

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q



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

For the Quarterly Period Ended January 31, 2008

OR



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

For the Transition Period from _____ to _____

Commission File Number 1-14959

BRADY CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-0178960

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

6555 West Good Hope Road, Milwaukee, Wisconsin 53223

(Address of principal executive offices)

(Zip Code)

(414) 358-6600

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting Company ☐

(Do not check if a 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 March 2, 2008, there were outstanding 50,784,181 shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

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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)

	<u>January 31, 2008</u> (Unaudited)	<u>July 31, 2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 198,439	\$ 142,846
Short term investments	—	19,200
Accounts receivable, less allowance for losses (\$8,960 and \$9,109, respectively)	242,394	239,569
Inventories:		
Finished products	82,783	80,486
Work-in-process	21,164	21,309
Raw materials and supplies	35,867	37,983
Total inventories	139,814	139,778
Prepaid expenses and other current assets	45,946	42,020
Total current assets	626,593	583,413
Other assets:		
Goodwill	768,850	737,450
Other intangible assets	148,468	149,761
Deferred income taxes	31,070	32,508
Other	24,697	21,111
Property, plant and equipment:		
Cost:		
Land	6,394	6,332
Buildings and improvements	93,938	90,688
Machinery and equipment	264,611	248,356
Construction in progress	14,531	18,107
	379,474	363,483
Less accumulated depreciation	205,240	188,869
Net property, plant and equipment	174,234	174,614
Total	<u>\$ 1,773,912</u>	<u>\$ 1,698,857</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable	\$ 96,220	\$ 91,596
Wages and amounts withheld from employees	62,065	73,622
Taxes, other than income taxes	7,789	8,461
Accrued income taxes	12,804	24,677
Other current liabilities	53,129	60,254
Short-term borrowings and current maturities on long-term obligations	21,436	21,444
Total current liabilities	253,443	280,054
Long-term obligations, less current maturities	478,572	478,575
Other liabilities	62,899	49,216
Total liabilities	794,914	807,845

Stockholders' investment:

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	<u>January 31, 2008</u> (Unaudited)	<u>July 31, 2007</u>
Class A nonvoting common stock — Issued and outstanding 51,032,887 and 50,586,524 shares, respectively	510	506
Class B voting common stock — Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	284,761	266,203
Earnings retained in the business	586,111	540,238
Accumulated other comprehensive income	107,035	83,376
Other	<u>546</u>	<u>654</u>
Total stockholders' investment	978,998	891,012
Total	<u>\$ 1,773,912</u>	<u>\$ 1,698,857</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended January 31, (Unaudited)			Six Months Ended January 31, (Unaudited)		
	2008	2007	Percentage Change	2008	2007	Percentage Change
Net sales	\$ 364,124	\$ 321,275	13.3%	\$ 744,258	\$ 653,534	13.9%
Cost of products sold	<u>189,101</u>	<u>171,114</u>	10.5%	<u>381,567</u>	<u>339,245</u>	12.5%
Gross margin	175,023	150,161	16.6%	362,691	314,289	15.4%
Operating expenses:						
Research and development	10,071	9,082	10.9%	19,050	17,614	8.2%
Selling, general and administrative	<u>122,508</u>	<u>108,355</u>	13.1%	<u>242,859</u>	<u>212,010</u>	14.6%
Total operating expenses	132,579	117,437	12.9%	261,909	229,624	14.1%
Operating income	42,444	32,724	29.7%	100,782	84,665	19.0%
Other income (expense):						
Investment and other income(expense)						
— net	2,269	(106)	NM	2,387	532	348.7%
Interest expense	<u>(6,747)</u>	<u>(5,244)</u>	28.7%	<u>(13,467)</u>	<u>(9,979)</u>	35.0%
Income before income taxes	37,966	27,374	38.7%	89,702	75,218	19.3%
Income taxes	<u>11,276</u>	<u>7,665</u>	47.1%	<u>26,642</u>	<u>21,061</u>	26.5%
Net income	<u>\$ 26,690</u>	<u>\$ 19,709</u>	35.4%	<u>\$ 63,060</u>	<u>\$ 54,157</u>	16.4%
Per Class A Nonvoting Common Share:						
Basic net income	\$ 0.49	\$ 0.37	32.4%	\$ 1.16	\$ 1.01	14.9%
Diluted net income	\$ 0.48	\$ 0.36	33.3%	\$ 1.14	\$ 0.99	15.2%
Dividends	\$ 0.15	\$ 0.14	7.1%	\$ 0.30	\$ 0.28	7.1%
Per Class B Voting Common Share:						
Basic net income	\$ 0.49	\$ 0.37	32.4%	\$ 1.14	\$ 0.99	15.2%
Diluted net income	\$ 0.48	\$ 0.36	33.3%	\$ 1.13	\$ 0.97	16.5%
Dividends	\$ 0.15	\$ 0.14	7.1%	\$ 0.28	\$ 0.26	7.7%
Weighted average common shares outstanding (in thousands):						
Basic	54,510	53,894		54,430	53,814	
Diluted	55,228	54,789		55,175	54,697	

NM = Not Meaningful

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended January 31, (Unaudited)	
	2008	2007
Operating activities:		
Net income	\$ 63,060	\$ 54,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,669	26,096
Deferred income taxes	(1,527)	(542)
Loss on disposal of property, plant & equipment	1,010	305
Non-cash portion of stock-based compensation expense	6,382	3,669
Changes in operating assets and liabilities (net of effects of business acquisitions):		
Accounts receivable	7,080	(14,036)
Inventories	7,571	(14,787)
Prepaid expenses and other assets	(7,339)	(8,590)
Accounts payable and accrued liabilities	(17,117)	(8,316)
Income taxes	(1,266)	(3,411)
Other liabilities	325	2,514
Net cash provided by operating activities	87,848	37,059
Investing activities:		
Acquisition of businesses, net of cash acquired	(24,552)	(90,418)
Payments of contingent consideration	(5,798)	(9,329)
Purchases of short-term investments	(10,350)	—
Sales of short-term investments	29,550	11,500
Purchases of property, plant and equipment	(14,358)	(31,901)
Other	(3,259)	(5,831)
Net cash used in investing activities	(28,767)	(125,979)
Financing activities:		
Payment of dividends	(16,285)	(15,014)
Proceeds from issuance of common stock	7,980	3,837
Principal payments on debt	(9)	(26,231)
Proceeds from issuance of debt	—	97,020
Excess income tax benefit from the exercise of stock options and deferred compensation distribution	4,093	763
Net cash (used in) provided by financing activities	(4,221)	60,375
Effect of exchange rate changes on cash	733	1,945
Net increase (decrease) in cash and cash equivalents	55,593	(26,600)
Cash and cash equivalents, beginning of period	142,846	113,008
Cash and cash equivalents, end of period	<u>\$ 198,439</u>	<u>\$ 86,408</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 13,153	\$ 9,754
Income taxes, net of refunds	26,381	23,983
Acquisitions:		
Fair value of assets acquired, net of cash and goodwill	\$ 17,279	\$ 50,042
Liabilities assumed	(6,371)	(15,617)
Goodwill	13,644	55,993
Net cash paid for acquisitions	<u>\$ 24,552</u>	<u>\$ 90,418</u>

See Notes to Condensed Consolidated Financial Statements.

BRADY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended January 31, 2008
(Unaudited)
(In thousands, except share and per share amounts)

NOTE A — Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the “Company” or “Brady”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments and the impact of adopting Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) (see Note I for further information) as of August 1, 2007, necessary to present fairly the financial position of the Company as of January 31, 2008 and July 31, 2007, its results of operations for the three and six months ended January 31, 2008 and 2007, and its cash flows for the six months ended January 31, 2008 and 2007. The condensed consolidated balance sheet as of July 31, 2007 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, 2007.

NOTE B — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended January 31, 2008, are as follows:

	<u>Brady Americas</u>	<u>Direct Marketing & People ID Americas</u>	<u>Europe</u>	<u>Asia-Pacific</u>	<u>Total</u>
Balance as of July 31, 2007	\$ 143,775	\$ 260,299	\$ 163,699	\$ 169,677	\$ 737,450
Goodwill acquired during the period	—	—	13,644	—	13,644
Adjustments for prior year acquisitions	(392)	700	(246)	3,765	3,827
Translation adjustments	653	847	6,434	5,995	13,929
Balance as of January 31, 2008	<u>\$ 144,036</u>	<u>\$ 261,846</u>	<u>\$ 183,531</u>	<u>\$ 179,437</u>	<u>\$ 768,850</u>

Goodwill increased \$31,400 during the six months ended January 31, 2008. A significant component of the increase related to the November 2007 acquisitions of Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively “Transposafe”), which added \$13,644. Goodwill also increased as a result of adjustments to the preliminary allocation of purchase price for the acquisitions completed in fiscal 2007, of which the largest adjustment related to the final purchase price adjustments for Comprehensive Identification Products, Inc (“CIPI”) which added \$3,668. Of the \$3,668 increase in goodwill attributed to the allocation of the purchase price for CIPI, \$1,609 related to the adoption of FIN 48 (see Note I), \$1,250 related to the accrual for employee termination costs, and the remaining \$809 related to various exit costs associated with the closure of a facility. Additionally, during the six months ended January 31, 2008, goodwill increased by \$13,929 due the effects of foreign currency translation.

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

	January 31, 2008				July 31, 2007			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	15	\$ 8,424	\$ (6,238)	\$ 2,186	15	\$ 8,392	\$ (5,913)	\$ 2,479
Trademarks and other	4	6,063	(4,225)	1,838	5	4,510	(3,250)	1,260
Customer relationships	7	144,295	(47,516)	96,779	7	134,125	(36,674)	97,451
Non-compete agreements	4	11,821	(7,345)	4,476	4	11,364	(6,294)	5,070
Other	5	3,298	(2,868)	430	5	3,297	(2,554)	743
Unamortized other intangible assets:								
Trademarks	N/A	42,759	—	42,759	N/A	42,758	—	42,758
Total		<u>\$ 216,660</u>	<u>\$ (68,192)</u>	<u>\$ 148,468</u>		<u>\$ 204,446</u>	<u>\$ (54,685)</u>	<u>\$ 149,761</u>

The value of goodwill and other intangible assets in the Condensed Consolidated Balance Sheet at January 31, 2008 differs from the value assigned to them in the allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate financial statements into the United States Dollar between the date of acquisition and January 31, 2008.

Amortization expense on intangible assets was \$6,838 and \$5,720 for the three-month periods ended January 31, 2008 and 2007, respectively and \$12,743 and \$10,960 for the six-month periods ended January 31, 2008 and 2007, respectively. Annual amortization is projected to be \$26,560, \$24,803, \$23,920, \$20,207 and \$11,084 for the years ending July 31, 2008, 2009, 2010, 2011 and 2012, respectively.

NOTE C — Comprehensive Income

Total comprehensive income, which was comprised of net income, foreign currency adjustments, net unrealized gains and losses from cash flow hedges and other investments, the unrealized gain on the post-retirement medical, dental, and vision plans, and their related tax effects amounted to \$25,675 and \$10,536 for the three months ended January 31, 2008 and 2007, respectively and \$86,719 and \$40,811 for the six months ended January 31, 2008 and 2007, respectively.

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NOTE D — Net Income Per Common Share

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

	<u>Three Months Ended January 31,</u>		<u>Six Months Ended January 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Numerator:				
Net income (numerator for basic and diluted Class A net income per share)	\$ 26,690	\$ 19,709	\$ 63,060	\$ 54,157
Less:				
Preferential dividends	—	—	(846)	(836)
Preferential dividends on dilutive stock options	—	—	(13)	(15)
Numerator for basic and diluted Class B net income per share	<u>\$ 26,690</u>	<u>\$ 19,709</u>	<u>\$ 62,201</u>	<u>\$ 53,306</u>
Denominator:				
Denominator for basic net income per share for both Class A and Class B	54,510	53,894	54,430	53,814
Plus: Effect of dilutive stock options	718	895	745	883
Denominator for diluted net income per share for both Class A and Class B	<u>55,228</u>	<u>54,789</u>	<u>55,175</u>	<u>54,697</u>
Class A Nonvoting Common Stock net income per share:				
Basic	\$ 0.49	\$ 0.37	\$ 1.16	\$ 1.01
Diluted	\$ 0.48	\$ 0.36	\$ 1.14	\$ 0.99
Class B Voting Common Stock net income per share:				
Basic	\$ 0.49	\$ 0.37	\$ 1.14	\$ 0.99
Diluted	\$ 0.48	\$ 0.36	\$ 1.13	\$ 0.97

Options to purchase 2,171,000 and 1,725,750 shares of Class A Nonvoting Common Stock for the three and six months ended January 31, 2008, respectively, and 1,269,500 and 949,500 shares of Class A Nonvoting Common Stock for the three and six months ended January 31, 2007, respectively, were not included in the computations of diluted net income per share because the option exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

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NOTE E — Segment Information

The Company's reportable segments are businesses that are each managed separately. As a result of continuing organizational changes within the executive leadership team in which management of the manufacturing facilities was aligned with the geographic region of the facility, the Company has revised its reportable segments and has restated the corresponding segment information from its previous geographical based structure for the prior year. The Company has four reportable segments: Brady Americas, Direct Marketing & People ID Americas, Europe and Asia-Pacific. The Brady Americas reportable segment includes businesses that focus on MRO market products and OEM market products sold to customers in North and South America through distributors or a direct sales force. The Direct Marketing & People ID Americas reportable segment includes businesses that market their products through business-to-business direct mail, catalogs, and telemarketing, distribution and a direct sales force in North and South Americas. The Europe and Asia-Pacific reportable segments have not changed from prior year disclosures. Following is a summary of segment information for the three and six months ended January 31, 2008 and 2007:

	Brady Americas	Direct Marketing & People ID Americas	Europe	Asia-Pacific	Sub-Totals	Corporate And Eliminations	Totals
Three months ended January 31, 2008:							
Revenues from external customers	\$ 95,303	\$ 61,318	\$122,615	\$ 84,888	\$364,124	\$ —	\$364,124
Intersegment revenues	15,316	572	2,261	6,247	24,396	(24,396)	—
Segment profit	19,517	12,519	31,067	12,660	75,763	(2,347)	73,416
Three months ended January 31, 2007:							
Revenues from external customers	\$ 80,510	\$ 59,478	\$ 98,846	\$ 82,441	\$321,275	\$ —	\$321,275
Intersegment revenues	13,124	780	1,664	4,703	20,271	(20,271)	—
Segment profit	14,473	14,920	22,604	12,394	64,391	(2,828)	61,563
Six months ended January 31, 2008:							
Revenues from external customers	\$200,538	\$130,858	\$231,529	\$181,333	\$744,258	\$ —	\$744,258
Intersegment revenues	29,902	1,192	5,253	12,461	48,808	(48,808)	—
Segment profit	43,975	32,167	60,967	32,050	169,159	(4,583)	164,576
Six months ended January 31, 2007:							
Revenues from external customers	\$163,269	\$123,662	\$191,211	\$175,392	\$653,534	\$ —	\$653,534
Intersegment revenues	25,342	1,492	2,450	10,693	39,977	(39,977)	—
Segment profit	35,188	31,723	45,609	34,531	147,051	(5,638)	141,413

Following is a reconciliation of segment profit to net income for the three months and six months ended January 31, 2008 and 2007:

	Three months ended: January 31,		Six months ended: January 31,	
	2008	2007	2008	2007
Total profit from reportable segments	\$ 75,763	\$ 64,391	\$ 169,159	\$ 147,051
Corporate and eliminations	(2,347)	(2,828)	(4,583)	(5,638)
Unallocated amounts:				
Administrative costs	(30,972)	(28,839)	(63,794)	(56,748)
Investment and other income (expense)	2,269	(106)	2,387	532
Interest expense	(6,747)	(5,244)	(13,467)	(9,979)
Income before income taxes	37,996	27,374	89,702	75,218
Income taxes	(11,276)	(7,665)	(26,642)	(21,061)
Net income	<u>\$ 26,690</u>	<u>\$ 19,709</u>	<u>\$ 63,060</u>	<u>\$ 54,157</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 or restricted shares of Class A Nonvoting Common Stock to employees. Additionally, the Company has a nonqualified stock option plan for non-employee directors under which stock options to purchase shares of Class A Nonvoting Common Stock are available for grant. The options have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest ratably over a three-year period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Options issued under these plans, referred to herein as “service-based” options, generally expire 10 years from the date of grant. The Company also grants stock options to certain executives and key management employees that vest upon meeting certain financial performance conditions over the vesting schedule described above. These options are referred to herein as “performance-based” options. Performance-based options granted in fiscal 2007 and forward expire 10 years from the date of grant. Restricted shares have an issuance price equal to the fair market value of the underlying stock at the date of grant. They vest at the end of a five-year period and upon meeting certain financial performance conditions. These shares are referred to herein as “performance-based restricted shares.”

As of January 31, 2008, the Company has reserved 4,768,201 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 887,500 shares of Class A Nonvoting Common Stock for future issuance of stock options and restricted shares under the various plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

The Company accounts for share-based compensation awards in accordance with SFAS No. 123(R), “Share Based Payment”. In accordance with this standard, the Company recognizes the compensation cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense recognized by the Company during the three months ended January 31, 2008 and 2007 was \$3,125 (\$1,906 net of taxes) and \$2,110 (\$1,287 net of taxes), respectively, and expense recognized during the six months ended January 31, 2008 and 2007 was \$6,382 (\$3,893 net of taxes) and \$3,669 (\$2,238 net of taxes), respectively. As of January 31, 2008, total unrecognized compensation cost related to share-based compensation awards was approximately \$23,656 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of approximately 2.9 years.

The Company has estimated the fair value of its service-based and performance-based option awards granted during the six months ended January 31, 2008 and 2007 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	Six Months Ended January 31, 2008		Six Months Ended January 31, 2007	
	Service-Based Option Awards	Performance- Based Option Awards	Service-Based Option Awards	Performance- Based Option Awards
Expected term (in years)	6.04	6.57	6.07	6.57
Expected volatility	32.05%	33.68%	34.01%	34.66%
Expected dividend yield	1.62%	1.58%	1.46%	1.51%
Risk-free interest rate	3.44%	4.66%	4.52%	4.90%
Weighted-average market value of underlying stock at grant date	\$38.22	\$35.35	\$38.19	\$33.32
Weighted-average exercise price	\$38.22	\$35.35	\$38.19	\$33.32
Weighted-average fair value of options granted during the period	\$11.94	\$12.83	\$13.57	\$12.57

The Company uses historical data regarding stock option exercise behaviors to estimate the expected term of options granted based on the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company’s stock. The expected dividend yield is based on the Company’s historical dividend payments and historical yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date for the length of time corresponding to the expected term of the option. The market value is obtained by taking the average of the high and the low stock price on the date of the grant.

The Company granted 210,000 performance-based restricted shares during the six months ended January 31, 2008 with a grant price and fair value of \$32.83. As of January 31, 2008, 210,000 performance-based restricted shares were outstanding.

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A summary of stock option activity under the Company's share-based compensation plans for the six months ended January 31, 2008 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2007	4,182,739	\$ 26.36		
New grants	954,500	\$ 37.44		
Exercised	(446,363)	\$ 18.10		
Forfeited or expired	(132,675)	\$ 36.44		
Outstanding at January 31, 2008	<u>4,558,201</u>	\$ 29.20	7.0	<u>\$ 22,106</u>
Exercisable at January 31, 2008	<u>2,606,364</u>	\$ 25.17	5.8	<u>\$ 18,670</u>

The total intrinsic value of options exercised during the six months ended January 31, 2008 and 2007, based upon the average market price during the period, was \$9,628 and \$4,597, respectively. The total fair value of stock options vested during the six months ended January 31, 2008 and 2007, was \$6,554 and \$4,592, respectively.

NOTE G — Stockholders' Equity

In September 2007, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to 1 million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. During the six months ended January 31, 2008, the Company did not reacquire any shares under the repurchase plan.

NOTE H — Employee Benefit Plans

The Company provides postretirement medical, dental and vision benefits for eligible regular full and part-time domestic employees (including spouses) outlined by the plan. Postretirement benefits are provided only if the employee was hired prior to April 1, 2008 and retires on or after attainment of age 55 with 15 years of credited service. Credited service begins accruing at the later of age 40 or date of hire. All active employees first eligible to retire after July 31, 1992, are covered by an unfunded, contributory postretirement healthcare plan where employer contributions will not exceed a defined dollar benefit amount, regardless of the cost of the program. Employer contributions to the plan are based on the employee's age and service at retirement.

The Company accounts for postretirement benefits other than pensions in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Company funds benefit costs on a pay-as-you-go basis. There have been no changes to the components of net periodic benefit cost or the amount that the Company expects to fund in fiscal 2008 from those reported thereto in Note 3 to the consolidated financial statements included in the Company's latest annual report on Form 10-K for the year ended July 31, 2007.

NOTE I — Income Taxes

On August 1, 2007, the Company adopted FIN 48. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, and disclosure and transition issues.

The adoption of FIN 48 resulted in a \$900 charge to earnings retained in the business as of August 1, 2007 and a change in the classification of the liability on the balance sheet from accrued income taxes to other liabilities. As of August 1, 2007, the Company’s liability for uncertain tax positions was \$15,900. Unrecognized tax benefits of \$10,500 would affect the Company’s effective tax rate if recognized. As of January 31, 2008 the Company’s liability for uncertain tax positions was \$17,500.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes on the accompanying condensed consolidated statement of income. At August 1, 2007, the Company had accrued \$2,200 for the potential payment of interest which is included in the \$15,900 liability for uncertain tax positions. During the six months ended January 31, 2008 the Company recognized \$500 in potential interest associated with uncertain tax positions. The total accrual for potential payment of interest is \$2,700.

The Company and its subsidiaries file income tax returns in the US federal jurisdiction, and various state and foreign jurisdictions. The following table summarized the open tax years for the Company’s major jurisdictions:

Jurisdiction	Open Tax Years
United States — Federal	F’04 — F’07
France	F’04 — F’07
Germany	F’03 — F’07
United Kingdom	F’05 — F’07

Approximately \$2,000 of unrecognized tax benefits relate to items that are affected by expiring statute of limitations within the next 12 months.

NOTE J — New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This statement provides guidance on how to measure the fair value of assets and liabilities utilizing a fair value hierarchy to classify the sources of information used in the measurement calculation. SFAS No. 157 also provides new disclosure rules for assets and liabilities measured at fair value based on their level in the fair value hierarchy. This new statement will be effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 157 and therefore is unable to disclose the impact SFAS No. 157 will have on its financial position and results of operations when such statement is adopted.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” This statement permits entities to choose the fair value option to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. This new statement will be effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 159 and therefore is unable to disclose the impact SFAS No. 159 will have on its financial position and results of operations when such statement is adopted.

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

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

SFAS No. 141(R) applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 141(R), and therefore, the Company is unable to disclose the impact SFAS No. 141(R) will have on its financial position and results of operations when such statement is adopted.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements.” SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. This new statement will be effective for fiscal years beginning after December 15, 2008. The Company expects that the adoption of SFAS No. 160 will not have a material effect on its consolidated financial statements.

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

Overview

Brady is an international manufacturer and marketer of identification solutions and specialty materials that identify and protect premises, products, and people. Its products include high-performance labels and signs, printing systems and software, label-application and data-collection systems, safety devices and precision die-cut materials. Founded in 1914, the Company serves customers in electronics, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation and a variety of other industries. The Company manufactures and sells products domestically and internationally through multiple channels including distributor sales, direct sales, mail-order catalogs, telemarketing, retail and electronic access through the Internet. The Company operates manufacturing or distribution facilities in Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Norway, Poland, Singapore, Slovakia, Sweden, Thailand, the United Kingdom and the United States. Brady sells through subsidiaries or sales offices in these countries, with additional sales through a dedicated team of international sales representatives in the Philippines, Spain, Taiwan, Turkey, and the United Arab Emirates and further markets its products to parts of Eastern Europe, the Middle East, Africa and Russia. The Company believes that its reputation for innovation, commitment to quality and service, and dedicated employees have made it a world leader in the markets it serves.

Sales for the quarter ended January 31, 2008, were up 13.3% to \$364.1 million, compared to \$321.3 million in the same period of fiscal 2007. Of the increase in sales, organic sales decreased 1.0%, acquisitions added 8.2% and the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar added 6.1%. Net income for the quarter ended January 31, 2008, was \$26.7 million or \$0.48 per diluted Class A Nonvoting Common Share, up 35.4% from \$19.7 million, or \$0.36 per diluted Class A Nonvoting Common Share reported in the second quarter of last fiscal year.

Sales for the six months ended January 31, 2008, increased 13.9% to \$744.3 million, compared to \$653.5 million in the same period of fiscal 2007. Organic growth accounted for 0.3%, acquisitions added 7.9% and the effects of fluctuations in the exchange rates used to translate financial results into the United States dollar added 5.7%. Net income for the six months ended January 31, 2008 was \$63.1 million or \$1.14 per diluted Class A Nonvoting Common Share, up 16.4% from \$54.2 million, or \$0.99 per diluted Class A Nonvoting Common Share reported in the same period of the prior fiscal year.

Results of Operations

The comparability of the operating results for the three and six months ended January 31, 2008, to the prior year has been significantly impacted by the following acquisitions completed in fiscal 2007 and fiscal 2008.

Acquisitions		Segment	Date Completed
Comprehensive Identification Products, Inc. ("CIPI")		Direct Marketing & People ID Americas, Europe and Asia-Pacific	August 2006
Precision Converters, L.P. ("Precision Converters")		Brady Americas	October 2006
Scafftag, Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd. (collectively "Scafftag")		Brady Americas, Europe and Asia-Pacific	December 2006
Asterisco Artes Graficas Ltda. ("Asterisco")		Brady Americas	December 2006
Modernotecnica SpA ("Moderno")		Europe	December 2006
Clement Communications, Inc. ("Clement")		Direct Marketing & People ID Americas	February 2007
Sorbent Products Co., Inc. ("SPC")		Brady Americas, Europe and Asia-Pacific	April 2007
Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively "Transposafe")		Europe	November 2007

Sales for the three months ended January 31, 2008, were up 13.3% compared to the same period in fiscal 2007. The sales growth was comprised of a decline in organic sales of 1.0%, an increase of 8.2% due to the acquisitions listed in the above table, and an increase of 6.1% due to the effect of currencies on sales. The decline in organic sales for the quarter ended January 31, 2008, was the result of the contraction of the Asia-Pacific and Direct Marketing and People ID Americas segments by 4.6% and 4.1%, respectively, partially offset by growth in the Brady Americas and Europe segments of 2.0% and 1.6%, respectively. The decline in the Direct Marketing Americas segment was attributed to a softening in the manufacturing sector of the U.S. economy, while the contraction in the Asia-Pacific segment was primarily due to a shift in the mobile handset market to low-end phones with lower average selling prices as well as the Company's conscious choice to deemphasize low-profit business. Top-line revenue in the Asia-Pacific segment was also impacted by continued pricing pressures within the supply chain.

Sales for the six months ended January 31, 2008, increased 13.9% compared to the same period in fiscal 2007. The increase was comprised of an increase of 0.3% attributed to organic growth, an increase of 7.9% due to the acquisitions listed above, and an increase of 5.7% due to the effect of currencies on sales. The organic growth was primarily due to growth in the Brady Americas segment of 5.1% and Europe of 0.9%, offset by a decline in the organic business in the Asia-Pacific and Direct Marketing and People ID Americas segments of 3.9% and 0.8%, respectively. Organic growth in the Brady Americas segment for the six months ended January 31, 2008 was driven by strong results across many markets, including safety and industrial identification, laboratory, aerospace, and defense. The decrease in organic sales in the Asia-Pacific segment was the result of declines in the mobile phone market as discussed above.

Gross margin as a percentage of sales increased to 48.1% from 46.7% for the quarter and to 48.7% from 48.1% for the six months ended January 31, 2008, compared to the same periods of the previous year. This increase in gross margin as a percentage of sales was primarily the result of cost reduction actions taken during fiscal 2007.

Research and development ("R&D") expenses increased 10.9% to \$10.1 million for the quarter and 8.2% to \$19.1 million for the six months ended January 31, 2008, compared to \$9.1 million and \$17.6 million for the same periods in the prior year, respectively. In the second quarter of fiscal 2008, R&D expenses as a percentage of sales remained flat compared to the same period in the previous year, at 2.8% of sales. For the first half of fiscal 2008, R&D expense as a percentage of sales declined slightly to 2.6% from 2.7% in the same period of the prior year.

Selling, general and administrative ("SG&A") expenses increased 13.1% to \$122.5 million for the three months ended January 31, 2008, compared to \$108.4 million for the same period in the prior year and 14.6% to \$242.9 million for the six months ended January 31, 2008, compared to \$212.0 million for the same period in the prior year. The increase in SG&A expenses was primarily the result of acquisitions made during fiscal 2007 and 2008. As a percentage of sales, SG&A expenses decreased slightly to 33.6% from 33.7% for the second quarter, and increased to 32.6% from 32.4% for the six months ended January 31, 2008, compared to the same periods in the prior year.

Interest expense increased to \$6.7 million from \$5.2 million for the quarter and to \$13.5 million from \$10.0 million for the six months ended January 31, 2008, compared to the same periods in the prior year. The increase in interest expense was due to interest on the \$150 million private placement of senior notes that the Company completed in the third quarter of fiscal 2007.

Other income and expense increased to \$2.3 million of income for the quarter and to \$2.4 million of income for the six months ended January 31, 2008, compared to \$0.1 million of expense and \$0.5 million of income for the same periods in the prior year, respectively. Of the \$2.3 million in other income for the three months ended January 31, 2008, \$1.8 million was the result of interest income generated from investments of excess cash and \$0.4 million related to foreign exchange gains during the quarter. Other income and expense for the three months ended January 31, 2007 consisted primarily of \$0.4 million of interest income, offset by \$0.6 million of foreign exchange loss. For the six months ended January 31, 2008, of the \$2.4 million of other income, \$2.9 million was related to interest income generated from investments, partially offset by \$0.6 million in foreign exchange loss. Of the \$0.5 million of other income for the six months ended January 31, 2007, \$0.8 million was related to interest income, partially offset by \$0.4 million of foreign exchange loss.

The Company's effective tax rate was 29.7% for the three and six months ended January 31, 2008, compared to 28.0% for the three and six months ended January 31, 2007. The increased tax rate in fiscal 2008 is primarily due to increased profits in higher tax countries. The Company expects the full year effective tax rate for fiscal 2008 to be approximately 29%.

Net income for the three months ended January 31, 2008, increased 35.4% to \$26.7 million, compared to \$19.7 million for the same quarter of the previous year. Net income as a percentage of sales increased to 7.3% from 6.1% for the quarter ended January 31, 2008, compared to the same period in the prior year, due to the factors noted above. For the six months ended January 31, 2008, net income increased 16.4% to \$63.1 million, compared to \$54.2 million for the same period in the previous year. As a percentage of sales, net income increased to 8.5% from 8.3% for the six months ended January 31, 2008, compared to the same period in the previous year.

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Business Segment Operating Results

Effective August 1, 2007, the Company revised its reportable segments as a result of organizational changes within the executive leadership team. Management of the Company now evaluates results based on the following businesses: Brady Americas, Direct Marketing & People ID Americas, Europe, and Asia-Pacific.

(Dollars in thousands)	Brady Americas	Direct Marketing & People ID Americas	Europe	Asia-Pacific	Subtotals	Corporate and Eliminations	Total
SALES TO EXTERNAL CUSTOMERS							
Three months ended:							
January 31, 2008	\$ 95,303	\$ 61,318	\$122,615	\$ 84,888	\$364,124	\$ —	\$364,124
January 31, 2007	80,510	59,478	98,846	82,441	321,275	—	321,275
Six months ended:							
January 31, 2008	\$200,538	\$130,858	\$231,529	\$181,333	\$744,258	\$ —	\$744,258
January 31, 2007	163,269	123,662	191,211	175,392	653,534	—	653,534
SALES GROWTH INFORMATION							
Three months ended January 31, 2008							
Base	2.0%	-4.1%	1.6%	-4.6%	-1.0%	—	-1.0%
Currency	2.7%	1.9%	10.4%	7.2%	6.1%	—	6.1%
Acquisitions	13.7%	5.3%	12.1%	0.4%	8.2%	—	8.2%
Total	18.4%	3.1%	24.1%	3.0%	13.3%	—	13.3%
Six months ended January 31, 2008							
Base	5.1%	-0.8%	0.9%	-3.9%	0.3%	—	0.3%
Currency	2.2%	1.6%	10.1%	6.9%	5.7%	—	5.7%
Acquisitions	15.5%	5.0%	10.1%	0.4%	7.9%	—	7.9%
Total	22.8%	5.8%	21.1%	3.4%	13.9%	—	13.9%
SEGMENT PROFIT							
Three months ended:							
January 31, 2008	\$ 19,517	\$ 12,519	\$ 31,067	\$ 12,660	\$ 75,763	\$(2,347)	\$ 73,416
January 31, 2007	14,473	14,920	22,604	12,394	64,391	(2,828)	61,563
Percentage increase	34.9%	-16.1%	37.4%	2.1%	17.7%	-17.0%	19.3%
Six months ended:							
January 31, 2008	\$ 43,975	\$ 32,167	\$ 60,967	\$ 32,050	\$169,159	\$(4,583)	\$164,576
January 31, 2007	35,188	31,723	45,609	34,531	147,051	(5,638)	141,413
Percentage increase	25.0%	1.4%	33.7%	-7.2%	15.0%	-18.7%	16.4%

SEGMENT PROFIT RECONCILIATION (Dollars in thousands)

	Three months ended:		Six months ended:	
	January 31, 2008	January 31, 2007	January 31, 2008	January 31, 2007
Total profit from reportable segments	\$ 75,763	\$ 64,391	\$ 169,159	\$ 147,051
Corporate and eliminations	(2,347)	(2,828)	(4,583)	(5,638)
Unallocated amounts:				
Administrative costs	(30,972)	(28,839)	(63,794)	(56,748)
Investment and other income (expense)	2,269	(106)	2,387	532
Interest expense	(6,747)	(5,244)	(13,467)	(9,979)
Income before income taxes	37,966	27,374	89,702	75,218
Income taxes	(11,276)	(7,665)	(26,642)	(21,061)
Net income	\$ 26,690	\$ 19,709	\$ 63,060	\$ 54,157

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

Brady Americas:

Brady Americas sales increased 18.4% for the quarter and 22.8% for the six months ended January 31, 2008, compared to the same periods in the prior year. Organic growth accounted for 2.0% and 5.1% of the growth in the quarter and year-to-date, respectively, as compared to the same periods in the previous year. Fluctuations in the exchange rates used to translate financial results into the United States dollar had a modest impact on sales, increasing it by 2.7% in the quarter and 2.2% for the six-month period. Sales were also aided by the prior year acquisitions of Precision Converters, Scafftag, Asterisco and SPC, which increased sales by 13.7% for the quarter and 15.5% for the six-month period. The organic growth of 2.0% for the quarter within the segment was driven by strong results in the laboratory and aerospace/defense markets, partially offset by a slowing in the manufacturing and utility markets. On a year-to-date basis, the 5.1% organic growth was the result of strong sales across most of the major markets, including laboratory, aerospace, defense, mass transit, and safety and facility identification.

Segment profit increased 34.9% to \$19.5 million from \$14.5 million for the quarter and 25.0% to \$44.0 million from \$35.2 million for the six months ended January 31, 2008, compared to the same periods in the prior year. The increase in segment profit was driven by increased sales volume from both the base business and acquisitions discussed above. As a percentage of sales, segment profit increased to 20.5% from 18.0% in the second quarter of fiscal 2008 and to 21.9% from 21.6% in the six months ended January 31, 2008, compared to the same periods in the prior year. The increase in segment profit as a percentage of sales over the prior year was the result of cost control efforts and improvements made in the prior year to lower performing businesses.

Direct Marketing and People ID Americas:

Direct Marketing and People ID Americas sales increased 3.1% for the quarter and 5.8% for the six months ended January 31, 2008, compared to the same periods in the prior year. Organic sales for the segment declined 4.1% and 0.8% in the second quarter and year-to-date, respectively, as compared to the same periods in the previous year. The decline in the organic sales of the Direct Marketing and People ID Americas segment was due to a large one-time order in the previous year, softness in the manufacturing and construction sectors which particularly impacted the Company's Emedco business, and the SAP implementation at Emedco. Fluctuations in the exchange rates used to translate financial results into the United States dollar contributed to sales, increasing it by 1.9% in the quarter and 1.6% for the six-month period. Sales in the region were also increased by the prior year acquisitions of CIPI and Clement, which increased sales by 5.3% for the quarter and 5.0% for the six-month period.

Segment profit declined 16.1% to \$12.5 million from \$14.9 million for the quarter and increased 1.4% to \$32.2 million from \$31.7 million for the six months ended January 31, 2008, compared to the same periods in the prior year. The decrease in segment profit in the second quarter was driven by a lower than expected sales volume in the base business, in addition to unplanned costs and business interruption associated with the move of manufacturing in People ID in China. As a percentage of sales, segment profit decreased to 20.4% from 25.1% in the second quarter of fiscal 2008 and to 24.6% from 25.7% in the six months ended January 31, 2008, compared to the same periods in the prior year. The decline in segment profit as a percentage of sales compared to the prior year was due to the decline in high margin organic sales during the second quarter.

Europe:

Europe sales increased 24.1% for the quarter and 21.1% for the six months ended January 31, 2008, compared to the same periods in the prior year. Organic growth accounted for 1.6% and 0.9% of the increase for the quarter and year-to-date, respectively, compared to the same periods in the previous year. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into the United States dollar, which increased sales in the segment by 10.4% in the quarter and 10.1% for the six-month period. The fiscal 2008 acquisition of Transposafe and the fiscal 2007 acquisitions of CIPI, Scafftag, Moderno, and SPC increased sales by 12.1% for the quarter and 10.1% for the six-month period. The lower organic growth in the quarter was due to a slowing in the European economy and the sales from the prior year implementation of "No Smoking" legislation in France that did not recur in fiscal 2008.

Segment profit increased 37.4% to \$31.1 million from \$22.6 million for the quarter and 33.7% to \$61.0 million from \$45.6 million for the six months ended January 31, 2008, compared to the same periods in the prior year. As a percentage of sales, segment profit increased to 25.3% from 22.9% in the second quarter of fiscal 2008 and to 26.3% from 23.9% in the six months ended January 31, 2008, compared to the same periods in the prior year. The increase in segment profit was driven by a favorable mix towards the MRO market from the acquisitions of Scafftag and Moderno and continued growth in the direct marketing business, and the realization of benefits from cost reduction activities taken at the end of fiscal 2007.

Asia-Pacific:

Asia-Pacific sales increased 3.0% for the quarter and 3.4% for the six months ended January 31, 2008, compared to the same periods in the prior year. Organic sales in local currency decreased 4.6% in the quarter and 3.9% year-to-date, compared to the same periods in the previous year. Sales were positively affected by fluctuations in the exchange rates used to translate financial results into the United States dollar, which increased sales within the region by 7.2% for the quarter and 6.9% for the six-month period. The fiscal 2007 acquisitions of CIPI, Scafftag, and SPC increased sales by 0.4% for the quarter and 0.4% for the six-month period. The decline in organic sales for the quarter was primarily due to a shift in the mobile handset market to low-end phones with lower average selling prices as well as the Company's conscious choice to deemphasize low-profit business. Top-line revenue was also impacted by continued pricing pressures within the supply chain.

Segment profit increased 2.1% to \$12.7 million from \$12.4 million for the quarter and declined 7.2% to \$32.1 million from \$34.5 million for the six months ended January 31, 2008, compared to the same periods in the prior year. As a percentage of sales, segment profit decreased slightly to 14.9% from 15.0% in the second quarter of fiscal 2008 and to 17.7% from 19.7% in the six months ended January 31, 2008, compared to the same periods in the prior year. The decline in segment profit as a percentage of sales was due to the industry mix shift from high-end, feature rich mobile phones to low-end basic mobile phones and continued pricing pressures within the mobile handset supply chain, partially offset by cost reduction activities initiated in fiscal 2007.

Financial Condition

The Company's current ratio as of January 31, 2008, was 2.5 compared to 2.1 at July 31, 2007. Cash and cash equivalents were \$198.4 million at January 31, 2008, compared to \$142.8 million at July 31, 2007. There were no short-term investments outstanding at January 31, 2008, compared to \$19.2 million outstanding at July 31, 2007. Working capital increased \$69.8 million during the six months ended January 31, 2008, to \$373.2 million from \$303.4 million at July 31, 2007. Accounts receivable increased \$2.8 million for the six months ended January 31, 2008 due to the acquisition of Transposafe and foreign currency translation, partially offset by a lower receivable balance at January 31, 2008 due to fewer billing days in the quarter. Inventories remained flat at \$139.9 million as the decline in inventory due to working capital initiatives was offset by the acquisition of Transposafe and foreign currency translation. The net decrease in current liabilities was \$26.6 million for the current year. The decrease was composed of a significant decrease in accrued wages due to the payment of incentives in the first quarter of fiscal 2008 related to the incentives earned in the year ended July 31, 2007, and a decrease in accrued income taxes as the adoption of FIN 48 required a reclassification of a portion of the current payable recorded at July 31, 2007 to long-term liabilities, partially offset by an increase in accounts payable due to foreign currency translation.

Cash flow from operating activities totaled \$87.8 million for the six months ended January 31, 2008, compared to \$37.1 million for the same period last year. The increase was the result of the impact of working capital initiatives on accounts receivable and inventory balances as compared to the changes reported for the six months ended January 31, 2007, an increase in net income of \$8.9 million, and a \$3.6 million increase in depreciation and amortization on the intangible assets acquired in fiscal 2007.

The acquisitions of businesses used \$24.6 million of cash for the six months ended January 31, 2008, compared to \$90.4 million for the same period in the prior year. Payments of \$4.4 million, \$1.2 million, and \$0.2 million were paid during the six months ended January 31, 2008 to satisfy the earnout and holdback liabilities of the Daewon Industry Corporation, STOPware, Inc., and Asterisco acquisitions, respectively. Capital expenditures were \$14.4 million for the six months ended January 31, 2008, compared to \$31.9 million in the same period last year. Fiscal 2007 capital expenditures included the implementation of SAP and expansions in China, Canada, India, Slovakia, and other locations which were not repeated in fiscal 2008. Net cash used in financing activities was \$4.2 million for the six months ended January 31, 2008, due to the payment of dividends, partially offset by the proceeds from the issuance of common stock. Net cash provided by financing activities for the same period last year was \$60.4 million due to net borrowings of \$70.8 million on the revolving loan agreement, partially offset by the payment of dividends and the issuance of common stock.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain standard conditions, the available amount under the new credit facility may be increased from \$200 million up to \$300 million.

Under the 5-year agreement, which has a final maturity date of October 5, 2011, the Company has the option to select either a base interest rate (based upon the higher of the federal funds rate plus one-half of 1% or the prime rate of Bank of America) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). A commitment fee is payable on the unused amount of the facility. The agreement requires the Company to maintain two financial covenants. As of January 31, 2008, the Company was in compliance with the covenants of the agreement.

The credit agreement restricts the amount of certain types of payments, including dividends, which can be made annually to \$50 million plus an amount equal to 75% of consolidated net income for the prior fiscal year. The Company believes that based on historic dividend practice, this restriction would not impede the Company in following a similar dividend practice in the future. During the six months ended January 31, 2008, the Company did not borrow or repay any amounts under the credit agreement. As of January 31, 2008, there were no outstanding borrowings under the credit agreement.

On March 23, 2007, the Company completed the private placement of \$150 million in ten-year fixed notes at 5.3% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2011 with interest payable on the notes semiannually on September 23 and March 23, beginning in September 2007. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to reduce outstanding indebtedness under the Company's revolving loan agreement and fund its ongoing strategic growth plan. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The agreement also requires the Company to maintain a financial covenant. As of January 31, 2008, the Company was in compliance with this covenant.

On February 14, 2006, the Company completed the private placement of \$200 million in ten-year fixed notes at 5.3% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2010 with interest payable on the notes semiannually on August 14 and February 14, beginning in August 2006. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to finance acquisitions completed in fiscal 2006 and fiscal 2007. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The agreement also requires the Company to maintain a financial covenant. As of January 31, 2008, the Company was in compliance with this covenant.

On June 30, 2004, the Company finalized a debt offering of \$150 million of 5.14% unsecured senior notes due in 2014 in an offering exempt from the registration requirements of the Securities Act of 1933. The debt offering was in conjunction with the Company's acquisition of EMED. The notes will be amortized over seven years beginning in 2008, with interest payable on the notes semiannually on June 28 and December 28, beginning in December 2004. The Company used the proceeds of the offering to reduce outstanding indebtedness under the Company's revolving credit facilities used to initially fund the EMED acquisition. The debt has certain prepayment penalties for repaying the debt prior to its maturity date. The agreement also requires the Company to maintain a financial covenant. As of January 31, 2008, the Company was in compliance with this covenant.

On February 19, 2008, the Board of Directors declared a quarterly cash dividend to shareholders of the Company's Class A Common Stock of \$0.15 per share payable on April 30, 2008 to shareholders of record at the close of business on April 10, 2008.

Off-Balance Sheet Arrangements — The Company does not have material off-balance sheet arrangements or related-party transactions. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the 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 — These leases generally are entered into for investments in facilities, such as manufacturing facilities, warehouses and office buildings, computer equipment and Company vehicles, for which the economic profile is favorable.

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. In connection with the adoption of FIN 48 as of August 1, 2007, the Company is unable to determine the period in which the cash settlement of the liability associated with FIN 48 will occur with the respective taxing authority.

Related-Party Transactions — The Company does not have any related-party transactions that materially affect the results of operations, cash flow or financial condition.

Forward-Looking Statements

Brady believes that certain statements in this Form 10-Q are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements related to future, not past, events included in this Form 10-Q, including, without limitation, statements regarding Brady’s future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations are forward-looking statements. When used in this Form 10-Q, 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 future financial performance of major markets Brady serves, which include, without limitation, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation; difficulties in making and integrating acquisitions; risks associated with newly acquired businesses; Brady’s ability to retain significant contracts and customers; future competition; Brady’s ability to develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; interruptions to sources of supply; environmental, health and safety compliance costs and liabilities; Brady’s ability to realize cost savings from operating initiatives; Brady’s ability to attract and retain key talent; difficulties associated with exports; risks associated with international operations; fluctuations in currency rates versus the US dollar; technology changes; potential write-offs of Brady’s substantial intangible assets; risks associated with obtaining governmental approvals and maintaining regulatory compliance for new and existing products; business interruptions due to implementing business systems; and numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive and regulatory nature contained from time to time in Brady’s U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the “Risk Factors” section located in Item 1A of Part I of Brady’s Form 10-K for the year ended July 31, 2007. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The global nature of the Company's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global scale, the Company has assets, liabilities and cash flows in currencies other than the U.S. Dollar. The primary objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on intercompany transactions and foreign raw-material imports. To achieve this objective, the Company hedges a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Singapore Dollar, Swedish Krona, Korean Won and Chinese Yuan currency.

The Company could be exposed to interest rate risk through its corporate borrowing activities. The objective of the Company's interest rate risk management activities is to manage the levels of the Company's fixed and floating interest rate exposure to be consistent with the Company's preferred mix. The interest rate risk management program allows the Company to enter into approved interest rate derivatives, with the approval of the Board of Directors, if there is a desire to modify the Company's exposure to interest rates. As of January 31, 2008, the Company had no interest rate derivatives.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act.

The Company is in the process of implementing its enterprise resource planning system, SAP, to many of its locations around the world. This implementation has resulted in certain changes to business processes and internal controls impacting financial reporting. Management is taking the necessary steps to monitor and maintain appropriate internal controls during this period of change.

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

PART II. OTHER INFORMATION

ITEM 6. Exhibits

(a) Exhibits

10.1	Restated Brady Corporation Restoration Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification of Frank M. Jaehnert
31.2	Rule 13a-14(a)/15d-14(a) Certification of Thomas J. Felmer
32.1	Section 1350 Certification of Frank M. Jaehnert
32.2	Section 1350 Certification of Thomas J. Felmer

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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: March 7, 2008

/s/ F. M. Jaehnert

F. M. Jaehnert

President & Chief Executive Officer

Date: March 7, 2008

/s/ Thomas J. Felmer

Thomas J. Felmer

Senior Vice President & Chief Financial Officer

(Principal Accounting Officer)

(Principal Financial Officer)

BRADY CORPORATION RESTORATION PLAN

Restated Effective as of January 1, 2008

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ARTICLE I
INTRODUCTION

1.1 Establishment and Effective Date

Brady Corporation established the Brady Corporation Restoration Plan effective as of January 1, 2000, and it is hereby restated effective as of January 1, 2008. This document describes how this Plan has been administered for periods after 2004 and prior to January 1, 2008 and how it shall be administered for periods after 2007.

1.2 Purpose

The Plan is intended to restore to key management employees of Brady and its affiliates income deferral opportunities and employer contributions they would have had under the Company's tax qualified Brady Matched 401(k) Plan and Brady Funded Retirement Plan but for the limitations of the Internal Revenue Code of 1986, as amended and to provide certain additional benefits.

1.3 Section 409A

This document is intended to comply with the provisions of Section 409A of the Internal Revenue Code and shall be interpreted accordingly. If any provision or term of this document would be prohibited by or inconsistent with the requirements of Section 409A of the Code, then such provision or term shall be deemed to be reformed to comply with Section 409A of the Code.

ARTICLE II
DEFINITIONS

The following terms, when used in the Plan with initial capital letters, shall have the meaning given to them in this Article.

- 2.1 **Account** shall mean the account maintained to record a Participant's interest in the Plan and shall be composed of the following subaccounts: Elective Deferral Account, Matching Contribution Account and Employer Contribution Account.
- 2.2 **Additional Employer Contribution** shall mean the amount credited to a Participant pursuant to Section 4.6.
- 2.3 **Additional Matching Contribution** shall mean the amount credited to a Participant pursuant to Section 4.5.
- 2.4 **Affiliate** shall mean each incorporated or unincorporated trade or business in which Brady Corporation directly or indirectly owns, as applicable, eighty percent (80%) of the voting stock or eighty percent (80%) of the capital or profits interest.
- 2.5 **Beneficiary** means the person, persons, or entity designated by the Participant to receive any benefits payable under the Plan on or after the Participant's death. Each Participant shall be permitted to name, change or revoke the Participant's designation of a Beneficiary in writing on a form and in the manner prescribed by the Employer; provided, however, that the designation on file with the Employer at the time of the Participant's death shall be controlling. Should a Participant fail to make a valid Beneficiary designation or leave no named Beneficiary surviving, any benefits due shall be paid to such Participant's spouse, if living; or if not living, then any benefits due shall be paid to such Participant's estate. A Participant may designate a primary beneficiary and a contingent beneficiary; provided, however, that the Employer may reject any such instrument tendered for filing if it contains successive beneficiaries or contingencies unacceptable to it. If all Beneficiaries who survive the Participant shall die before receiving the full amounts payable hereunder, then the payments shall be paid to the estate of the Beneficiary last to die.
- 2.6 **Board** shall mean the Board of Directors of Brady Corporation.
- 2.7 **Code** shall mean the Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.
- 2.8 **Committee** shall mean the Compensation Committee of the Board.
- 2.9 **Compensation** shall mean the total compensation payable to a Participant by the Employer for any period (prior to elective deferrals under this Plan or any other plan or deferral agreement) required to be reported as wages on the Employee's Form W-2 for income tax purposes, but reduced by all of the following items (even if includable in

gross income); reimbursements or other expense allowances, fringe benefits (cash and non-cash), moving expenses and welfare benefits.

- 2.10 **Elective Deferral** shall mean the portion of a Participant's Compensation that is reduced and credited to his Elective Deferral Account pursuant to his election under Section 4.1.
- 2.11 **Elective Deferral Account** shall mean the account maintained to record a Participant's interest in the Plan attributable to his Elective Deferrals.
- 2.12 **Eligible Employee** shall mean an Employee eligible under Section 3.1 and 3.2(a).
- 2.13 **Employee** shall mean an employee of the Employer.
- 2.14 **Employer** shall mean Brady Corporation and any Affiliate that adopts the Plan with the approval of the Board.
- 2.15 **Employer Contribution** shall mean the amount credited to a Participant pursuant to Section 4.4.
- 2.16 **Employer Contribution Account** shall mean the account maintained to record a Participant's interest in the Plan attributable to Employer Contributions and Additional Employer Contributions on his behalf.
- 2.17 **Excess Compensation** shall mean the portion of Compensation earned by a Participant during a Plan Year after the date the Compensation he has earned during the Plan Year equals the limit in Code Section 401(a)(17) for such Plan Year.
- 2.18 **Matching Contribution** shall mean the amount credited to a Participant pursuant to Section 4.3.
- 2.19 **Matching Contribution Account** shall mean the account maintained to record a Participant's interest in the Plan attributable to Matching Contributions and Additional Matching Contributions on his behalf.
- 2.20 **Participant** shall mean (i) an Eligible Employee under Section 3.1 and 3.2(a) or (ii) a former Eligible Employee who has an Account under the Plan.
- 2.21 **Plan** shall mean the Brady Corporation Restoration Plan, as set forth in this document, as the same may be amended or restated from time to time.
- 2.22 **Plan Year** shall mean the calendar year.
- 2.23 **Qualified 401(k) Plan** shall mean the Brady Matched 401(k) Plan (or any successor plan thereto qualified under Code §§ 401(a) and 401(k)).
- 2.24 **Separation from Service** shall have the meaning set forth in IRS Regulation Section 1.409A-1 the requirements of which are summarized in part as follows:

- (a) In General. The Participant shall have a Separation from Service with the Employer if the Participant dies, retires, or otherwise has a termination of employment with the Employer. However, for purposes of this Section 2.24, the employment relationship is treated as continuing intact while the individual is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the individual retains a right to reemployment with the Employer under an applicable statute or by contract. For purposes of this paragraph (a) of this Section 2.24, a leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Employer. If the period of leave exceeds six months and the individual does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. Notwithstanding the foregoing, where a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where such impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29-month period of absence may be substituted for such six-month period.
- (b) Termination of Employment. Whether a termination of employment has occurred is determined based on whether the facts and circumstances indicate that the Employer and Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or, the full period of services to the Employer if the Participant has been providing services to the Employer less than 36 months). Facts and circumstances to be considered in making this determination include, but are not limited to, whether the Participant continues to be treated as an employee for other purposes (such as continuation of salary and participation in employee benefit programs), whether similarly situated service providers have been treated consistently, and whether the Participant is permitted, and realistically available, to perform services for other service recipients in the same line of business. The Participant is presumed to have Separated from Service where the level of bona fide services performed decreases to a level equal to 20 percent or less of the average level of services performed by the employee during the immediately preceding 36-month period. The Participant will be presumed not to have Separated from Service where the level of bona fide services performed continues at a level that is 50 percent or more of the average level of service performed by the Participant during the immediately preceding 36-month period. No presumption applies to a decrease in the level of bona fide services performed to a level that is more than 20 percent and less than 50 percent of the average level of bona fide services performed during the immediately

preceding 36-month period. The presumption is rebuttable by demonstrating that the Employer and the Participant reasonably anticipated that as of a certain date the level of bona fide services would be reduced permanently to a level less than or equal to 20 percent of the average level of bona fide services provided during the immediately preceding 36-month period or the full period of services to the Employer if the Participant has been providing services to the Employer less than 36 months (or that the level of bona fide services would not be so reduced). For example, the Participant may demonstrate that the Employer and the Participant reasonably anticipated that the Participant would cease providing services, but that, after the original cessation of services, business circumstances such as termination of the Participant's replacement caused the Participant to return to employment. Although the Participant's return to employment may cause the Participant to be presumed to have continued in employment because the Participant is providing services at a rate equal to the rate at which the Participant was providing services before the termination of employment, the facts and circumstances in this case would demonstrate that at the time the Participant originally ceased to provide services, the Employer reasonably anticipated that the Participant would not provide services in the future. For purposes of this paragraph (b), for periods during which the Participant is on a paid bona fide leave of absence (as defined in paragraph (a) of this Section 2.24) and has not otherwise terminated employment pursuant to paragraph (a) of this Section 2.24, the Participant is treated as providing bona fide services at a level equal to the level of services that the Participant would have been required to perform to receive the compensation paid with respect to such leave of absence. Periods during which the Participant is on an unpaid bona fide leave of absence (as defined in paragraph (a) of this Section 2.24) and has not otherwise terminated employment pursuant to paragraph (a) of this Section 2.24, are disregarded for purposes of this paragraph (b) of this Section 2.24 (including for purposes of determining the applicable 36-month (or shorter) period).

- (c) Asset Purchase Transactions. Where as part of a sale or other disposition of assets by the Employer as seller to an unrelated service recipient (buyer), a Participant of the Employer would otherwise experience a Separation from Service with the Employer, the Employer and the buyer may retain the discretion to specify, and may specify, whether a Participant providing services to the Employer immediately before the asset purchase transaction and providing services to the buyer after and in connection with the asset purchase transaction has experienced a Separation from Service, provided that the asset purchase transaction results from bona fide, arm's length negotiations, all service providers providing services to the Employer immediately before the asset purchase transaction and providing services to the buyer after and in connection with the asset purchase transaction are treated consistently (regardless of position at the Employer) for purposes of applying the provisions of any nonqualified deferred compensation plan, and such treatment is specified in writing no later than the closing date of the asset purchase transaction. For purposes of this paragraph (c), references to a sale or other disposition of assets, or an asset purchase transaction,

refer only to a transfer of substantial assets, such as a plant or division or substantially all the assets of a trade or business.

- (d) **Dual Status.** If a Participant provides services both as an employee of the Employer and as an independent contractor of the Employer, the Participant must separate from service both as an employee and as an independent contractor to be treated as having Separated from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have a Separation from Service until the Participant has ceased providing services in both capacities. Notwithstanding the foregoing, if a Participant provides services both as an employee of the Employer and a member of the board of directors of the Employer, the services provided as a director are not taken into account in determining whether the Participant has a Separation from Service as an employee for purposes of this Plan unless this Plan is aggregated with any plan in which the Participant participates as a director under IRS Regulation Section 1.409A-1(c)(2)(ii).

2.25 **Specified Employee** shall have the meaning set forth in IRS Regulation Section 1.409A-1 the requirements of which are summarized in part as follows:

- (a) **In General.** “Specified Employee” means a Participant who as of the date of his separation from service is a “key employee” as defined in Code Section 416(i) (disregarding Section 416(i)(5)), i.e., an employee who at any time during the 12 month period ending on an identification date is an officer of the Employer or one of its affiliates having an annual compensation as defined in IRS Regulation Section 1.409A-1(i)(2) greater than \$130,000, a 5% owner of the Employer or one of its affiliates or a 1% owner of the Employer or one of its affiliates having compensation of more than \$150,000. The \$130,000 amount described in the preceding sentence shall be adjusted for cost of living increases in such amounts and at such times as specified by the Internal Revenue Service. Further, no more than 50 employees (or, if lesser, the greater of 3 or 10% of the employees) shall be treated as officers. The foregoing definition shall be interpreted at all times in a manner consistent with such regulations as may be adopted from time to time by the Internal Revenue Service for purposes of applying the key employee definition of Section 416(i) to the requirements of Code Section 409A. If a person is a key employee as of an identification date, the person is treated as a Specified Employee for the 12-month period beginning on the first day of the fourth month following the identification date. The “identification date” is December 31.
- (b) In the event of a public offering, merger, acquisition, spin-off, reorganization or other corporate transaction, “Specified Employees” shall be determined as provided in IRS Reg. Section 1.409A-1(i)(6).

2.26 **Unforeseeable Emergency** means a severe financial hardship to a Participant resulting from an illness or accident of the Participant or the Participant's spouse or dependent (as defined in Section 152(a) of the Code), loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster), or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For example, the imminent foreclosure of or eviction from the Participant's primary residence may constitute an Unforeseeable Emergency. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, may constitute an Unforeseeable Emergency. Finally, the need to pay for funeral expenses of a spouse or a dependent (as defined in Code section 152(a)) may also constitute an Unforeseeable Emergency. Except as otherwise provided above, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies. Whether a Participant is faced with an Unforeseeable Emergency is to be determined based on the relevant facts and circumstances of each case.

ARTICLE III
PARTICIPATION

3.1 Eligibility to Participate

An Employee shall be eligible to elect deferrals and receive Employer contributions in accordance with the provisions of Article IV beginning on the date the Committee advises the Employee he is eligible because the Committee in its discretion has determined that the Employee may reasonably be anticipated to earn Compensation from the Employer in excess of the limit described in Code Section 401(a)(17).

3.2 Continuation of Eligibility

- (a) An Employee shall continue to be eligible to elect deferrals and receive Employer contributions in accordance with the provisions of Article IV only for so long as he continues in employment with the Employer.
- (b) An individual who has a Separation from Service shall cease to be eligible and shall again be eligible to elect deferrals and receive Employer contributions in accordance with the provisions of Article IV only in accordance with Section 3.1.

ARTICLE IV

DEFERRALS

4.1 Elective Deferrals

- (a) An Eligible Employee may elect an Elective Deferral of up to four percent (4%) of his Excess Compensation for services performed during a Plan Year by completing and filing such forms as may be required by the Employer.
- (b) An Eligible Employee's Elective Deferral election under paragraph (a) of this Section shall apply to and reduce his Excess Compensation, i.e., the portion of his Compensation earned during a Plan Year after the date the Compensation he has earned during the Plan Year equals the limit in Code Section 401(a)(17) for such Plan Year.

4.2 Additional Rules Governing Deferral Elections

- (a) An Eligible Employee's election under Section 4.1 shall (i) if made within the thirty (30) day period following the date he is first eligible to participate in the Plan, be effective for that portion of his Excess Compensation to be paid for services performed subsequent to the election, and (ii) if not made within said thirty (30) day period, be effective for Excess Compensation paid for services performed during the Plan Year following the date the election is received by the Employer, or its designee.
- (b) An Eligible Employee's election for a Plan Year under this Article IV shall be irrevocable after the last day upon which such election is permitted to be made for such Plan Year and shall continue in effect for subsequent Plan Years until changed or revoked pursuant to paragraph (c) below.
- (c) An Eligible Employee may change or revoke his election which would otherwise be effective for a Plan Year by completing and filing such forms as may be required by the Employer by the last day of the preceding Plan Year.
- (d) Notwithstanding paragraphs (a), (b) and (c), in the event that a Participant makes application for a hardship distribution under Section 7.3 and the Administrator determines that an Unforeseeable Emergency exists, his deferral election otherwise in effect under this Article IV and any other nonqualified deferred compensation plan of the account balance type shall immediately terminate upon such determination. To resume deferrals thereafter, a Participant must make an election satisfying the provisions of paragraph (c).
- (e) Notwithstanding paragraphs (a), (b) and (c), if an Eligible Employee receives a withdrawal of his elective contributions under the Qualified 401(k) Plan or any other 401(k) plan (i.e., a qualified cash or deferred arrangement) of the Employer (or any affiliate treated under the Code as a single employer with the Employer

for purposes of the 401(k) plan) due to financial hardship pursuant to IRS Regulation Section 1.40(k)-1(d)(3) or its successor, his deferral election under this Section 4.1 shall be revoked automatically (effective on the date such hardship withdrawal is paid). In addition, such Eligible Employee shall not be eligible to have another deferral election in effect until the first day of the Plan Year which begins after a six month suspension period that begins on the first day of the calendar month following the date the hardship withdrawal is paid. Such Eligible Employee may then resume deferrals by making an election, pursuant to the rules of paragraph (c) above, effective for any Plan Year which begins after the end of such suspension period.

4.3 Matching Contribution

An Eligible Employee shall be credited with a Matching Contribution for a Plan Year in an amount equal to the amount of the Elective Deferral made on the Eligible Employee's behalf for the Plan Year.

4.4 Employer Contribution

An Eligible Employee shall be credited with an Employer Contribution for a Plan Year in an amount equal to 4% of the Eligible Employee's Excess Compensation for the Plan Year; provided the Eligible Employee remains in the Employer's employ on the last day of such Plan Year.

4.5 Additional Matching Contribution

There shall be credited to the Participant's Matching Contribution Account for a Plan Year an amount in addition to amounts credited under Section 4.3 for the same year. The amount credited under this Section 4.5 shall be equal to $.04(X-(Y-Z))$ where X is the limit in Code Section 401(a)(17) for such Plan Year, Y is the Participant's Compensation for the Plan Year as defined in Section 2.9 and Z is the amount of elective deferrals for the Plan Year under all nonqualified deferred compensation plans and agreements (including this Plan) of the Employer covering the Participant. No amount shall be credited under this Section if X does not exceed the remainder of Y minus Z.

4.6 Additional Employer Contribution

As of the last day of a Plan Year, there shall be credited to the Participant's Employer Contribution Account an amount in addition to amounts credited under Section 4.4 for the same year. The amount credited under this Section 4.6 shall be equal to $.04(X-(Y-Z))$ where X is the limit in Code Section 401(a)(17) for such Plan Year, Y is the Participant's Compensation for the Plan Year as defined in Section 2.9 and Z is the amount of elective deferrals for the Plan Year under all nonqualified deferred compensation plans and agreements (other than this Plan) of the Employer covering the Participant. No amount shall be credited under this Section if X does not exceed the remainder of Y minus Z.

ARTICLE V
ACCOUNTS AND CREDITS

5.1 Credits to Accounts

- (a) An amount equal to the amount by which a Participant's Compensation has been reduced pursuant to his deferral election under Section 4.1 shall be credited to his Elective Deferral Account.
- (b) Matching Contributions and Additional Matching Contributions on a Participant's behalf shall be credited to his Matching Contribution Account.
- (c) Employer Contributions and Additional Employer Contributions on a Participant's behalf shall be credited to his Employer Contribution Account.
- (d) Said credits shall be made at times established by the Committee but no later than 60 days after the last day of the Plan Year to which they relate.
- (e) Each Account shall also be credited or charged with deemed earnings and losses as if it were invested in accordance with Section 5.3.

5.2 No Funding

- (a) The right of any individual to receive payment under the provisions of this Plan shall be an unsecured claim against the general assets of the Employer, and no provisions contained in this Plan, nor any action taken pursuant to this Plan, shall be construed to give any individual at any time a security interest in any asset of the Employer, of any affiliated company, or of the stockholders of the Employer. The liabilities of the Employer to any individual pursuant to this Plan shall be those of a debtor pursuant to such contractual obligations as are created by this Plan and, to the extent any person acquires a right to receive payment from the Employer under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer.
- (b) The Employer may establish a grantor trust (but shall not be required to do so) to which shall be contributed (subject to the claims of the general creditors of the Employer) the amounts credited to the Accounts. If a grantor trust is so established, except as specifically provided otherwise by the terms of the trust agreement for the trust, payment by the trust of the amounts due to a Participant or his Beneficiary under the Plan shall be considered a payment by the Employer for purposes of the Plan.

5.3 Deemed Investment of Accounts

- (a) The Committee shall select one or more investment funds for the deemed investment of Accounts. However, in no event shall the Employer be required to

make any such investment in the investment funds, and to the extent such investments are made, such investments shall remain an asset of the Employer subject to the claims of its general creditors.

- (b) On the date credited to the respective Account, a Participant's Elective Deferrals, Matching Contributions, Additional Matching Contributions, Employer Contributions and Additional Employer Contributions shall be deemed to be invested in one or more of the investment funds designated by the Participant for such deemed investment. Once made, the Participant's investment designation shall continue in effect for all future Elective Deferrals, Matching Contributions, Additional Matching Contributions, Employer Contributions and Additional Employer Contributions until changed by the Participant. Any such change may be elected by the Participant at the times established by the Committee, which shall be no less frequently than quarterly, and shall be effective only for Elective Deferrals, Matching Contributions, Additional Matching Contributions, Employer Contributions and Additional Employer Contributions credited from and after its effective date.
- (c) A Participant may elect to reallocate the balance of his Accounts deemed to be invested in the investment funds under this Section at the times established by the Committee, which shall be no less frequently quarterly.
- (d) All elections and designations under this Section shall be made in accordance with procedures prescribed by the Committee. The Committee may prescribe uniform percentages for such elections and designations.
- (e) Any distribution of a Participant's Account which is not a distribution of the entire account shall be taken pro rata from each of the investment funds in which the account is deemed to be invested.

5.4 **Reports to Participants**

The Employer shall provide annual reports to each Participant showing (a) the value of the Account as of the most recent December 31st (b) the amount of contributions made by the Employer for the year ending on such date and (c) the amount of any investment earnings or loss credited or debited to the Participant's Account.

ARTICLE VI

VESTING

A Participant shall be fully vested and nonforfeitable at all times in all of his Accounts herein.

ARTICLE VII
MANNER AND TIMING OF DISTRIBUTION

7.1 Payment of Benefits

(a) After a Participant's Separation from Service the Participant's Account shall be paid to the Participant (or in the event of the Participant's death, to the Participant's Beneficiary). Payment shall be made in one of the following forms as specified in the Participant's payment election pursuant to Section 7.2:

- (i) Single Sum. A single sum distribution of the value of the balance of the Account on the first day of the second month following the Participant's Separation from Service; or
- (ii) Installments. This subparagraph (ii) shall only be applicable after April 30, 2006. The value of the balance of the Account shall be paid in annual installments with the first of such installment to be paid on the first day of the second month following the Participant's Separation from Service and with subsequent annual installments to be paid on an anniversary of the payment of the first installment. Annual installments shall be paid in one of the alternative methods specified below over the number of years selected by the Participant in the payment election made pursuant to Section 7.2, but not to exceed 10. The earnings (or losses) provided for in Section 5.1(e) shall continue to accrue on the balance remaining in the Account during the period of installment payments. The alternative methods available are as follows:

(A) Fractional Method. The annual installment shall be calculated by multiplying the most recent value of the Account by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year annual installment method, the first payment shall be one-tenth (1/10) of the Account balance. The following year, the payment shall be one-ninth (1/9) of the Account balance.

(B) Percentage or Fixed Dollar Method. The annual installment shall be calculated by multiplying the most recent value of the Account, in the case of the percentage method, by the percentage selected by the Participant and paying out the resulting amount or, in the case of the fixed dollar method, by paying out the fixed dollar amount selected by the Participant for the number of years selected by the Participant. However, in the event the dollar amount selected is more than the value of the Account in any given year, the entire value of the Account will be distributed. Further, regardless of the method selected by the Executive,

the final installment payment will include 100% of the then remaining Account value.

- (b) In the case of a Participant who is a Specified Employee, payment pursuant to paragraph (a) above shall commence no earlier than the first day of the seventh month following the Participant's Separation from Service. This delay in distribution rule does not apply if the payment is being made as a result of the Participant's death or disability. For this purpose, "disability" means that the Participant:
- (i) is unable to engage in any substantial gainful activity by reason of any medically determinable or physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or
 - (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continued period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the employees of the Employer or one of its affiliates in which the Participant is covered.

7.2 Payment Election

An individual who first becomes a Participant at the beginning of a Plan Year shall, prior to his date of participation, complete a payment election form specifying the form of payment applicable to such Participant's Account under the Plan. Absent an actual election by such Participant by the effective date of participation, the Participant shall be deemed to have elected the five (5) annual installment payment form. An individual who first becomes a Participant other than on the first day of a Plan Year shall, no later than 30 days after the effective date of participation, complete a payment election form specifying the form of payment applicable to such Participant's Account. In the event such a Participant does not make an actual election within such 30 day period, the Participant shall be deemed to have elected the five (5) annual installment payment form; provided, however, that if such Participant is already a participant in any other nonqualified plan or plans sponsored by the Employer of the account balance type, the most recent payment election prior to the date he became a Participant in this Plan with respect to any one of those plans shall be the payment election form deemed elected under this Plan regardless of whether the individual elects a different payment election form during that initial 30 day period. Elections shall be made on a "payment election form" – the form established from time to time by the Committee which a Participant completes, signs and returns to the Committee to make an election under the Plan. To the extent authorized by the Committee, such form may be provided electronically and, in such case, need not be signed by the Participant. A Participant may change the form of payment by completing and filing a new payment election form with the Committee, and the payment election form on file with the Committee as of the date of the Participant's

Separation from Service shall be controlling. Notwithstanding the foregoing, a payment election form changing the Participant's form of payment shall not be effective if the Participant has a Separation from Service within twelve months after the date on which the election change is filed with the Committee. Any change in payment method must have the effect of delaying the commencement of payments to a date which is at least five (5) years following the initially scheduled commencement date of payment previously in effect. For purposes of compliance with Code Section 409A, a series of installment payments is designated as a single payment rather than a right to a series of separate payments; therefore, a Participant who has elected (or is deemed to have elected) any option available under Section 7.1(a)(i) or (ii) may substitute any of the other options for the option originally selected as long as the foregoing one-year and five year rules are satisfied. A switch from the percentage method to the fixed dollar method or vice versa and a switch from either of those methods to the fractional method or vice versa is considered a substitution of a new option for the original option for purposes of this rule even if the number of yearly installments is not changed. The five year delay rule does not apply if the revised payment method applies only upon the Participant's death or disability. For this purpose, disability has the same meaning as in Section 7.1(b). In the event that the Participant's new payment election would not be effective under the foregoing rules, the payment election previously in effect shall be controlling.

7.3 Financial Hardship

A partial or total distribution of the Participant's Account shall be made prior to Separation from Service upon the Participant's request and a demonstration by the Participant of severe financial hardship as a result of an Unforeseeable Emergency. Such distribution shall be made in a single sum as soon as administratively practicable following the Committee's determination that the foregoing requirements have been met. In any case, a distribution due to Unforeseeable Emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of deferrals under Article IV and any other nonqualified deferred compensation plan of the account balance type sponsored by the Employer. Distributions because of an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution). Determinations of amounts reasonably necessary to satisfy the emergency need must take into account any additional compensation that is available because of cancellation of a deferral election under Article IV and any other nonqualified deferred compensation plan of the account balance type sponsored by the Employer upon a payment due to an Unforeseeable Emergency. The payment may be made from any arrangement in which the Participant participates that provides for payment upon an Unforeseeable Emergency, provided that the arrangement under which the payment was made must be designated at the time of payment.

7.4 Delayed Distribution

- (a) A payment otherwise required to be made pursuant to the provisions of this Article VII shall be delayed if the Employer reasonably anticipates that the Employer's deduction with respect to such payment would be limited or eliminated by application of Code Section 162(m); provided, however that such payment shall be made on the earliest date on which the Employer anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of Code Section 162(m). In any event, such payment shall be made no later than the last day of the calendar year in which the Participant has a Separation from Service or, in the case of a Specified Employee, the last day of the calendar year in which occurs the six (6) month anniversary of such Separation from Service.
- (b) A payment otherwise required under this Article VII shall be delayed if the Employer reasonably determines that the making of the payment will jeopardize the ability of the Employer to continue as a going concern; provided, however, that payments shall be made on the earliest date on which the Employer reasonably determines that the making of the payment will not jeopardize the ability of the Employer to continue as a going concern.
- (c) A payment otherwise required under this Article VII shall be delayed if the Employer reasonably anticipates that the making of the payment will violate federal securities laws or other applicable law; provided, however, that payments shall nevertheless be made on the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation. (The making of a payment that would cause inclusion in gross income or the applicability of any penalty provision or other provision of the Code is not treated as a violation of applicable law.)
- (d) A payment otherwise required under this Article VII shall be delayed upon such other events and conditions as the Internal Revenue Service may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

7.5 Inclusion in Income Under Section 409A

Notwithstanding any other provision of this Article VII, in the event this Plan fails to satisfy the requirements of Code Section 409A and regulations thereunder with respect to any Participant, there shall be distributed to such Participant as promptly as possible after the Administrator becomes aware of such fact of noncompliance such portion of the Participant's Account balance hereunder as is included in income as a result of the failure to comply, but no more.

7.6 Domestic Relations Order

Notwithstanding any other provision of this Article VII, payments shall be made from the Account of a Participant in this Plan to such individual or individuals (other than the

Participant) and at such times as are necessary to comply with a domestic relations order (as defined in Code Section 414(p)(1)(B)).

7.7 De Minimis Amounts

Notwithstanding any other provision of this Article VII hereof, a Participant's Account balance under this Plan and all other nonqualified deferred compensation plans of the account balance type shall automatically be distributed to the Participant on or before the later of December 31 of the calendar year in which occurs the Participant's Separation from Service or the 15th day of the third month following the Participant's Separation from Service if the total amount in such Account balance at the time of distribution, when aggregated with all other amounts payable to the Participant under all arrangements benefiting the Participant described in IRS Regulations Section 1.409A-1(c) (or any successor thereto), do not exceed the amount described in Code Section 402(g)(1)(B). The foregoing lump sum payment shall be made automatically and any other distribution elections otherwise applicable with respect to the individual in the absence of this provision shall not apply.

ARTICLE VIII
PLAN OPERATION AND ADMINISTRATION

8.1 Administrator

The Committee shall be the plan administrator and shall be responsible for and perform the duties imposed on a plan administrator.

8.2 Committee

The Committee shall have the power and duty to administer the Plan in accordance with its terms, including, but not limited to, the following:

- (a) to make and enforce such rules and regulations as it may deem necessary or desirable for the efficient administration of the Plan;
- (b) to interpret the Plan, including the right to remedy possible ambiguities, inconsistencies or omissions;
- (c) to decide all questions related to participation in, and payment of amounts under, the Plan, including all factual questions related thereto; and
- (d) to maintain all necessary records for the administration of the Plan.

8.3 Authority to Act

Brady Corporation or the Committee may authorize one or more of Brady Corporation's employees, members, representatives or agents, as applicable, to execute on its behalf instructions or directions to any interested party, and any such interested party may rely thereupon and the information contained therein.

8.4 Information from Participants

Each Participant and Beneficiary shall furnish the Committee in the form prescribed by it and at its request, such personal data, affidavits, authorizations to obtain information, or other information as the Committee deems necessary or desirable for the administration of the Plan.

8.5 Committee Discretion

The Committee has full and complete discretionary authority to determine eligibility for benefits, to construe the terms of the Plan and to decide any matter presented through the claims review procedure. Any final determination by the Committee (including claims decisions made pursuant to Article IX) shall be binding on all parties and afforded the maximum deference allowed by law. If challenged in court, such determination shall not be subject to de novo review and shall not be overturned unless proven to be arbitrary and

capricious upon the evidence considered by the Committee at the time of such determination.

8.6 Committee Members' Conflict of Interest

A member of the Committee who is covered hereunder may not vote or decide upon any matter relating solely to himself or vote in any case in which his individual right to any benefit under the Plan is particularly involved. Decisions shall be made by remaining Committee or Board members even if there is no quorum under normal Committee or Board rules.

8.7 Governing Law

This Plan shall be construed in accordance with the laws of the State of Wisconsin to the extent not preempted by the provisions of the Employee Retirement Income Security Act of 1974, as amended, or other federal law.

8.8 Expenses

All expenses and costs incurred in connection with the administration and operation of the Plan shall be borne by the Employer and/or the Trust.

8.9 Minor or Incompetent Payees

If a person to whom a benefit is payable is a minor or is otherwise incompetent by reason of a physical or mental disability, the Committee may cause the payments due to such person to be made to another person for the first person's benefit without any responsibility to see to the application of such payment. Such payments shall operate as a complete discharge of the obligations to such person under the Plan.

8.10 Withholding

The Employer shall comply with all applicable tax and governmental withholding requirements. To the extent required by law, the Employer shall withhold any taxes required to be withheld by the federal or any state or local government from payments made hereunder or from any other amounts paid to a Participant by the Employer. If FICA taxes must be withheld in connection with amounts credited hereunder before payments are otherwise due hereunder and if there are no other wages from which to withhold them, the Employer shall pay such FICA taxes generated by such payment (and taxes under Code Section 3401 triggered thereby and additional taxes under Section 3401 attributable to pyramiding of Section 3401 wages and taxes) but no more and the Participant's Account hereunder shall be reduced by an amount equal to the payments made by the Employer.

8.11 Indemnification

Except as otherwise provided by law, neither the Board nor the Committee nor any individual member of the Board or the Committee, nor the Employer, nor any officer, shareholder or employee of the Employer shall be liable for any error of judgment, action or failure to act hereunder or for any good faith exercise of discretion, excepting only liability for gross negligence or willful misconduct. Such individuals and entities shall be indemnified and held harmless by the Employer against any and all claims, damages, liabilities, costs and expenses (including attorneys' fees) arising by reason of any good faith error of omission or commission with respect to any responsibility, duty or action hereunder. Nothing herein contained shall preclude the Employer from purchasing insurance to cover potential liability of one or more persons who serve in an administrative capacity with respect to the Plan.

ARTICLE IX
CLAIMS PROCEDURE

9.1 Claims

If the Participant or the Participant's Beneficiary (hereinafter referred to as a "Claimant") is denied all or a portion of an expected benefit under the Plan for any reason, he or she may file a claim with the Committee or its designee. The Committee or its designee shall notify the Claimant within 60 days of allowance or denial of the claim, unless the Claimant receives written notice prior to the end of the sixty (60) day period stating that special circumstances require an extension of the time for decision and specifying the expected date of decision. The notice of the such decision shall be in writing, sent by mail to the Claimant's last known address, and if a denial of the claim, must contain the following information:

- (a) the specific reasons for the denial;
- (b) specific reference to pertinent provisions of the Plan on which the denial is based;
- (c) if applicable, a description of any additional information or material necessary to perfect the claim, an explanation of why such information or material is necessary, and an explanation of the claims review procedure; and
- (d) a description of the Plan's claims review procedure, including a statement of the Claimant's right to bring a civil action under Section 502 of ERISA if the Claimant's claim is denied upon review.

9.2 Review

A Claimant is entitled to request a review of any denial of his claim. The request for review must be submitted in writing to the Committee within 60 days after receipt of the notice of the denial. The timely filing of such a request is necessary to preserve any legal recourse which may be available to the Claimant and, absent the submission of request for review within the 60-day period, the claim will be deemed to be conclusively denied. Upon submission of a written request for review, the Claimant or his representative shall be entitled to review all pertinent documents, and to submit issues and comments in writing for consideration by the Committee. The Committee shall fully and fairly review the matter and shall consider all information submitted in the review request, without regard to whether or not such information was submitted or considered in the initial claim determination. The Committee shall promptly respond to the Claimant, in writing, of its decision within 60 days after receipt of the review request. However, due to special circumstances, if no response has been provided within the first 60 days, and notice of the need for additional time has been furnished within such period, the review and response may be made within the following 60 days. The Committee's decision shall include specific reasons for the decision, including references to the particular Plan provisions upon which the decision is based, notification that the Claimant can receive or review

copies of all documents, records and information relevant to the claim, and information as to the Claimant's right to file suit under Section 502(a) of ERISA.

9.3 **Disability**

If a determination of disability for purposes of Section 7.1(b) or 7.2 becomes necessary and if such determination is considered to be with respect to a claim for benefits based on disability for purposes of 29 CFR Section 2560.503-1, then the Committee shall adopt and administer a special procedure for considering such disability claims meeting the requirements of 29 CFR Section 2560.503-1 for disability benefit claims.

ARTICLE X
AMENDMENT AND TERMINATION

Brady Corporation (through its Board of Directors or authorized officers or employees and/or the Committee) reserves the right to alter or amend the Plan, or any part thereof, in such manner as it may determine, at any time and for any reason. Further, the Board of Directors of Brady Corporation reserves the right to terminate the Plan, at any time and for any reason. Notwithstanding the foregoing, in no event shall any amendment or termination deprive any Participant or Beneficiary of any amounts credited to him under this Plan as of the date of such amendment or termination; provided, however, that Brady Corporation may prospectively change the manner in which earnings are credited or discontinue the crediting of earnings and, further, Brady Corporation may make any amendment it deems necessary or desirable for purposes of compliance with the requirements of Code Section 409A and regulations thereunder.

If the Plan is amended to freeze benefit accruals, no additional deferrals or contributions shall be credited to any Participant Account hereunder. Following such a freeze of benefit accruals, Participants' Accounts shall be paid at such time and in such form as provided under Article VII of the Plan. If the Employer terminates the Plan and if the termination is of the type described in regulations issued by the Internal Revenue Service pursuant to Code Section 409A, then the Employer shall distribute the then existing Account balances of Participants and beneficiaries in a lump sum within the time period specified in such regulations and, following such distribution, there shall be no further obligation to any Participant or beneficiary under this Plan. However, if the termination is not of the type described in such regulations, then following Plan termination Participants' Accounts shall be paid at such time and in such form as provided under Article VII of the plan.

ARTICLE XI

MISCELLANEOUS PROVISIONS

11.1 Headings

The headings of the Plan have been inserted for convenience of reference and shall be ignored in the construction of the provisions herein.

11.2 No Contract of Employment

The existence of the Plan shall not create or change any contract, express or implied, between the Employer and its employees and shall not affect the Employer's right to take any action with respect to its employees.

11.3 Rights of Participants and Beneficiaries

The interest and rights of a Participant and Beneficiary under the Plan shall be those of a general unsecured creditor of the Employer, and with respect to the creditors of the Employer, no Participant or Beneficiary shall have any preferred claims on, or any beneficial ownership in, the assets of the Employer, including any assets in which the Employer may invest to aid in meeting its obligations under the Plan.

11.4 Nonalienation of Benefits

All benefits payable hereunder are for the sole use and benefit of the Participants and their Beneficiaries and, to the extent permitted by law, shall be free, clear and discharged of and from, and are not to be in any way liable for, debts, contracts or agreements, now contracted or which may hereafter be contracted and from all claims and liabilities now or hereafter incurred by any Participant or Beneficiary covered by this Plan. No Participant or Beneficiary covered by this Plan shall have the right to anticipate, surrender, encumber, alienate or assign, whether voluntarily or involuntarily, any of the benefits to become due hereunder unto any person or person upon any terms whatsoever, and any attempt to do so shall be void.

11.5 Tax Treatment

There is no commitment or guarantee with respect to the tax treatment to be accorded to a Participant or Beneficiary under the Plan.

11.6 Other Plans and Agreements

- (a) Participation in the Plan shall not affect a Participant's rights to participate in and receive benefits under any other plans of the Employer, nor shall it affect his rights under any other agreement entered into with the Employer, unless explicitly provided otherwise by such agreement.

- (b) Any amount credited under or paid pursuant to the Plan shall not be treated as wages, salary or any other type of compensation or otherwise taken into account in the determination of the Participant's benefits under any other plans of the Employer, unless explicitly provided otherwise by such plan.

11.7 Number and Gender

The use of the singular shall be interpreted to include the plural and the plural the singular, as the context shall require. The use of the masculine, feminine or neuter shall be interpreted to include the masculine, feminine or neuter, as the context shall require.

11.8 Plan Provisions Controlling

In the event of any conflict between the provisions of the Plan and the provisions of a summary or description of the Plan or the terms of any agreement or instrument related to the Plan, the provisions of the Plan shall be controlling.

11.9 Severability

If any provisions of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, but this Plan shall be construed and enforced as if the illegal and invalid provisions had never been included herein.

11.10 Evidence Conclusive

The Employer, the Committee and any person or persons involved in the administration of the Plan shall be entitled to rely upon any certification, statement, or representation made or evidence furnished by any person with respect to any facts required to be determined under any of the provisions of the Plan, and shall not be liable on account of the payment of any monies or the doing of any act or failure to act in reliance thereon. Any such certification, statement, representation, or evidence, upon being duly made or furnished, shall be conclusively binding upon the person furnishing it but not upon the Employer, the Committee or any other person involved in the administration of the Plan. Nothing herein contained shall be construed to prevent any of such parties from contesting any such certification, statement, representation, or evidence or to relieve any person from the duty of submitting satisfactory proof of any fact.

11.11 Status of Plan Under ERISA

The Plan is intended to be an unfunded plan maintained by an Employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, as described in Section 201(2), Section 301(a)(3), Section 401(a)(1) and Section 4021(b)(6) of the Employee Retirement Income Security Act of 1974, as amended.

11.12 Name and Address Changes

Each Participant shall keep his name and address on file with the Employer and shall promptly notify the Employer of any changes in his name or address. All notices required or contemplated by this Plan shall be deemed to have been given to a Participant if mailed with adequate postage prepaid thereon addressed to him at his last address on file with the Employer. If any check in payment of a benefit hereunder (which was mailed to the last address of the payee as shown on the Employer's records) is returned unclaimed, further payments shall be discontinued unless evidence is furnished that the recipient is still alive.

11.13 Assignability by Corporation

The Employer shall have the right to assign all of its right, title and obligation in and under this Plan upon a merger or consolidation in which the Employer is not the surviving entity or to the purchaser of substantially its entire business or assets or the business or assets pertaining to a major product line, provided such assignee or purchaser assumes and agrees to perform after the effective date of such assignment all of the terms, conditions and provisions imposed by this Plan upon the Employer. Upon such assignment, all of the rights, as well as all obligations, of the Employer under this Plan shall thereupon cease and terminate.

11.14 Special rule for 2005-2007.

Notwithstanding the usual rules regarding distribution elections contained in Article VII, a Participant, on or before December 31, 2007, may make an election as to distribution of his Account from among the choices described in Section 7.1 hereof without complying with the rules described in Section 7.2 hereof as long as the effect of the election is not to accelerate payments into 2006 or to defer payments which would otherwise have been made in 2006 or to accelerate payments into 2007 or to defer payments which would otherwise have been made in 2007. Such election shall become effective after the last day upon which it is permitted to be made. In order to change any such election after it has become effective, the requirements of Section 7.2 hereof must be satisfied.

IN WITNESS WHEREOF, the Employer has caused its duly authorized officer to execute this Plan document on its behalf this 19th day of February, 2008.

BRADY CORPORATION

By: /s/ FRANK M. JAEHNERT

Attested: /s/ HOYT R. STASTNEY

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

I, Frank M. Jaehnert, 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 fact 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) The registrant's other certifying officer and I are 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 provide 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) The registrant's other certifying officer and 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: March 7, 2008

/s/ FRANK M. JAEHNERT

Frank M. Jaehnert

President and Chief Executive Officer

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

I, Thomas J. Felmer, 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 fact 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) The registrant's other certifying officer and I are 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 provide 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) The registrant's other certifying officer and 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: March 7, 2008

/s/ THOMAS J. FELMER

Thomas J. Felmer

Senior Vice President and Chief
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 January 31, 2008 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: March 7, 2008

/s/ FRANK M. JAEHNERT

Frank M. Jaehnert

President and Chief 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 January 31, 2008 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: March 7, 2008

/s/ THOMAS J. FELMER

Thomas J. Felmer

Senior Vice President and Chief
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.