange rate changes on cash                                                             | (2,566)                                       | (3,766)    |
| Net (decrease) increase in cash and cash equivalents                                                | (3,882)                                       | 34,640     |
| Cash and cash equivalents, beginning of period                                                      | 114,492                                       | 81,834     |
| Cash and cash equivalents, end of period                                                            | \$ 110,610                                    | \$ 116,474 |
| Supplemental disclosures of cash flow information:                                                  |                                               |            |
| Cash paid during the period for:                                                                    |                                               |            |
| Interest                                                                                            | \$ 2,144                                      | \$ 3,032   |
| Income taxes, net of refunds                                                                        | 4,533                                         | 7,323      |

See Notes to Condensed Consolidated Financial Statements

BRADY CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Three Months Ended October 31, 2015  
(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 October 31, 2015 and July 31, 2015, its results of operations and comprehensive income (loss) for the three months ended October 31, 2015 and 2014, and cash flows for the three months ended October 31, 2015 and 2014. The consolidated balance sheet as of July 31, 2015 has been derived from the audited consolidated financial statements of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K for the year ended July 31, 2015.

The results of operations of the Company's Die-Cut business have been reported as discontinued operations within the condensed consolidated statements of earnings for the three months ended October 31, 2014. A portion of the Die-Cut business was divested in fiscal 2014 and the remainder was divested in the first quarter of fiscal 2015. In accordance with the authoritative literature, the Company has elected to not separately disclose the cash flows or other comprehensive income related to discontinued operations. Refer to Note I, "Discontinued Operations" for further discussion regarding the business.

**NOTE B — Goodwill and Other Intangible Assets**

Changes in the carrying amount of goodwill for the three months ended October 31, 2015, were as follows:

|                                | IDS        | WPS       | Total      |
|--------------------------------|------------|-----------|------------|
| Balance as of July 31, 2015    | \$ 382,786 | \$ 50,413 | \$ 433,199 |
| Translation adjustments        | (1,353)    | (874)     | \$ (2,227) |
| Balance as of October 31, 2015 | \$ 381,433 | \$ 49,539 | \$ 430,972 |

Goodwill at October 31, 2015 and July 31, 2015 included \$118,637 and \$209,392 of accumulated impairment losses within the ID Solutions ("IDS") and Workplace Safety ("WPS") segments, respectively, for a total of \$328,029. There were no impairment charges recorded during the three months ended October 31, 2015.



Other intangible assets include patents, trademarks, customer relationships, non-compete agreements and other intangible assets 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:

|                                      | October 31, 2015                             |                       |                          |                  | July 31, 2015                                |                       |                          |                  |
|--------------------------------------|----------------------------------------------|-----------------------|--------------------------|------------------|----------------------------------------------|-----------------------|--------------------------|------------------|
|                                      | Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net Book Value   | Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net Book Value   |
| Amortized other intangible assets:   |                                              |                       |                          |                  |                                              |                       |                          |                  |
| Patents                              | 5                                            | \$ 12,092             | \$ (10,760)              | \$ 1,332         | 5                                            | \$ 12,073             | \$ (10,641)              | \$ 1,432         |
| Trademarks and other                 | 5                                            | 14,332                | (13,076)                 | 1,256            | 5                                            | 14,375                | (12,471)                 | 1,904            |
| Customer relationships               | 7                                            | 136,108               | (95,781)                 | 40,327           | 7                                            | 136,693               | (94,537)                 | 42,156           |
| Non-compete agreements and other     | 4                                            | 8,949                 | (8,927)                  | 22               | 4                                            | 9,076                 | (9,032)                  | 44               |
| Unamortized other intangible assets: |                                              |                       |                          |                  |                                              |                       |                          |                  |
| Trademarks                           | N/A                                          | 23,305                | —                        | 23,305           | N/A                                          | 23,352                | —                        | 23,352           |
| Total                                |                                              | <u>\$ 194,786</u>     | <u>\$ (128,544)</u>      | <u>\$ 66,242</u> |                                              | <u>\$ 195,569</u>     | <u>\$ (126,681)</u>      | <u>\$ 68,888</u> |

The decrease in the gross carrying amount of other intangible assets as of October 31, 2015 compared to July 31, 2015 was due to the effects of currency fluctuations during the three-month period.

The gross carrying amount of goodwill and other intangible assets in the Condensed Consolidated Balance Sheets at October 31, 2015 differs from the value assigned to them in the original allocation of purchase price due to impairments and the effect of currency fluctuations between the date of acquisition and October 31, 2015.

Amortization expense on intangible assets was \$2,633 and \$3,369 for the three months ended October 31, 2015 and 2014, respectively. The amortization over each of the next five fiscal years is projected to be \$8,811, \$7,129, \$6,451, \$6,174 and \$5,647 for the fiscal years ending July 31, 2016, 2017, 2018, 2019 and 2020, respectively.

#### NOTE C — Other Comprehensive Income (Loss)

Other comprehensive income (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 three months ended October 31, 2015:

|                                                                | Unrealized gain on cash flow hedges | Unamortized gain on post-retirement plans | Foreign currency translation adjustments | Accumulated other comprehensive loss |
|----------------------------------------------------------------|-------------------------------------|-------------------------------------------|------------------------------------------|--------------------------------------|
| Beginning balance, July 31, 2015                               | <u>\$ 9</u>                         | <u>\$ 3,438</u>                           | <u>\$ (48,481)</u>                       | <u>\$ (45,034)</u>                   |
| Other comprehensive income (loss) before reclassification      | 60                                  | —                                         | (7,390)                                  | (7,330)                              |
| Amounts reclassified from accumulated other comprehensive loss | (279)                               | (783)                                     | —                                        | (1,062)                              |
| Ending balance, October 31, 2015                               | <u>\$ (210)</u>                     | <u>\$ 2,655</u>                           | <u>\$ (55,871)</u>                       | <u>\$ (53,426)</u>                   |

The increase in the accumulated other comprehensive loss as of October 31, 2015 compared to July 31, 2015 was primarily due to the appreciation of the U.S. dollar against other currencies. The foreign currency translation adjustments column in the table above includes the impact of foreign currency translation, foreign currency translation on intercompany notes, and the settlements of net investment hedges, net of tax. Of the total \$1,062 in amounts reclassified from accumulated other comprehensive loss, the \$279 gain on cash flow hedges was reclassified into cost of products sold and the \$783 gain on post-retirement plans was reclassified into selling, general and administrative expenses ("SG&A") on the Condensed Consolidated Statements of Earnings for the three months ended October 31, 2015.

The changes in accumulated other comprehensive income ("AOCI") by component, net of tax, for the three months ended October 31, 2014 were as follows:

|                                                                  | Unrealized (loss)<br>gain on cash flow<br>hedges | Unamortized gain<br>on post-retirement<br>plans | Foreign currency<br>translation<br>adjustments | Accumulated other<br>comprehensive<br>income |
|------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|------------------------------------------------|----------------------------------------------|
| Beginning balance, July 31, 2014                                 | \$ (12)                                          | \$ 4,854                                        | \$ 59,314                                      | \$ 64,156                                    |
| Other comprehensive income (loss) before reclassification        | 418                                              | —                                               | (21,030)                                       | (20,612)                                     |
| Amounts reclassified from accumulated other comprehensive income | 13                                               | (295)                                           | (34,697)                                       | (34,979)                                     |
| Ending balance, October 31, 2014                                 | \$ 419                                           | \$ 4,559                                        | \$ 3,587                                       | \$ 8,565                                     |

The decrease in AOCI as of October 31, 2014 compared to July 31, 2014 was primarily due to the accumulated foreign currency translation gains in the China Die-Cut businesses, which were reclassified into net earnings upon the completion of the second phase of the Die-Cut divestiture during the three months ended October 31, 2014. The appreciation of the U.S. dollar against other currencies also contributed to the decrease in AOCI during the quarter. Of the total \$34,979 in amounts reclassified from accumulated other comprehensive income, the \$34,697 gain was reclassified to the net loss on the sale of the Die-Cut business, the \$13 loss on cash flow hedges was reclassified into cost of products sold, and the \$295 gain on post-retirement plans was reclassified into SG&A on the Condensed Consolidated Statements of Earnings for the three months ended October 31, 2014.

The following table illustrates the income tax benefit (expense) on the components of other comprehensive loss for the three months ended October 31, 2015 and 2014:

|                                                                            | Three months ended October 31, |            |
|----------------------------------------------------------------------------|--------------------------------|------------|
|                                                                            | 2015                           | 2014       |
| Income tax benefit (expense) related to items of other comprehensive loss: |                                |            |
| Net investment hedge translation adjustments                               | \$ (340)                       | \$ (3,179) |
| Cash flow hedges                                                           | 499                            | (203)      |
| Other income tax adjustments and currency translation                      | (15)                           | 56         |
| Income tax benefit (expense) related to items of other comprehensive loss  | \$ 144                         | \$ (3,326) |

The income tax expense in the three months ended October 31, 2014 was primarily related to the foreign currency translation adjustment on the Company's Euro-denominated debt, which is designated as a net investment hedge, due to the appreciation of the U.S. dollar against the Euro during the three-month period.

#### NOTE D — Net Earnings 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 October 31, |           |
|------------------------------------------------------------------------------------------------------|--------------------------------|-----------|
|                                                                                                      | 2015                           | 2014      |
| Numerator: (in thousands)                                                                            |                                |           |
| Earnings from continuing operations (Numerator for basic and diluted Class A Nonvoting Common Share) | \$ 18,703                      | \$ 15,499 |
| Less:                                                                                                |                                |           |
| Preferential dividends                                                                               | (783)                          | (794)     |
| Preferential dividends on dilutive stock options                                                     | (1)                            | (1)       |
| Numerator for basic and diluted earnings from continuing operations per Class B Voting Common Share  | \$ 17,919                      | \$ 14,704 |
| Denominator: (in thousands)                                                                          |                                |           |
| Denominator for basic earnings from continuing operations per share for both Class A and Class B     | 51,029                         | 51,251    |
| Plus: Effect of dilutive stock options                                                               | 60                             | 62        |
| Denominator for diluted earnings from continuing operations per share for both Class A and Class B   | 51,089                         | 51,313    |
| Earnings from continuing operations per Class A Nonvoting Common Share:                              |                                |           |
| Basic                                                                                                | \$ 0.37                        | \$ 0.30   |
| Diluted                                                                                              | \$ 0.37                        | \$ 0.30   |
| Earnings from continuing operations per Class B Voting Common Share:                                 |                                |           |
| Basic                                                                                                | \$ 0.35                        | \$ 0.29   |
| Diluted                                                                                              | \$ 0.35                        | \$ 0.29   |
| Loss from discontinued operations per Class A Nonvoting Common Share:                                |                                |           |
| Basic                                                                                                | \$ —                           | \$ (0.03) |
| Diluted                                                                                              | \$ —                           | \$ (0.04) |
| Loss from discontinued operations per Class B Voting Common Share:                                   |                                |           |
| Basic                                                                                                | \$ —                           | \$ (0.04) |
| Diluted                                                                                              | \$ —                           | \$ (0.04) |
| Net earnings per Class A Nonvoting Common Share:                                                     |                                |           |
| Basic                                                                                                | \$ 0.37                        | \$ 0.27   |
| Diluted                                                                                              | \$ 0.37                        | \$ 0.26   |
| Net earnings per Class B Voting Common Share:                                                        |                                |           |
| Basic                                                                                                | \$ 0.35                        | \$ 0.25   |
| Diluted                                                                                              | \$ 0.35                        | \$ 0.25   |

Options to purchase approximately 4,172,000 and 3,897,000 shares of Class A Nonvoting Common Stock for the three months ended October 31, 2015 and 2014, respectively, were not included in the computation of diluted net earnings 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 E — Segment Information

The Company is organized and managed on a global basis within three business platforms, ID Solutions, Workplace Safety, and People Identification ("PeopleID"), which aggregate into two reportable segments: IDS and WPS.

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Segment profit or loss does not include certain administrative costs, such as the cost of finance, information technology, human resources, legal, and executive leadership, which are managed as global functions. Restructuring charges, impairment charges, equity compensation costs, interest expense, investment and other income (expense) and income taxes are also excluded when evaluating segment performance.

Each business platform has a President or Vice-President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each platform has its own distinct operations, which are managed locally by its own management team, maintains its own financial reports and is evaluated based on global segment profit. The Company has determined that these business platforms comprise its three operating segments, which aggregate into two reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

The segment results have been adjusted to reflect continuing operations in all periods presented. The following is a summary of segment information for the three months ended October 31, 2015 and 2014:

|                              | Three months ended October 31, |                   |
|------------------------------|--------------------------------|-------------------|
|                              | 2015                           | 2014              |
| Sales to External Customers: |                                |                   |
| ID Solutions                 | \$ 196,327                     | \$ 212,097        |
| Workplace Safety             | 86,746                         | 98,143            |
| Total Company                | <u>\$ 283,073</u>              | <u>\$ 310,240</u> |
| Segment Profit:              |                                |                   |
| ID Solutions                 | \$ 40,004                      | \$ 43,467         |
| Workplace Safety             | 16,664                         | 15,539            |
| Total Company                | <u>\$ 56,668</u>               | <u>\$ 59,006</u>  |

The following is a reconciliation of segment profit to earnings from continuing operations before income taxes for the three months ended October 31, 2015 and 2014:

|                                                         | Three months ended October 31, |                  |
|---------------------------------------------------------|--------------------------------|------------------|
|                                                         | 2015                           | 2014             |
| Total profit from reportable segments                   | \$ 56,668                      | \$ 59,006        |
| Unallocated amounts:                                    |                                |                  |
| Administrative costs                                    | (26,566)                       | (27,755)         |
| Restructuring charges                                   | —                              | (4,278)          |
| Investment and other (expense) income                   | (759)                          | 323              |
| Interest expense                                        | (2,151)                        | (2,891)          |
| Earnings from continuing operations before income taxes | <u>\$ 27,192</u>               | <u>\$ 24,405</u> |

#### NOTE F – Stock-Based Compensation

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock, restricted stock units ("RSUs"), or restricted and unrestricted shares of Class A Nonvoting Common Stock to employees and non-employee directors.

The options issued under the plan have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest over a three-year service 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 the plan, referred to herein as "service-based" stock options, generally expire 10 years from the date of grant.

Restricted shares and RSUs issued under the plan have an issuance price equal to the fair market value of the underlying stock at the date of grant. The RSUs granted under the plan generally vest over a three-year service period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Shares issued under the plan are referred to herein as "service-based" restricted shares and RSUs.

As of October 31, 2015, the Company has reserved 4,968,479 shares of Class A Nonvoting Common Stock for outstanding stock options, RSUs, and restricted shares and 2,238,223 shares of Class A Nonvoting Common Stock remain for future issuance of stock options, RSUs, and restricted and unrestricted shares under the active plan. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under the plan.

The Company recognizes the compensation cost of all share-based awards at the time it is deemed probable the award will vest. This cost is recognized on a straight-line basis over the vesting period of the award. If it is determined that it is unlikely the award will vest, the expense recognized to date for the award is reversed in the period in which this is evident and the remaining expense is not recorded. Total stock-based compensation expense recognized by the Company during the three months ended October 31, 2015 and 2014, was \$2,596 (\$1,609 net of taxes) and \$1,319 (\$818 net of taxes), respectively.

As of October 31, 2015, total unrecognized compensation cost related to stock-based compensation awards was \$21,053 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 3.0 years.

The Company has estimated the fair value of its service-based stock option awards granted during the three months ended October 31, 2015 and 2014, using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

| Black-Scholes Option Valuation Assumptions                       | Three months ended October 31, |          |
|------------------------------------------------------------------|--------------------------------|----------|
|                                                                  | 2015                           | 2014     |
| Expected term (in years)                                         | 6.12                           | 6.05     |
| Expected volatility                                              | 28.59%                         | 30.27%   |
| Expected dividend yield                                          | 2.59%                          | 2.48%    |
| Risk-free interest rate                                          | 1.64%                          | 1.91%    |
| Weighted-average market value of underlying stock at grant date  | \$ 19.97                       | \$ 22.66 |
| Weighted-average exercise price                                  | \$ 19.97                       | \$ 22.66 |
| Weighted-average fair value of options granted during the period | \$ 4.58                        | \$ 6.10  |

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 calculated as the average of the high and the low stock price on the date of the grant.

A summary of stock option activity under the Company's share-based compensation plans for the three months ended October 31, 2015 is presented below:

| Service-Based Options           | Shares    | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------|-----------|---------------------------------|---------------------------------------------|---------------------------|
| Outstanding at July 31, 2015    | 3,500,951 | \$ 29.64                        |                                             |                           |
| New grants                      | 871,993   | 19.97                           |                                             |                           |
| Exercised                       | 0         | —                               |                                             |                           |
| Forfeited or expired            | (152,462) | 29.50                           |                                             |                           |
| Outstanding at October 31, 2015 | 4,220,482 | \$ 27.64                        | 6.0                                         | \$ 2,953                  |
| Exercisable at October 31, 2015 | 2,923,276 | \$ 30.32                        | 4.5                                         | \$ 390                    |

There were 2,923,276 and 3,339,992 options exercisable with a weighted average exercise price of \$30.32 and \$30.94 at October 31, 2015 and 2014, respectively. The total fair value of stock options vested during the three months ended October 31, 2015 and 2014, was \$2,964 and \$3,684, respectively.

No options were exercised during the three months ended October 31, 2015. The total intrinsic value of options exercised during the three months ended October 31, 2014, based upon the average market price at the time of exercise during the period, was \$7. The cash received from the exercise of options and the tax benefit on these options during the three months ended October 31, 2014 was \$91 and \$3, respectively.

The following table summarizes the RSU activity under the Company's share-based compensation plans for the three months ended October 31, 2015:

| <b>Service-Based RSUs</b>       | <b>Shares</b>  | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|---------------------------------|----------------|-----------------------------------------------------------|
| Outstanding at July 31, 2015    | 677,454        | \$ 24.72                                                  |
| New grants                      | 168,566        | 19.98                                                     |
| Vested                          | (69,829)       | 25.00                                                     |
| Forfeited                       | (28,194)       | 24.00                                                     |
| Outstanding at October 31, 2015 | <u>747,997</u> | \$ 23.66                                                  |

The service-based RSUs granted during the three months ended October 31, 2014 had a weighted-average grant date fair value of \$23.45.

The aggregate intrinsic value of unvested RSUs expected to vest at October 31, 2015 was \$17,017. The total fair value of RSUs vested during the three months ended October 31, 2015 and 2014, was \$1,419 and \$762, respectively.

## NOTE G — 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 October 31, 2015 and July 31, 2015, according to the valuation techniques the Company used to determine their fair values.

|                            | Inputs<br>Considered As                                                 |                                                     | Fair Values | Balance Sheet Classifications             |
|----------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|-------------|-------------------------------------------|
|                            | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets (Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) |             |                                           |
| October 31, 2015           |                                                                         |                                                     |             |                                           |
| Trading securities         | \$ 13,945                                                               | \$ —                                                | \$ 13,945   | Other assets                              |
| Foreign exchange contracts | —                                                                       | 629                                                 | 629         | Prepaid expenses and other current assets |
| Total Assets               | \$ 13,945                                                               | \$ 629                                              | \$ 14,574   |                                           |
| Foreign exchange contracts | \$ —                                                                    | \$ 1,265                                            | \$ 1,265    | Other current liabilities                 |
| Total Liabilities          | \$ —                                                                    | \$ 1,265                                            | \$ 1,265    |                                           |
| July 31, 2015              |                                                                         |                                                     |             |                                           |
| Trading securities         | \$ 15,356                                                               | \$ —                                                | \$ 15,356   | Other assets                              |
| Foreign exchange contracts | —                                                                       | 685                                                 | 685         | Prepaid expenses and other current assets |
| Total Assets               | \$ 15,356                                                               | \$ 685                                              | \$ 16,041   |                                           |
| Foreign exchange contracts | \$ —                                                                    | \$ 1,280                                            | \$ 1,280    | Other current liabilities                 |
| Total Liabilities          | \$ —                                                                    | \$ 1,280                                            | \$ 1,280    |                                           |

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 H, "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 three months ended October 31, 2015 and 2014. 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 three months ended October 31, 2015.

During fiscal 2015, goodwill with carrying amounts of \$26,246 and \$10,866 in the WPS APAC and WPS Americas reporting units, respectively, was written off entirely, resulting in impairment charges of \$37,112. In order to arrive at the implied fair value of goodwill, the Company calculated the fair value of all of the assets and liabilities of the reporting unit as if it had been acquired in a business combination. After assigning fair value to the assets and liabilities of the reporting unit, it was determined there was no excess fair value of the reporting units over the implied fair value of goodwill and thus, the remaining goodwill balances were impaired in fiscal 2015. The goodwill balances represented a Level 3 asset measured at fair value on a nonrecurring basis subsequent to its original recognition.

During fiscal 2015, management evaluated other indefinite-lived intangible assets for recoverability using the income approach. The valuation was based upon current sales projections and profitability for each asset group, and the relief from royalty method was applied. Management evaluated other finite-lived intangible assets for recoverability using an undiscounted cash flow analysis based upon current sales projections and profitability for each asset group. This analysis resulted in an amount that was less than the carrying value of certain finite-lived intangible assets. Management measured the impairment loss of both indefinite and finite-lived intangible assets as the amount by which the carrying amount of the assets exceeded their fair value. As a result, other intangible assets with a carrying amount of \$26,194 were written down to their estimated fair value of \$19,543. These represented Level 3 assets measured at fair value on a nonrecurring basis subsequent to their original recognition. These items resulted in a total impairment charge of \$6,651 in fiscal 2015.

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

The estimated fair value of the Company's short-term and long-term debt obligations, excluding notes payable, based on the quoted market prices for similar issues and on the current rates offered for debt of similar maturities was \$249,607 and \$252,254 at October 31, 2015 and July 31, 2015, respectively, as compared to the carrying value of \$241,434 and \$243,288 at October 31, 2015 and July 31, 2015, respectively.

#### NOTE H — 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 October 31, 2015 and July 31, 2015, the notional amount of outstanding forward exchange contracts was \$126,945 and \$139,300, respectively.

The Company hedges a portion of known exposures using forward exchange contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian dollar, Australian dollar, Malaysian Ringgit and Singapore dollar. 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 earnings.

#### Cash Flow Hedges

The Company has designated a portion of its forward 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 earnings in the same period or periods during which the hedged transaction affects earnings. As of October 31, 2015 and 2014, unrealized losses of \$420 and unrealized gains of \$601 were included in OCI, respectively. These balances are expected to be reclassified from OCI to earnings during the next twelve months when the hedged transactions impact earnings. For the three months ended October 31, 2015 and 2014, the Company reclassified gains of \$457 and losses of \$21 from OCI into earnings, respectively. At October 31, 2015, the U.S. dollar equivalent of these outstanding forward foreign exchange contracts totaled \$24,920, including contracts to sell Euros, Canadian dollars, Australian dollars, British Pounds and U.S. dollars.



## Net Investment Hedges

The Company has also designated intercompany and third party foreign currency denominated debt instruments as net investment hedges. At October 31, 2015, the Company designated £25,036 of intercompany loans as net investment hedges to hedge portions of its net investment in British foreign operations. On May 13, 2010, the Company completed the private placement of €75 million aggregate principal amount of senior unsecured notes to accredited institutional investors. This Euro-denominated debt obligation was designated as a net investment hedge to selectively hedge portions of its net investment in European foreign operations. The Company's foreign denominated debt obligations are valued under a market approach using publicized spot prices.

Additionally, the Company may utilize forward foreign exchange currency contracts designated as hedge instruments to hedge portions of its net investments in foreign operations. The net gains or losses attributable to changes in spot exchange rates are recorded in OCI. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. There were no outstanding forward foreign exchange currency contracts designated as net investment hedges at October 31, 2015 and July 31, 2015.

## Non-Designated Hedges

For the three months ended October 31, 2015 and 2014, the Company recognized losses of \$413 of \$841, respectively, in "Investment and other (expense) income" on the Condensed Consolidated Statements of Earnings related to non-designated hedges.

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

|                                                          | Asset Derivatives                         |            |                                           |            | Liability Derivatives                          |            |                                                |            |
|----------------------------------------------------------|-------------------------------------------|------------|-------------------------------------------|------------|------------------------------------------------|------------|------------------------------------------------|------------|
|                                                          | October 31, 2015                          |            | July 31, 2015                             |            | October 31, 2015                               |            | July 31, 2015                                  |            |
|                                                          | Balance Sheet Location                    | Fair Value | Balance Sheet Location                    | Fair Value | Balance Sheet Location                         | Fair Value | Balance Sheet Location                         | Fair Value |
| <b>Derivatives designated as hedging instruments</b>     |                                           |            |                                           |            |                                                |            |                                                |            |
| Cash flow hedges                                         |                                           |            |                                           |            |                                                |            |                                                |            |
| Foreign exchange contracts                               | Prepaid expenses and other current assets | \$ 463     | Prepaid expenses and other current assets | \$ 518     | Other current liabilities                      | \$ 767     | Other current liabilities                      | \$ 737     |
| Net investment hedges                                    |                                           |            |                                           |            |                                                |            |                                                |            |
| Foreign currency denominated debt                        | Prepaid expenses and other current assets | —          | Prepaid expenses and other current assets | —          | Long term obligations, less current maturities | 120,643    | Long term obligations, less current maturities | 121,514    |
| Total derivatives designated as hedging instruments      |                                           | \$ 463     |                                           | \$ 518     |                                                | \$ 121,410 |                                                | \$ 122,251 |
| <b>Derivatives not designated as hedging instruments</b> |                                           |            |                                           |            |                                                |            |                                                |            |
| Foreign exchange contracts                               | Prepaid expenses and other current assets | \$ 629     | Prepaid expenses and other current assets | \$ 168     | Other current liabilities                      | \$ 1,265   | Other current liabilities                      | \$ 543     |
| Total derivatives not designated as hedging instruments  |                                           | \$ 629     |                                           | \$ 168     |                                                | \$ 1,265   |                                                | \$ 543     |

## NOTE I — Discontinued Operations

The Company entered into an agreement with LTI Flexible Products, Inc. (d/b/a Boyd Corporation) on February 24, 2014, for the sale of the Die-Cut business. The first phase of this divestiture closed on May 1, 2014 and included the Die-Cut businesses in Korea, Thailand and Malaysia, and the Balkhausen business in Europe. The remainder of the Die-Cut business was located in China and it was divested on August 1, 2014. The operating results have been reported as discontinued operations for the three months ended October 31, 2014.

The following table summarizes the operating results of discontinued operations for the three months ended October 31, 2014:

|                                                       | <b>Three months ended<br/>October 31, 2014</b> |
|-------------------------------------------------------|------------------------------------------------|
| Net sales                                             | \$ —                                           |
| Loss from operations of discontinued businesses       | (1,201)                                        |
| Income tax expense                                    | (288)                                          |
| Loss on sale of discontinued operations               | (487)                                          |
| Income tax benefit on sale of discontinued operations | 61                                             |
| Loss from discontinued operations, net of income tax  | \$ (1,915)                                     |

There were no assets or liabilities held for sale as of October 31, 2015 and July 31, 2015, respectively. In accordance with authoritative literature, accumulated other comprehensive income of \$34,697 was reclassified to the Condensed Consolidated Statements of Earnings upon the closing of the second phase of the Die-Cut divestiture during the three months ended October 31, 2014.

#### NOTE J — New Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory", which requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out ("LIFO") is not impacted by the new standard. This guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted and the prospective transition method should be applied. The Company is currently evaluating the impact of this update on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The guidance also clarifies that the performance target should not be reflected in estimating the grant-date fair value of the award. The guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this update to have a material impact on the financial statements of the Company.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which eliminates the transaction-and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-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. Under the new guidance, companies should recognize revenues in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of the new revenue recognition standard by one year. Under the ASU, the new revenue recognition standard is effective for the Company beginning in fiscal 2019. The Company is currently evaluating the impact of this update on its consolidated financial statements.

#### NOTE K — Subsequent Events

On November 18, 2015, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.2025 per share payable on January 29, 2016, to shareholders of record at the close of business on January 8, 2016.

On November 18, 2015, the Company's Board of Directors authorized an increase in the Company's share repurchase program, authorizing the repurchase of an additional 807,692 shares, for a total of up to two million shares of the Company's Class A Common Stock available for repurchase as of that date. The plan may be implemented by purchasing shares in 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.

## 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 are externally sourced. Approximately 45% of our total sales are derived outside of the United States. Foreign sales within the IDS and WPS segments are approximately 40% and 70%, respectively.

The ability to provide customers with a vast array of proprietary, customized and diverse products for use in various applications across multiple customers and geographies, along with a commitment to quality and service, have made Brady a leader in many of its markets. 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 IDS business, our strategy for growth includes an increased focus on key customers, industries and products and improving the efficiency and effectiveness of the research and development ("R&D") function. In our WPS business, our strategy for growth includes a focus on workplace safety critical industries, expansion of our product offerings, and increased investment in digital.

The Company is targeting the following key initiatives in fiscal 2016:

- Driving operational excellence and providing the Company's customers with the highest level of customer service.
- Enhancing our innovation development process and the speed to deliver high-value, innovative products that align with the Company's target markets.
- Performing comprehensive product reviews to optimize the Company's product offerings.
- Expanding our digital presence with a heightened focus on mobile technologies.
- Growing through focused sales and marketing efforts 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 months ended October 31, 2015 and 2014 is as follows:

| (Dollars in thousands)              | Three months ended October 31, |         |            |         |
|-------------------------------------|--------------------------------|---------|------------|---------|
|                                     | 2015                           | % Sales | 2014       | % Sales |
| <b>Net Sales</b>                    | \$ 283,073                     |         | \$ 310,240 |         |
| <b>Gross Margin</b>                 | 139,349                        | 49.2%   | 150,161    | 48.4%   |
| <b>Operating Expenses:</b>          |                                |         |            |         |
| Research and Development            | 8,569                          | 3.0%    | 9,631      | 3.1%    |
| Selling, General and Administrative | 100,678                        | 35.6%   | 109,279    | 35.2%   |
| Restructuring charges               | —                              | —%      | 4,278      | 1.4%    |
| Total operating expenses            | 109,247                        | 38.6%   | 123,188    | 39.7%   |
| <b>Operating Income</b>             | \$ 30,102                      | 10.6%   | \$ 26,973  | 8.7%    |

Sales for the three months ended October 31, 2015 decreased 8.8% to \$283.1 million, compared to \$310.2 million in the same period of the prior year. The decrease in sales consisted of an organic sales decline of 2.2% and a negative currency impact of 6.6%, due to the strengthening of the U.S. dollar against other major currencies during the three-month period. The organic sales decline was 2.4% in the IDS segment and 1.7% in the WPS segment.

Gross margin for the three months ended October 31, 2015 decreased 7.2% to \$139.3 million, compared to \$150.2 million in the same period of the prior year. This decrease was primarily due to the decline in sales and the negative impact of currency fluctuations during the quarter. As a percentage of sales, gross margin increased to 49.2% for the three months ended October 31, 2015, from 48.4% in the same period of the prior year. The increase in gross margin as a percentage of sales was primarily due to an improvement in operational efficiencies in our recently consolidated facilities in the Americas and EMEA, such as lower freight, supplies and labor costs and improvements in material usage and excess inventory and scrap charges compared to the same period in the prior year.

Research and development ("R&D") for the three months ended October 31, 2015 decreased 11.0% to \$8.6 million, compared to \$9.6 million in the same period of the prior year. The decrease in R&D expenses was primarily due to the timing of expenditures. As a percentage of sales, R&D expenses were 3.0% for the three months ended October 31, 2015, which was consistent with the same period of the prior year.

Selling, general and administrative expenses ("SG&A") include selling costs directly attributed to the IDS and WPS segments, as well as administrative expenses including finance, informational technology, human resources, and legal. SG&A decreased 7.9% to \$100.7 million for the three months ended October 31, 2015, compared to \$109.3 million in the same period of the prior year. The decline was primarily due to the strengthening of the U.S. dollar, and to a lesser extent, reduced selling expenses, lower amortization expense, and a reduction in administrative expenses from our continued efforts to drive efficiencies. As a percentage of sales, SG&A was 35.6% for the three months ended October 31, 2015, compared to 35.2% in the same period of the prior year. The increase in SG&A as a percentage of sales was primarily due to currency fluctuations and a higher concentration of SG&A spending in the United States.

In fiscal 2014, the Company announced a restructuring plan to consolidate facilities in the Americas, Europe and Asia. The Company implemented this restructuring plan to enhance customer service, improve efficiency of operations and reduce operating expenses. Restructuring activities related to facility consolidation activities extended into fiscal 2015 and were complete at the end of fiscal 2015. The Company expects to realize operational efficiencies from these actions in fiscal 2016 and over the longer-term.

No restructuring charges were incurred by the Company during the three months ended October 31, 2015. Restructuring charges for the three months ended October 31, 2014 were \$4.3 million, which consisted primarily of employee separation costs and facility closure costs. Approximately \$2.4 million and \$1.9 million were incurred in the IDS and WPS segments, respectively.

Operating income was \$30.1 million for the three months ended October 31, 2015. Operating income was \$27.0 million for the three months ended October 31, 2014. Excluding restructuring charges of \$4.3 million, operating income was \$31.3 million for the three months ended October 31, 2014. The decrease of \$1.2 million was mainly due to the negative impact of currency fluctuations during the three months ended October 31, 2015 compared to the same period of the prior year and the segment profit decline in the IDS segment, which is discussed in further detail within the Business Segment Operating Results section below.

## OPERATING INCOME TO NET EARNINGS

| (Dollars in thousands)                                 | Three months ended October 31, |         |           |         |
|--------------------------------------------------------|--------------------------------|---------|-----------|---------|
|                                                        | 2015                           | % Sales | 2014      | % Sales |
| Operating income                                       | \$ 30,102                      | 10.6 %  | \$ 26,973 | 8.7 %   |
| Other income and (expense):                            |                                |         |           |         |
| Investment and other (expense) income                  | (759)                          | (0.3)%  | 323       | 0.1 %   |
| Interest expense                                       | (2,151)                        | (0.8)%  | (2,891)   | (0.9)%  |
| Earnings from continuing operations before income tax  | 27,192                         | 9.6 %   | 24,405    | 7.9 %   |
| Income tax expense                                     | 8,489                          | 3.0 %   | 8,906     | 2.9 %   |
| Earnings from continuing operations                    | \$ 18,703                      | 6.6 %   | \$ 15,499 | 5.0 %   |
| Loss from discontinued operations, net of income taxes | —                              | — %     | (1,915)   | (0.6)%  |
| Net earnings                                           | \$ 18,703                      | 6.6 %   | \$ 13,584 | 4.4 %   |

Investment and other expense was \$0.8 million for the three months ended October 31, 2015, compared to other income of \$0.3 million for the same period in the prior year. This change was primarily due to the decline in market value of securities held in the executive deferred compensation plans. The Company recognized losses of \$0.4 million on these securities during the three months ended October 31, 2015, compared to gains of \$0.4 million during the same period of the prior year.

Interest expense decreased to \$2.2 million for the three months ended October 31, 2015, from \$2.9 million for the same period in the prior year. This decrease was due to a reduction in the weighted average interest rate on the revolving debt and the Company's declining principal balance under its outstanding long-term debt agreements.

The Company's income tax rate on continuing operations was 31.2% for the three months ended October 31, 2015, compared to 36.5% for the three months ended October 31, 2014. The decrease in the income tax rate was primarily due to certain adjustments, which increased the prior year income tax rate. The tax rate is anticipated to be in the upper 20% range for fiscal year 2016.

### *Business Segment Operating Results*

The Company is organized and managed on a global basis within two reportable segments: ID Solutions and Workplace Safety. The segment results have been adjusted to reflect continuing operations in all periods presented. The sales and profit of discontinued operations for the three months ended October 31, 2014 are excluded from the following information.

The following is a summary of segment information for the three months ended October 31, 2015 and 2014:

| (Dollars in thousands)                      | Three months ended October 31, |                   |
|---------------------------------------------|--------------------------------|-------------------|
|                                             | 2015                           | 2014              |
| <b>SALES TO EXTERNAL CUSTOMERS</b>          |                                |                   |
| ID Solutions                                | \$ 196,327                     | \$ 212,097        |
| Workplace Safety                            | 86,746                         | 98,143            |
| Total                                       | <u>\$ 283,073</u>              | <u>\$ 310,240</u> |
| <b>SALES GROWTH INFORMATION</b>             |                                |                   |
| <i><b>ID Solutions</b></i>                  |                                |                   |
| Organic                                     | (2.4)%                         | 2.4 %             |
| Currency                                    | (5.0)%                         | (1.2)%            |
| Total                                       | <u>(7.4)%</u>                  | <u>1.2 %</u>      |
| <i><b>Workplace Safety</b></i>              |                                |                   |
| Organic                                     | (1.7)%                         | 2.4 %             |
| Currency                                    | (9.9)%                         | (2.2)%            |
| Total                                       | <u>(11.6)%</u>                 | <u>0.2 %</u>      |
| <i><b>Total Company</b></i>                 |                                |                   |
| Organic                                     | (2.2)%                         | 2.4 %             |
| Currency                                    | (6.6)%                         | (1.5)%            |
| Total                                       | <u>(8.8)%</u>                  | <u>0.9 %</u>      |
| <b>SEGMENT PROFIT</b>                       |                                |                   |
| ID Solutions                                | \$ 40,004                      | \$ 43,467         |
| Workplace Safety                            | 16,664                         | 15,539            |
| Total                                       | <u>\$ 56,668</u>               | <u>\$ 59,006</u>  |
| <b>SEGMENT PROFIT AS A PERCENT OF SALES</b> |                                |                   |
| ID Solutions                                | 20.4 %                         | 20.5 %            |
| Workplace Safety                            | 19.2 %                         | 15.8 %            |
| Total                                       | <u>20.0 %</u>                  | <u>19.0 %</u>     |

The following is a reconciliation of segment profit to earnings from continuing operations before income taxes for the three months ended October 31, 2015 and 2014:

|                                                         | Three months ended October 31, |           |
|---------------------------------------------------------|--------------------------------|-----------|
|                                                         | 2015                           | 2014      |
| Total profit from reportable segments                   | \$ 56,668                      | \$ 59,006 |
| Unallocated amounts:                                    |                                |           |
| Administrative costs                                    | (26,566)                       | (27,755)  |
| Restructuring charges                                   | —                              | (4,278)   |
| Investment and other (expense) income                   | (759)                          | 323       |
| Interest expense                                        | (2,151)                        | (2,891)   |
| Earnings from continuing operations before income taxes | \$ 27,192                      | \$ 24,405 |

## ID Solutions

Approximately 70% of net sales in the IDS segment were generated in the Americas region, 20% in Europe and 10% in Asia. IDS sales decreased 7.4% to \$196.3 million for the three months ended October 31, 2015, compared to \$212.1 million for the same period in the prior year. Organic sales in the IDS segment continued the trend from the preceding quarter and declined in the low-single digits. Organic sales decreased 2.4% and currency fluctuations decreased sales by 5.0% for the three months ended October 31, 2015, compared to the same period in the prior year.

Organic sales in the Americas declined in the mid-single digits for the three months ended October 31, 2015, as compared to the same period in the prior year. This decline was primarily due to a slow down in order patterns with certain of our end customers in North America, and a double-digit decline in OEM sales in Brazil due to weak economic conditions and increased competitive pressure.

The IDS business in Europe continued the trend from fiscal 2015 with low-single digit organic sales growth for the three months ended October 31, 2015, as compared to the same period in the prior year. This increase was primarily driven by Central Europe where we have increased our salesforce and expanded in focused geographies.

Organic sales in Asia declined in the mid-single digits for the three months ended October 31, 2015, as compared to the same period in the prior year. This decline was primarily due to reduced demand in China, Singapore and Japan as a result of the weakening economies.

Segment profit decreased 8.0% to \$40.0 million for the three months ended October 31, 2015, compared to \$43.5 million in the same period of the prior year. This decrease was primarily due to the negative impact of currency fluctuations during the quarter. As a percentage of sales, segment profit was 20.4% for the three months ended October 31, 2015, compared to 20.5% in the same period of the prior year. The slight decline in segment profit as a percentage of sales was primarily due to the decline in organic sales during the three-month period, essentially offset by an improvement in operational efficiencies in our recently consolidated facilities.

## WPS

Approximately 50% of net sales in the WPS segment were generated in Europe, 35% in the Americas and 15% in Australia. WPS sales decreased 11.6% to \$86.7 million from \$98.1 million for the three months ended October 31, 2015 and 2014, respectively. Organic sales decreased 1.7% and currency fluctuations decreased sales by 9.9%. Because approximately half of the WPS business is located in Europe and another 15% of the WPS segment is in Australia, the strengthening of the U.S. dollar against the Euro and Australian dollar had a larger impact on the results of the WPS segment than it did on the results of the IDS segment.

Although we experienced an organic sales decline for the quarter ended October 31, 2015, the rate of decline has slowed as compared to the preceding quarter and the organic sales decline has lessened each year since fiscal 2013. This improving trend is a result of our focus on workplace safety critical industries, efforts to optimize our product offerings, and our increased investment in digital.

Organic sales in Europe grew in the low-single digits for the three months ended October 31, 2015, compared to the same period in the prior year. This growth was driven primarily by Germany, France, and Belgium due to improvements in website functionality and key account management. We experienced double-digit growth in digital sales, partially offset by a slight decline in traditional catalog sales for the three-month period compared to the same period in the prior year.

Organic sales in the Americas declined in the mid-single digits for the three months ended October 31, 2015, compared to the same period in the prior year. This decrease was primarily due to reduced demand in the industrial end markets and a decrease in sales through traditional catalog channels.

Organic sales in Australia declined in the low-single digits for the three months ended October 31, 2015, as compared to the same period of the prior year. Our business in Australia is diversified in many industries; however, it has a higher concentration in industries that are experiencing ongoing economic challenges, including manufacturing and mining production. Although we experienced an organic sales decline in the quarter ended October 31, 2015, the rate of decline has slowed as compared to the quarter ended July 31, 2015.

Segment profit increased to \$16.7 million for the three months ended October 31, 2015, compared to \$15.5 million in the same period of the prior year. As a percentage of sales, segment profit increased to 19.2% for the three months ended October 31, 2015, compared to 15.8% in the same period of the prior year. The increase in segment profit was primarily due to reduced catalog advertising expenses and an improvement in operational efficiencies.

## Financial Condition

Cash and cash equivalents decreased by \$3.9 million and increased by \$34.6 million during the three months ended October 31, 2015 and 2014, respectively. The significant changes were as follows:

| (Dollars in thousands)                               | Three months ended October 31, |           |
|------------------------------------------------------|--------------------------------|-----------|
|                                                      | 2015                           | 2014      |
| Net cash flow provided by (used in):                 |                                |           |
| Operating activities                                 | \$ 30,370                      | \$ 18,604 |
| Investing activities                                 | (795)                          | (2,088)   |
| Financing activities                                 | (30,891)                       | 21,890    |
| Effect of exchange rate changes on cash              | (2,566)                        | (3,766)   |
| Net (decrease) increase in cash and cash equivalents | \$ (3,882)                     | \$ 34,640 |

Net cash provided by operating activities was \$30.4 million for the three months ended October 31, 2015, compared to \$18.6 million in the same period of the prior year. The increase in cash provided by operating activities of \$11.8 million was due primarily to an increase in net earnings and changes in working capital. Cash used for working capital was \$0.5 million for the three months ended October 31, 2015, compared to \$9.4 million in the same period of the prior year primarily due to the planned increase in inventory in the prior year to maintain service levels during the facility consolidations.

Net cash used in investing activities was \$0.8 million for the three months ended October 31, 2015, compared to \$2.1 million used in the same period of the prior year. The decrease in cash used in investing activities was due primarily to a decrease in capital expenditures of \$9.1 million due to the completion of facility consolidation activities, partially offset by \$8.8 million of cash received from the Die-Cut divestiture during the three months ended October 31, 2014.

Net cash used in financing activities was \$30.9 million during the three months ended October 31, 2015, compared to net cash provided by financing activities of \$21.9 million in the same period of the prior year. The increase in cash used in financing activities was primarily due to \$16.2 million in share repurchases and \$2.7 million of repayments on the revolving loan agreements during the three months ended October 31, 2015, compared to \$33.3 million in net borrowings on the revolving loan agreements in the same period of the prior year. The Company paid dividends of \$10.2 million in both the three months ended October 31, 2015 and 2014.

During fiscal 2006 and 2007, the Company completed two private placement note issuances totaling \$350 million in ten-year fixed rate notes with varying maturity dates to institutional investors at interest rates varying from 5.30% to 5.33%. The notes must be repaid equally over seven years, with final payments due in 2016 and 2017, with interest payable on the notes due semiannually on various dates throughout the year. The notes have certain prepayment penalties for repaying them prior to the maturity date.

On May 13, 2010, the Company completed a private placement of €75 million aggregate principal amount of senior unsecured notes to accredited institutional investors. The €75 million of senior notes consists of €30 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, due May 13, 2017 and €45 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. The notes have certain prepayment penalties for repaying them prior to maturity.

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 that replaced and terminated the Company's previous loan agreement that had been entered into on February 1, 2012. Under the new revolving loan agreement, which has a final maturity date of September 25, 2020, 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%, the prime rate of Bank of America plus a margin based on the Company's consolidated leverage ratio, or the one-month LIBOR rate plus 1%) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). 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. During the three months ended October 31, 2015, the Company repaid \$1.5 million and as of October 31, 2015, the outstanding balance on the credit facility was \$100.5 million. The Company also had letters of credit outstanding under the loan agreement of \$3.3 million as of October 31, 2015 and there was \$196.2 million available for future borrowing, which can be increased to \$346.2 million at the Company's option, subject to certain conditions.

In fiscal 2015, the Company entered into two unsecured \$10.0 million multi-currency lines of credit in China. These lines of credit support USD-denominated or CNY-denominated borrowing to fund working capital and operations for the Company's Chinese entities and are due on demand. The borrowings under these facilities may be made for a period up to one year from the date of borrowing with interest on the borrowings incurred equal to U.S. dollar LIBOR on the date of borrowing plus a margin based upon duration. The facilities are subject to periodic review and repricing. The Company is not required to comply with any financial covenants as part of this agreement. During the three months ended October 31, 2015, the Company repaid \$1.2 million of this borrowing. As of October 31, 2015, the aggregate outstanding balance of these lines was \$9.2 million and there was \$10.8 million available for future borrowing under these facilities.

The Company's debt agreements require it to maintain certain financial covenants, including a ratio of debt to the trailing twelve months EBITDA, as defined in the debt agreements, of not more than a 3.25 to 1.0 ratio (leverage ratio) and the trailing twelve months EBITDA to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of October 31, 2015, the Company was in compliance with these financial covenants, with the ratio of debt to EBITDA, as defined by the agreements, equal to 1.8 to 1.0 and the interest expense coverage ratio equal to 13.7 to 1.0.

The Company's cash balances are generated and held in numerous locations throughout the world. At October 31, 2015, approximately 99% 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, in addition to 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 twelve months.

#### Subsequent Events

On November 18, 2015, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A and Class B Common Stock of \$0.2025 per share payable on January 29, 2016, to shareholders of record at the close of business on January 8, 2016.

On November 18, 2015, the Company's Board of Directors authorized an increase in the Company's share repurchase program, authorizing the repurchase of an additional 807,692 shares, for a total of up to two million shares of the Company's Class A Common Stock available for repurchase as of that date. The plan may be implemented by purchasing shares in 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.

#### 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 may be "forward-looking statements." These forward-looking statements relate to, among other things, the Company'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.

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:

- Implementation of the Workplace Safety strategy;
- Brady's ability to develop and successfully market technologically advanced new products;
- Risks associated with restructuring plans and maintaining acceptable operational service metrics;
- Technology changes and potential security violations to the Company's information technology systems;
- Future competition;
- Future financial performance of major markets Brady serves, which include, without limitation, telecommunications, hard disk drive, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, healthcare and transportation;
- Fluctuations in currency rates versus the U.S. dollar;
- Risks associated with international operations;
- Difficulties associated with exports;
- Changes in the supply of, or price for, parts and components;
- Increased price pressure from suppliers and customers;
- Brady's ability to retain significant contracts and customers;
- Risk associated with loss of key talent;
- Risks associated with obtaining governmental approvals and maintaining regulatory compliance;
- Risk associated with product liability claims;
- Environmental, health and safety compliance costs and liabilities;
- Potential write-offs of Brady's substantial intangible assets;
- Unforeseen tax consequences;
- Risks associated with divestitures;
- Risks associated with identifying, completing, and integrating acquisitions;
- Risks associated with our ownership structure;
- Brady's ability to maintain compliance with its debt covenants;
- Increase in our level of debt; 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 within Item 1A of Part I of the Form 10-K filed with the SEC on September 21, 2015.

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, 2015. There has been no material change in this information since July 31, 2015.

### 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 Senior Vice President and Chief Financial Officer, 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 & Chief Executive Officer and Senior Vice President and Chief Financial Officer 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 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As of July 31, 2015, the Company had a share repurchase program with 966,242 shares of the Company's Class A Nonvoting Common Stock remaining to be purchased. On September 10, 2015, the Company's Board of Directors authorized an increase in the share repurchase program of 1,033,758 additional shares. During the three months ended October 31, 2015, the Company purchased 807,692 shares of its Class A Nonvoting Common Stock under its share repurchase plan for \$16.2 million. As of October 31, 2015, there remained 1,192,308 shares to purchase in connection with this plan.

The following table provides information with respect to the purchase of Class A Nonvoting Common Stock during the three months ended October 31, 2015:

| Period                                 | Total Number<br>of Shares<br>Purchased | Average Price<br>paid per share | Total Number<br>of Shares<br>Purchased As<br>Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Number of<br>Shares That<br>May Yet Be<br>Purchased<br>Under the<br>Plans |
|----------------------------------------|----------------------------------------|---------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| August 1, 2015 - August 31, 2015       | —                                      | \$ —                            | —                                                                                      | 966,242                                                                              |
| September 1, 2015 - September 30, 2015 | 610,478                                | 20.08                           | 610,478                                                                                | 1,389,522                                                                            |
| October 1, 2015 - October 31, 2015     | 197,214                                | 19.79                           | 197,214                                                                                | 1,192,308                                                                            |
| Total                                  | 807,692                                | \$ 20.01                        | 807,692                                                                                | 1,192,308                                                                            |

### ITEM 6. EXHIBITS

#### (a) Exhibits

10.1 Restricted Stock Unit Agreement, dated as of September 25, 2015, with Harold L. Sirkin

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

32.1 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: November 19, 2015

/s/ J. MICHAEL NAUMAN

J. Michael Nauman  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 19, 2015

/s/ AARON J. PEARCE

Aaron J. Pearce  
Senior Vice President, Chief Financial Officer and  
Chief Accounting Officer  
(Principal Financial Officer)

**BRADY CORPORATION**  
**DIRECTOR RESTRICTED STOCK UNIT AGREEMENT**

Restricted stock unit award effective September 25, 2015 to Harold L. Sirkin (hereinafter called the "Director") pursuant to the terms of the Brady Corporation (the "Corporation") 2012 Omnibus Incentive Stock Plan (the "Plan"). The Corporation's records shall be the official record of the grant described herein and, in the event of any conflict between this description and the Corporation's records, the Corporation's records shall control.

1. **Number of Units**

This Restricted Stock Unit Award applies to 4,159 shares of the presently authorized Class A Nonvoting Common Stock of the Corporation, \$.01 par value (the "Restricted Stock Units"). The Restricted Stock Units granted under this Agreement are units that will be reflected in a book account maintained by the Corporation until they become vested or have been forfeited.

2. **Service Vesting Requirement**

The vesting of this Award (other than pursuant to accelerated vesting in certain circumstances as provided in Section 3 below) shall be subject to the satisfaction of the condition set forth in Section 2(a) below:

- (a) **Vesting.** The Award shall be subject to the following service vesting requirement: the Director must continuously serve as a member of the Board of Directors of the Corporation through February 28, 2016.
- (b) **Forfeiture of Restricted Stock Units.** Except as provided in Section 3, if the Director's service as a member of the Board of Directors of the Corporation terminates prior to the satisfaction of the vesting requirement set forth in Section 2(a) above, any unvested Restricted Stock Units shall immediately be forfeited. The period of time during which the Restricted Stock Units covered by this Award are forfeitable is referred to as the "Restricted Period."

3. **Accelerated Vesting.**

- (a) Notwithstanding the terms and conditions of Section 2 hereof, in the event the Director's service as a member of the Board of Directors of the Corporation is terminated prior to the end of the Restricted Period due to death or Disability, the Restricted Stock Units shall become fully vested. For purposes of this Agreement, "Disability" means that the Director is disabled as a result of sickness or injury, such that he is unable satisfactorily to perform the Director's duties as determined by the Board of Directors, on the basis of medical evidence satisfactory to it.
- (b) In the event the Director's service as a member of the Board of Directors of the Corporation is terminated prior to the end of the Restricted Period due to a Change in Control, the Restricted Stock Units shall become unrestricted and fully vested.

For purposes of this Agreement, a "Change of Control" shall occur if any person or group of persons (as defined in Section 13(d)(3) of the Securities and Exchange Act of 1934) other than the members of the family of William H. Brady, Jr. and their descendants, or trusts for their benefit, and the W. H. Brady Foundation, Inc., collectively, directly or indirectly controls in excess of 50% of the voting common stock of the Corporation.

For purposes of this Agreement, a termination due to Change of Control shall occur if within the 12 month period beginning with the date a Change of Control occurs the Director's service as a member of the Board of Directors is involuntarily terminated (other than by reason of death or Disability).

- (c) In the event of (i) the merger or consolidation of the Corporation with or into another corporation or corporations in which the Corporation is not the surviving corporation, (ii) the adoption of any plan for the dissolution of the Corporation, or (iii) the sale or exchange of all or substantially all the assets of the Corporation for cash or for shares of stock or other securities of another corporation, the Restricted Stock Units shall become fully vested.
- (d) If the vesting of the Restricted Stock Units would result in any excise tax to the Director as a result of Section 280G of the Code, the Corporation shall pay the Director an amount equal to such excise tax.

4. **No Dividends**

No dividends will be paid or accrued on any Restricted Stock Units during the Restricted Period.

5. **Settlement of Restricted Stock Units.**

As soon as practicable after Restricted Stock Units become vested, the Company shall deliver to the Director one share of the Corporation's Class A Nonvoting Common Stock, \$.01 par value ("Corporation Stock") for each Restricted Stock Unit which becomes vested.

6. **Transfer Restrictions**

This Award is non-transferable and may not be assigned, pledged or hypothecated and shall not be subject to execution, attachment or similar process. Upon any attempt to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void and the Restricted Stock Units shall be forfeited.

7. **Withholding Taxes**

The Corporation may require payment of or withhold any tax which it believes is payable as a result of the Restricted Stock Units becoming vested, and the Corporation may defer making delivery of the Corporation Stock until arrangements satisfactory to the Corporation have been made with regard to any such withholding obligations. In lieu of part or all of any such payment, the Directors, in satisfaction of all withholding taxes (including, without limitation, Federal income, FICA (Social Security and Medicare) and any state and local income taxes) payable as a result of such vesting, may elect, subject to such rules and regulations as the Corporation may adopt from time to time, to have the Corporation withhold that number of shares of Corporation Stock (valued at Fair Market Value on the date of vesting and rounded upward) required to settle such withholding taxes.

8. **Death of Director**

If the Restricted Stock Units shall vest upon the death of the Director, the shares of Corporation Stock shall be issued and paid to the estate of the Director unless the Corporation shall have theretofore received in writing a beneficiary designation, in which event they shall be issued and paid to the designated beneficiary.

9. **Clawback**

This Award is subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of awards or any shares of Corporation Stock or other cash or property received with respect to the awards (including any value received from a disposition of the shares acquired upon payment of the awards).

10. **Adjustment of Shares**

The terms and provisions of this Award (including, without limitation, the terms and provisions relating to the number and class of shares subject to this Award) shall be subject to appropriate adjustment in the event of any recapitalization, merger, consolidation, disposition of property or stock, separation, reorganization, stock dividend, issuance of rights, combination or split-up or exchange of shares, or the like.

11. **Provisions of Plan Controlling**

This Award is subject in all respects to the provisions of the Plan. In the event of any conflict between any provisions of this Award and the provisions of the Plan, the provisions of the Plan shall control, except to the extent the Plan permits the Corporation to modify the terms of an Award grant and has done so herein. Terms defined in the Plan where used herein shall have the meanings as so defined. The Director acknowledges receipt of a copy of the Plan.

12. **Wisconsin Contract**

This Award has been granted in Wisconsin and shall be construed under the laws of that state.

13. **Severability**

Wherever possible, each provision of this Award will be interpreted in such manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions hereof.

IN WITNESS WHEREOF, the Corporation has granted this Award as of the day and year first above written.

**BRADY CORPORATION**

By: /s/ J. MICHAEL NAUMAN  
Name: J. Michael Nauman  
Its: President and Chief Executive Officer

**DIRECTOR'S ACCEPTANCE**

I, Harold L. Sirkin, hereby accept the foregoing Award and agree to the terms and conditions thereof.

**DIRECTOR:**

Signature: /s/ HAROLD L. SIRKIN  
Print Name: Harold L. Sirkin

**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: November 19, 2015

/s/ J. MICHAEL NAUMAN

President & Chief Executive Officer

(Principal Executive Officer)



**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: November 19, 2015

/s/ AARON J. PEARCE

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Senior Vice President, Chief Financial Officer and Chief Accounting Officer  
(Principal Financial Officer)

**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 October 31, 2015 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: November 19, 2015

/s/ J. MICHAEL NAUMAN

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President & 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.

**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 October 31, 2015 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: November 19, 2015

/s/ AARON J. PEARCE

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Senior Vice President, Chief Financial Officer and Chief  
Accounting Officer  
(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.