

BRADY CORP  
Form 10-K  
September 21, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended July 31, 2015

OR

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

For the transition period from to  
Commission file number 1-14959

BRADY CORPORATION

(Exact name of registrant as specified in charter)

Wisconsin

(State or other jurisdiction of  
incorporation or organization)

6555 West Good Hope Road,  
Milwaukee, WI

(Address of principal executive offices)  
(414) 358-6600

(Registrant's telephone number, including area code)

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

Title of each class

Class A Nonvoting Common Stock, Par

Value \$.01 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

39-0178960

(IRS Employer  
Identification No.)

53223

(Zip Code)

Name of each exchange on which registered

New York Stock Exchange

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 Act). Yes  No

The aggregate market value of the non-voting common stock held by non-affiliates of the registrant as of January 31, 2015, was approximately \$1,174,025,350 based on the closing sale price of \$26.17 per share on that date as reported for the New York Stock Exchange. As of September 18, 2015, there were 47,711,833 outstanding shares of Class A Nonvoting Common Stock (the "Class A Common Stock"), and 3,538,628 shares of Class B Common Stock. The Class B Common Stock, all of which is held by affiliates of the registrant, is the only voting stock.

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## PART I

### Item 1. Business

#### (a) General Development of Business

Brady Corporation (“Brady,” “Company,” “we,” “us,” “our”) was incorporated under the laws of the state of Wisconsin in 1911. The Company’s corporate headquarters are located at 6555 West Good Hope Road, Milwaukee, Wisconsin 53223, and the telephone number is (414) 358-6600.

Brady Corporation is a global manufacturer and supplier of identification solutions and workplace safety products that identify and protect premises, products and people. The ability to provide customers with a broad range of proprietary, customized and diverse products for use in various applications, along with a commitment to quality and service, a global footprint, and multiple sales channels, have made Brady a leader in many of its markets.

The Company’s primary objective is to build upon its market position and increase shareholder value by improving in the following key competencies:

- Operational excellence — Continuous productivity improvement, business simplification and process transformation.
- Customer service — Focus on the customer and understanding customer needs.
- Innovation advantage — Technologically advanced, internally developed products drive growth and sustain gross profit margins.
- Global leadership position in niche markets.
- Digital capabilities.
- Compliance expertise.

Over the last two years, we made significant portfolio and management decisions designed to better position the Company for growth in the future. These changes were a meaningful shift from the more volatile and less profitable consumer electronics Die-Cut business, which was partially divested in fiscal 2014 and fully divested in the first quarter of fiscal 2015, to a focus on organic growth opportunities within our Identification Solutions (“ID Solutions” or “IDS”) and Workplace Safety (“WPS”) segments. In our IDS business, our strategy for growth includes expanding the business in high opportunity markets and investing in research and development (“R&D”) activities to develop and launch innovative, high-value products more efficiently. In our WPS business, our strategy to return to growth includes a focus on workplace safety critical industries, expansion of our product offerings, further developed pricing capabilities, and increased investment in digital.

The following were key initiatives supporting the strategy in fiscal 2015:

- Focused on driving operational excellence and providing the Company’s customers with innovative products and the highest level of customer service.
- Invested in R&D to identify emerging technology opportunities that align with the Company’s target markets and improved our innovation development process.
- Enhanced the Company’s business primarily through focused sales and marketing efforts in selected vertical markets and an increased focus on strategic accounts.
- Expanded the direct-marketing model in the WPS business by increasing its offering of identification and workplace safety products with a heightened focus on proprietary and customized product offerings and an increased emphasis on digital.
- Completed the consolidation of selected manufacturing facilities in the Americas and Europe.

In fiscal 2014, the Company entered into an agreement with LTI Flexible Products, Inc. (d/b/a Boyd Corporation) for the sale of its Die-Cut business. The first phase of the divestiture closed on May 1, 2014 and included the Company’s European Die-Cut business and the portions of the Asia Die-Cut business operated in Korea, Thailand and Malaysia, together with the transfer of certain of the Company’s employees in the United States supporting those operations. The second phase of the divestiture included the Company’s Die-Cut business located in China and closed in the first quarter of fiscal 2015.

(b) Financial Information About Industry Segments

The information required by this Item is provided in Note 9 of the Notes to Consolidated Financial Statements contained in Item 8 - Financial Statements and Supplementary Data.

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## (c) Narrative Description of Business

## Overview

The Company is organized and managed on a global basis within two reportable segments: Identification Solutions and Workplace Safety.

The IDS segment includes high-performance and innovative identification and healthcare products that are manufactured under multiple brands, including the Brady brand, and are primarily sold through distribution to a broad range of maintenance, repair, and operations ("MRO") and original equipment manufacturing ("OEM") customers and through other channels, including direct sales, catalog marketing, and digital.

The WPS segment includes workplace safety and compliance products, which are sold under multiple brand names through catalog and digital to a broad range of MRO customers. Approximately half of the WPS business is derived from internally manufactured product and half is from externally sourced products.

Below is a summary of sales by reportable segments for the fiscal years ended July 31:

	2015	2014	2013	
IDS	68.8	% 67.4	% 63.8	%
WPS	31.2	% 32.6	% 36.2	%
Total	100	% 100	% 100	%

## ID Solutions

Within the ID Solutions segment, the primary product and service categories include:

- Facility identification, which includes safety signs, pipe markers, labeling systems, spill control products, lockout/tagout devices, and software and services for auditing, procedure writing and training.

- Product identification, which includes materials and printing systems for product identification, brand protection labeling, work in process labeling, and finished product identification.

- Wire identification, which includes hand-held printers, wire markers, sleeves, and tags.

- People identification, which includes self-expiring name tags, badges, lanyards, and access control software.

- Patient identification, which includes wristbands and labels used in hospitals for tracking and improving the safety of patients.

- Custom wristbands used in the leisure and entertainment industry such as theme parks, concerts and festivals.

Approximately 65% of ID Solutions products are sold under the Brady brand. In the United States, identification products for the utility industry are marketed under the Electromark brand; spill-control products are marketed under the SPC brand; and security and identification badges and systems are marketed under the B.I.G., Identocard/Identacam, PromoVision, and Brady People ID brands. Wire identification products are marketed under the Modernotecnica brand in Italy and lockout/tagout products are offered under the Scafftag brand in the U.K. Custom labels and nameplates are available under the Stickolor brand in Brazil; and identification and patient safety products in the healthcare industry and custom wristbands for the leisure and entertainment industry are available under the PDC Innovative brand in the U.S. and Europe.

The ID Solutions segment offers high quality products with rapid response and superior service to provide solutions to customers. The business markets and sells products through multiple channels including distributors, direct sales, catalog marketing, and e-commerce. The ID Solutions sales force partners with end-users and distributors by providing technical application and product expertise.

ID Solutions serves customers in many industries, which include industrial manufacturing, electronic manufacturing, healthcare, chemical, oil, gas, automotive, aerospace, defense, mass transit, electrical contractors, leisure and entertainment and telecommunications, among others.

The ID Solutions segment manufactures differentiated, proprietary products, most of which have been internally developed. These internally developed products include materials, printing systems, and software. IDS competes for business principally on the basis of production capabilities, engineering, research and development capabilities, materials expertise, customer service, product quality and price, and safety expertise. Competition is highly fragmented, ranging from smaller companies offering minimal product variety, to some of the world's largest major

adhesive and electrical product companies offering competing products as part of their overall product lines.

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### Workplace Safety

Within the Workplace Safety segment, the primary product categories include:

• Safety and compliance signs, tags, and labels.

• Informational and architectural signage.

• Asset tracking labels.

• First aid products.

• Industrial warehouse and office equipment.

• Labor law compliance posters.

Products within the Workplace Safety segment are sold under a variety of brands including: safety and facility identification products offered under the Seton, Emedco, Signals, Safety Signs Service and Pervaco brands; first aid supplies under the Accidental Health and Safety, Trafalgar, and Securimed brands; warehouse supplies and industrial furniture under the Runelandhs and Welco brands; wire identification products marketed under the Carroll brand; and labor law compliance posters under the Personnel Concepts brand.

Workplace Safety primarily sells to other businesses and serves many industries, including manufacturers, process industries, government, education, construction, and utilities. The business markets and sells products through multiple channels, including catalog, telemarketing and digital.

The Workplace Safety platform manufactures a broad range of stock and custom identification products, and also sells a broad range of related resale products. Historically, both the Company and many of our competitors focused their businesses on catalog marketing, often with varying product niches. However, the competitive landscape is changing with the continued evolution of digital channels. Many of our competitors extensively utilize e-commerce to promote the sale of their products. A consequence of this shift is price transparency, as prices on non-proprietary products can be easily compared. Therefore, to compete effectively, we continue to focus on developing dynamic pricing capabilities and enhancing customer experience as these are critical to convert customers from traditional catalog channels to digital.

### Discontinued Operations

Discontinued operations include the Asia Die-Cut and European Die-Cut businesses ("Die-Cut"), which were announced as held for sale in the third and fourth quarters of fiscal 2013, respectively. In fiscal 2014, the Company entered into an agreement with LTI Flexible Products, Inc. (d/b/a Boyd Corporation) for the sale of Die-Cut. The first phase of the divestiture closed in the fourth quarter of fiscal 2014 and the second phase of the divestiture closed in the first quarter of fiscal 2015. The assets and liabilities of the businesses included in the second phase were classified as held for sale on the consolidated balance sheet as of July 31, 2014. The operating results of the Die-Cut businesses were reflected as discontinued operations in the consolidated statements of earnings for the years ended July 31, 2015, 2014 and 2013. In addition, the Brady Medical and Varitronics businesses were previously divested in fiscal 2013 and were reported within discontinued operations. These divested businesses were part of the IDS business platform. The Die-Cut business consisted of the manufacture and sale of precision converted products such as gaskets, meshes, heat-dissipation materials, antennae, dampers, filters, and similar products sold primarily to the electronics industry with a concentration in the mobile-handset and hard-disk drive industries.

### Research and Development

The Company focuses its research and development ("R&D") efforts on pressure sensitive materials, printing systems and software, and it mainly supports the IDS segment. Material development involves the application of surface chemistry concepts for top coatings and adhesives applied to a variety of base materials. Systems design integrates materials, embedded software and a variety of printing technologies to form a complete solution for customer applications. In addition, the research and development team supports production and marketing efforts by providing application and technical expertise.

The Company owns patents and tradenames relating to certain products in the United States and internationally. Although the Company believes that patents are a significant driver in maintaining its position for certain products, technology in the areas covered by many of the patents continues to evolve and may limit the value of such patents. The Company's business is not dependent on any single patent or group of patents. Patents applicable to specific products extend for up to 20 years according to the date of patent application filing or patent grant, depending upon

the legal term of patents in the various countries where patent protection is obtained. The Company's tradenames are valid ten years from the date of registration, and are typically renewed on an ongoing basis.

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The Company spent \$36.7 million, \$35.0 million, and \$33.6 million during the fiscal years ended July 31, 2015, 2014, and 2013, respectively, on its R&D activities related to continuing operations. The increase in R&D spending over the years was primarily due to our innovation development initiative to realign the R&D processes in order to accelerate new product innovation and increased investments in emerging technologies such as RFID and sensing technologies. As of July 31, 2015, 220 employees were engaged in research and development activities for the Company.

### Operations

The materials used in the products manufactured consist primarily of a variety of plastic and synthetic films, paper, metal and metal foil, cloth, fiberglass, inks, dyes, adhesives, pigments, natural and synthetic rubber, organic chemicals, polymers, and solvents for consumable identification products in addition to electronic components, molded parts and sub-assemblies for printing systems. The Company operates a coating facility that manufactures bulk rolls of label stock for internal and external customers. In addition, the Company purchases finished products for resale.

The Company purchases raw materials, components and finished products from many suppliers. Overall, the Company is not dependent upon any single supplier for its most critical base materials or components; however, the Company has chosen in certain situations to sole source, or limit the sources of materials, components, or finished items for design or cost reasons. As a result, disruptions in supply could have an impact on results for a period of time, but we believe any disruptions would simply require qualification of new suppliers and the disruption would be modest. In certain instances, the qualification process could be more costly or take a longer period of time and in rare circumstances, such as a global shortage of critical materials or components, the financial impact could be significant. The Company currently operates 42 manufacturing or distribution facilities globally.

The Company carries working capital mainly related to accounts receivable and inventory. Inventory consists of raw materials, work in process and finished goods. Generally, custom products are made to order while an on-hand quantity of stock product is maintained to provide customers with timely delivery. Normal and customary payment terms range from net 30 to 90 days from date of invoice and varies by geographies.

The Company has a broad customer base, and no individual customer is 5% or more of total net sales.

Average delivery time for customer orders varies from same-day delivery to one month, depending on the type of product, customer request, and whether the product is stock or custom-designed and manufactured. The Company's backlog is not material, does not provide significant visibility for future business and is not pertinent to an understanding of the business.

### Environment

Compliance with federal, state and local environmental protection laws during fiscal 2015 did not have a material impact on the Company's business, financial condition or results of operations.

### Employees

As of July 31, 2015, the Company employed approximately 6,560 individuals. Brady has never experienced a material work stoppage due to a labor dispute and considers its relations with employees to be good.

### (d) Financial Information About Foreign and Domestic Operations and Export Sales

The information required by this Item is provided in Note 9 of the Notes to Consolidated Financial Statements contained in Item 8 — Financial Statements and Supplementary Data.

### (e) Information Available on the Internet

The Company's Corporate Internet address is <http://www.bradycorp.com>. The Company makes available, free of charge, on or through its Internet website copies of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to all such reports as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Company is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

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### Item 1A. Risk Factors

Investors should carefully consider the risks set forth below and all other information contained in this report and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. Our business is also subject to general risk and uncertainties that affect many other companies, such as market conditions, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, wars or conflicts, major health concerns, natural disasters or other disruptions of expected economic or business conditions. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial conditions.

#### Business Risks

Failure to successfully implement our Workplace Safety strategy, or if successfully implemented, failure to realize the benefits expected from the strategy, may adversely affect our business, sales, results of operations, cash flow and liquidity.

In fiscal 2015, the Workplace Safety segment represented 31.2% of our total sales. Organic sales in the WPS segment declined 0.4% in fiscal 2015, 4.6% in fiscal 2014, and 7.0% in fiscal 2013, all compared to the same periods in the prior year. During fiscal 2015, we recorded impairment charges of \$46.9 million primarily related to the goodwill and other intangible assets in the WPS Americas and WPS Asia-Pacific ("WPS APAC") reporting units. The WPS segment has experienced a deterioration in sales and profits due to a reduction in direct catalog mailings, increased digital competition, and pricing adjustments. While traditional direct marketing channels such as catalogs are important means of selling WPS products, an increasing number of customers are purchasing products on the Internet. The Company's strategy to grow this business includes: a focus on workplace safety critical industries, expansion of our product offerings, further developed pricing capabilities, and increased investment in digital. There is a risk that the Company may not continue to successfully implement this strategy, or if successfully implemented, not realize its expected benefits, due to the continued levels of increased competition and pricing pressure brought about by the Internet. Although the rate of sales decline has slowed over the past three years, there is also a risk that the Company may not be able to permanently reverse the downward trends in this business and return the segment to historic levels of sales and profits. If these risks materialize, their effects could adversely impact our business, sales, results of operations, cash flow and liquidity.

Failure to develop technologically advanced products that meet customer demands (including price expectations) and expand into adjacent product categories and markets could adversely impact our business, sales, results of operations, cash flow and liquidity.

Development of technologically advanced new products is targeted as a driver of our organic growth and profitability. Technology is changing rapidly and our competitors are innovating quickly. If we do not keep pace with developing technologically advanced products, we risk product commoditization, deterioration of the value of our brand, and reduced ability to effectively compete. We must continue to develop innovative products, as well as acquire and retain the necessary intellectual property rights in these products. If we fail to make innovations, or we launch products with quality problems, or if customers do not accept our products, then our business, sales, results of operations, cash flow, and liquidity could be adversely affected.

In addition, our strategy is to expand into higher-growth adjacent product categories and markets with technologically advanced new products. New product development and marketing efforts, including entry in markets where we have limited or no prior experience, such as healthcare and leisure and entertainment, have inherent risks. There can be no assurance that we will successfully execute these strategies. If we are unable to gain market share or successfully expand into adjacent markets with innovative new products, our business, sales, results of operations, cash flow, and liquidity could be adversely affected.

Failure to execute facility consolidations and maintain acceptable operational service metrics may adversely impact our business, sales, results of operations, cash flow and liquidity.

During fiscal years 2014 and 2015, we incurred unplanned operating costs related to consolidation of certain facilities and experienced deterioration of key service metrics. We remain challenged by operating inefficiencies stemming from these actions, but we are focused on improvements and returning to prior service metrics. We continually assess

our global footprint and expect to implement additional measures to reduce our cost structure, simplify our business, and standardize our processes, and these actions could result in unplanned operating costs and business disruptions in the future. If these risks materialize, or if we fail to successfully address these inefficiencies, their effects could adversely impact our business, sales, results of operations, cash flow and liquidity.

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Our failure or the failure of third-party service providers to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, may substantially harm our business, sales, results of operations, cash flow and liquidity.

Our business systems collect, maintain, transmit and store data about our customers, vendors and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers that store, process and transmit proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain. We and our service providers may not have the resources or technical sophistication to anticipate or prevent all types of attacks, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships. Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate or cover liabilities actually incurred, or that insurance will continue to be available to us on economically reasonable terms, or at all. Any compromise or breach of our security measures, or those of our third-party service providers, could adversely impact our ability to conduct business, violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity, and a loss of confidence in our security measures, which could have an adverse and material effect on our business, sales, results of operations, cash flow and liquidity.

Failure to compete effectively or remain competitive may have a negative impact on our business, sales, results of operations, cash flow and liquidity.

We actively compete with companies that produce and market the same or similar products, and in some instances, with companies that sell different products that are designed for the same end user. Additionally, we continue to face competition through the Internet in our entire business. Competition may force us to reduce prices or incur additional costs to remain competitive. We compete on the basis of price, customer support, product innovation, product offering, product quality, expertise, production capabilities, and for multinational customers, our global footprint. Present or future competitors may develop and introduce new and enhanced products, offer products based on alternative technologies and processes, accept lower profit, have greater financial, technical or other resources, or lower production costs or have other pricing advantages. Any of these could put us at a disadvantage by threatening our share of sales or reducing our profit margins, which could adversely impact our results of operations, cash flow and liquidity. Additionally, throughout our global business, distributors and customers may seek lower cost sourcing opportunities, which could result in a loss of business that may adversely impact our business, sales, results of operations, cash flow and liquidity.

Deterioration of or instability in the global economy and financial markets may adversely affect our business, sales, results of operations, cash flow and liquidity.

Our business and operating results could be affected by global economic conditions. In fiscal 2015, our business was negatively impacted by the weak economy in Australia and Brazil. When global economic conditions deteriorate or economic uncertainty continues, customers and potential customers may experience deterioration of their businesses, which may result in the delay or cancellation of plans to purchase our products. Our sensitivity to economic cycles and any related fluctuations in the businesses of our customers or potential customers could have a material adverse impact on our business, sales, results of operations, cash flow and liquidity.

The global nature of our business exposes us to foreign currency fluctuations that could adversely affect our business, sales, results of operations, cash flow, and liquidity.

Nearly 45% of our sales are derived outside the United States. Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar, and may adversely affect our financial

statements. Increased strength of the U.S. dollar will increase the effective price of our products sold in currencies other than U.S. dollars into other countries. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products, and services purchased overseas. Our sales and expenses are translated into U.S. dollars for reporting purposes, and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects, which occurred in fiscal 2015. In addition, certain of our subsidiaries may invoice customers in a currency other than its functional currency, which could result in unfavorable translation effects on our business, sales, results of operations, cash flow and liquidity.

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Demand for our products may be adversely affected by numerous factors, some of which we cannot predict or control. This could adversely affect our business, sales, results of operations, cash flow and liquidity.

Numerous factors may affect the demand for our products, including:

- Future financial performance of major markets served.
- Consolidation in the marketplace, allowing competitors and customers to be more efficient and more price competitive.
- Future competitors entering the marketplace.
- Decreasing product life cycles.
- Changes in customer preferences.

If any of these factors occur, the demand for our products could suffer, and this could adversely impact our business, sales, results of operations, cash flows and liquidity.

A large customer loss could significantly affect our business, sales, results of operations, cash flow, and liquidity.

While we have a broad customer base and no individual customer represents 5% or more of total sales, we conduct business with several large customers and distribution companies. Our dependence on these customers makes relationships with them important. We cannot guarantee that these relationships will be retained in the future. Because these large customers account for a significant portion of sales, they may possess a greater capacity to negotiate reduced prices. If we are unable to provide products to our customers at the quality and prices acceptable to them, some of our customers may shift their business to competitors or may substitute another manufacturer's products. If one of the large customers consolidates, is acquired, or loses market share, the result of that event may have an adverse impact on our business. The loss of or reduction of business from one or more of these large customers could have a material adverse impact on our business, sales, results of operations, cash flows, and liquidity.

We depend on key employees and the loss of these individuals could have an adverse effect on our operations.

Our success depends to a large extent upon the continued services of our key executives, managers and other skilled employees. We cannot ensure that we will be able to retain our key executives, managers and employees. The departure of key personnel without adequate replacement could disrupt our business operations. Additionally, we need qualified managers and skilled employees with technical and industry experience to operate our business successfully. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations could be materially adversely affected.

We are a global company headquartered in the United States. We are subject to extensive regulations by U.S. and non-U.S. governmental and self-regulatory entities at various levels of the governing bodies. Failure to comply with laws and regulations could adversely affect our business, sales, results of operations, cash flow and liquidity.

Our operations are subject to the risks of doing business domestically and globally, including the following:

- Delays or disruptions in product deliveries and payments in connection with international manufacturing and sales.
- Political and economic instability and disruptions.
- Imposition of duties and tariffs.
- Import, export and economic sanction laws.
- Current and changing governmental policies, regulatory, and business environments.
- Disadvantages from competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act.
- Local labor market conditions.
- Regulations relating to climate change, air emissions, wastewater discharges, handling and disposal of hazardous materials and wastes.
- Regulations relating to health, safety and the protection of the environment.
- Specific country regulations where our products are manufactured or sold.
- Laws and regulations that apply to companies doing business with the government, including audit requirements of government contracts related to procurement integrity, export control, employment practices, and the accuracy of records and recording of costs.



Further, these laws and regulations are constantly evolving and it is impossible to accurately predict the effect they may have upon our sales, results of operations, cash flows and liquidity.

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We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions, could lead to substantial civil or criminal, monetary and non-monetary penalties and related shareholder lawsuits, could damage our reputation, and could adversely impact our business, results of operations, cash flow and liquidity.

Product liability claims could adversely impact our financial condition, results of operations, cash flows, and reputation.

Our business exposes us to potential product liability risk, as well as warranty and recall claims that are inherent in the design, manufacture, sale and use of our products. We sell products in industries such as aerospace, defense, healthcare, chemical, and energy where the impact of product liability risk is high. To date, we have not incurred material costs related to these types of claims. However, in the event our products actually or allegedly fail to perform as expected and we are subject to such claims above the amount of insurance coverage, outside the scope of our coverage, or for which we do not have coverage, our financial condition, results of operations and cash flows, as well as our reputation, could be materially and adversely affected.

Divestitures could negatively impact our business and contingent liabilities from divested businesses could adversely affect our results of operations, cash flow and liquidity.

We continually assess the strategic fit of our existing businesses and may divest businesses that we determine do not align with our strategic plan, or that are not achieving the desired return on investment. For example, over the last three fiscal years, we have divested our Brady Medical and Varitronics businesses, and our Asia Die-Cut and European Die-Cut businesses. Divestitures pose risks and challenges that could negatively impact our business. For example, when we decide to sell a business or assets, we may be unable to do so on satisfactory terms and within our anticipated time-frame, and even after reaching a definitive agreement to sell a business, the sale is typically subject to satisfaction of pre-closing conditions which may not be satisfied. In addition, the impact of the divestiture on our revenue and net earnings may be larger than projected, which could distract management, and disputes may arise with buyers. Also, we have retained responsibility for and have agreed to indemnify buyers against some contingent liabilities related to a number of businesses that we have recently sold. The resolution of these contingencies has not had a material adverse impact on our results of operations, cash flow and liquidity, but we cannot be certain that this favorable pattern will continue.

Inability to identify, complete, and integrate acquisitions and grow acquired companies, may adversely impact our sales, results of operations, cash flow and liquidity.

Our historical growth has included acquisitions, and our future growth strategy may include acquisition opportunities. For example, in fiscal 2013 the Company acquired Precision Dynamics Corporation ("PDC"), a manufacturer of identification products primarily for the healthcare sector, for \$301.2 million. We have not met the sales growth synergies identified at the time of the PDC acquisition, which, in addition to other factors, resulted in the Company recording impairment charges of \$148.6 million during fiscal 2014, primarily related to the goodwill and other intangible assets in the PeopleID reporting unit, which consists primarily of the PDC business. Failure to achieve these synergies for PDC or other acquired companies may adversely impact our sales, results of operations, cash flow and liquidity. We may not focus on acquisitions as part of our growth strategy, or if we do, we may not be able to identify acquisition targets or successfully complete acquisitions in the future due to the absence of quality companies in our target markets, economic conditions, or price expectations from sellers. If we do not complete additional acquisitions, our growth may be limited.

Acquisitions place significant demands on management, operational, and financial resources. Recent and future acquisitions will require integration of operations, sales and marketing, information technology, and administrative operations, which could decrease the time available to focus on our other growth strategies. We cannot assure that we will be able to successfully integrate acquisitions, that these acquisitions will operate profitably, or that we will be able to achieve the desired sales growth or operational success. Our sales, results of operations, cash flow, and liquidity could be adversely affected if we do not successfully integrate the newly acquired businesses, or if our other

businesses suffer due to the increased focus on the acquired businesses.

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### Financial/Ownership Risks

Failure to execute our strategies could result in impairment of goodwill or other intangible assets, which may negatively impact earnings and profitability.

We have goodwill of \$433.2 million and other intangible assets of \$68.9 million as of July 31, 2015, which represents 47.2% of our total assets. Over the past three years, the Company has recorded impairment charges of approximately \$400 million related to the goodwill and other intangible assets of multiple reporting units. We evaluate goodwill for impairment on an annual basis, or more frequently if impairment indicators are present, based upon the fair value of each reporting unit. We assess the impairment of other intangible assets on an annual basis, or more frequently if impairment indicators are present, based upon the expected future cash flows of the respective assets. These valuations include management's estimates of sales, profitability, cash flow generation, capital structure, cost of debt, interest rates, capital expenditures, and other assumptions. Significant negative industry or economic trends, disruptions to our business, inability to achieve sales projections or cost savings, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations. If the estimated fair value of our reporting units changes in future periods, we may be required to record an impairment charge related to goodwill or other intangible assets, which would reduce earnings in such period.

Changes in tax legislation or tax rates could adversely affect results of operations and financial statements.

Additionally, audits by taxing authorities could result in tax payments for prior periods.

We are subject to income taxes in the U.S. and in many non-U.S. jurisdictions. As such, our earnings are subject to risk due to changing tax laws and tax rates around the world. At any point in time, there are a number of tax proposals at various stages of legislation throughout the globe. While it is impossible for us to predict whether some or all of these proposals will be enacted, it likely would have an impact on our earnings.

Our tax filings are subject to audit by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in payments or assessments that differ from our reserves, our future net earnings may be adversely impacted.

We review the probability of the realization of our deferred tax assets on a quarterly basis based on forecasts of taxable income in both the U.S. and foreign jurisdictions. As part of this review, we utilize historical results, projected future operating results, eligible carry-forward periods, tax planning opportunities, and other relevant considerations. Adverse changes in profitability and financial outlook in both the U.S. and/or foreign jurisdictions, or changes in our geographic footprint may require changes in the valuation allowances in order to reduce our deferred tax assets. Such changes could result in a material impact on earnings.

Our annual cash needs could require us to repatriate cash to the U.S. from foreign jurisdictions, which may result in tax charges. We had no such tax charges in fiscal 2015. However, in fiscal 2014, we repatriated cash to the U.S. in connection with the sale of the Die Cut businesses, which resulted in a tax charge of \$4.0 million in continuing operations and in fiscal 2013, we repatriated cash to the U.S. in connection with the acquisition of PDC, which resulted in a tax charge of \$26.6 million.

Substantially all of our voting stock is controlled by members of the Brady family, while our public investors hold non-voting stock. The interests of the voting and non-voting shareholders could differ, potentially resulting in decisions that unfavorably affect the value of the non-voting shares.

Substantially all of our voting stock is controlled by Elizabeth P. Bruno, one of the Directors, and William H. Brady III, both of whom are descendants of the Company's founder. All of our publicly traded shares are non-voting.

Therefore, Ms. Bruno and Mr. Brady have control in most matters requiring approval or acquiescence by shareholders, including the composition of our Board of Directors and many corporate actions. Such concentration of ownership may discourage a potential acquirer from making a purchase offer that our public shareholders may find favorable, which in turn could adversely affect the market price of our common stock or prevent our shareholders from realizing a premium over our stock price. Furthermore, this concentration of voting share ownership may adversely affect the trading price for our non-voting common stock because investors may perceive disadvantages in owning stock in companies whose voting stock is controlled by a limited number of shareholders.



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Failure to meet certain financial covenants required by our debt agreements may adversely affect our assets, results of operations, cash flows, and liquidity.

As of July 31, 2015, we had \$253.7 million in outstanding indebtedness. In addition, based on the availability under our credit facilities as of July 31, 2015, we had the ability to incur an additional \$194.7 million under our revolving credit agreement. Our current revolving credit agreement and long-term debt obligations also impose certain restrictions on us. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") within Item 7 for more information regarding our credit agreement and long-term debt obligations. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then subject to applicable cure periods, the outstanding indebtedness (and any other indebtedness with cross-default provisions) could be declared immediately due and payable, which could adversely affect our assets, results of operations, cash flows and liquidity.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company currently operates 42 manufacturing or distribution facilities across the globe and are split by reporting segment as follows:

IDS: Thirty facilities are used for our IDS business. Six of which are located within the United States; four each are located in Belgium and China; three each in Mexico and the United Kingdom; two each in Brazil and India; and one each in Canada, Hong Kong, Italy, Japan, Malaysia, and Singapore.

WPS: Twelve facilities are used for our WPS business. Three of which are located in France; two each are located in Australia and Germany; and one each in the Netherlands, Poland, Sweden, the United Kingdom, and the United States.

The Company's present operating facilities contain a total of approximately 2.2 million square feet of space, of which approximately 1.6 million square feet is leased. The Company believes that its equipment and facilities are modern, well maintained, and adequate for present needs.

Item 3. Legal Proceedings

The Company is, and may in the future be, party to litigation arising in the normal course of business. The Company is not currently a party to any material pending legal proceedings in which management believes the ultimate resolution would have a material effect on the Company's consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## (a) Market Information

Brady Corporation Class A Nonvoting Common Stock trades on the New York Stock Exchange under the symbol BRC. The following table sets forth the range of high and low daily closing sales prices for the Company's Class A stock as reported on the New York Stock Exchange for each of the quarters in the fiscal years ended July 31:

	2015		2014		2013	
	High	Low	High	Low	High	Low
4th Quarter	\$26.76	\$23.15	\$30.75	\$24.26	\$35.58	\$29.76
3rd Quarter	\$28.91	\$26.03	\$27.89	\$25.15	\$36.33	\$31.51
2nd Quarter	\$27.56	\$23.50	\$31.61	\$27.36	\$35.00	\$30.18
1st Quarter	\$27.07	\$21.19	\$35.54	\$29.19	\$31.22	\$26.34

There is no trading market for the Company's Class B Voting Common Stock.

## (b) Holders

As of September 9, 2015, there were 1,057 Class A Common Stock shareholders of record and approximately 9,228 beneficial shareholders. There are three Class B Common Stock shareholders.

## (c) Issuer Purchases of Equity Securities

The Company has a share repurchase program of the Company's Class A Nonvoting Common Stock. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. The Company did not repurchase any shares in fiscal 2015. As of July 31, 2015, there remained 966,242 shares to purchase in connection with this share repurchase program.

On September 10, 2015, the Company's Board of Directors authorized an increase in the Company's share repurchase program, authorizing the repurchase of up to a total of two million shares of the Company's Class A Common Stock, inclusive of the shares in the existing share repurchase program.

## (d) Dividends

The Company has historically paid quarterly dividends on outstanding common stock. Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of \$0.01665 per share (subject to adjustment in the event of future stock splits, stock dividends or similar events involving shares of Class A Common Stock). Thereafter, any further dividend in that fiscal year must be paid on all shares of Class A Common Stock and Class B Common Stock on an equal basis. The Company believes that based on its historic dividend practice, this requirement will not impede it in following a similar dividend practice in the future.

During the two most recent fiscal years and for the first quarter of fiscal 2016, the Company declared the following dividends per share on its Class A and Class B Common Stock for the years ended July 31:

	2016		2015			2014				
	1st Qtr	2nd Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Class A	\$0.2025	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.195	\$0.195	\$0.195	\$0.195
Class B	0.18585	0.18335	0.20	0.20	0.20	0.20	0.17835	0.195	0.195	0.195

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## (e) Common Stock Price Performance Graph

The graph below shows a comparison of the cumulative return over the last five fiscal years had \$100 been invested at the close of business on July 31, 2010, in each of Brady Corporation Class A Common Stock, the Standard & Poor's (S&P) 500 Index, the Standard and Poor's SmallCap 600 Index, and the Russell 2000 Index.

## Comparison of 5 Year Cumulative Total Return\*

Among Brady Corporation, the S&P 500 Index,  
the S&P SmallCap 600 Index, and the Russell 2000 Index

\* \$100 invested on July 31, 2010 in stock or index—including reinvestment of dividends. Fiscal years ended July 31:

	2010	2011	2012	2013	2014	2015
Brady Corporation	\$100.00	\$108.81	\$100.01	\$128.45	\$103.70	\$96.33
S&P 500 Index	100.00	119.65	130.58	163.22	190.87	212.26
S&P SmallCap 600 Index	100.00	124.72	129.70	174.80	194.10	217.33
Russell 2000 Index	100.00	123.92	124.16	167.32	181.64	203.49

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## Item 6. Selected Financial Data

## CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL DATA

Years Ended July 31, 2011 through 2015

	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
Operating data (1)					
Net sales	\$1,171,731	\$1,225,034	\$1,157,792	\$1,071,504	\$1,059,355
Gross margin	558,432	609,564	609,348	590,969	587,950
Operating expenses:					
Research and development	36,734	35,048	33,552	34,528	38,268
Selling, general and administrative	422,704	452,164	427,858	392,694	397,472
Restructuring charges (2)	16,821	15,012	26,046	6,084	6,451
Impairment charges (3)	46,867	148,551	204,448	—	—
Total operating expenses	523,126	650,775	691,904	433,306	442,191
Operating income (loss)	35,306	(41,211)	) (82,556)	) 157,663	145,759
Other income (expense):					
Investment and other income—net	845	2,402	3,523	2,082	3,989
Interest expense	(11,156)	) (14,300)	) (16,641)	) (19,090)	) (22,124)
Net other expense	(10,311)	) (11,898)	) (13,118)	) (17,008)	) (18,135)
Earnings (loss) from continuing operations before income taxes	24,995	(53,109)	) (95,674)	) 140,655	127,624
Income taxes (4)	20,093	(4,963)	) 42,583	37,162	21,667
Earnings (loss) from continuing operations	\$4,902	\$(48,146)	) \$(138,257)	) \$103,493	\$105,957
(Loss) earnings from discontinued operations, net of income taxes (5)	(1,915)	) 2,178	(16,278)	) (121,404)	) 2,695
Net earnings (loss)	\$2,987	\$(45,968)	) \$(154,535)	) \$(17,911)	) \$108,652
Earnings (loss) from continuing operations per Common Share—(Diluted):					
Class A nonvoting	\$0.10	\$(0.93)	) \$(2.70)	) \$1.95	\$1.99
Class B voting	\$0.08	\$(0.95)	) \$(2.71)	) \$1.94	\$1.97
(Loss) earnings from discontinued operations per Common Share - (Diluted):					
Class A nonvoting	\$(0.04)	) \$0.04	\$(0.32)	) \$(2.29)	) \$0.05
Class B voting	\$(0.04)	) \$0.05	\$(0.32)	) \$(2.30)	) \$0.05
Cash Dividends on:					
Class A common stock	\$0.80	\$0.78	\$0.76	\$0.74	\$0.72
Class B common stock	\$0.78	\$0.76	\$0.74	\$0.72	\$0.70
Balance Sheet at July 31:					
Total assets	1,062,897	1,253,665	1,438,683	1,607,719	1,861,505
Long-term obligations, less current maturities	200,774	159,296	201,150	254,944	331,914
Stockholders' investment	587,688	733,076	830,797	1,009,353	1,156,192
Cash Flow Data:					
Net cash provided by operating activities	\$93,348	\$93,420	\$143,503	\$144,705	\$167,350

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Net cash (used in) provided by investing activities	(14,365	) 10,207	(325,766	) (64,604	) (22,631	)
Net cash used in financing activities	(32,152	) (115,387	) (33,060	) (147,824	) (91,574	)
Depreciation and amortization	39,458	44,598	48,725	43,987	48,827	
Capital expenditures	(26,673	) (43,398	) (35,687	) (24,147	) (20,532	)

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- Operating data has been impacted by the reclassification of the Die-Cut businesses into discontinued operations. The Company has elected to not separately disclose the cash flows related to discontinued operations. Refer to Note 15 within Item 8 for further information on discontinued operations. The operating data is also impacted by the acquisitive nature of the Company as one, three, and one acquisitions were completed in fiscal years ended July 31, 2013, 2012, and 2011, respectively. There were no acquisitions in fiscal 2015 and fiscal 2014. Refer to Note 2 within Item 8 for further information on the acquisition that was completed in fiscal 2013.
- (1) In fiscal 2009, in response to the global economic downturn, the Company initiated several measures to address its cost structure, including a reduction in its workforce and decreased discretionary spending. The Company continued certain of these measures during fiscal 2010, 2011, and 2012. During fiscal 2013, the Company executed a business simplification project which included various measures to address its cost structure and resulted in restructuring charges during fiscal 2013 and into fiscal 2014. In addition, in fiscal 2014, the Company approved a plan to consolidate facilities in the Americas, Europe, and Asia in order to enhance customer service, improve efficiency of our operations, and reduce operating expenses. This plan resulted in restructuring charges during fiscal 2014 and fiscal 2015.
- (2) The Company recognized impairment charges of \$46.9 million, \$148.6 million, and \$204.4 million during the three months ended July 31, 2015, 2014, and 2013, respectively. The impairment charges primarily related to the following reporting units: WPS Americas and WPS APAC in fiscal 2015; PeopleID in fiscal 2014; and WPS Americas and IDS APAC in fiscal 2013. Refer to Note 3 within Item 8 for further information regarding the impairment charges.
- (3) Fiscal 2015 was significantly impacted by the impairment charges of \$46.9 million, of which \$39.8 million was non-deductible for income tax purposes. Fiscal 2014 was significantly impacted by the impairment charges of \$148.6 million, of which \$61.1 million was non-deductible for income tax purposes, and a tax charge of \$4.0 million in continuing operations associated with the repatriation of the cash proceeds from the sale of the Die-Cut business. Fiscal 2013 was significantly impacted by the impairment charges of \$204.4 million, of which \$168.9 million was non-deductible for income tax purposes, as well as a tax charge of \$26.6 million associated with the funding of the PDC acquisition.
- (4) The loss from discontinued operations in fiscal 2015 includes a \$0.4 million net loss on the sale of the Die-Cut business, recorded during the three months ended October 31, 2014. The earnings from discontinued operations in fiscal 2014 include a \$1.2 million net loss on the sale of the Die-Cut business recorded during the three months ended July 31, 2014. The Die-Cut business was sold in two phases. The first phase closed in the fourth quarter of fiscal 2014 and the second and final phase closed in the first quarter of fiscal 2015. The loss from discontinued operations in fiscal 2013 was primarily attributable to a \$15.7 million write-down of the Die-Cut business to its estimated fair value less costs to sell. The loss from discontinued operations in fiscal 2012 was primarily attributable to the \$115.7 million goodwill impairment charge recorded during the three months ending January 31, 2012, which was related to the Die-Cut disposal group. Refer to Note 15 within Item 8 for further information regarding discontinued operations.
- (5)

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

As discussed in Item 1, “Business,” we are a global manufacturer and supplier of identification solutions and workplace safety products that identify and protect premises, products and people. The IDS segment is primarily involved in the design, manufacture, and distribution of high-performance and innovative identification and healthcare products. The WPS segment provides workplace safety and compliance products, of which half is derived from internally manufactured product and half is from externally sourced products. Nearly 45% of our total sales are derived outside of the United States. Foreign sales within the IDS and WPS segments are approximately 40% and 70%, respectively. The ability to provide customers with a vast array of proprietary, customized and diverse products for use in various applications across multiple customers and geographies, along with a commitment to quality and service, have made Brady a leader in many of its markets. The long-term sales growth and profitability of our segments will depend not only on improved demand in end markets and the overall economic environment, but also on our ability to

continuously improve operational excellence, focus on the customer, develop and market innovative new products, and to advance in our digital capabilities. Our priorities during fiscal 2015 included a continued focus on operational excellence, growth initiatives (new product development, investments in R&D and digital, and expansion in high-opportunity markets), and completing our facility consolidation activities to enhance customer service and improve efficiency of our operations.

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## Results of Operations

A comparison of results of operating income (loss) from continuing operations for the fiscal years ended July 31, 2015, 2014, and 2013 is as follows:

(Dollars in thousands)	2015	% Sales	2014	% Sales	2013	% Sales
Net Sales	\$1,171,731		\$1,225,034		\$1,157,792	
Gross Margin	558,432	47.7 %	609,564	49.8 %	609,348	52.6 %
Operating Expenses:						
Research and Development	36,734	3.1 %	35,048	2.9 %	33,552	2.9 %
Selling, General & Administrative	422,704	36.1 %	452,164	36.9 %	427,858	37.0 %
Restructuring charges	16,821	1.4 %	15,012	1.2 %	26,046	2.2 %
Impairment charges	46,867	4.0 %	148,551	12.1 %	204,448	17.7 %
Total operating expenses	523,126	44.6 %	650,775	53.1 %	691,904	59.8 %
Operating income (loss)	\$35,306	3.0 %	\$(41,211)	(3.4)%	\$(82,556)	(7.1)%

In fiscal 2015, sales decreased 4.4% to \$1,171.7 million, compared to \$1,225.0 million in fiscal 2014, which consisted of organic sales growth of 1.0% and a negative currency impact of 5.4% due to the strengthening of the U.S. dollar against other major currencies during the year. Organic sales grew 1.7% in the IDS segment, while organic sales within the WPS segment declined by 0.4%.

During fiscal 2014, net sales increased 5.8% from fiscal 2013, which consisted of organic growth of 0.2%, a negative currency impact of 0.1% and growth from acquisitions of 5.7%. The acquisition growth was from the acquisition of PDC within the IDS segment in fiscal 2013. Organic sales within the IDS segment were up 2.9%, while organic sales within the WPS segment declined by 4.6%.

Gross margin decreased 8.4% to \$558.4 million in fiscal 2015 as compared to \$609.6 million in fiscal 2014. As a percentage of sales, gross margin declined to 47.7% in fiscal 2015 from 49.8% in fiscal 2014. The decline in gross margin was due to increased costs related to facility consolidation activities in the Americas due to duplicate labor and facilities expenses as well as operating inefficiencies following the facility moves, such as additional freight costs and excess inventory and scrap charges. To a lesser extent, geographic product mix also contributed to the decline in gross margin as Asia was our region of greatest sales growth in fiscal 2015 and generally has the lowest segment profit margins.

Gross margin was \$609.6 million in fiscal 2014, which was consistent with the gross margin in the the prior year. As a percentage of sales, gross margin declined to 49.8% in fiscal 2014 from 52.6% in fiscal 2013. The decline was primarily due to the sales decline and price reductions in the WPS business.

Research and development expenses increased to \$36.7 million in fiscal 2015 from \$35.0 million in fiscal 2014 and \$33.6 million in fiscal 2013. The increase in R&D spending over the years was a result of our innovation development initiative to realign the R&D processes in order to accelerate new product innovation, increased investments in emerging technologies such as RFID and sensing technologies, and increased investments in other new products.

Selling, general and administrative (“SG&A”) expenses include selling costs directly attributed to the IDS and WPS segments, as well as administrative expenses including finance, information technology, human resources and legal. SG&A expenses decreased 6.5% to \$422.7 million in fiscal 2015 compared to \$452.2 million in fiscal 2014. The decline was primarily due to the strengthening of the U.S. dollar, and to a lesser extent, reduced amortization expense of \$5.8 million, an amendment to our U.S.-based post-retirement medical benefit plan that resulted in a \$4.3 million curtailment gain, and our focused efforts to reduce expenses. This decline was partially offset by continued

investments in sales personnel within the IDS segment and increased spending in the WPS segment for both on-line and traditional print advertising.

SG&A expense increased to \$452.2 million in fiscal 2014 compared to \$427.9 million in fiscal 2013. The increase was primarily due to incremental SG&A associated with the PDC business of approximately \$22 million. In addition, the Company expanded its sales force in multiple geographies within the IDS segment in fiscal 2014 and increased spending in both on-line advertising as well as traditional print advertising within the WPS segment.

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In fiscal 2014, the Company announced a restructuring plan to consolidate facilities in the Americas, Europe and Asia. The Company implemented this restructuring plan to enhance customer service, improve efficiency of our operations and reduce operating expenses. Restructuring activities related to facility consolidation activities extended into fiscal 2015 and were complete at the end of the fiscal year. However, the Company experienced operational inefficiencies, increased costs, and customer service disruptions in fiscal 2015 as a result of these facility consolidations and we expect this to continue, to a lesser extent, into fiscal 2016. We remain focused on improvements and returning to prior service metrics and we expect to realize operational efficiencies from these actions over the longer-term.

In connection with this plan, the Company incurred restructuring charges of \$16.8 million in fiscal 2015. These charges consisted of \$5.4 million of employee separation costs, \$5.2 million of facility closure related costs, \$2.0 million of contract termination costs, and \$4.2 million of non-cash asset write-offs. The charges for employee separation costs consisted of severance pay, outplacement services, medical and other benefits. Non-cash asset write-offs consist mainly of fixed assets written off in conjunction with facility consolidations. Of the \$16.8 million recognized in fiscal 2015, \$12.1 million was incurred within the IDS segment and \$4.7 million was incurred within the WPS segment.

In fiscal 2013, the Company announced a restructuring action to reduce its global workforce by approximately 5-7% in order to address its cost structure, which was expected to result in annual cost savings of \$25 to \$30 million. The Company realized annualized savings of approximately \$25 million; however, investments in initiatives to drive sales growth and an extension of the timeframe of the restructuring actions into fiscal 2014 had an impact on the SG&A line item within the Consolidated Statements of Earnings. During fiscal 2014, the Company invested an incremental \$13 million in its digital strategy as well as additional selling and R&D resources. In addition, the restructuring activities announced in fiscal 2013 continued into fiscal 2014, which partially reduced the savings expected from the restructuring plan in fiscal 2014.

Due to the incremental investment in the digital initiative and the extension of the headcount reduction into fiscal 2014, this restructuring plan did not reduce overall SG&A expenses in fiscal 2014 compared to fiscal 2013 as the digital investments are also reported on the SG&A line item within the Consolidated Statements of Earnings. In connection with the 2014 and 2013 plans, restructuring charges were \$15.0 million in fiscal 2014, which consisted primarily of employee separation costs and facility closure costs. Of the \$15.0 million recognized in fiscal 2014, \$9.0 million was incurred within the IDS segment and \$6.0 million was incurred within the WPS segment.

Restructuring charges were \$26.0 million in fiscal 2013 and consisted of employee separation costs, fixed asset write-offs, and other facility closure costs associated with the restructuring plan announced in February 2013 to reorganize into global product-based business platforms and reduce our global cost structure. Of the \$26.0 million recognized in fiscal 2013, \$15.8 million was incurred within the IDS segment and \$10.2 million was incurred within the WPS segment.

The Company performed its annual goodwill impairment assessment on May 1, 2015, and subsequently concluded that the WPS Americas and WPS APAC reporting units were impaired. In conjunction with the goodwill impairment analysis, management concluded that other long-lived assets were also impaired. Refer to Item 7 - Business Segment Operating Results as well as Note 3 "Goodwill and Other Intangible Assets" of Item 8 for further discussion regarding the impairment charges. Impairment charges were \$46.9 million in fiscal 2015, which consisted of \$37.1 million in goodwill charges associated with the WPS Americas and WPS APAC reporting units and \$9.8 million related to the impairment of certain other long-lived assets.

The Company's annual goodwill impairment assessment performed in fiscal 2014 indicated that the PeopleID reporting unit was impaired. In conjunction with the goodwill impairment analysis, management concluded that other finite and indefinite-lived intangible assets within the reporting unit were also impaired. Impairment charges in continuing operations were \$148.6 million in fiscal 2014, which consisted of \$100.4 million in goodwill and \$48.2 million in intangible assets primarily associated with the PeopleID reporting unit.

The Company's annual goodwill impairment assessment performed in fiscal 2013 indicated that the WPS Americas and IDS APAC reporting units were impaired. In conjunction with the goodwill impairment analysis, management

concluded that other finite and indefinite-lived intangible assets within the reporting units were also impaired. Impairment charges in continuing operations were \$204.4 million in fiscal 2013, which consisted of \$190.5 million in goodwill and \$13.9 million in intangible assets primarily associated with the WPS Americas and IDS APAC reporting units.



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Operating income from continuing operations was \$35.3 million in fiscal 2015; excluding the impairment charges of \$46.9 million and restructuring charges of \$16.8 million, the Company generated operating income from continuing operations of \$99.0 million. The Company incurred an operating loss from continuing operations of \$41.2 million in fiscal 2014; excluding the impairment charges of \$148.6 million and restructuring charges of \$15.0 million, the Company generated operating income from continuing operations of \$122.4 million. The decrease of \$23.4 million was primarily due to the segment profit declines in both the IDS and WPS segments, facility consolidation costs incurred in both segments, as well as the negative impact of currency fluctuations during fiscal 2015 as compared to the prior year.

The Company incurred an operating loss from continuing operations of \$41.2 million in fiscal 2014; excluding impairment charges of \$148.6 million and restructuring charges of \$15.0 million, the Company generated operating income from continuing operations of \$122.4 million. The Company incurred an operating loss from continuing operations of \$82.6 million in fiscal 2013; excluding the impairment charges of \$204.4 million and restructuring charges of \$26.0 million, the Company generated operating income from continuing operations of \$147.9 million. The decrease of \$25.5 million was mainly due to the decline in segment profit of the WPS business, which is discussed in further detail within the Business Segment Operating Results section below.

**OPERATING INCOME TO NET INCOME**

(Dollars in thousands)	2015	% Sales	2014	% Sales	2013	% Sales
Operating income (loss)	\$35,306	3.0 %	\$(41,211)	(3.4)%	\$(82,556)	(7.1)%
Other income and (expense):						
Investment and other income	845	0.1 %	2,402	0.2 %	3,523	0.3 %
Interest expense	(11,156)	(1.0)%	(14,300)	(1.2)%	(16,641)	(1.4)%
Earnings (loss) from continuing operations before tax	24,995	2.1 %	(53,109)	(4.3)%	(95,674)	(8.3)%
Income taxes	20,093	1.7 %	(4,963)	(0.4)%	42,583	3.7 %
Earnings (loss) from continuing operations	4,902	0.4 %	(48,146)	(3.9)%	(138,257)	(11.9)%
(Loss) earnings from discontinued operations, net of income taxes	(1,915)	(0.2)%	2,178	0.2 %	(16,278)	(1.4)%
Net earnings (loss)	\$2,987	0.3 %	\$(45,968)	(3.8)%	\$(154,535)	(13.3)%

**Investment and Other Income**

Investment and other income decreased to \$0.8 million in fiscal 2015 compared to \$2.4 million in fiscal 2014 and \$3.5 million in fiscal 2013. The decline since 2013 was due primarily to a reduction in interest income and smaller gains recognized on securities held in executive deferred compensation plans.

**Interest Expense**

Interest expense decreased to \$11.2 million in fiscal 2015 compared to \$14.3 million in fiscal 2014 and \$16.6 million in fiscal 2013. The decline since 2013 was due to the Company's declining principal balance under its outstanding debt agreements.

**Income Taxes**

The Company's effective tax rate from continuing operations was 80.4% in fiscal 2015, compared to the effective tax rate from continuing operations of 9.3% in fiscal 2014. The effective tax rate was significantly impacted by the fiscal 2015 impairment charges of \$46.9 million, \$39.8 million of which was nondeductible for income tax purposes. The effective income tax rate was further impacted by certain adjustments to tax accruals and reserves and fluctuations in geographic profit mix.

Total foreign pre-tax earnings decreased from \$81.5 million in fiscal 2014 to \$25.6 million in fiscal 2015. This decrease was due primarily to foreign impairment charges of \$31.6 million in fiscal 2015 and overall lower pre-tax earnings globally than in fiscal 2014. The remainder of the significant decreases in foreign pre-tax earnings and resulting impact on the effective tax rate was primarily related to decreased pre-tax net earnings in the following jurisdictions: 1) Australia, where pre-tax earnings decreased by \$3.5 million, and both the statutory and effective tax rates approximated 30%; 2) Malaysia, where pre-tax earnings decreased by \$2.9 million, and both the statutory and effective tax rates approximated 25%; 3) England, where pre-tax earnings decreased \$1.5 million, and the statutory tax rate was approximately 21% while the effective tax rate approximated zero due to full valuation allowances recorded against NOL carryforwards generated; and 4) China, where pre-tax earnings decreased \$1.2 million, and both the statutory and effective tax rates approximated 25%.

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The Company's effective tax rate from continuing operations was 9.3% in fiscal 2014, compared to the effective tax rate from continuing operations of (44.5)% in fiscal 2013. The income tax rate in fiscal 2014 was significantly impacted by the impairment and restructuring charges recorded in fiscal 2014. The income tax rate in fiscal 2013 was impacted by the impairment charges and a tax charge associated with the funding of the PDC acquisition. The increase in the effective income tax rate in fiscal 2014 compared to fiscal 2013 was further impacted by increased valuation allowances and fluctuations in geographic profit mix.

The impact on the effective income tax rate in fiscal 2014 due to restructuring charges was a result of the tax rate differential between charges incurred in the U.S. at 35% and charges incurred in foreign jurisdictions at an average tax rate of approximately 28%. The "International Rate Differential" line item of (1.3%) disclosed within the income tax rate reconciliation was primarily due to this impact of restructuring charges.

Total foreign pre-tax earnings increased from \$49.3 million in fiscal 2013 to \$81.5 million in fiscal 2014. This increase was due to impairment charges of \$22.7 million during fiscal 2013, consisting primarily of goodwill within the Company's IDS APAC reporting unit. The remainder of the increase in foreign pre-tax earnings and resulting impact on the effective tax rate was primarily related to increased pre-tax net earnings in the following jurisdictions: 1) Malaysia, where pre-tax earnings increased by \$7.1 million, inclusive of fiscal 2013 impairment charges of \$3.4 million, and both the statutory and effective tax rates approximated 25%; 2) Sweden, where pre-tax earnings increased by \$4.2 million, the statutory tax rate was 22%, and the effective tax rate was negative, resulting in a \$1.0 million tax benefit due to the utilization of historical net operating loss ("NOL") carryforwards that had full valuation allowances, as well as the adjustment of previously recorded valuation allowances; 3) England, where the pre-tax loss decreased by \$3.9 million, and the statutory tax rate was approximately 22% while the effective tax rate approximated zero due to full valuation allowances recorded against NOL carryforwards generated; and 4) China, where pre-tax earnings increased by \$6.6 million, inclusive of fiscal 2013 impairment charges of \$1.7 million, and the statutory tax rate was 25% with a higher effective tax rate of approximately 38% due to losses incurred in certain Chinese entities in which full valuation allowances were recorded against the associated NOL carryforwards. Partially offsetting these increases in foreign earnings was an increase of \$4.5 million in the pre-tax loss in Brazil in fiscal 2014.

### Earnings (Loss) from Discontinued Operations

Discontinued operations include the Asia Die-Cut and European Die-cut businesses ("Die-Cut"), of which a portion was divested in the fourth quarter of fiscal 2014 and the remainder was divested in the first quarter of fiscal 2015. In addition, the Brady Medical and Varitronics businesses were divested in fiscal 2013 and were reported within discontinued operations. These divested businesses were part of the IDS business segment.

The loss from discontinued operations net of income taxes was \$1.9 million in fiscal 2015, compared to earnings from discontinued operations net of income taxes of \$2.2 million in fiscal 2014 and a loss from discontinued operations net of income taxes of \$16.3 million in fiscal 2013. The loss in fiscal 2015 consisted of a loss on operations of \$1.5 million primarily related to professional fees associated with the divestiture and a \$0.4 million loss on the sale of Die-Cut, recorded during the three months ended October 31, 2014. In fiscal 2014, the Die-Cut business had net earnings from operations of \$3.4 million, offset by a net loss on the sale of Die-Cut of \$1.2 million. The loss in fiscal 2013 primarily related to a \$15.7 million write-down of the Die-Cut disposal group to estimated fair value less costs to sell.

There was no depreciation or amortization expense recognized within discontinued operations for fiscal 2015 or fiscal 2014 as the Die-Cut business was reported as held for sale beginning in the third quarter of fiscal 2013, at which point the fixed assets and intangible assets of these businesses were no longer depreciated or amortized in accordance with applicable U.S. GAAP. Depreciation and amortization recognized within discontinued operations for fiscal 2013 were \$4.0 million and \$4.8 million, respectively.



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## Business Segment Operating Results

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

Following is a summary of segment information for the fiscal years ended July 31, 2015, 2014, and 2013:

(Dollars in thousands)	Years ended July 31,			
	2015	2014	2013	
<b>SALES TO EXTERNAL CUSTOMERS</b>				
ID Solutions	\$806,484	\$825,123	\$739,116	
WPS	365,247	399,911	418,676	
Total	\$1,171,731	\$1,225,034	\$1,157,792	
<b>SALES GROWTH INFORMATION</b>				
ID Solutions				
Organic	1.7	% 2.9	% 0.8	%
Currency	(4.0)	)% (0.2	)% (1.0	)%
Acquisitions	—%	8.9	% 16.3	%
Total	(2.3	)% 11.6	% 16.1	%
Workplace Safety				
Organic	(0.4	)% (4.6	)% (7.0	)%
Currency	(8.3	)% 0.1	% (0.7	)%
Acquisitions	—%	—%	4.0	%
Total	(8.7	)% (4.5	)% (3.7	)%
Total Company				
Organic	1.0	% 0.2	% (2.4	)%
Currency	(5.4	)% (0.1	)% (0.8	)%
Acquisitions	—%	5.7	% 11.3	%
Total	(4.4	)% 5.8	% 8.1	%
<b>SEGMENT PROFIT</b>				
ID Solutions	\$149,840	\$176,129	\$174,390	
Workplace Safety	56,502	66,238	95,241	
Total	\$206,342	\$242,367	\$269,631	
<b>SEGMENT PROFIT AS A PERCENT OF SALES</b>				
ID Solutions	18.6	% 21.3	% 23.6	%
Workplace Safety	15.5	% 16.6	% 22.7	%
Total	17.6	% 19.8	% 23.3	%

## NET EARNINGS RECONCILIATION

(Dollars in thousands)	Years ended:			
	July 31, 2015	July 31, 2014	July 31, 2013	
Total profit from reportable segments	\$206,342	\$242,367	\$269,631	
Unallocated costs:				
Administrative costs	107,348	120,015	121,693	
Restructuring charges	16,821	15,012	26,046	
Impairment charges	46,867	148,551	204,448	
Investment and other income	(845	) (2,402	) (3,523	)
Interest expense	11,156	14,300	16,641	
Earnings (loss) from continuing operations before income taxes	\$24,995	\$(53,109	) \$(95,674	)



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### ID Solutions

#### Fiscal 2015 vs. 2014

Approximately 70% of net sales in the IDS segment were generated in the Americas region, 20% in EMEA, and 10% in APAC. IDS sales decreased 2.3% to \$806.5 million in fiscal 2015, compared to \$825.1 million in fiscal 2014. Organic sales increased 1.7% and currency fluctuations decreased sales by 4.0% due to the strengthening of the U.S. dollar against other major currencies during the year ended July 31, 2015, as compared to the same period in the prior year.

Overall, organic sales within the IDS business grew in the low single digit percentages consistently for the first three quarters and declined slightly in the fourth quarter of fiscal 2015. Organic growth in all regions was positive for the year with high-single digit growth in APAC, followed by low-single digit growth in the EMEA and Americas regions.

Organic sales in the Americas grew in the low-single digits in fiscal 2015 as compared to fiscal 2014. This growth was primarily within the U.S. and was driven by our continued focus on expanding the core Brady-brand businesses and an increased focus on key customers, industries and new products. Our areas of highest growth in fiscal 2015 were in the global safety and facility identification product offerings, as well as in portable printer consumables and product identification. This growth was partially offset by double-digit organic sales declines in Brazil in fiscal 2015 as compared to fiscal 2014. OEM sales were down in Brazil due to weak economic conditions and increased competitive pressure. In fiscal 2015, the Company consolidated a facility in Brazil to reduce its cost structure.

Organic sales in the EMEA region also grew in the low-single digits in fiscal 2015 as compared to fiscal 2014. This increase was primarily driven by Central Europe where we increased our salesforce. Economic growth softened slightly in Western Europe, which impacted IDS sales at the beginning of the third fiscal quarter and into the fourth quarter; however, this geography had stronger sales in the first half of the year which contributed to organic sales growth for the full fiscal year as compared to the prior year.

Organic sales in Asia grew in the high-single digits in fiscal 2015 as compared to fiscal 2014. Similar to the prior year, we experienced slower growth in the fourth quarter of fiscal 2015 as compared to the preceding three quarters. Product identification sales continue to increase, primarily to our OEM customers in China as we expand production capacity and capabilities. The investment in our MRO growth strategies and the expansion of the MRO business in China also continues to positively impact sales.

Segment profit decreased to \$149.8 million in fiscal 2015 from \$176.1 million in fiscal 2014, a decrease of \$26.3 million or 14.9%. As a percent of sales, segment profit decreased to 18.6% in fiscal 2015, compared to 21.3% in the prior year. The decline in segment profit as a percent of sales was primarily in the IDS Americas businesses and was a result of increased costs associated with facility consolidation activities such as duplicate labor and facilities expenses, as well as increased costs from operating inefficiencies in our recently consolidated facilities in North America such as additional freight costs and excess inventory and scrap charges. In addition, although a much smaller impact, the decline was also due to our geographic product mix, as Asia was our region of greatest sales growth in fiscal 2015 and generally has the lowest segment profit margins.

#### Fiscal 2014 vs. 2013

IDS sales increased 11.6% to \$825.1 million in fiscal 2014, compared to \$739.1 million in fiscal 2013. The acquisition of PDC in December 2012 contributed to 8.9% of the sales growth for fiscal 2014. Organic sales increased by 2.9% and currency fluctuations were minimal, decreasing sales by 0.2% for the year ended July 31, 2014, as compared to the prior fiscal year.

Overall, organic sales within the IDS business grew in the low single digit percentages consistently each quarter in fiscal 2014. Organic growth in all regions was positive for the year with double digit growth in APAC, followed by mid-single digit growth in Europe and slightly lower growth in the Americas region.

Organic sales in the Americas grew in the low-single digits in fiscal 2014 as compared to fiscal 2013, primarily due to the sales force expansion and the development of proprietary new products in the core Brady brand business in the United States. This was partially offset by declines in Brazil and PDC. The Brazil business declined due to continued economic challenges. Sales in the PDC business declined approximately 2% organically in fiscal 2014, compared to annualized sales in fiscal 2013. PDC's healthcare business correlates with U.S. hospital admission rates, which were down approximately 2% during fiscal 2014.

The IDS business in EMEA grew in the mid-single digits in fiscal 2014 compared to the prior year. This growth was driven by our businesses in the established Western European economies as well as Central Europe. Growth was the result of expanding and refocusing our sales organization and the sale of new products. The exceptions were France and Italy, which were facing weak economic environments.



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Sales within the IDS business in APAC had double-digit growth for the year ended July 31, 2014. We experienced slower growth in the fourth quarter of fiscal 2014 as compared to the preceding three quarters primarily due to the negative impact the Die-Cut divestiture had on certain Asia business units. Sales of product identification products to our OEM customers in China were particularly strong as we continue to expand production capacity and capabilities. The investment in our MRO growth strategies and the expansion of our MRO business in China also positively impacted sales.

Segment profit increased to \$176.1 million in fiscal 2014 from \$174.4 million in fiscal 2013, an increase of \$1.7 million or 1.0%. As a percent of sales, segment profit was 21.3% in fiscal 2014, compared to 23.6% in the prior year. The decline in segment profit as a percent of sales was due to lower gross margin in fiscal 2014 as a result of product mix and increased costs associated with the facility consolidations. The main contributor to the product mix was a full year of PDC sales at lower gross margin than the existing business, as well as an increase in lower-margin printer sales.

The Company performed its annual goodwill impairment assessment for fiscal 2014 on May 1, 2014, and subsequently concluded that the PeopleID reporting unit was impaired. Organic sales within the PDC business declined in the low single digit percentages from fiscal 2013 to fiscal 2014. Hospital admission rates were the primary driver of PDC's sales under its strategy at the time, and there was a decline of approximately 2% in these rates during fiscal 2014. In addition, management revisited its planned growth and profit for the PDC business and concluded that the growth may not materialize as expected given slower than anticipated industry growth and fewer sales synergies than originally planned. Upon completion of the impairment assessment, the Company recognized a goodwill impairment charge of \$100.4 million during fiscal 2014. In conjunction with the goodwill impairment test of the PeopleID reporting unit, finite and indefinite-lived intangibles associated with the reporting unit were revalued and analyzed for impairment. As a result, other intangibles in the amount of \$48.2 million primarily associated with the PeopleID reporting unit were also impaired during fiscal 2014.

## Workplace Safety

### Fiscal 2015 vs. 2014

Approximately 50% of net sales in the WPS segment were generated in EMEA, 35% in the Americas, and 15% in APAC. WPS sales decreased 8.7% to \$365.2 million in fiscal 2015, compared to \$399.9 million in fiscal 2014, which consisted of an organic sales decline of 0.4% and a negative currency impact of 8.3%. Because approximately half of the WPS business is located in Western Europe and another 15% of the WPS segment is in Australia, the strengthening of the U.S. dollar against the Euro and the Australian Dollar had a larger impact on the WPS segment than it did on the IDS segment.

Over the past several years, the WPS segment has experienced a deterioration in sales and profits due to a reduction in direct catalog mailings, increased digital competition, and pricing adjustments. While traditional direct marketing channels such as catalogs are important means of selling WPS products, an increasing number of customers are purchasing products on the Internet. Although we experienced an organic sales decline for the year ended July 31, 2015, the sales decline has lessened each year since fiscal 2013. This improving trend is a result of our focus on workplace safety critical industries, expansion of our product offerings, further developed pricing capabilities, and increased investment in digital.

Organic sales in EMEA grew in the low-single digits in fiscal 2015 compared to the prior year. The growth was driven primarily by Germany, France, and the Nordics region due to improvements in website functionality and key account management. We experienced growth in both traditional catalog sales and digital sales in EMEA over the prior year.

Organic sales in the Americas declined in the low-single digits in fiscal 2015 compared to fiscal 2014. This decrease was primarily due to reduced demand in the industrial end markets and a decrease in sales through traditional catalog channels.

Organic sales in APAC, which consists entirely of Australia, declined in the mid-single digits in fiscal 2015 compared to fiscal 2014. Our business in Australia is diversified in many industries; however, it has a higher concentration in industries that are experiencing economic challenges, including manufacturing and mining production.

Profit for the WPS segment decreased to \$56.5 million in fiscal 2015 from \$66.2 million in fiscal 2014, a decrease of \$9.7 million, or 14.7%. As a percentage of sales, segment profit decreased to 15.5% in fiscal 2015 compared to 16.6% in the prior year. The decrease in segment profit was mainly driven by the decline in sales, increased spending for both on-line and traditional print advertising due to the timing of catalog mailings, investments in digital capabilities and the increased costs associated with facility consolidation activities in the U.S., such as duplicate labor and facilities expenses.

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The Company performed its annual goodwill impairment assessment for fiscal 2015 on May 1, 2015, and subsequently concluded that the WPS APAC and WPS Americas reporting units were impaired. The WPS APAC reporting unit consists entirely of the Company's business located in Australia. Organic sales declined in the mid-single digits in fiscal 2015 primarily due to a decline in the mining production and manufacturing industries. As a result of the decline in sales and challenging economic conditions, the WPS APAC reporting unit's segment profit declined by nearly 30% in fiscal 2015.

Organic sales within the WPS Americas reporting unit declined in fiscal 2015 as compared to fiscal 2014. The business has improved many of its digital capabilities over the past two years; however, sales through the traditional catalog model have decreased at a greater rate than expected, and digital sales have not been sufficient to offset the decline in sales through catalogs. As a result of the decline in sales and the increased investment in digital capabilities, WPS Americas' segment profit declined by nearly 17% in fiscal 2015.

Upon completion of the impairment assessment, the Company recognized goodwill impairment charges of \$37.1 million during fiscal 2015, of which \$26.2 million was in the WPS APAC reporting unit and \$10.9 million was in the WPS Americas reporting unit. Other long-lived assets primarily associated with the WPS APAC and WPS Americas reporting units were also revalued and analyzed for impairment. As a result, long-lived assets in the amount of \$9.8 million were impaired during fiscal 2015.

Fiscal 2014 vs. 2013

Net sales in the WPS segment decreased 4.5% to \$399.9 million in fiscal 2014 from \$418.7 million in fiscal 2013. The sales decline consisted of a decrease in organic sales of 4.6%, partially offset by 0.1% growth due to positive currency fluctuations.

Although we experienced an organic sales decline for the year ended July 31, 2014, the sales decline lessened each quarter and returned to growth in the fourth quarter of fiscal 2014. This improving trend was primarily due to increased catalog mailings, better execution of our Internet offerings, and more effective pricing strategies that optimize both sales and profits. As a result of these changes, we saw WPS sales trends in the Americas improved slightly in fiscal 2014 compared to 2013 as the percentage rate of decline lessened to mid-single digits. WPS sales in APAC, which consists entirely of Australia, and WPS sales in EMEA returned to modest growth in the fourth quarter, primarily due to an increase in new customers, order volumes, and growth initiatives.

Segment profit decreased to \$66.2 million in fiscal 2014 from \$95.2 million in the prior year, a decline of \$29.0 million, or 30.5%. As a percent of sales, segment profit was 16.6% in fiscal 2014, compared to 22.7% in the prior year. Similar to sales, although profit has declined, the rate of decline slowed in the second half of fiscal 2014 as the modified strategy began to take hold. WPS profit was also impacted by the increased costs due to facility consolidations and the incremental investment in implementing its digital strategy.

Liquidity & Capital Resources

Cash and cash equivalents were \$114.5 million at July 31, 2015, an increase of \$32.7 million from July 31, 2014. The significant changes were as follows:

(Dollars in thousands)	Years ended July 31,		
	2015	2014	2013
Net cash flow provided by (used in):			
Operating activities	\$93,348	\$93,420	\$143,503
Investing activities	(14,365 )	10,207	(325,766 )
Financing activities	(32,152 )	(115,387 )	(33,060 )
Effect of exchange rate changes on cash	(14,173 )	2,536	481
Net increase (decrease) in cash and cash equivalents	\$32,658	\$(9,224 )	\$(214,842 )



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## Fiscal 2015 vs. 2014

Net cash provided by operating activities decreased slightly to \$93.3 million during fiscal 2015 compared to \$93.4 million in the prior year. The prior year results included discontinued operations, which generated approximately \$2.7 million in cash from operating activities. Therefore, there was an increase in cash flow from operating activities from continuing operations of \$2.6 million. This increase was primarily due to a change in working capital of \$36.0 million, largely offset by the decrease in segment profit of \$33.4 million. A majority of the decrease in working capital related to a decrease in prepaid catalog costs at July 31, 2015 compared to July 31, 2014 due to a reduction in catalog mailings and a change in the timing of such catalog mailings. Inventories were also built in advance of facility consolidations in fiscal 2014, whereas inventories were effectively flat in fiscal 2015.

Net cash used in investing activities was \$14.4 million during fiscal 2015 primarily due to capital expenditures of \$26.7 million, partially offset by the \$6.1 million of net cash received from the Die-Cut divestiture during the three months ended October 31, 2014. In addition, certain assets were sold as part of the facility consolidation activities, which reduced cash used in investing activities by \$6.2 million compared to the prior year. Net cash provided by investing activities was \$10.2 million during fiscal 2014 due to the cash received from the first phase of the sale of the Die-Cut business of \$54.2 million, offset by \$43.4 million spent on capital expenditures in fiscal 2014.

Net cash used in financing activities was \$32.2 million during fiscal 2015, compared to \$115.4 million during the prior year. The decrease in cash used in financing activities of \$83.2 million was primarily due to increased net borrowings of \$40.1 million on the revolving loan agreement and lines of credit during fiscal 2015 and a reduction in the principal payments on long-term debt of \$18.8 million compared to the prior year. In addition, there were no share repurchases in fiscal 2015 compared to cash used of \$30.6 million on share repurchases in the prior year, and proceeds from stock option exercises were lower by \$10.5 million in fiscal 2015 compared to the prior year.

The effect of fluctuations in exchange rates reduced cash balances by \$14.2 million in fiscal 2015 due to the strengthening of the U.S. dollar against other major currencies.

## Fiscal 2014 vs. 2013

Net cash provided by operating activities was \$93.4 million during fiscal 2014 compared to \$143.5 million in the prior year. The decrease was primarily due to changes in operating assets and liabilities. The Company used cash of approximately \$4 million, \$13 million, and \$21 million for accounts receivable, inventory and accounts payable and accrued expenses, respectively. Cash used for accounts receivable increased in fiscal 2014 due primarily to geographic sales mix. Sales increased in EMEA and APAC compared to the prior year and these regions have a higher days sales outstanding. The accounts payable and accrued liabilities use of cash included \$10 million of restructuring expenses related to fiscal 2013 that were paid in fiscal 2014. Cash used for inventory increased primarily to maintain service levels during facility consolidations.

Net cash provided by investing activities was \$10.2 million during fiscal 2014 primarily due to the cash received from the first phase of the sale of the Die-Cut business of \$54.2 million, offset by \$43.4 million spent on capital expenditures in fiscal 2014. Net cash used in investing activities was \$325.8 million during fiscal 2013 primarily due to the acquisition of PDC for \$301.2 million.

Net cash used in financing activities was \$115.4 million during fiscal 2014, compared to \$33.1 million during the prior year. In fiscal 2014, the Company used cash to pay dividends of \$40.5 million, purchased common shares for \$30.6 million, and made a principal payment of \$61.3 million on its private placement debt. This was offset primarily by cash proceeds of \$12.1 million from the issuance of common stock related to stock option exercises during the year. In fiscal 2013, the Company used cash of \$39.2 million to pay dividends and made a principal payment of \$61.3 million on its private placement debt. This was offset by cash proceeds of \$20.3 million from the issuance of common stock related to stock option exercises, and by the borrowing activity from the Company's credit revolver and multi-currency line of credit in China, which provided \$50.6 million in cash in fiscal 2013.

During fiscal 2006 and 2007, the Company completed two private placement note issuances totaling \$350 million in ten-year fixed rate notes with varying maturity dates to institutional investors at interest rates varying from 5.30% to 5.33%. The notes must be repaid equally over seven years, with final payments due in 2016 and 2017, with interest payable on the notes due semiannually on various dates throughout the year. The notes have certain prepayment penalties for repaying them prior to the maturity date. Under the debt agreement, the Company made scheduled principal payments of \$42.5 million during fiscal 2015 and \$61.3 million during fiscal 2014.

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On May 13, 2010, the Company completed a private placement of €75 million aggregate principal amount of senior unsecured notes to accredited institutional investors. The €75 million of senior notes consists of €30 million aggregate principal amount of 3.71% Series 2010-A Senior Notes, due May 13, 2017 and €45 million aggregate principal amount of 4.24% Series 2010-A Senior Notes, due May 13, 2020, with interest payable on the notes semiannually. The notes have certain prepayment penalties for prepaying them prior to maturity. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. These unsecured notes were issued pursuant to a note purchase agreement, dated May 13, 2010.

On February 1, 2012, the Company and certain of its subsidiaries entered into an unsecured \$300 million multi-currency revolving loan agreement with a group of six banks that replaced and terminated the Company's previous credit agreement. Under the revolving loan agreement, which has a final maturity date of February 1, 2017, 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 plus a margin based upon the Company's consolidated leverage ratio) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). At the Company's option, and subject to certain conditions, the available amount under the revolving loan agreement may be increased from \$300 million up to \$450 million. During fiscal 2015, the Company drew \$60.0 million from its revolving loan agreement in order to fund general corporate needs and the maximum amount outstanding was \$114.0 million. The borrowings bear interest at LIBOR plus 1.125% per annum. As of July 31, 2015, the outstanding balance on the credit facility was \$102.0 million and the Company had outstanding letters of credit under the revolving loan agreement of \$3.3 million. There was \$194.7 million available for future borrowing under the credit facility, which can be increased to \$344.7 million at the Company's option, subject to certain conditions.

In February 2013, the Company entered into an unsecured \$26.2 million multi-currency line of credit in China, which was amended in November 2013 to \$24.2 million and further amended in February 2015 to \$10.0 million. In August 2014, the Company entered into an additional unsecured \$10.0 million multi-currency line of credit in China. These lines of credit support USD-denominated or CNY-denominated borrowing to fund working capital and operations for the Company's Chinese entities and are due on demand. The borrowings under these facilities may be made for a period up to one year from the date of borrowing with interest on the USD-denominated borrowings incurred equal to U.S. dollar LIBOR on the date of borrowing plus a margin based upon duration and on the CNY-denominated borrowings incurred equal to the local China rate based upon duration. There is no ultimate maturity on the facilities and they are subject to periodic review and repricing. The Company is not required to comply with any financial covenants as part of the agreements. The maximum amount outstanding on these facilities was \$19.4 million and the Company repaid \$9.0 million during fiscal 2015. As of July 31, 2015, the aggregate outstanding balance on these lines of credit in China was \$10.4 million and there was \$9.6 million available for future borrowings.

The Company's debt agreements require it to maintain certain financial covenants, including a ratio of debt to the trailing twelve months EBITDA, as defined in the debt agreements, of not more than a 3.25 to 1.0 ratio (leverage ratio) and the trailing twelve months EBITDA to interest expense of not less than a 3.0 to 1.0 ratio (interest expense coverage). As of July 31, 2015, the Company was in compliance with these financial covenants, with the ratio of debt to EBITDA, as defined by the agreements, equal to 2.0 to 1.0 and the interest expense coverage ratio equal to 11.8 to 1.0.

The Company's cash balances are generated and held in numerous locations throughout the world. At July 31, 2015, approximately 84% of the Company's cash and cash equivalents were held outside the United States. The Company's growth has historically been funded by a combination of cash provided by operating activities and debt financing. The Company believes that its cash flow from operating activities, in addition to its borrowing capacity, are sufficient to fund its anticipated requirements for working capital, capital expenditures, common stock repurchases, scheduled debt repayments, and dividend payments for the next twelve months.

In fiscal 2014, the Company completed the first phase of the sale of its Die-Cut business and completed the second and final phase on August 1, 2014. In conjunction with the sale of this business, the Company repatriated approximately \$57 million of the cash received to the United States. The cash received from the sale of Die-Cut in

fiscal 2014 and the fiscal 2013 acquisition of PDC resulted in repatriations of cash to the United States from foreign jurisdictions, which resulted in \$4.0 million and \$26.6 million tax charges recognized in continuing operations during the fiscal years ended July 31, 2014 and 2013, respectively. The Company believes that its current credit arrangements are sound and that the strength of its balance sheet will allow financial flexibility to respond to both internal growth opportunities and those available through acquisition. However, future cash needs could require the Company to repatriate additional cash to the U.S. from foreign jurisdictions, which could result in material tax charges recognized in the period in which the decisions are made.



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## Subsequent Events Affecting Financial Condition

On September 10, 2015, the Company's Board of Directors authorized an increase in the Company's share repurchase program, authorizing the repurchase of up to a total of two million shares of the Company's Class A Common Stock, inclusive of the shares in the existing share repurchase program. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes.

On September 10, 2015, the Company announced an increase in the annual dividend to shareholders of the Company's Class A Common Stock, from \$0.80 to \$0.81 per share. A quarterly dividend of \$0.2025 will be paid on October 30, 2015, to shareholders of record at the close of business on October 9, 2015. This dividend represents an increase of 1.3% and is the 30th consecutive annual increase in dividends.

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

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

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

Related-Party Transactions — Based on an evaluation for the year ended July 31, 2015, the Company does not have material related party transactions that affect the results of operations, cash flow or financial condition.

## Payments Due Under Contractual Obligations

The Company's future commitments at July 31, 2015 for long-term debt, operating lease obligations, purchase obligations, interest obligations and other obligations are as follows (dollars in thousands):

Contractual Obligations	Payments Due by Period					
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Uncertain Timeframe
Long-term Debt Obligations	\$243,288	\$42,514	\$151,332	\$—	\$49,442	\$—
Operating Lease Obligations	90,877	19,102	29,627	19,901	22,247	—
Purchase Obligations (1)	59,378	57,126	2,248	—	4	—
Interest Obligations	15,227	5,503	5,980	3,744	—	—
Tax Obligations	21,133	—	—	—	—	21,133
Other Obligations (2)	9,097	717	1,290	1,106	5,984	—
Total	\$439,000	\$124,962	\$190,477	\$24,751	\$77,677	\$21,133

(1) Purchase obligations include all open purchase orders as of July 31, 2015.

Other obligations represent expected payments under the Company's U.S. postretirement medical plan and (2) international pension plans as disclosed in Note 5 to the Consolidated Financial Statements, under Item 8 of this report.



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### Inflation and Changing Prices

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

### Critical Accounting Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases these estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments.

The Company believes the following accounting estimates are most critical to an understanding of its financial statements. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely from period to period. For a detailed discussion on the application of these and other accounting estimates, refer to Note 1 to the Company's Consolidated Financial Statements.

### Income Taxes

We operate in numerous taxing jurisdictions and are subject to regular examinations by U.S. federal, state and non-U.S. taxing authorities. Our income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which we do business. Due to the ambiguity of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, the uncertainty of how underlying facts may be construed and the inherent uncertainty in estimating the final resolution of complex tax audit matters, our estimates of income tax liabilities may differ from actual payments or assessments.

While we have support for the positions we take on our tax returns, taxing authorities may assert interpretations of laws and facts and may challenge cross-jurisdictional transactions. The Company generally re-evaluates the technical merits of its tax positions and recognizes an uncertain tax benefit when (i) there is completion of a tax audit; (ii) there is a change in applicable tax law including a tax case ruling or legislative guidance; or (iii) there is an expiration of the statute of limitations. The gross liability for unrecognized tax benefits, excluding interest and penalties, was \$21.1 million and \$17.8 million as of July 31, 2015 and 2014, respectively, of which the entire amount would reduce our effective tax rate if recognized. Accrued interest and penalties related to unrecognized tax benefits were \$4.2 million and \$4.4 million at July 31, 2015 and 2014, respectively. We recognize interest and penalties related to unrecognized tax benefits in the income tax provision. We believe it is reasonably possible that the amount of gross unrecognized tax benefits could be reduced by up to \$4.4 million in the next twelve months as a result of the resolution of worldwide tax matters, tax audit settlements, amended tax filings, and/or statute expirations, which would be the maximum amount that would be recognized through the Consolidated Statements of Earnings as an income tax benefit.

We recorded a valuation allowance for a portion of our deferred tax assets related to net operating loss and tax credit carryforwards ("carryforwards") and certain temporary differences in the amount of \$39.9 million at July 31, 2015 and \$37.4 million at July 31, 2014 based on the projected profitability of the entity in the respective tax jurisdiction. The valuation allowance is based on an evaluation of the uncertainty that the carryforwards and certain temporary differences will be realized. Our income would increase if we determine we will be able to use more carryforwards or certain temporary differences than currently expected. Conversely, our income would decrease if we determine we are unable to realize our deferred tax assets in the future.

The Company does not provide for U.S. deferred taxes on cumulative earnings of non-U.S. affiliates and associated companies that have been reinvested indefinitely. As of July 31, 2015, we have not provided U.S. deferred taxes for \$353.3 million of such earnings, since these earnings have been, and under current plans will continue to be, permanently reinvested outside the U.S. At July 31, 2015, approximately \$96 million of the Company's cash and cash equivalents were held outside the United States. In conjunction with the sale of the Die-Cut business, the Company repatriated approximately \$57 million of the cash received to the United States in fiscal 2014. In fiscal 2013, the Company repatriated approximately \$204 million of foreign cash to help fund the acquisition of PDC. Given the sale of the Die-Cut business was the largest business divestiture in the Company's history and the acquisition of PDC was the largest acquisition in the Company's history, these repatriations were unique, and do not change management's assertion that the remaining cumulative earnings are reinvested indefinitely.

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At the end of each interim reporting period, we estimate a base effective tax rate that we expect for the full fiscal year based on our most recent forecast of pretax income, permanent book and tax differences and global tax planning strategies. We use this base rate to provide for income taxes on a year-to-date basis, excluding the effect of significant unusual or extraordinary items and items that are reported net of their related tax effects. We record the tax effect of significant unusual or extraordinary items and items that are reported net of their tax effects in the period in which they occur.

## Goodwill and Other Indefinite-lived Intangible Assets

The allocation of purchase price for business combinations requires management estimates and judgment as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocation purposes. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require acceleration of the amortization expense of finite-lived intangible assets. In addition, accounting guidance requires that goodwill and other indefinite-lived intangible assets be tested at least annually for impairment. If circumstances or events prior to the date of the required annual assessment indicate that, in management's judgment, it is more likely than not that there has been a reduction of fair value of a reporting unit below its carrying value, the Company performs an impairment analysis at the time of such circumstance or event. Changes in management's estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company's financial condition and results of operations. To aid in establishing the value of goodwill and other intangible assets at the time of acquisition, Company policy states that all acquisitions with goodwill of greater than \$20 million requires the use of external valuations.

The Company has identified six reporting units within its two reportable segments, IDS and WPS, with the following goodwill balances as of July 31, 2015: IDS Americas & Europe, \$289.6 million; PeopleID, \$93.2 million; and WPS Europe, \$50.4 million. The IDS APAC, WPS Americas, and WPS APAC reporting units each have a goodwill balance of zero. Brady continues to believe that the discounted cash flow model and market multiples model provide a reasonable and meaningful fair value estimate based upon the reporting units' projections of future operating results and cash flows and replicates how market participants would value the Company's reporting units. The projections of future operating results, which are based on both past performance and the projections and assumptions used in the Company's current and long range operating plans, are subject to change as a result of changing economic and competitive conditions. Significant estimates used by management in the discounted cash flows methodology include estimates of future cash flows based on expected growth rates, price increases, fluctuations in gross profit margins and SG&A expense as a percentage of sales, capital expenditures, working capital levels, income tax rates, and a weighted-average cost of capital that reflects the specific risk profile of the reporting unit being tested. Significant negative industry or economic trends, disruptions to the Company's business, loss of significant customers, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations.

The Company completes its annual goodwill impairment analysis on May 1st of each fiscal year and evaluates its reporting units for potential triggering events on a quarterly basis in accordance with ASC 350, "Intangibles - Goodwill and Other." In addition to the metrics listed above, the Company considers multiple internal and external factors when evaluating its reporting units for potential impairment, including (a) U.S. GDP growth, (b) industry and market factors such as competition and changes in the market for the reporting unit's products, (c) new product development, (d) hospital admission rates, (e) competing technologies, (f) overall financial performance such as cash flows, actual and planned revenue and profitability, and (g) changes in the strategy of the reporting unit. In the event the fair value of a reporting unit is less than the carrying value, including goodwill, the Company would then perform an additional assessment that would compare the implied fair value of goodwill with the carrying amount of goodwill.

The determination of the implied fair value of goodwill would require management to compare the fair value of the reporting unit to the estimated fair value of the assets and liabilities of the reporting unit. If necessary, the Company may consult valuation specialists to assist with the assessment of the estimated fair value of assets and liabilities for the reporting unit. If the implied fair value of the goodwill is less than the carrying value, an impairment charge would be recorded.

The Company considers a reporting unit's fair value to be substantially in excess of its carrying value at 20% or greater. The annual impairment testing performed on May 1, 2015, in accordance with ASC 350, "Intangibles - Goodwill and Other" ("Step One") indicated that each of the following reporting units had a fair value substantially in excess of its carrying value: IDS Americas & Europe, PeopleID, and WPS Europe. The Company concluded that the WPS APAC and WPS Americas reporting units failed Step One of the goodwill impairment test.

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WPS APAC Goodwill Impairment

The Company's WPS APAC reporting unit consists entirely of its business located in Australia. Management proceeded to measure the amount of the potential impairment ("Step Two") by determining the implied fair value of the goodwill compared to the carrying value. Management allocated the fair value of the WPS APAC reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. There was no excess fair value of the reporting unit over the fair value of its identifiable assets and liabilities, which resulted in the entire goodwill balance of \$26.2 million being impaired in fiscal 2015.

WPS Americas Goodwill Impairment

With respect to the WPS Americas reporting unit, management similarly proceeded to measure the amount of the potential impairment ("Step Two") by determining the implied fair value of the goodwill compared to the carrying value. Management allocated the fair value of the WPS Americas reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. There was no excess fair value of the reporting unit over the fair value of its identifiable assets and liabilities, which resulted in the remainder of the goodwill of \$10.9 million being impaired in fiscal 2015.

Other Indefinite-Lived Intangible Assets Impairment

Other indefinite-lived intangible assets were analyzed in accordance with the Company's policy outlined above using the income approach. The valuation was based upon current sales projections and profitability for each asset group, and the relief from royalty method was applied. As a result of the analysis, indefinite-lived tradenames with a carrying amount of \$24.8 million were written down to their estimated fair value of \$19.5 million in fiscal 2015.

New Accounting Standards

The information required by this Item is provided in Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 — Financial Statements and Supplementary Data.

Forward-Looking Statements

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

The use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "project" or "plan" or terminology are generally intended to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions, and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from:

- Implementation of the Workplace Safety strategy;
- Brady's ability to develop and successfully market technologically advanced new products;
- Risks associated with restructuring plans and maintaining acceptable operational service metrics;
- Technology changes and potential security violations to the Company's information technology systems;
- Future competition;
- Future financial performance of major markets Brady serves, which include, without limitation, telecommunications, hard disk drive, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, healthcare and transportation;
- Fluctuations in currency rates versus the U.S. dollar;
  - Risks associated with international operations;
- Difficulties associated with exports;
- Changes in the supply of, or price for, parts and components;

Increased price pressure from suppliers and customers;

Brady's ability to retain significant contracts and customers;

Risk associated with loss of key talent;

- Risks associated with obtaining governmental approvals and maintaining regulatory compliance;

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Risk associated with product liability claims;  
Environmental, health and safety compliance costs and liabilities;  
Potential write-offs of Brady's substantial intangible assets;  
Unforeseen tax consequences;  
Risks associated with divestitures;  
Risks associated with identifying, completing, and integrating acquisitions;  
Risks associated with our ownership structure;  
Brady's ability to maintain compliance with its debt covenants;  
Increase in our level of debt; and  
Numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive, and regulatory nature contained from time to time in Brady's U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the "Risk Factors" section within Item 1A of Part I of this Form 10-K.

These uncertainties may cause Brady's actual future results to be materially different than those expressed in its forward-looking statements. Brady does not undertake to update its forward-looking statements except as required by law.

Risk Factors

Refer to the information contained in Item 1A - Risk Factors.

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## Item 7A. 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 objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions. 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, Malaysian Ringgit, and Singapore dollar. As of July 31, 2015, the notional amount of outstanding forward foreign exchange contracts designated as cash flow hedges was \$33.2 million. The Company uses Euro-denominated debt of €75.0 million and British Pound-denominated intercompany debt of £25.0 million designated as hedge instruments to hedge portions of the Company's net investments in its European and British Pound denominated foreign operations. The Company's revolving credit facility allows it to borrow up to \$100.0 million in currencies other than U.S. dollars under an alternative currency sub-limit. The Company has periodically borrowed funds in Euro and British Pounds under this sub-limit. Debt issued in currencies other than U.S. dollars acts as a natural hedge to the Company's exposure to the associated currency.

The Company also faces exchange rate risk from transactions with customers in countries outside the United States and from intercompany transactions between affiliates. Although the Company has a U.S. dollar functional currency for reporting purposes, it has manufacturing sites throughout the world and a significant portion of its sales are generated in foreign currencies. Costs incurred and sales recorded by subsidiaries operating outside of the United States are translated into U.S. dollars using exchange rates effective during the respective period. As a result, the Company is exposed to movements in the exchange rates of various currencies against the U.S. dollar. In particular, the Company has more sales in European currencies than it has expenses in those currencies. Therefore, when European currencies strengthen or weaken against the U.S. dollar, operating profits are increased or decreased, respectively.

Currency exchange rates decreased fiscal 2015 sales by 5.4% compared to fiscal 2014 as the U.S. dollar appreciated, on average, against other major currencies throughout the year. The most significant impact on sales due to currency fluctuations occurred during the second half of fiscal 2015, as sales declined by 8.0% and 7.7% in the third and fourth quarters, respectively, as compared to the same periods in the prior year.

The Company is subject to the risk of change in foreign currency exchange rates due to its operations in foreign countries. The Company has manufacturing facilities and sells and distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company manufactures, distributes and sells its products. The Company's operating results are principally exposed to changes in exchange rates between the U.S. dollar and the Euro, the Australian dollar, the Canadian dollar, the Mexican Peso, the Singapore dollar, the British Pound, the Brazilian Real, and the Chinese Yuan. Changes in foreign currency exchange rates for the Company's foreign subsidiaries reporting in local currencies are generally reported as a component of stockholders' investment. The Company's currency translation adjustment recorded in fiscal 2015, 2014, and 2013 as a separate component of stockholders' investment was \$120.3 million unfavorable, \$7.5 million favorable and \$2.3 million unfavorable, respectively. As of July 31, 2015 and 2014, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$258.5 million and \$200.1 million, respectively. The potential decrease in net current assets as of July 31, 2015, from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately \$26 million. This sensitivity analysis assumes a parallel shift in all major foreign currency exchange rates versus the U.S. dollar. Exchange rates rarely move in the same direction relative to the U.S. dollar due to positive and negative correlations of the various global currencies. This assumption may overstate the impact of changing exchange rates on individual

assets and liabilities denominated in a foreign 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 if there is a desire to modify the Company's exposure to interest rates. As of July 31, 2015, the Company had no interest rate derivatives. The Company had variable rate debt outstanding of \$112.4 million at a current weighted average interest rate of 1.5%. A hypothetical change in the interest rate of 10% from the Company's current weighted average interest rate on variable rate debt obligations of 1.5% would not have a material impact on the Company's interest expense.

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Item 8. Financial Statements and Supplementary Data

BRADY CORPORATION & SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Brady Corporation  
Milwaukee, Wisconsin

We have audited the accompanying consolidated balance sheets of Brady Corporation and subsidiaries (the "Company") as of July 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive loss, stockholders' investment, and cash flows for each of the three years in the period ended July 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brady Corporation and subsidiaries at July 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of July 31, 2015, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 21, 2015, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin  
September 21, 2015

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BRADY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 July 31, 2015 and 2014

	2015	2014
	(Dollars in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$114,492	\$81,834
Accounts receivable — net	157,386	177,648
Inventories:		
Finished products	66,700	73,096
Work-in-process	16,958	17,689
Raw materials and supplies	20,849	22,490
Total inventories	104,507	113,275
Assets held for sale	—	49,542
Prepaid expenses and other current assets	32,197	41,543
Total current assets	408,582	463,842
Other assets:		
Goodwill	433,199	515,004
Other intangible assets	68,888	91,014
Deferred income taxes	22,310	27,320
Other	18,704	22,314
Property, plant and equipment:		
Cost:		
Land	5,284	7,875
Buildings and improvements	94,423	101,866
Machinery and equipment	270,086	288,409
Construction in progress	2,164	12,500
	371,957	410,650
Less accumulated depreciation	260,743	276,479
Property, plant and equipment — net	111,214	134,171
Total	\$1,062,897	\$1,253,665
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Current liabilities:		
Notes payable	\$10,411	\$61,422
Accounts payable	73,020	88,099
Wages and amounts withheld from employees	30,282	38,064
Liabilities held for sale	—	10,640
Taxes, other than income taxes	7,250	7,994
Accrued income taxes	7,576	7,893
Other current liabilities	38,194	35,319
Current maturities on long-term debt	42,514	42,514
Total current liabilities	209,247	291,945
Long-term obligations, less current maturities	200,774	159,296
Other liabilities	65,188	69,348
Total liabilities	475,209	520,589
Stockholders' investment:		

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Class A nonvoting common stock — Issued 51,261,487 and 51,261,487 shares, respectively; (aggregate liquidation preference of \$42,803 and \$42,803 at July 31, 2015 and 2014, respectively)	513	513
Class B voting common stock — Issued and outstanding 3,538,628 shares	35	35
Additional paid-in capital	314,403	311,811
Earnings retained in the business	414,069	452,057
Treasury stock — 3,480,303 and 3,477,291 shares, respectively of Class A nonvoting common stock, at cost	(93,234)	(93,337)
Accumulated other comprehensive (loss) income	(45,034)	64,156
Other	(3,064)	(2,159)
Total stockholders' investment	587,688	733,076
Total	\$1,062,897	\$1,253,665

See Notes to Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
Years Ended July 31, 2015, 2014 and 2013

	2015	2014	2013
	(In thousands, except per share amounts)		
Net sales	\$1,171,731	\$1,225,034	\$1,157,792
Cost of products sold	613,299	615,470	548,444
Gross margin	558,432	609,564	609,348
Operating expenses:			
Research and development	36,734	35,048	33,552
Selling, general and administrative	422,704	452,164	427,858
Restructuring charges	16,821	15,012	26,046
Impairment charges	46,867	148,551	204,448
Total operating expenses	523,126	650,775	691,904
Operating income (loss)	35,306	(41,211)	(82,556)
Other income and (expense):			
Investment and other income	845	2,402	3,523
Interest expense	(11,156)	(14,300)	(16,641)
Earnings (loss) from continuing operations before income taxes	24,995	(53,109)	(95,674)
Income tax expense (benefit)	20,093	(4,963)	42,583
Earnings (loss) from continuing operations	\$4,902	\$(48,146)	\$(138,257)
(Loss) earnings from discontinued operations, net of income taxes	(1,915)	2,178	(16,278)
Net earnings (loss)	\$2,987	\$(45,968)	\$(154,535)
Earnings (loss) from continuing operations per Class A Nonvoting Common Share:			
Basic	\$0.10	\$(0.93)	\$(2.70)
Diluted	\$0.10	\$(0.93)	\$(2.70)
Earnings (loss) from continuing operations per Class B Voting Common Share:			
Basic	\$0.08	\$(0.95)	\$(2.71)
Diluted	\$0.08	\$(0.95)	\$(2.71)
(Loss) earnings from discontinued operations per Class A Nonvoting Common Share:			
Basic	\$(0.04)	\$0.04	\$(0.32)
Diluted	\$(0.04)	\$0.04	\$(0.32)
(Loss) earnings from discontinued operations per Class B Voting Common Share:			
Basic	\$(0.04)	\$0.05	\$(0.32)
Diluted	\$(0.04)	\$0.05	\$(0.32)
Net earnings (loss) per Class A Nonvoting Common Share:			
Basic	\$0.06	\$(0.89)	\$(3.02)
Diluted	\$0.06	\$(0.89)	\$(3.02)
Dividends	\$0.80	\$0.78	\$0.76
Net earnings (loss) per Class B Voting Common Share:			
Basic	\$0.04	\$(0.90)	\$(3.03)
Diluted	\$0.04	\$(0.90)	\$(3.03)
Dividends	\$0.78	\$0.76	\$0.74
Weighted average common shares outstanding (in thousands):			



Basic	51,285	51,866	51,330
Diluted	51,383	51,866	51,330

See Notes to Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
Years Ended July 31, 2015, 2014 and 2013

	2015	2014	2013
	(Dollars in thousands)		
Net earnings (loss)	\$2,987	\$(45,968)	\$(154,535)
Other comprehensive (loss) income:			
Foreign currency translation adjustments:			
Net (loss) gain recognized in other comprehensive (loss) income	(85,622)	4,543	(2,312)
Reclassification adjustment for (gains) losses included in net earnings (loss)	(34,697)	3,004	—
	(120,319)	7,547	(2,312)
Net investment hedge translation adjustments	21,477	(4,243)	(6,537)
Long-term intercompany loan translation adjustments:			
Net gain recognized in other comprehensive (loss) income	546	211	3,108
Reclassification adjustment for (gains) losses included in net earnings (loss)	(393)	865	—
	153	1,076	3,108
Cash flow hedges:			
Net gain (loss) recognized in other comprehensive (loss) income	1,643	8	(652)
Reclassification adjustment for gains included in net earnings (loss)	(1,325)	(147)	(578)
	318	(139)	(1,230)
Pension and other post-retirement benefits:			
Net gain recognized in other comprehensive (loss) income	1,057	5,211	1,617
Actuarial gain amortization	(741)	(240)	(25)
Prior service credit amortization	(1,170)	(203)	(203)
Reclassification adjustment for (gains) losses included in net earnings (loss)	(1,741)	131	—
	(2,595)	4,899	1,389
Other comprehensive (loss) income, before tax	(100,966)	9,140	(5,582)
Income tax (expense) benefit related to items of other comprehensive (loss) income	(8,224)	(1,047)	2,234
Other comprehensive (loss) income, net of tax	(109,190)	8,093	(3,348)
Comprehensive loss	\$(106,203)	\$(37,875)	\$(157,883)
See Notes to Consolidated Financial Statements.			

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BRADY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT  
Years Ended July 31, 2015, 2014 and 2013

	Common Stock	Additional Paid-In Capital	Earnings Retained in the Business	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Other
(In thousands, except per share amounts)						
Balances at July 31, 2012	\$548	\$313,008	\$732,290	\$(92,600)	\$59,411	\$(3,304)
Net earnings (loss)	—	—	(154,535)	—	—	—
Other comprehensive (loss) income, net of tax	—	—	—	—	(3,348)	—
Issuance of 1,080,089 shares of Class A Common Stock under stock plan	—	(9,721)	—	30,045	—	—
Other	—	(1,266)	—	(2,121)	—	2,584
Tax benefit from exercise of stock options and deferred compensation distributions	—	2,434	—	—	—	—
Stock-based compensation expense (Note 8)	—	1,736	—	—	—	—
Purchase of 188,167 shares of Class A Common Stock	—	—	—	(5,121)	—	—
Cash dividends on Common Stock						
Class A — \$0.76 per share	—	—	(36,613)	—	—	—
Class B — \$0.74 per share	—	—	(2,630)	—	—	—
Balances at July 31, 2013	\$548	\$306,191	\$538,512	\$(69,797)	\$56,063	\$(720)
Net earnings (loss)	—	—	(45,968)	—	—	—
Other comprehensive (loss) income, net of tax	—	—	—	—	8,093	—
Issuance of 490,507 shares of Class A Common Stock under stock option plan	—	847	—	11,266	—	—
Other	—	(371)	—	(4,225)	—	(1,439)
Tax (shortfall) benefit from exercise of stock options and deferred compensation distributions	—	(70)	—	—	—	—
Stock-based compensation expense (Note 8)	—	5,214	—	—	—	—
Purchase of 1,180,531 shares of Class A Common Stock	—	—	—	(30,581)	—	—
Cash dividends on Common Stock						
Class A — \$0.78 per share	—	—	(37,786)	—	—	—
Class B — \$0.76 per share	—	—	(2,701)	—	—	—
Balances at July 31, 2014	\$548	\$311,811	\$452,057	\$(93,337)	\$64,156	\$(2,159)

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Net earnings (loss)	—	—	2,987	—	—	—
Other comprehensive (loss) income, net of tax	—	—	—	—	(109,190	) —
Issuance of 102,780 shares of Class A Common Stock under stock plan	—	(1,315	) —	2,735	—	—
Other	—	2,312	—	(2,632	) —	(905
Tax (shortfall) benefit from exercise of stock options, vesting of RSUs, and deferred compensation distributions	—	(2,876	) —	—	—	—
Stock-based compensation expense (Note 8)	—	4,471	—	—	—	—
Cash dividends on Common Stock						
Class A — \$0.80 per share	—	—	(38,204	) —	—	—
Class B — \$0.78 per share	—	—	(2,771	) —	—	—
Balances at July 31, 2015	\$548	\$314,403	\$414,069	\$(93,234	) \$(45,034	) \$(3,064

See Notes to Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended July 31, 2015, 2014 and 2013

	2015	2014	2013
	(Dollars in thousands)		
Operating activities:			
Net earnings (loss)	\$2,987	\$(45,968 )	\$(154,535 )
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,458	44,598	48,725
Non-cash portion of restructuring charges	4,164	566	3,699
Non-cash portion of stock-based compensation expense	4,471	5,214	1,736
Impairment charges	46,867	148,551	204,448
Loss on write-down of assets held for sale	—	—	15,658
Loss on sales of businesses, net	426	1,238	3,138
Deferred income taxes	(7,233	) (27,516	) 21,630
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):			
Accounts receivable	1,317	(3,600 )	1,535
Inventories	(763	) (12,608	) 2,440
Prepaid expenses and other assets	9,188	(278	) 5,036
Accounts payable and accrued liabilities	(8,516	) (20,508	) (2,285 )
Income taxes	982	3,731	(7,722 )
Net cash provided by operating activities	93,348	93,420	143,503
Investing activities:			
Purchases of property, plant and equipment	(26,673	) (43,398	) (35,687 )
Acquisition of business, net of cash acquired	—	—	(301,157 )
Sales of businesses, net of cash retained	6,111	54,242	10,178
Other	6,197	(637	) 900
Net cash (used in) provided by investing activities	(14,365	) 10,207	(325,766 )
Financing activities:			
Payment of dividends	(40,976	) (40,487	) (39,243 )
Proceeds from issuance of common stock	1,644	12,113	20,324
Purchase of treasury stock	—	(30,581	) (5,121 )
Proceeds from borrowing on credit facilities	83,382	73,334	231,613
Repayment of borrowing on credit facilities	(32,314	) (62,398	) (181,000 )
Principal payments on debt	(42,514	) (61,264	) (61,264 )
Income tax on equity-based compensation, and other	(1,374	) (6,104	) 1,631
Net cash used in financing activities	(32,152	) (115,387	) (33,060 )
Effect of exchange rate changes on cash	(14,173	) 2,536	481
Net increase (decrease) in cash and cash equivalents	32,658	(9,224	) (214,842 )
Cash and cash equivalents, beginning of period	81,834	91,058	305,900
Cash and cash equivalents, end of period	\$114,492	\$81,834	\$91,058
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$11,164	\$14,594	\$17,162
Income taxes, net of refunds	25,024	33,043	34,030
Acquisitions:			

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Fair value of assets acquired, net of cash	\$—	\$—	\$168,724
Liabilities assumed	—	—	(37,747 )
Goodwill	—	—	170,180
Net cash paid for acquisitions	\$—	\$—	\$301,157

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended July 31, 2015, 2014 and 2013

(In thousands, except share and per share amounts)

## 1. Summary of Significant Accounting Policies

**Nature of Operations** — Brady Corporation is an international manufacturer of identification solutions and specialty materials that identify and protect premises, products and people. The ability to provide customers with a broad range of proprietary, customized, and diverse products for use in various applications, along with a commitment to quality and service, a global footprint, and multiple sales channels, have made Brady a world leader in many of its markets.

**Principles of Consolidation** — The accompanying consolidated financial statements include the accounts of Brady Corporation and its subsidiaries (“Brady” or the “Company”), all of which are wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

**Discontinued Operations** — The results of operations of the Die-Cut businesses have been reported as discontinued operations for all periods presented. The corresponding assets and liabilities have been classified in accordance with the authoritative literature on assets held for sale at July 31, 2014. There were no assets held for sale at July 31, 2015 as the second and final phase of the Die-Cut sale closed in the first quarter of fiscal 2015. In accordance with the authoritative literature, the Company has elected to not separately disclose the cash flows related to discontinued operations. See Note 15 for additional information about the Company's discontinued operations.

**Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** — On September 10, 2015, the Company's Board of Directors authorized an increase in the Company's share repurchase program, authorizing the repurchase of up to a total of two million shares of the Company's Class A Common Stock, inclusive of the shares in the existing share repurchase program. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes.

On September 10, 2015, the Company announced an increase in the annual dividend to shareholders of the Company's Class A Common Stock, from \$0.80 to \$0.81 per share. A quarterly dividend of \$0.2025 will be paid on October 30, 2015, to shareholders of record at the close of business on October 9, 2015. This dividend represents an increase of 1.3% and is the 30th consecutive annual increase in dividends.

**Fair Value of Financial Instruments** — The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable and accounts payable) is a reasonable estimate of the fair value of these instruments due to their short-term nature. See Note 7 for more information regarding the fair value of long-term debt and Note 12 for fair value measurements.

**Cash Equivalents** — The Company considers all highly liquid investments with original maturities of three months or less when acquired to be cash equivalents, which are recorded at cost.

**Accounts Receivables** — Accounts receivables are stated net of allowances for doubtful accounts of \$3,585 and \$3,069 as of July 31, 2015 and 2014, respectively. No single customer comprised more than 5% of the Company's consolidated net sales in fiscal 2015, 2014 or 2013, or 5% of the Company's consolidated accounts receivable as of July 31, 2015 or 2014. Specific customer provisions are made during review of significant outstanding amounts, in which customer creditworthiness and current economic trends may indicate that collection is doubtful. In addition, provisions are made for the remainder of accounts receivable based upon the age of the receivable and the Company's historical collection experience.

**Inventories** — Inventories are stated at the lower of cost or market. Cost has been determined using the last-in, first-out (“LIFO”) method for certain domestic inventories (12.7% of total inventories at July 31, 2015, and 11.7% of total inventories at July 31, 2014) and the first-in, first-out (“FIFO”) or average cost methods for other inventories. Had all domestic inventories been accounted for on a FIFO basis instead of on a LIFO basis, the carrying value of inventories

would have increased by \$7,346 and \$7,637 as of July 31, 2015 and 2014, respectively.



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**Goodwill** — Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company completes impairment reviews for its reporting units using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between market participants on an arms-length basis. In estimating the fair value, the Company utilizes a discounted cash flow model and market multiples approach. The estimated fair value is compared with the carrying amount of the reporting unit, including goodwill. The annual impairment testing performed on May 1, 2015, in accordance with ASC 350, "Intangibles - Goodwill and Other" ("Step One") indicated that the following reporting units had a fair value substantially in excess of its carrying value: IDS Americas & Europe, PeopleID, and WPS Europe. The results of the Step One analysis completed over the remaining reporting units, WPS Americas and WPS APAC, indicated they were potentially impaired. Refer to Note 3, "Goodwill and Other Intangible Assets" for further information.

**Long-Lived and Other Intangible Assets** — The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed on a straight-line basis, over the estimated periods benefited. Intangible assets with indefinite useful lives as well as goodwill are not subject to amortization. These assets are assessed for impairment annually or more frequently as deemed necessary.

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived and other finite-lived intangible assets may warrant revision or that the remaining balance of an asset may not be recoverable. If impairment is determined to exist, any related impairment loss is calculated by comparing the fair value of the asset to its carrying value. In fiscal 2015, other intangible assets primarily associated with the WPS Americas and WPS APAC reporting units were analyzed for potential impairment. Refer to Note 3, "Goodwill and Other Intangible Assets" for further information.

**Property, Plant, and Equipment** — Property, plant, and equipment are recorded at cost. The cost of buildings and improvements and machinery and equipment is being depreciated over their estimated useful lives using primarily the straight-line method for financial reporting purposes. The estimated useful lives range from 3 to 33 years as shown below.

Asset Category	Range of Useful Lives
Buildings & Improvements	10 to 33 Years
Computer Systems	5 Years
Machinery & Equipment	3 to 10 Years

Fully depreciated assets are retained in property and accumulated depreciation accounts until disposal. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to operations. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the respective asset. Depreciation expense was \$27,355, \$26,727, and \$22,976 for the years ended July 31, 2015, 2014 and 2013, respectively.

**Catalog Costs and Related Amortization** — The Company accumulates all direct costs incurred, net of vendor cooperative advertising payments, in the development, production, and circulation of its catalogs on its balance sheet until such time as the related catalog is mailed. The catalog costs are subsequently amortized into selling, general, and administrative expense over the expected sales realization cycle, which is one year or less. Consequently, any difference between the estimated and actual revenue stream for a particular catalog and the related impact on amortization expense is realized within a period of one year or less. The estimate of the expected sales realization cycle for a particular catalog is based on the Company's historical sales experience with identical or similar catalogs, and an assessment of prevailing economic conditions and various competitive factors. The Company tracks subsequent sales realization, reassesses the marketplace, and compares its findings to the previous estimate, and adjusts the amortization of future catalogs, if necessary. At July 31, 2015 and 2014, \$9,547 and \$13,959, respectively,

of prepaid catalog costs were included in prepaid expenses and other current assets. The decrease in prepaid catalog costs at July 31, 2015, compared to July 31, 2014, was primarily due to a reduction in catalog mailings and a change in the timing of such catalog mailings in fiscal 2015.

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**Revenue Recognition** — Revenue is recognized when it is both earned and realized or realizable. The Company's policy is to recognize revenue when title to the product and risk of loss have transferred to the customer, persuasive evidence of an arrangement exists, and collection of the sales proceeds is reasonably assured, all of which generally occur upon shipment of goods to customers. The majority of the Company's revenue relates to the sale of inventory to customers, and revenue is recognized when title and the risks and rewards of ownership pass to the customer. Given the nature of the Company's business and the applicable rules guiding revenue recognition, the Company's revenue recognition practices do not contain estimates that materially affect the results of operations, with the exception of estimated returns and credit memos. The Company provides for an allowance for estimated product returns and credit memos which is recognized as a deduction from sales at the time of the sale. As of July 31, 2015 and 2014, the Company had a reserve for estimated product returns and credit memos of \$3,619 and \$3,161, respectively.

**Sales Incentives** — The Company accounts for cash consideration (such as sales incentives and cash discounts) given to its customers or resellers as a reduction of revenue rather than an operating expense. Sales incentives for the years ended July 31, 2015, 2014, and 2013 were \$36,591, \$36,175, and \$28,000, respectively. The increase in sales incentives for the years ended July 31, 2015 and 2014 as compared to July 31, 2013 was due to twelve months of sales incentives related to Precision Dynamics Corporation ("PDC") compared to seven months in fiscal 2013.

**Shipping and Handling Fees and Costs** — Amounts billed to a customer in a sale transaction related to shipping and handling fees are reported as net sales and the related costs incurred for shipping and handling are reported as cost of goods sold.

**Advertising Costs** — Advertising costs are expensed as incurred, except catalog and mailing costs as outlined above. Advertising expense for the years ended July 31, 2015, 2014, and 2013 was \$86,090, \$82,561, and \$77,905, respectively.

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

The options issued under the plan have an exercise price equal to the fair market value of the underlying stock at the date of grant. Restricted shares and RSUs issued under the plan have an issuance price equal to the fair market value of the underlying stock at the date of grant. The Company also grants restricted shares and RSUs to certain executives and key management employees that vest upon meeting certain financial performance conditions.

In accordance with ASC 718 "Compensation - Stock Compensation," the Company measures and recognizes the compensation expense for all share-based awards made to employees and directors based on estimated grant-date fair values. The Black-Scholes option valuation model is used to determine the fair value of stock option awards on the date of grant. The Company recognizes the compensation cost of all share-based awards at the time it is deemed probable the award will vest. This cost is recognized on a straight-line basis over the vesting period of the award. If it is determined that it is unlikely the award will vest, the expense recognized to date for the award is reversed in the period in which this is evident and the remaining expense is not recorded.

The Black-Scholes model requires the use of assumptions which determine the fair value of stock-based awards. The Company uses historical data regarding stock option exercise behaviors to estimate the expected term of options granted based on the period of time that options granted are expected to be outstanding. Expected volatilities are based on the historical volatility of the Company's stock. The expected dividend yield is based on the Company's historical dividend payments and historical yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date for the length of time corresponding to the expected term of the option. The market value is calculated as the average of the high and the low stock price on the date of the grant.

The Company includes as part of cash flows from financing activities the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for options exercised and restricted shares and RSUs vested during the period. See Note 8 “Stockholder’s Investment” for more information regarding the Company’s incentive stock plans.

Research and Development — Amounts expended for research and development are expensed as incurred.

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

Foreign Currency Translation — Foreign currency assets and liabilities are translated into United States dollars at end of period rates of exchange, and income and expense accounts are translated at the weighted average rates of exchange for the period. Resulting translation adjustments are included in other comprehensive income.

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**Risk Management Activities** — The Company does not hold or issue derivative financial instruments for trading purposes.

**Income Taxes** — The Company accounts for income taxes in accordance with ASC 740 "Income Taxes", which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The Company recognizes the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs.

**Foreign Currency Hedging** — The objective of the Company's foreign currency exchange risk management is to minimize the impact of currency movements on non-functional currency transactions and minimize the foreign currency translation impact on the Company's foreign operations. While the Company's risk management objectives and strategies are driven from an economic perspective, the Company attempts, where possible and practical, to ensure that the hedging strategies it engages in qualify for hedge accounting and result in accounting treatment where the earnings effect of the hedging instrument provides substantial offset (in the same period) to the earnings effect of the hedged item. Generally, these risk management transactions will involve the use of foreign currency derivatives to protect against exposure resulting from transactions in a currency differing from the respective functional currency. The Company recognizes derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. Changes in the fair value (i.e., gains or losses) of the derivatives are recorded in the accompanying Consolidated Statements of Earnings as "Investment and other income", net, or as a component of Accumulated Other Comprehensive Income ("AOCI") in the accompanying Consolidated Balance Sheets and in the Consolidated Statements of Comprehensive Loss, as discussed below.

The Company utilizes forward foreign exchange currency contracts to reduce the exchange rate risk of specific foreign currency denominated transactions. These contracts typically require the exchange of a foreign currency for U.S. dollars at a fixed rate at a future date, with maturities of less than 18 months. These instruments may or may not qualify as hedges under the accounting guidance for derivative instruments and hedging activities based upon the intended objective of the contract. Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Gains or losses on the derivative related to hedge ineffectiveness are recognized in current earnings. The amount of hedge ineffectiveness was not significant for the fiscal years ended July 31, 2015, 2014, and 2013.

The Company has designated a portion of its foreign exchange contracts as cash flow hedges. For these instruments, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and in the cash flow hedge section of the Consolidated Statements of Comprehensive Loss, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

The Company has designated a portion of its foreign exchange contracts as net investment hedges of the Company's net investments in foreign operations. The Company also utilizes Euro-denominated debt and British Pound-denominated intercompany loans designated as hedge instruments to hedge portions of the Company's net investments in Euro and British- Pound denominated foreign operations. For net investment hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded as cumulative translation within AOCI and are included in the net investment hedge section of the Consolidated Statements of Comprehensive Loss. Any ineffective portions are to be recognized in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation.

The Company also enters into foreign exchange contracts to create economic hedges to manage foreign exchange risk exposure. The Company has not designated these derivative contracts as hedge transactions, and accordingly, the mark-to-market impact of these derivatives is recorded each period in current earnings.

See Note 14 "Derivatives and Hedging Activities" for more information regarding the Company's derivative instruments and hedging activities.

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

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

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

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which includes amendments that change the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, expenses and cash flows of discontinued operations. The guidance is effective for fiscal and interim periods beginning after December 15, 2014. The adoption of this update did not have a material impact on the financial statements of the Company.

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## 2. Acquisitions

The Company did not complete any business acquisitions during the fiscal years ended July 31, 2015 and 2014 and had one business acquisition during the fiscal year ended July 31, 2013. This transaction was accounted for using business combination accounting; therefore, the results of the acquired operations are included in the accompanying consolidated financial statements only since their acquisition date.

## Fiscal 2013

On December 28, 2012, the Company acquired all of the outstanding shares of Precision Dynamics Corporation ("PDC"), a manufacturer of identification products primarily for the healthcare sector headquartered in Valencia, California. PDC is reported within the Company's ID Solutions segment. Financing for this acquisition consisted of \$220,000 from the Company's revolving loan agreement and the balance from cash on hand. As of July 31, 2015, the Company has repaid the entire amount of the borrowing.

The following table reflects the unaudited pro-forma operating results of the Company for fiscal year 2013 which give effect to the acquisition of PDC as if it had occurred at the beginning of fiscal 2012, after giving effect to certain adjustments, including amortization of intangible assets, interest expense on acquisition debt, and income tax effects. The pro-forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations which may occur in the future or that would have occurred had the acquisitions been effected on the date indicated, nor are they necessarily indicative of the Company's future results of operations.

	2013
Net sales, as reported	\$1,157,792
Net sales, pro forma	1,226,217
(Loss) earnings from continuing operations, as reported	(138,257 )
(Loss) earnings from continuing operations, pro forma	(133,957 )
Basic (loss) earnings from continuing operations per Class A Common Share, as reported	(2.70 )
Basic (loss) earnings from continuing operations per Class A Common Share, pro forma	(2.61 )
Diluted (loss) earnings from continuing operations per Class A Common Share, as reported	(2.70 )
Diluted (loss) earnings from continuing operations per Class A Common Share, pro forma	(2.61 )

Pro forma results for fiscal 2013, were adjusted to exclude \$3,600 of acquisition-related expenses and \$1,530 of nonrecurring expense related to the fair value adjustment to acquisition-date inventory, and were adjusted to include \$529 in interest expense on acquisition debt, \$429 in income tax benefit, and \$5,215 of pre-tax amortization expense related to intangible assets, respectively.

## 3. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill by reportable segment for the years ended July 31, 2015 and 2014, were as follows:

	IDS	WPS	Total
Balance as of July 31, 2013	\$517,029	\$100,207	\$617,236
Impairment charge	(100,412 )	—	(100,412 )
Purchase accounting adjustments	(2,168 )	—	(2,168 )
Translation adjustments	(2,160 )	2,508	348
Balance as of July 31, 2014	\$412,289	\$102,715	\$515,004
Impairment charge	—	(37,112 )	(37,112 )
Translation adjustments	(29,503 )	(15,190 )	(44,693 )
Balance as of July 31, 2015	\$382,786	\$50,413	\$433,199

Goodwill decreased by \$81,805 during fiscal 2015. The decline in the balance consisted of an impairment charge of \$37,112 recognized on the Company's WPS Americas and WPS APAC reporting units and foreign currency translation of \$44,693.



Goodwill at July 31, 2015 included \$118,637 and \$209,392 of accumulated impairment losses within the IDS and WPS segments, respectively, for a total of \$328,029. Goodwill at July 31, 2014 included \$118,637 and \$172,280 of accumulated impairment losses within the IDS and WPS segments, respectively, for a total of \$290,917.

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The annual impairment testing performed on May 1, 2015, in accordance with ASC 350, "Intangibles - Goodwill and Other" ("Step One") indicated that each of the following reporting units had a fair value substantially in excess of its carrying value: IDS Americas & Europe, PeopleID, and WPS Europe. The results of the Step One analysis completed over the Company's WPS Americas and WPS APAC reporting units indicated that they were potentially impaired.

### WPS APAC Goodwill Impairment

The WPS APAC reporting unit consists entirely of the Company's business located in Australia. Organic sales declined in the mid-single digits in fiscal 2015 primarily due to a decline in the mining production and manufacturing industries. As a result of the decline in sales and challenging economic conditions, the WPS APAC reporting unit's segment profit declined by nearly 30% in fiscal 2015.

Management believes that the digital investments and current strategy will result in sales growth and improved profitability over the long-term, however, improved financial performance in this reporting unit may take several years. As a result, management incorporated the decline in fiscal 2015 sales and profitability as well as current economic forecasts for the business' end user markets in Australia when performing the annual goodwill impairment analysis. Management used the discounted cash flow model and market multiples model in order to complete Step One of the analysis in accordance with ASC 350 - Intangibles - Goodwill and Other, and concluded that the WPS APAC reporting unit failed, as the resulting fair value was less than the carrying value of the reporting unit.

Management proceeded to measure the amount of the potential impairment ("Step Two") by determining the implied fair value of the goodwill compared to the carrying value. Management allocated the fair value of the WPS APAC reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. There was no excess fair value of the reporting unit over the fair value of its identifiable assets and liabilities, which resulted in the entire goodwill balance of \$26,246 being impaired in fiscal 2015.

### WPS Americas Goodwill Impairment

Organic sales within the WPS Americas reporting unit declined in fiscal 2015 as compared to fiscal 2014. The business has improved many of its digital capabilities over the past two years; however, sales through the traditional catalog model have decreased at a greater rate than expected, and digital sales have not been sufficient to offset the decline in sales through catalogs. As a result of the decline in sales and the increased investment in digital capabilities, WPS Americas' segment profit declined by nearly 17% in fiscal 2015.

Management believes that the digital investments and current strategy will result in sales growth and improved profitability over the long-term; however, improved financial performance is expected to take time. As a result, management incorporated the decline in fiscal 2015 sales and profitability and the risk in achieving modest sales growth in future years when performing the annual goodwill impairment analysis. Management used the discounted cash flow model and market multiples model in order to complete Step One of the analysis in accordance with ASC 350 - Intangibles - Goodwill and Other, and concluded that the WPS Americas reporting unit failed, as the resulting fair value was less than the carrying value of the reporting unit.

Management proceeded to measure the amount of the potential impairment ("Step Two") by determining the implied fair value of the goodwill compared to the carrying value. Management allocated the fair value of the WPS Americas reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. There was no excess fair value of the reporting unit over the fair value of its identifiable assets and liabilities, which resulted in the remainder of the goodwill of \$10,866 being impaired in fiscal 2015.

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## Other Intangible Assets

Other intangible assets include patents, tradenames, customer relationships, non-compete agreements and other intangible assets with finite lives being amortized in accordance with the accounting guidance for other intangible assets. The net book value of these assets was as follows:

	July 31, 2015				July 31, 2014			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	\$12,073	\$(10,641)	\$1,432	5	\$11,656	\$(10,160)	\$1,496
Tradenames and other	5	14,375	(12,471)	1,904	5	15,366	(10,706)	4,660
Customer relationships	7	136,693	(94,537)	42,156	7	168,525	(114,363)	54,162
Non-compete agreements and other	4	9,076	(9,032)	44	4	10,089	(9,622)	467
Unamortized other intangible assets:								
Tradenames	N/A	23,352	—	23,352	N/A	30,229	—	30,229
Total		\$195,569	\$(126,681)	\$68,888		\$235,865	\$(144,851)	\$91,014

The value of goodwill and other intangible assets in the Consolidated Balance Sheets at July 31, 2015 and 2014, differs from the value assigned to them in the original allocation of purchase due to the effect of fluctuations in foreign exchange rates. Other intangible assets consisting of tradenames and customer relationships primarily associated with the WPS APAC and WPS Americas reporting units were written down to fair value. As a result, the Company recognized impairment charges of \$6,651 during fiscal 2015.

Amortization expense on intangible assets during fiscal 2015, 2014, and 2013 was \$12,103, \$17,871 and \$17,148, respectively. The amortization over each of the next five fiscal years is projected to be \$8,843, \$7,155, \$6,464, \$6,190 and \$5,461 for the fiscal years ending July 31, 2016, 2017, 2018, 2019 and 2020, respectively.

## 4. Other Comprehensive (Loss) Income

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

The following table illustrates the changes in the balances of each component of accumulated other comprehensive (loss) income, net of tax, for the periods presented:

	Unrealized gain (loss) on cash flow hedges	Gain on postretirement plans	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Ending balance, July 31, 2013	\$99	\$1,853	\$54,111	\$56,063
Other comprehensive (loss) income before reclassification	(21)	) 3,313	1,334	4,626
	(90)	) (312)	) 3,869	3,467

Amounts reclassified from accumulated other comprehensive income

Ending balance, July 31, 2014	\$(12	) \$4,854	\$59,314	\$64,156
Other comprehensive (loss) income before reclassification	829	2,236	(73,098	) (70,033
Amounts reclassified from accumulated other comprehensive income	(808	) (3,652	) (34,697	) (39,157
Ending balance, July 31, 2015	\$9	\$3,438	\$(48,481	) \$(45,034

The decrease in accumulated other comprehensive (loss) income ("AOCI") as of July 31, 2015 compared to July 31, 2014 was primarily due to the appreciation of the U.S. dollar against other currencies, most of which was realized during the six-month period ended January 31, 2015. A significant portion of the decrease was also a result of the accumulated foreign currency translation gains in the China Die-Cut businesses, which were reclassified into net earnings upon the completion of the second phase of the Die-Cut divestiture during the three months ended October 31, 2014. The foreign currency translation adjustments column in the table above includes foreign currency translation, foreign currency translation on intercompany notes and the impact

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of settlements of net investment hedges, net of tax. Of the total \$39,157 in amounts reclassified from AOCI, the \$34,697 gain on foreign currency translation adjustments was reclassified to the net loss on the sale of the Die-Cut business, the \$808 gain on cash flow hedges was reclassified into cost of products sold, and the \$3,652 net gain on post-retirement plans, due primarily to a plan curtailment, was reclassified into SG&A on the Consolidated Statement of Earnings in fiscal 2015.

The following table illustrates the income tax (expense) benefit on the components of other comprehensive income:

	2015	2014	2013
Income tax (expense) benefit related to items of other comprehensive (loss) income:			
Net investment hedge translation adjustments	\$(8,450)	) \$302	\$2,877
Long-term intercompany loan settlements	—	579	(650)
Cash flow hedges	(308)	) 28	454
Pension and other post-retirement benefits	949	(1,898)	) (555)
Other income tax adjustments	(415)	) (58)	) 108
Income tax (expense) benefit related to items of other comprehensive (loss) income	\$(8,224)	) \$(1,047)	) \$2,234

The increase in the income tax expense in fiscal 2015 as compared to the prior two fiscal years was primarily related to the foreign currency translation adjustment on the Company's Euro-denominated debt due to the appreciation of the U.S. dollar against the Euro, which is designated as a net investment hedge.

#### 5. Employee Benefit Plans

The Company provides postretirement medical benefits (the "Plan") for eligible regular full and part-time domestic employees (including spouses) as 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 accounting guidance on defined benefit pension and other postretirement plans requires full recognition of the funded status of defined benefit and other postretirement plans on the balance sheet as an asset or a liability. The guidance also requires that unrecognized prior service costs/credits, gains/losses, and transition obligations/assets be recorded in AOCI, thus not changing the income statement recognition rules for such plans.

The Company amended the Plan effective January 1, 2015 to eliminate future increases in target contribution levels to eligible plan participants. This amendment resulted in a decrease in the accumulated benefit obligation of \$1,011 in fiscal 2014.

The Company amended the Plan effective March 16, 2015 to eliminate postretirement medical benefits for eligible domestic employees retiring on or after January 1, 2016. This amendment resulted in a decrease in the accumulated postretirement benefit obligation of \$4,490 and recognition of a curtailment gain of \$4,296 in fiscal 2015. The curtailment gain was recorded in SG&A on the Consolidated Statements of Earnings.

The Plan is unfunded and recorded as a liability in the accompanying Consolidated Balance Sheets as of July 31, 2015 and 2014. The following table provides a reconciliation of the changes in the Plan's accumulated benefit obligation during the years ended July 31:

	2015	2014
Obligation at beginning of year	\$8,056	\$13,023
Service cost	210	674
Interest cost	222	534
Actuarial loss (gain)	502	(4,691)

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Benefit payments	(365	) (473	)
Plan amendments	(1,935	) (1,011	)
Curtailement gain	(2,555	) —	)
Obligation at end of fiscal year	\$4,135	\$8,056	

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In fiscal 2014, estimated savings of \$3,408 were included as an actuarial gain due to decreases in expected participation rate assumptions used in the actuarial valuation. The change in participation assumptions was primarily caused by the impact of the Health Care and Education Reconciliation Act of 2010 and Patient Protection and Affordable Care Act and increased premium costs passed on to participants as a result of plan amendments made in recent prior years. It is anticipated that due to the availability of subsidized health insurance exchanges, which began operating January 1, 2014, the majority of future eligible retirees will now have access to more affordable plans and will not elect coverage under the current Company-sponsored plan.

As of July 31, 2015 and 2014, amounts recognized as liabilities in the accompanying Consolidated Balance Sheets consist of:

	2015	2014
Current liability	\$659	\$476
Non-current liability	3,476	7,580
	\$4,135	\$8,056

As of July 31, 2015 and 2014, pre-tax amounts recognized in accumulated other comprehensive income in the accompanying Consolidated Balance Sheets consist of:

	2015	2014
Net actuarial gain	\$6,655	\$7,960
Prior service credit	1,035	2,011
	\$7,690	\$9,971

Net periodic benefit cost for the Plan for fiscal years 2015, 2014, and 2013 includes the following components:

	Years Ended July 31,		
	2015	2014	2013
Net periodic postretirement benefit cost included the following components:			
Service cost	\$210	\$674	\$770
Interest cost	222	534	476
Amortization of prior service credit	(1,169)	(203)	(203)
Amortization of net actuarial gain	(804)	(265)	(47)
Curtailed gain	(4,296)	—	—
Periodic postretirement benefit cost	\$(5,837)	\$740	\$996

The estimated net actuarial gain and prior service credit that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost over the next fiscal year are \$646 and \$1,035, respectively.

The following assumptions were used in accounting for the Plan:

	2015	2014	2013	
Weighted average discount rate used in determining accumulated postretirement benefit obligation	3.00	% 3.50	% 4.00	%
Weighted average discount rate used in determining net periodic benefit cost	3.41	% 4.00	% 3.25	%
Assumed health care trend rate used to measure APBO at July 31	7.00	% 7.50	% 8.00	%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	5.50	% 5.50	% 5.50	%
Fiscal year the ultimate trend rate is reached	2018	2018	2018	

The discount rate utilized in preparing the accumulated postretirement benefit obligation liability was decreased to 3.00% in fiscal 2015 from 3.50% in fiscal 2014 as a result of a decrease in the bond yield as of the Company's measurement date of July 31, 2015.

A one-percentage point change in assumed health care cost trend rates would have the following effects on the Plan:

One-Percentage Point Increase	One-Percentage Point Decrease
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Effect on future service and interest cost	\$2	\$(2	)
Effect on accumulated postretirement benefit obligation at July 31, 2015	8	(8	)

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

2016	\$659
2017	614
2018	569
2019	508
2020	439
2021 through 2025	1,264

The Company sponsors defined benefit pension plans that are primarily unfunded and provide an income benefit upon termination or retirement for certain of its international employees. As of July 31, 2015 and 2014, the accumulated pension obligation related to these plans was \$6,020 and \$4,553, respectively. As of July 31, 2015 and 2014, pre-tax amounts recognized in accumulated other comprehensive income in the accompanying Consolidated Balance Sheets were losses of \$1,361 and \$1,228, respectively. The net periodic benefit cost for these plans was \$724, \$286, and \$388 during the years ended July 31, 2015, 2014 and 2013, respectively.

The Company has retirement and profit-sharing plans covering substantially all full-time domestic employees and certain employees of its foreign subsidiaries. Contributions to the plans are determined annually or quarterly, according to the respective plans, based on earnings of the respective companies and employee contributions. Accrued retirement and profit-sharing contributions of \$2,743 and \$2,938 were included in other current liabilities on the accompanying Consolidated Balance Sheets as of July 31, 2015 and 2014, respectively. The amounts charged to expense for these retirement and profit sharing plans were \$9,912, \$10,830, and \$10,110 during the years ended July 31, 2015, 2014 and 2013, respectively.

The Company also has deferred compensation plans for directors, officers and key executives which are discussed below. At July 31, 2015 and 2014, \$18,321 and \$18,694, respectively, of deferred compensation was included in other long-term liabilities in the accompanying Consolidated Balance Sheets.

During fiscal 1998, the Company adopted a new deferred compensation plan that invests solely in shares of the Company's Class A Nonvoting Common Stock. Participants in a predecessor phantom stock plan were allowed to convert their balances in the old plan to this new plan. The new plan was funded initially by the issuance of shares of Class A Nonvoting Common Stock to a Rabbi Trust. All deferrals into the new plan result in purchases of Class A Nonvoting Common Stock by the Rabbi Trust. No deferrals are allowed into a predecessor plan. Shares held by the Rabbi Trust are distributed to participants upon separation from the Company as defined in the plan agreement.

During fiscal 2002, the Company adopted a new deferred compensation plan for executives and non-employee directors that allows future contributions to be invested in shares of the Company's Class A Nonvoting Common Stock or in certain other investment vehicles. Prior deferred compensation deferrals must remain in the Company's Class A Nonvoting Common Stock. All participant deferrals into the new plan result in purchases of Class A Nonvoting Common Stock or certain other investment vehicles by the Rabbi Trust. Balances held by the Rabbi Trust are distributed to participants upon separation from the Company as defined in the plan agreement. On May 1, 2006, the plan was amended to require that deferrals into the Company's Class A Nonvoting Common Stock must remain in the Company's Class A Nonvoting Common Stock and be distributed in shares of the Company's Class A Nonvoting Common Stock. On May 21, 2014, the Director Deferred Compensation Plan was amended to allow participants to transfer funds from other investment funds into the Company's Class A Nonvoting Common Stock. Funds are not permitted to be transferred from the Company's Class A Nonvoting Common Stock into other investment funds until six months after the Director resigns from the Board. No such amendment was made to the Executive Deferred Compensation Plan.

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## 6. Income Taxes

Earnings (loss) from continuing operations consists of the following:

	Years Ended July 31,		
	2015	2014	2013
United States	\$(582	) \$(134,596	) \$(144,941
Other Nations	25,577	81,487	49,267
Total	\$24,995	\$ (53,109	) \$(95,674

Income tax expense (benefit) from continuing operations consists of the following:

	Years Ended July 31,		
	2015	2014	2013
Current income tax expense:			
United States	\$9,075	\$(1,137	) \$64
Other Nations	18,806	19,513	19,795
States (U.S.)	(352	) 1,090	1,094
	\$27,529	\$19,466	\$20,953
Deferred income tax expense (benefit):			
United States	\$(5,906	) \$(22,754	) \$22,882
Other Nations	(1,868	) (1,803	) (806
States (U.S.)	338	128	(446
	\$(7,436	) \$(24,429	) \$21,630
Total income tax expense (benefit)	\$20,093	\$(4,963	) \$42,583

Deferred income taxes result from temporary differences in the recognition of revenues and expenses for financial statement and income tax purposes.

The approximate tax effects of temporary differences are as follows:

	July 31, 2015		
	Assets	Liabilities	Total
Inventories	\$4,387	\$(197	) \$4,190
Prepaid catalog costs	—	(2,179	) (2,179
Employee benefits	1,612	—	1,612
Accounts receivable	1,136	(14	) 1,122
Other, net	8,524	(1,510	) 7,014
Current	\$15,659	\$(3,900	) \$11,759
Fixed Assets	3,344	(3,213	) 131
Intangible Assets	1,242	(26,570	) (25,328
Capitalized R&D expenditures	1,140	—	1,140
Deferred compensation	19,549	—	19,549
Postretirement benefits	3,563	—	3,563
Tax credit carry-forwards and net operating losses	66,744	—	66,744
Less valuation allowance	(39,922	) —	(39,922
Other, net	1,014	(10,965	) (9,951
Non-current	\$56,674	\$(40,748	) \$15,926
Total	\$72,333	\$(44,648	) \$27,685

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	July 31, 2014		
	Assets	Liabilities	Total
Inventories	\$5,460	\$(126)	) \$5,334
Prepaid catalog costs	30	(3,180)	) (3,150)
Employee benefits	1,533	(27)	) 1,506
Accounts receivable	852	(9)	) 843
Other, net	8,700	(1,015)	) 7,685
Current	\$16,575	\$(4,357)	) \$12,218
Fixed Assets	2,431	(4,587)	) (2,156)
Intangible Assets	1,706	(27,381)	) (25,675)
Capitalized R&D expenditures	1,425	—	1,425
Deferred compensation	21,733	—	21,733
Postretirement benefits	5,002	(4)	) 4,998
Tax credit carry-forwards and net operating losses	58,870	—	58,870
Less valuation allowance	(37,409)	) —	(37,409)
Other, net	1,411	(6,499)	) (5,088)
Non-current	\$55,169	\$(38,471)	) \$16,698
Total	\$71,744	\$(42,828)	) \$28,916

Tax loss carry-forwards at July 31, 2015 are comprised of:

• Foreign net operating loss carry-forwards of \$126,293, of which \$92,250 have no expiration date and the remainder of which expire within the next five to eight years.

• State net operating loss carry-forwards of \$54,731, which expire from 2016 to 2034.

• Foreign tax credit carry-forwards of \$22,812, which expire from 2018 to 2025.

• State research and development credit carry-forwards of \$11,178, which expire from 2016 to 2030.

The valuation allowance increased by \$2,513 during the fiscal year ended July 31, 2015 mainly due to increased valuation allowances against state tax credit carry-forwards and increased valuation allowances in certain jurisdictions, including Brazil, China, Sweden, and the United Kingdom. These increases were primarily offset by reductions in the tax rates applied to valuation allowances in the United Kingdom. The valuation allowance increased by \$267 during the fiscal year ended July 31, 2014 mainly due to increased valuation allowances against state tax credit carry-forwards and increased valuation allowances in certain jurisdictions, including Brazil, Shenzhen, and Langfang. These increases were primarily offset by reductions in the tax rates applied to valuation allowances in Sweden and the United Kingdom. If realized or reversed in future periods, substantially all of the valuation allowance would impact the income tax rate.

#### Rate Reconciliation

A reconciliation of the tax computed by applying the statutory U.S. federal income tax rate to earnings (loss) from continuing operations before income taxes to the total income tax expense is as follows:

	Years Ended July 31,			
	2015	2014	2013	
Tax at statutory rate	35.0	% 35.0	% 35.0	%
Impairment charges (1)	55.8	% (40.3)	% (53.4)	%
State income taxes, net of federal tax benefit (2)	1.6	% (1.1)	% (0.2)	%
International rate differential	(2.2)	% (1.3)	% (4.6)	%
Non-creditable withholding taxes	—	% —	% (1.5)	%
Rate variances arising from foreign subsidiary distributions	(0.3)	% (7.5)		