

BRADY CORP  
Form 10-K  
September 26, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended July 31, 2008**

**OR**

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

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

**BRADY CORPORATION**

*(Exact name of registrant as specified in charter)*

**Wisconsin**

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

**39-0178960**

*(IRS Employer Identification No.)*

**6555 West Good Hope Road,  
Milwaukee, WI 53223**

*(Address of principal executive offices) (Zip Code)*

**(414) 358-6600**

*(Registrant's telephone number, including area code)*

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

**Title of each class**

**Name of each exchange on which registered**

**Class A Nonvoting Common Stock, Par  
Value \$.01 per share**

**New York Stock Exchange**

**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 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 the definitions of large accelerated filer, accelerated filer and smaller

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reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

(Do not check if a smaller reporting company)

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

The aggregate market value of the non-voting common stock held by non-affiliates of the registrant as of January 31, 2008, was approximately \$1,432,768,457 (based on closing sale price of \$30.49 per share on that date as reported for the New York Stock Exchange). As of September 22, 2008, there were outstanding 49,855,020 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**

Brady Corporation and Subsidiaries are referred to herein as the Company, Brady, or we .

**Item 1. Business**

**(a) General Development of Business**

The Company, a Wisconsin corporation founded in 1914, currently operates 63 manufacturing or distribution facilities in Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Poland, Singapore, Slovakia, South Korea, Sweden, Thailand, the United Kingdom and the United States. The Company also sells through subsidiaries or sales offices in these countries, with additional sales through a dedicated team of international sales representatives in Hong Kong, the Philippines, Spain, Taiwan, Turkey and the United Arab Emirates. The Company further markets its products to parts of Eastern Europe, the Middle East, Africa and Russia. The Company's corporate headquarters are located at 6555 West Good Hope Road, Milwaukee, Wisconsin 53223, and the telephone number is (414) 358-6600. The Company's Internet address is <http://www.bradycorp.com>.

**(b) Financial Information About Industry Segments**

The information required by this Item is provided in Note 7 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

**(c) Narrative Description of Business**

**Overview**

Brady Corporation is an international manufacturer and marketer of identification solutions and specialty products which identify and protect premises, products and people. Brady's core capabilities in manufacturing, channel management, printing systems, precision engineering and materials expertise make it a leading supplier to customers in general manufacturing, maintenance and safety, process industries, construction, electrical, telecommunications, electronics, laboratory/healthcare, airline/transportation, security/brand education, governmental, public utility, and a variety of other industries. The Company's ability to provide customers with a broad range of differentiated solutions both through the organic development of its existing business and the acquisition of complementary and adjacent businesses, its commitment to quality and service, its global footprint and its diversified sales channels have made it a world leader in its markets.

Brady manufactures and markets a wide range of products for use in diverse applications. Major product lines include facility identification; safety and complementary products; wire and cable identification products; sorbent materials; people identification products, regulatory publishing; high-performance identification products for product identification, and work-in-process identification; bar code labels and precision die-cut components for mobile telecommunications devices, hard disk drives, medical devices and supplies, automotive electronics and other electronics. Products are marketed through multiple channels, including distributors, resellers, business-to-business direct marketing and a direct sales force.

The need for the Company's products is driven, in part, by customer specifications, by regulatory compliance requirements imposed by agencies such as the Occupational Safety & Health Administration ( OSHA ) and the Environmental Protection Agency ( EPA ) in the United States and similar regulatory agencies around the world, and by the need to identify and track assets or to identify, direct, warn, inform, train and protect people or products.

The Company has a broad customer base, with its largest customer representing approximately 6% of net sales.

**Competitive Strengths**

The Company believes the following competitive strengths will allow it to achieve its strategy:

*Leader in Niche Markets.* Brady competes in niche markets where it believes it is often the leading supplier with the manufacturing expertise, infrastructure, channels and sales resources necessary to provide the required product or comprehensive solution. For

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example, the Company believes it is the leading supplier of wire identification products to the North American MRO (Maintenance, Repair and Operations) market and of precision die-cut components to the mobile telecommunications market. The Company believes its leadership positions make it a preferred supplier to many of its customers and enables it to be successful in its markets, which are generally fragmented and populated with smaller or regional competitors.

*Differentiated Solutions and Commitment to Innovation.* The Company believes its sophisticated engineering and manufacturing capabilities, as well as its expertise in materials, give it a competitive advantage in supplying customized or high specification product solutions to meet individualized customer needs. The Company has been successful in identifying and incorporating innovative technologies to create integrated and precise solutions. Additionally, it is able to use its materials expertise and its investment in research and development to provide unique products to meet the demands of end-customers in new, faster growing markets adjacent to its traditional markets, such as laboratory identification, aerospace, defense, and mass transit. Brady's commitment to product innovation is reflected in its research and development efforts that include approximately 250 employees primarily dedicated to research and development activities mainly in the United States, but also in Belgium, China, Germany, Singapore, Sweden and South Korea.

*Operational Excellence.* Brady has achieved continuous improvement in operational productivity. It employs well-developed problem solving techniques and invests in state-of-the-art equipment to capture efficiencies. The Company is largely vertically integrated and designs, manufactures and markets a majority of the products it sells. The Company has invested heavily over the last several years to centralize its North American distribution network and to standardize its SAP software applications. It has consistently generated positive cash flow from operations by continually reducing costs and optimizing inventory management and the efficiency of its manufacturing operations.

*Broad Customer Base and Geographic Diversity.* Brady believes its global infrastructure and diverse market presence limit the impact of an economic downturn on its business in any particular country or region, enables it to act as a primary supplier to many of its global customers and provides a solid platform for further expansion. Sales from international operations increased from 44.4% of net sales in fiscal 2000 to 62.9% of net sales in fiscal 2008. The Company's broad product offering and global presence benefit many of its customers who seek a single or primary supplier. Brady has over 500,000 end-customers that operate in multiple industries.

*Disciplined Acquisition and Integration Strategy.* The Company has a dedicated team of experienced professionals that employ a disciplined acquisition strategy and process to acquire companies. It applies strict financial standards to evaluate all acquisitions using an expected return model based on a modified return on invested capital calculation. It also conducts disciplined integration reviews of acquired firms to track progress toward results expected at the time of acquisition. Since 1996, the Company has acquired and integrated 53 companies to increase market share in existing and new geographies, expand the product range it offers to both existing and new customers, as well as add new technological capabilities.

*Channel Diversity and Strength.* Brady utilizes a wide range of channels to reach customers across a broad array of industries. It employs direct marketing expertise to meet its customers' need for convenience. The Company also has long-standing relationships with, and is a preferred supplier to, many of its largest distributors. In addition, the Company employs a global sales team to support both distributors and end users and to serve their productivity, tracking and safety requirements. The Company believes its strong brands and reputation for quality, innovation and on-time delivery contribute to the popularity of its products with distributors, original equipment manufacturers (OEMs), resellers and other customers.

*Deep and Talented Team.* The Company believes that its team of employees has substantial depth in critical operational areas and has demonstrated success in reducing costs, integrating acquisitions and improving processes through economic cycles. The international experience of its management team and its commitment to developing strong management teams in each of the local operations is a competitive advantage. In addition, the Company believes it employs a world-class team of people and dedicates significant resources to recruiting people committed to excellence and investing in their potential. The depth and breadth of knowledge within the entire Brady organization strengthens relationships with its customers and suppliers and enables the Company to provide its customers with a high level of product and industry expertise.





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The Company's primary growth objectives are to build upon its leading market positions, to improve its performance and profitability and to expand its existing activities through a multi-pronged strategic approach that incorporates both organic growth and acquisitions. The Company's key strategies include:

*Improve Profitability.* The Company plans to continue its focus on improving operating efficiency, reducing costs, and improving productivity and return on invested capital. To this end, Brady has launched the Brady Business Performance System ( BBPS ) in most of its operations globally. This approach to improving profitability focuses on strategy deployment, operational efficiencies and lean manufacturing principles to drive cost-savings, enhance customer service and overall business performance. In addition, each acquisition the Company makes provides additional opportunities to improve its performance as well as the performance of the acquired company. The Company often continues to realize synergies with acquired companies several years after the acquisition date.

*Capitalize on Growing Niche Markets.* The Company seeks to leverage its premier reputation, global footprint and strength in manufacturing and materials expertise to capitalize on growth in existing niche markets. Growth prospects are driven primarily by the general health of regional economies, changes in legal and regulatory compliance requirements and the increased need of customers to identify their assets and protect their employees, as well as technological advances in markets such as mobile telecommunications, computers and other electronic devices.

*Increase Market Share.* Many Brady markets are fragmented and populated with smaller or regional competitors. The Company seeks to leverage its investment in new product development and its global sales, operations and distribution capabilities to increase market share, as well as expand its distribution channels to capture new customers. The Company employs a dedicated and experienced sales team that works closely with existing distributors and customers to identify and capture new opportunities. In addition, Brady plans to leverage the strength of its brands, the quality of its products and its long-standing relationships with key customers to build upon current market positions.

*Enter New Markets.* The Company looks to leverage its quality products, global infrastructure, channel relationships and selling capabilities to effectively enter new markets, many of which are fragmented and populated with smaller competitors. For example, Brady is expanding its precision die-cut capabilities into the medical market and is leveraging its common distribution networks into the sorbent materials market. Through product innovation and development activities, Brady seeks to introduce new technologies and differentiated products as well as seek additional applications for products in existing and new markets. The Company reviews its product and market portfolio on a regular basis through its standardized review process in order to identify new opportunities.

*Expand Geographically.* Brady's long-term strategy involves the pursuit of growth opportunities in a number of markets outside of the United States. The Company is committed to being in close proximity to its customers and to low-cost manufacturing. Brady currently operates in 30 countries and employs approximately 7,800 people. Of the approximately 7,800 global employees, Asia-Pacific accounts for 42%, with North America, Europe, and Latin America employing 31%, 20%, and 7% of the workforce, respectively. Brady has made strategic acquisitions and has invested heavily in its global infrastructure and flexible manufacturing capacity in order to follow its customers into new geographies. Brady's regional management structure is a key component in effectively entering and competing in new geographies.

*Pursue Strategic Acquisitions.* The Company intends to continue to make complementary strategic acquisitions to further its goals of strengthening its market positions and entering new markets and geographies. Brady works to drive substantial value creation through capitalizing on its acquisition and integration acumen.

*Improve Working Capital.* Over the past fiscal year, the Company has sharpened its focus on working capital management. The Company intends to drive increases in operating cash flow by heightened focus on inventory, accounts receivable, and accounts payable management. This focus is further evidenced by the incorporation of working capital targets in the majority of employee incentive plans.

**Products**

The Company is largely vertically integrated by designing, developing, coating and producing most of its identification products and printing systems. Brady materials are developed internally and manufactured out of a variety of films, many of which are coated by Brady, for applications in the following markets: electronic, industrial, electrical, utility, laboratory, safety and security. Brady also manufactures specialty tapes and related products that are

characterized by high-performance printable top coats and adhesives, most

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of which are formulated by the Company, to meet high-tolerance requirements of the industries in which they are used.

The Company's stock and custom products consist of over 500,000 stock-keeping units, including complete identification systems and other products used to create a safer work environment, improve operating efficiencies, and increase the utilization of assets through tracking and inventory process controls. Major product categories include: facility and safety signs, identification tags and markers, pipe and valve markers, asset identification labels, lockout/tagout products, security and traffic control products, printing systems and software for creating safety and regulatory labels and signs, spill control and clean up products, wire and cable markers, high-performance labels, laboratory identification labels and printing systems, stand-alone printing systems, bar-code and other software, automatic identification and data collection systems, personal identification products, and precision die-cut solutions.

Some of the Company's stock products were originally designed, developed and manufactured as custom products for a specific customer. However, such products have frequently created wide industry acceptance and have become stock items offered by the Company through direct marketing and distributor sales. The Company's most significant types of products are described below.

***Facility Identification***

*Informational signs and do-it-yourself printers* for use in a broad range of industrial, utility, commercial, governmental and institutional applications. These signs are either self-adhesive or mechanically mounted, designed for both indoor and outdoor use and are manufactured to meet standards issued by the National Safety Council, OSHA and a variety of industry associations in the United States and abroad. The Company's sign products include admittance, directional and exit signs; electrical hazard warnings; energy conservation messages; fire protection and fire equipment signs; hazardous waste labels; hazardous and toxic material warning signs; transformers and power pole markers; personal hazard warnings; housekeeping and operational warnings; pictograms; radiation and laser signs; safety practices signs and regulatory markings; employment law posters; and photo luminescent (glow-in-the-dark) products.

*Warehouse identification products* including labels, tags, and printing systems used to locate and identify inventory in storage facilities such as warehouses, factories, stockrooms and other industrial facilities.

*Pipe markers and valve tags* including plastic or metal, self-adhesive or mechanically applied, stock or custom-designed pieces for the identification of pipes and control valves in the mechanical contractor and process industry markets. These products are designed to help identify and provide information as to the contents, direction of flow and special hazardous properties of materials contained in piping systems, and to facilitate repair or maintenance of the systems.

*Asset-identification products* that are an important part of an effective asset-management program in a wide variety of markets. These include self-adhesive or mechanically mounted labels or tags made of aluminum, brass, stainless steel, polycarbonate, vinyl, polyester, mylar and paper. These products are also offered in tamper-evident varieties, and can be custom designed to ensure brand protection from counterfeiting.

***Safety and Security Products***

*Lockout/tagout products* under OSHA regulations, all energy sources must be locked out while machines are being serviced or maintained to prevent accidental engagement and injury. The Company's products allow its customers to comply with these regulations and to ensure worker safety for a wide variety of energy- and fluid-transmission systems and operating machinery.

*Security and traffic control products* including a variety of security seals, parking permits and wristbands designed for visitor control in financial, governmental, educational and commercial facilities including meeting and convention sites. The Company also offers a wide variety of traffic control devices including traffic signs, directional and warning signs, parking tags and permits, barriers, cones and other products including barricading, visual warning systems, floor-marking products, safety badges, and first aid cabinets/kits, among others.

*Spill control and clean-up products* including synthetic sorbent materials in a variety of shapes, sizes and configurations; spill kits, containment booms, industrial rugs, absorbing pillows and pads, barrier spill matting and granular absorbents; and other products for absorbing and controlling chemical, oil-based and water-based spills.

***Wire and Cable Identification***



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Brady manufactures a broad range of wire and cable-marking products, including labels, sleeves, software that allows customers to create their own labels, and printers to print and apply them. These products mark and identify wires, cables and their termination points to facilitate manufacturing, construction, repair or maintenance of equipment, and data communication and electrical wiring systems used in virtually every industrial, power and communication market.

### ***People Identification***

Identification systems and products including photo ID card systems that combine biometrics, digital imaging and other technologies to positively identify people; self-expiring name tags that make use of migratory ink technology which, upon activation, starts a timed process resulting in an altered message, color or design to indicate expiration; software for visitor and employee identification; and identification accessories including lanyards, badge holders, badge reels and attachments, as well as photo identification kits.

### ***High Performance Identification***

Brady produces a complete line of label materials and printing systems to meet customers' needs for identification requirements for product identification, work in process labeling and bar coding that perform under harsh or demanding conditions, such as extreme temperatures, or environmental or chemical exposure. Brady prints stock and custom labels and also sells unprinted materials to enable customers to print their own labels.

### ***Precision Die-Cut Parts***

The Company manufactures customized precision die-cut products that are used to seal, insulate, protect, shield or provide other mechanical performance properties in the assembly of electronic, telecommunications and other equipment, including mobile phones, personal data assistants, computer hard disk drives, computers and other devices. Solutions not only include the materials and converting, but also automatic placement and other value-added services. The Company also provides converting services to the medical market for materials used in in-vitro diagnostic kits, patient monitoring, and bandaging applications.

### ***Other Products***

The Company also designs and produces software for bar-coding and inspection automation, industrial thermal-transfer printers and other electromechanical devices to serve the growing and specialized needs of customers in a wide variety of markets. Industrial labeling systems, software, tapes, ribbons and label stocks provide customers with the resources and flexibility to produce signs and labels on demand at their site. The Company also offers poster printers, cutting systems, laminators and supplies to education and training markets.

## **Marketing and Sales**

Brady seeks to offer high quality products with rapid response and superior service so that it can provide solutions to customers that are better, faster and more economical than those available from the Company's competitors. The Company markets and sells its products domestically and internationally through multiple channels including distributors, direct sales, mail-order-catalog marketing, retail, and electronic access through the Internet. The Company has long-standing relationships with a broad range of electrical, safety, industrial and other domestic and international distributors. The Company's sales force seeks to establish and foster ongoing relationships with the end-users and distributors by providing technical application and product expertise.

The Company also direct markets certain products and those of other manufacturers by catalog sales, outbound telemarketing, and electronic access via the Internet in both domestic and international markets. Such products include industrial and facility identification products, safety and regulatory-compliance products and original equipment manufacturer component products, among others. Catalogs are distributed in the United States, Australia, Brazil, Canada, China, France, Germany, Italy, Spain, Sweden, Switzerland and the United Kingdom, and include foreign-language catalogs.

## **Brands**

The Company's products go to market under a variety of brand names. The Brady brand includes high-performance labels, printers, software, safety and facility identification products, lock-out/tag-out products, people identification products, and precision die-cut parts and specialty materials. Other die-cut materials are marketed as Balkhausen products. Safety and facility identification products are also marketed under the Safety Signs Service brand, with some lockout/tagout products offered under the Prinzing and Scafftag brands. In addition, identification for the utility industry is marketed under the Electromark brand and spill-control products are



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marketed under the SPC and D.A.W.G. brands; poster printers and cutting systems for education and government markets are offered under the Varitronics name brand; wire identification products are marketed under the Modernotecnica brand and the Carroll brand; direct marketing safety and facility identification products are offered under the Seton, Emedco, Signals, Safetyshop, Clement and Personnel Concepts names; security and identification badges and systems are included in the Temtec, B.I.G., Identicard/Identicam, STOPware, J.A.M. Plastics, PromoVision, and Quo-Luck brands; hand-held regulatory documentation systems are available under the Tiscor name; automatic identification and bar-code software is offered under the Teklynx brand; and security sealing and transportation identification is offered under the Transposafe Systems name.

### **Manufacturing Process and Raw Materials**

The Company manufactures the majority of the products it sells, while purchasing certain items from other manufacturers. Products manufactured by the Company generally require a high degree of precision and the application of adhesives with chemical and physical properties suited for specific uses. The Company's manufacturing processes include compounding, coating, converting, printing, melt-blown operations, software development and printer design and assembly. The compounding process involves the mixing of chemical batches for primers, top coatings and adhesives. The coatings and adhesives are applied to a wide variety of materials including polyester, polyimide, cloth, paper, metal and metal foil. The converting process may include embossing, perforating, laminating, die cutting, slitting, and printing or marking the materials as required.

The Company produces the majority of the pressure sensitive materials through an integrated manufacturing process. These integrated manufacturing processes permit greater flexibility to meet customer needs in product design and manufacture, and an improved ability to provide specialized products designed to meet the needs of specific applications. Brady's cellular manufacturing processes and just-in-time inventory control are designed to attain profitability in small orders by emphasizing flexibility and the maximization of assets through quick turnaround and delivery, balanced with optimization of lot sizes. Many of the Company's manufacturing facilities have received ISO 9001 or 9002 certification.

The materials used in the products manufactured by the Company consist primarily of plastic sheets and films, paper, metal and metal foil, cloth, fiberglass, polypropylene, inks, dyes, adhesives, pigments, natural and synthetic rubber, organic chemicals, polymers, solvents and electronic components and subassemblies. 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 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 generally these 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 a critical material or component, the financial impact could be significant.

### **Technology and Product Development**

The Company focuses its research and development efforts on material development, printing systems design and software development. 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 or the Company's own production requirements. The Company's research and development team also supports production and marketing efforts by providing application and technical expertise.

The Company possesses patents covering various aspects of adhesive chemistry, electronic circuitry, printing systems for wire markers, systems for aligning letters and patterns, and visually changing paper. Although the Company believes that its patents are a significant factor in maintaining market position for certain products, technology in the areas covered by many of the patents is evolving rapidly and may limit the value of such patents. The Company's business is not dependent on any single patent or group of patents.

The Company conducts much of its research and development activities at the Frederic S. Tobey Research and Innovation Center (approximately 39,600 sq. ft.) in Milwaukee, Wisconsin. The Company spent approximately

\$40.6 million, \$36.0 million, and \$30.4 million during the fiscal years ended July 31, 2008, 2007, and 2006, respectively, on its research and development activities. In fiscal 2008, approximately 250 employees were engaged in research and development activities for the Company. Additional research projects were conducted in Company facilities in other locations in the United States, Europe and Asia and under contract with universities, other institutions and consultants.



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The Company's name and its registered trademarks are important to each of its business segments. In addition, the Company owns other important trademarks applicable to only certain of its products.

**International Operations**

In fiscal 2008, 2007, and 2006, sales from international operations accounted for 62.9%, 60.9%, and 57.6%, respectively, of the Company's sales. Its global infrastructure includes subsidiaries in Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Poland, Singapore, Slovakia, South Korea, Spain, Sweden, Thailand, Turkey and the United Kingdom. Most of these locations manufacture or have the capability to manufacture some of the products they sell. In addition, Brady has sales offices in Hong Kong, the Philippines, Spain, Taiwan, Turkey and the United Arab Emirates. Brady further markets its products to parts of Eastern Europe, the Middle East, Africa and Russia.

**Competition**

The markets for all of the Company's products are competitive. Brady believes that it is one of the leading producers of wire markers, safety signs, pipe markers, label printing systems, and bar-code-label-generating software. Brady competes for business principally on the basis of production capabilities, engineering, and research and development capabilities, materials expertise, its global footprint, global account management where needed, customer service and price. Product quality is determined by factors such as suitability of component materials for various applications, adhesive properties, graphics quality, durability, product consistency and workmanship. Competition in many of its product markets is highly fragmented, ranging from smaller companies offering only one or a few types of products, to some of the world's major adhesive and electrical product companies offering some competing products as part of their overall product lines. A number of Brady's competitors are larger than the Company and have greater resources. Notwithstanding the resources of these competitors, management believes that Brady provides a broader range of identification solutions than any of them, and that its global infrastructure is a significant competitive advantage in serving large multi-national customers.

**Backlog**

As of July 31, 2008, the amount of the Company's backlog orders believed to be firm was \$32.0 million. This compares with \$25.3 million and \$42.3 million of backlog orders as of July 31, 2007 and 2006, respectively. Average delivery time for the Company's orders varies from same day delivery to one month, depending on the type of product, and whether the product is stock or custom-designed and manufactured. The Company's backlog does not provide much visibility for future business.

**Environment**

At present, the manufacturing processes for our adhesive-based products utilize certain evaporative solvents, which, unless controlled, would be vented into the atmosphere. Emissions of these substances are regulated at the federal, state and local levels. The Company has implemented a number of systems and procedures to reduce atmospheric emissions and/or to recover solvents. Management believes the Company is substantially in compliance with all environmental regulations.

**Employees**

As of July 31, 2008, the Company employed approximately 7,800 individuals. Brady has never experienced a material work stoppage due to a labor dispute and considers its relations with employees to be strong. The mix of employees is changing as the Company employs more people in developing countries where wage rates are lower and employee turnover tends to be higher than in developed countries.

**Acquisitions**

Information about the Company's acquisitions is provided in Note 2 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

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

The information required by this Item is provided in Note 7 of the Notes to Consolidated Financial Statements contained in Item 8 Financial Statements and Supplementary Data.

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**(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, Section 16 reports filed by the Company's insiders, 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.

**Item 1A. Risk Factors**

*Before making an investment decision with respect to our stock, you should carefully consider the risks set forth below and all other information contained in this report. If any of the events contemplated by the following risks actually occur, then our business, financial condition, results of operations, cash flow, or liquidity could be materially adversely affected.*

***Market demand for our products may be susceptible to fluctuations in the economy that may cause volatility in our results of operations, cash flows, and liquidity.***

Sales of our products may be susceptible to changes in general economic conditions, namely general downturns in the regional economies in which we compete. Our business in the facility & safety identification and wire identification product lines tend to vary with the nominal GDP of the local economies in which we manufacture and sell. As a result, in periods of economic contraction, our business may not grow or may decline. In the precision die-cut and high performance label product lines, we may be adversely affected by reduced demand for our products due to downturns in the global economy as this is a more volatile business. This can result in higher degrees of volatility in our net sales, results of operations, cash flows, and liquidity. These more volatile markets include, but are not limited to, mobile telecommunication devices, hard disk drives and electronics in personal computers and other electronic devices.

***We may be adversely impacted by an inability to identify, complete and integrate acquisitions.***

A large part of our growth since fiscal 2003 has come through acquisitions and a key component of our growth strategy is based upon acquisitions. We may not be able to identify acquisition targets or successfully complete acquisitions in the future due to the absence of quality companies, economic conditions, or price expectations from sellers. If we are unable to complete additional acquisitions, our growth may be limited.

Additionally, as we grow through acquisitions, it will continue to place significant demands on our management, operational and financial resources. Since the beginning of fiscal year 2004, we have acquired 28 companies. These recent and future acquisitions will require integration of sales and marketing, information technology, finance and administrative operations and information of the newly acquired business. The successful integration of acquisitions will require substantial attention from our management and the management of the acquired businesses, which could decrease the time they have to serve and attract customers. We cannot assure that we will be able to successfully integrate these recent or any future acquisitions, that these acquisitions will operate profitably or that we will be able to achieve the financial or operational success expected from the acquisitions. Our financial condition, cash flows and operational results could be adversely affected if we do not successfully integrate the newly acquired businesses or if our other businesses suffer on account of our increased focus on the newly acquired businesses.

***If we fail to develop new products or our customers do not accept the new products we develop, our business could be affected adversely.***

Development of proprietary products is key to the success of our core growth and our high gross margins now and in the future. Therefore, we must continue to develop new and innovative products and acquire and retain the necessary intellectual property rights in these products on an ongoing basis. If we fail to make innovations, or the market does not accept our new products, then our financial condition, results of operations, cash flows, and liquidity could be adversely affected. We continue to invest in the development and marketing of new products. These expenditures do not always result in products that will be accepted by the market. Failure to develop successful new products may also cause our customers to buy from a competitor or may cause us to lower our prices in order to compete. This could have an adverse impact on our profitability.



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***We operate in competitive markets and may be forced to cut our prices or incur additional costs to remain competitive, which may have a negative impact on our profitability.***

We face substantial competition throughout our entire business, but particularly in the precision die-cut business. Competition may force us to cut our prices or incur additional costs to remain competitive. We compete on the basis of production capabilities, engineering and R&D capabilities, materials expertise, our global footprint, customer service and price. Present or future competitors may have greater financial, technical or other resources, lower production costs or other pricing advantages, any of which could put us at a disadvantage in the affected business by threatening our market share in some markets or reducing our profit margins. Additionally, in some of our other businesses, our distributors/customers may seek lower cost sourcing opportunities, which could cause a loss of business that may adversely impact our revenues.

***Foreign currency fluctuations could adversely affect our sales and profits.***

More than 60% of our revenues are derived outside of the United States. As such, fluctuations in foreign currency can have an adverse impact on our sales and profits as amounts that are measured in foreign currency are translated back to U.S. dollars. Any increase in the value of the U.S. dollar in relation to the value of the local currency will adversely affect our revenues from our foreign operations when translated into U.S. dollars. Similarly, any decrease in the value of the U.S. dollar in relation to the value of the local currency will increase our development costs in our foreign operations, to the extent such costs are payable in foreign currency, when translated into U.S. dollars. During fiscal year 2008, the weakening U.S. dollar versus the majority of other currencies increased sales by approximately \$81.7 million.

***Our goodwill or other intangible assets may become impaired, which may negatively impact our results of operations.***

We have a substantial amount of goodwill and other intangible assets on our balance sheet as a result of our acquisitions. As of July 31, 2008, we had \$789.1 million of goodwill on our balance sheet, representing the excess of the total purchase price for our acquisitions over the fair value of the net assets we acquired, and \$144.8 million of other intangible assets, primarily representing the fair value of the customer relationships, patents and trademarks we acquired in our acquisitions. At July 31, 2008, goodwill and other intangible assets represented approximately 50.5% of our total assets. We evaluate goodwill at least annually for impairment based on the fair value of each operating segment. We assess the impairment of other intangible assets at least annually based upon the expected future cash flows of the respective assets. These valuations could change if there were to be future changes in our capital structure, cost of debt, interest rates, capital expenditures, or our ability to perform in accordance with our forecasts. If this estimated fair value changes in future periods, we may be required to record an impairment charge related to goodwill or other intangible assets, which would have the effect of decreasing our earnings or increasing our losses in such period.

***We have a concentration of business with several large key customers and distributors and loss of one or more of these customers could significantly affect our results of operations, cash flows, and liquidity.***

Several of our large key customers in the precision die-cut business together comprise a significant portion of our revenues. Our largest customer represents approximately 6% of our net sales. Additionally, we do business with several large distribution companies. Our dependence on these large customers makes our relationships with these customers important to our business. We cannot guarantee that we will be able to maintain these relationships and retain this business in the future. Because these large customers account for such a significant portion of our revenues, they possess relatively greater capacity to negotiate a reduction in the prices we charge for our products. If we are unable to provide products to our customers at the quality and prices acceptable to them or adapt to technological changes, some of our customers may in the future elect to shift some or all of this business to competitors or to substitute other manufacturer's products. If one of our key customers consolidates, is acquired by another company 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 key customers could have a material adverse impact on our financial condition, results of operations, cash flows, and liquidity.

***We increasingly conduct a sizable amount of our manufacturing outside of the United States, which may present additional risks to our business.***

As a result of our strong growth in developing economies, particularly in Asia, a significant portion of our sales is attributable to products manufactured outside of the United States. More than half of our approximately 7,800 employees and more than half of our manufacturing locations are outside of the United States. Our international operations are generally subject to various risks including

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political, economic and societal instability, the imposition of trade restrictions, local labor market conditions, the effects of income taxes, and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international manufacturing and sales that could cause loss of revenue. Unfavorable changes in the political, regulatory and business climate in countries where we have operations could have a material adverse effect on our financial condition, results of operations, and cash flows.

***We depend on our key personnel and the loss of these personnel 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 personnel. We cannot ensure that we will be able to retain our key officers and employees. The departure of our key personnel without adequate replacement could severely disrupt our business operations. Additionally, we need qualified managers and skilled employees with technical and manufacturing 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 would be materially adversely affected.

***We may be unable to successfully implement anticipated changes to our information technology system.***

We are in the process of upgrading certain portions of our information technology. Part of this upgrade includes continued implementations of SAP in our facilities in China, Europe, Malaysia, Singapore, Mexico, India and the United States. In fiscal years 2007 and 2008, we completed SAP implementations at 24 of our facilities in these regions, and expect to continue with additional implementations in future years. We expect that the implementation of the SAP platform will enable us to more effectively and efficiently manage our supply chain and business processes. Our failure to successfully manage the SAP implementation process or implement these upgrades as scheduled could cause us to incur unexpected costs or to lose customers or sales, which could have a material adverse effect on our financial results.

***The increase in our level of indebtedness could adversely affect our financial health and make us vulnerable to adverse economic conditions.***

We have incurred indebtedness to finance acquisitions and for other general corporate purposes. Any increase in our level of indebtedness could have adverse consequences, such as:

it may be difficult for us to fulfill our obligations under our credit or other debt agreements;

it may be more challenging or costly to obtain additional financing to fund our future growth;

we may be more vulnerable to future interest rate fluctuations;

we may be required to dedicate a substantial portion of our cash flows to service our debt, thereby reducing the amount of cash available to fund new product development, capital expenditures, working capital and other general corporate activities;

it may place us at a competitive disadvantage relative to our competitors that have less debt; and

it may limit our flexibility in planning for and reacting to changes in our business.

***Environmental, health and safety laws and regulations could adversely affect our business.***

Our facilities and operations are subject to numerous laws and regulations relating to air emissions, wastewater discharges, the handling of hazardous materials and wastes, manufacturing and disposal of certain materials, and regulations otherwise relating to health, safety and the protection of the environment. Our products may also be governed by regulations in the countries where they are sold. As a result, we may need to devote management time or expend significant resources on compliance, and we have incurred and will continue to incur capital and other expenditures to comply with these regulations. Any significant costs may have a material adverse impact on our financial condition, results of operations or cash flows. Further, these laws and regulations are constantly evolving and it is impossible to predict accurately the effect they may have upon our financial condition, results of operations or cash flows.

**Item 1B. Unresolved Staff Comments**



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None.

**Item 2. *Properties***

The Company currently operates 63 manufacturing or distribution facilities in the following regions:

**Americas:** Sixteen are located in the United States; three each in Brazil and Mexico; and one in Canada.

**Europe:** Four each located in the United Kingdom and Germany; three each located in Belgium and France; two each in Italy and the Netherlands; and one each in Denmark, Norway, Poland, Slovakia, and Sweden.

**Asia-Pacific:** Seven are located in China; three in Australia; two in South Korea; and one each in Japan, Thailand, Singapore, India, and Malaysia.

The Company's present operating facilities contain a total of approximately 3.7 million square feet of space, of which approximately 2.6 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 adverse effect on the Company's consolidated financial statements.

**Item 4. *Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended July 31, 2008.



**Table of Contents****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 quarterly stock price history on the New York Stock Exchange is as follows for each of the quarters in the fiscal years ended July 31:

|             | 2008    |         | 2007    |         | 2006    |         |
|-------------|---------|---------|---------|---------|---------|---------|
|             | High    | Low     | High    | Low     | High    | Low     |
| 4th Quarter | \$39.04 | \$32.99 | \$37.73 | \$32.73 | \$42.79 | \$32.94 |
| 3rd Quarter | \$34.00 | \$28.58 | \$38.37 | \$30.91 | \$40.49 | \$34.67 |
| 2nd Quarter | \$40.03 | \$29.44 | \$40.52 | \$35.70 | \$39.98 | \$28.20 |
| 1st Quarter | \$43.78 | \$34.04 | \$38.68 | \$33.16 | \$34.22 | \$26.98 |

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

**(b) Holders**

As of September 22, 2008, there were 713 Class A Common Stock shareholders of record and approximately 4,100 beneficial shareholders. There are three Class B Common Stock shareholders.

**(c) Issuer Purchases of Equity Securities**

In September 2007, the Company announced that the Board of Directors of the Company had authorized a share repurchase plan for up to one million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. Share repurchases pursuant to this plan were completed in the fourth quarter of fiscal 2008.

In March 2008, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to an additional one million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes.

The following table provides information with respect to the purchases of Class A Nonvoting Common Stock during the fourth quarter of fiscal year 2008.

| Period                       | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plans |
|------------------------------|----------------------------------|------------------------------|--|--|
| May 1, 2008 - May 31, 2008   |                                  | \$                           |  | 1,056,204  |
| June 1, 2008 - June 30, 2008 |                                  | \$                           |  | 1,056,204  |
| July 1, 2008 - July 31, 2008 | 405,340                          | \$ 33.66                     | 405,340  | 650,864  |
| Total                        | 405,340                          | \$ 33.66                     | 405,340  | 650,864  |

**(d) Dividends**

The Company has followed a practice of paying 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's revolving credit agreement restricts the amount of certain types of payments, including dividends, that can be made annually to \$50 million plus 75% of the consolidated net income for the prior

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fiscal year. The Company believes that based on its historic dividend practice, this restriction 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 2009, the Company declared the following dividends per share on its Class A and Class B Common Stock for the years ended July 31:

|         | Year Ending |         |         |         |         |         |         |         |         |
|---------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|
|         | 2009        |         | 2008    |         |         | 2007    |         |         |         |
|         | 1st Qtr     | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
| Class A | \$ 0.17     | \$ 0.15 | \$0.15  | \$0.15  | \$0.15  | \$ 0.14 | \$0.14  | \$0.14  | \$0.14  |
| Class B | 0.15335     | 0.13335 | 0.15    | 0.15    | 0.15    | 0.123   | 0.14    | 0.14    | 0.14    |

**(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, 2003, in each of Brady Corporation Class A Common Stock, The Standard & Poor's (S&P) 500 index, the Standard and Poor's Small Cap 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 7/31/03 in stock or index including reinvestment of dividends. Fiscal year ended July 31.

|                        | 7/31/2003 | 7/31/2004 | 7/31/2005 | 7/31/2006 | 7/31/2007 | 7/31/2008 |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Brady Corporation      | 100.00    | 134.21    | 206.13    | 206.60    | 217.53    | 231.99    |
| S&P 500 Index          | 100.00    | 113.17    | 129.08    | 136.02    | 157.97    | 140.44    |
| S&P SmallCap 600 Index | 100.00    | 121.52    | 154.64    | 160.46    | 183.09    | 167.94    |
| Russell 2000 Index     | 100.00    | 117.06    | 146.07    | 152.27    | 170.73    | 159.26    |

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**Table of Contents****Item 6. Selected Financial Data****CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL DATA**  
**Years Ended July 31, 2004 through 2008**

|  | <b>2008</b>                                     | <b>2007</b>  | <b>2006</b>  | <b>2005</b> | <b>2004</b> |
|--|---|--------------|--------------|-------------|-------------|
|  | <b>(In thousands, except per share amounts)</b> |              |              |             |             |
| <b>Operating Data (1)</b>                      |   |              |              |             |             |
| <b>Net Sales</b>                               | \$ 1,523,016                                    | \$ 1,362,631 | \$ 1,018,436 | \$ 816,447  | \$ 671,219  |
| <b>Gross Margin</b>                            | 744,195   | 657,044      | 525,755      | 433,276     | 345,361     |
| <b>Operating Expenses:</b>                     |   |              |              |             |             |
| Research and development                       | 40,607  | 35,954       | 30,443       | 25,078      | 23,028      |
| Selling, general and administrative            | 495,904   | 449,103      | 338,796      | 285,746     | 248,171     |
| Restructuring charge net                       |   |              |              |             | 3,181       |
| Total operating expenses                       | 536,511   | 485,057      | 369,239      | 310,824     | 274,380     |
| <b>Operating Income</b>                        | 207,684   | 171,987      | 156,516      | 122,452     | 70,981      |
| <b>Other Income (Expense):</b>                 |   |              |              |             |             |
| Investment and other income net                | 4,888   | 2,875        | 2,403        | 1,369       | 577         |
| Interest expense                               | (26,385)  | (22,934)     | (14,231)     | (8,403)     | (1,231)     |
| Net other expense                              | (21,497)  | (20,059)     | (11,828)     | (7,034)     | (654)       |
| Income before income taxes                     | 186,187   | 151,928      | 144,688      | 115,418     | 70,327      |
| <b>Income Taxes</b>                            | 53,999  | 42,540       | 40,513       | 33,471      | 19,456      |
| <b>Net Income</b>                              | \$ 132,188                                      | \$ 109,388   | \$ 104,175   | \$ 81,947   | \$ 50,871   |
| <b>Net Income Per Common Share (Diluted):</b>  |   |              |              |             |             |
| Class A nonvoting                              | \$ 2.41   | \$ 2.00      | \$ 2.07      | \$ 1.64     | \$ 1.07     |
| Class B voting                                 | \$ 2.39   | \$ 1.98      | \$ 2.05      | \$ 1.63     | \$ 1.05     |
| <b>Cash Dividends on:</b>                      |   |              |              |             |             |
| Class A common stock                           | \$ 0.60   | \$ 0.56      | \$ 0.52      | \$ 0.44     | \$ 0.42     |
| Class B common stock                           | \$ 0.58   | \$ 0.54      | \$ 0.50      | \$ 0.42     | \$ 0.40     |
| <b>Balance Sheet at July 31:</b>               |   |              |              |             |             |
| Working capital                                | \$ 390,524                                      | \$ 303,359   | \$ 240,537   | \$ 141,560  | \$ 131,706  |
| Total assets                                   | 1,850,513                                       | 1,698,857    | 1,365,186    | 850,147     | 697,900     |
| Long-term obligations, less current maturities | 457,143   | 478,575      | 350,018      | 150,026     | 150,019     |
| Stockholders investment                        | 1,021,808                                       | 891,012      | 746,046      | 497,274     | 403,315     |
| <b>Cash Flow Data:</b>                         |   |              |              |             |             |
| Net cash provided by operating activities      | 225,554   | 136,018      | 114,896      | 119,103     | 87,646      |
| Depreciation and amortization                  | 60,587  | 53,856       | 35,144       | 26,822      | 20,190      |
| Capital expenditures                           | (26,407)  | (51,940)     | (39,410)     | (21,920)    | (14,892)    |

(1) Financial data  
has been

impacted by the acquisitive nature of the Company as two, seven, eleven and four acquisitions were completed in fiscal years ended July 31, 2008, 2007, 2006 and 2005, respectively. See Note 2 in Item 8 for further information on the acquisitions that were completed in each of the years.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

In fiscal 2008, the Company posted record sales of \$1,523.0 million and record net income of \$132.2 million, an increase of 11.8% and 20.8%, respectively, over fiscal 2007. Of the 11.8% increase in sales, organic sales were flat. In addition to the impact from the seven acquisitions completed in fiscal 2007, the Company completed two acquisitions in fiscal 2008, which added 5.8% growth while foreign currency translation increased sales by 6.0%. Sales in the Americas increased 9.4%, European sales rose 19.3%, and sales from the Asia-Pacific segment increased 6.8%.

Net income for fiscal 2008 rose 20.8% to \$132.2 million or \$2.41 per diluted share of Class A Common Stock, compared to \$109.4 million, or \$2.00 per diluted share of Class A Common Stock in fiscal 2007.

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Brady acquired two companies in fiscal 2008 including businesses located in the Americas and Europe. The Company has added strategically driven acquisitions in spill containment products in the Americas and security sealing and asset protection in Europe. During fiscal 2008, the Company continued to integrate prior year acquisitions.

In fiscal 2008, the Company generated \$225.6 million of cash from operations, an increase of \$89.5 million from the prior fiscal year. The increase was the result of increased net income as discussed above, in addition to the impact of company-wide working capital initiatives focused on accounts receivable, inventory, and accounts payable.

Brady remains a financially strong company, with a solid balance sheet and strong cash flows. In September 2008, the Company announced that it will be increasing its cash dividend payment for the 23rd straight year.

**Results of Operations*****Year Ended July 31, 2008, Compared to Year Ended July 31, 2007***

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

| <b>Acquisitions:</b>   | <b>Segment</b> | <b>Date Completed</b> |
|--|----------------|-----------------------|
| Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively Transposafe ) | Europe         | November 2007         |
| DAWG, Inc. ( DAWG )  | Americas       | March 2008            |

Fiscal 2008 sales increased \$160.4 million, or 11.8% from fiscal 2007. Organic sales, defined as sales in the Company's existing core businesses and regions (exclusive of acquisitions owned less than one year and foreign currency effects), were flat compared to fiscal 2007. The acquisitions listed above and the annualized impact of the fiscal 2007 acquisitions increased sales by \$78.7 million or 5.8% in fiscal 2008 compared to fiscal 2007. Fluctuations in the exchange rates used to translate financial results into the United States Dollar resulted in a sales increase of \$81.7 million or 6.0% for the year.

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

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

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

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

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

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

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



**Table of Contents*****Year Ended July 31, 2007, Compared to Year Ended July 31, 2006***

The comparability of the operating results for the fiscal years ended July 31, 2007 to July 31, 2006, has been impacted by the following acquisitions completed in fiscal 2007, as well as the annualized impact of the acquisitions completed in fiscal 2006.

| <b>Acquisitions:</b>  | <b>Segment</b>                          | <b>Date Completed</b> |
|---|---|-----------------------|
| Comprehensive Identification Products, Inc. ( CIPI )                            | Americas,<br>Europe and<br>Asia-Pacific | August 2006           |
| Precision Converters, L.P. ( Precision Converters )                             | Americas                                | October 2006          |
| Scafftag, Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd. (collectively Scafftag ) | Americas,<br>Europe and<br>Asia-Pacific | December 2006         |
| Asterisco Artes Graficas Ltda. ( Asterisco )                                    | Americas                                | December 2006         |
| Modernotecnica SpA ( Moderno )  | Europe                                  | December 2006         |
| Clement Communications, Inc. ( Clement )  | Americas                                | February 2007         |
| Sorbent Products Co., Inc. ( SPC )  | Americas,<br>Europe and<br>Asia-Pacific | April 2007            |

Sales for fiscal 2007 increased by \$344.2 million, or 33.8% from fiscal 2006. Organic sales, defined as sales in the Company's existing core businesses and regions (exclusive of acquisitions and foreign currency effects), increased \$42.3 million or 4.2% for the same period. The acquisitions listed above and the annualized impact of the fiscal 2006 acquisitions increased sales by \$260.2 million or 25.5% in fiscal 2007 compared to fiscal 2006. Fluctuations in the exchange rates used to translate financial results into the United States Dollar resulted in a sales increase of \$41.7 million or 4.1% for the year.

The gross margin as a percentage of sales decreased from 51.6% in fiscal 2006 to 48.2% in fiscal 2007. This decline was driven by the results in our OEM electronics business, primarily in the mobile handset business in Asia-Pacific. The decline was also driven by the acquisitions that Brady completed in the last 12 months, which were more heavily weighted towards OEM electronics, which is generally characterized by lower gross margins and lower selling, general and administrative ( SG&A ) expenses.

Research and development expenses grew to \$36.0 million in fiscal 2007 from \$30.4 million in fiscal 2006, but decreased as a percentage of sales from 3.0% in fiscal 2006 to 2.6% in fiscal 2007. Brady continues to expand its investment in new product development.

SG&A expenses of \$449.1 million in fiscal 2007, as compared to \$338.8 million in fiscal 2006, decreased as a percentage of sales from 33.3% in fiscal 2006 to 33.0% in fiscal 2007. The decrease was due to changes in the Company's sales mix towards the OEM electronics business, which typically has lower SG&A expense.

The Company recorded expenses of \$11.4 million in fiscal year 2007 for cost reduction actions, which are primarily recorded in SG&A expenses in the consolidated statements of income. These actions consisted of \$9.2 million for severance and other employee termination costs, \$1.8 million for asset write-offs and \$0.4 million for facility closure costs.

Investment and other income increased \$0.5 million in fiscal 2007 from the prior year. The income recorded in fiscal 2007 was primarily due to interest income earned on cash and marketable securities investments, while the income recorded in fiscal 2006 was primarily due to a gain of approximately \$1.5 million on a currency option that the Company purchased to hedge against increases in the purchase price in U.S. dollar terms of Tradex Converting AB as the transaction was denominated in Swedish Krona.

Interest expense increased \$8.7 million in fiscal 2007 due to interest on the \$150 million private placement of senior notes that the Company completed in the third quarter of fiscal 2007 and the \$200 million private placement of senior notes that the Company completed in second quarter of fiscal 2006, as well as interest on the borrowings under our revolving credit facility in fiscal 2007.



The Company's effective tax rate was 28.0% in both fiscal 2007 and 2006.

Net income for the fiscal year ended July 31, 2007, increased 5.0% to \$109.4 million, compared to \$104.2 million for fiscal year ended July 31, 2006, as a result of the factors noted above. Diluted net income per share comparisons between fiscal 2007 of \$2.00 per share and 2006 of \$2.07 per share were also affected by the greater number of shares outstanding in fiscal 2007 as a result of the Company's July 2006 sale of an additional 4.6 million shares of Class A Nonvoting Common Stock in a public offering.

**Table of Contents****Business Segment Operating Results**

The Company is organized and managed on a geographic basis by region. Each of these regions, Brady Americas, Brady Europe and Brady Asia Pacific, has a President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each region has its own distinct operations, is managed locally by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. In applying the criteria set forth in SFAS 131 Disclosures about Segments of an Enterprise and Related Information, the Company has determined that these regions comprise its reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

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

| <b>(Dollars in thousands)</b>      | <b>Americas</b> | <b>Europe</b> | <b>Asia-Pacific</b> | <b>Subtotals</b> | <b>Corporate<br/>and<br/>Eliminations</b> | <b>Total</b> |
|------------------------------------|-----------------|---------------|---------------------|------------------|---|--------------|
| <b>SALES TO EXTERNAL CUSTOMERS</b> |                 |               |                     |                  |   |              |
| Years ended:                       |                 |               |                     |                  |   |              |
| July 31, 2008                      | \$ 667,106      | \$ 496,715    | \$ 359,195          | \$ 1,523,016     | \$  | \$ 1,523,016 |
| July 31, 2007                      | 609,855         | 416,514       | 336,262             | 1,362,631        |   | 1,362,631    |
| July 31, 2006                      | 498,916         | 319,432       | 200,088             | 1,018,436        |   | 1,018,436    |
| <b>SALES GROWTH INFORMATION</b>    |                 |               |                     |                  |   |              |
| Year ended July 31, 2008:          |                 |               |                     |                  |   |              |
| Organic                            | 0.9%            | (0.4)%        | (1.1)%              | 0.0%             |   | 0.0%         |
| Currency                           | 2.0%            | 10.6%         | 7.6%                | 6.0%             |   | 6.0%         |
| Acquisitions                       | 6.5%            | 9.1%          | 0.3%                | 5.8%             |   | 5.8%         |
| Total                              | 9.4%            | 19.3%         | 6.8%                | 11.8%            |   | 11.8%        |
| Year ended July 31, 2007:          |                 |               |                     |                  |   |              |
| Organic                            | 3.3%            | 8.3%          | (0.4)%              | 4.2%             |   | 4.2%         |
| Currency                           | 0.5%            | 9.0%          | 5.2%                | 4.1%             |   | 4.1%         |
| Acquisitions                       | 18.4%           | 13.1%         | 63.3%               | 25.5%            |   | 25.5%        |
| Total                              | 22.2%           | 30.4%         | 68.1%               | 33.8%            |   | 33.8%        |
| <b>SEGMENT PROFIT</b>              |                 |               |                     |                  |   |              |
| Years ended:                       |                 |               |                     |                  |   |              |
| July 31, 2008                      | \$ 157,523      | \$ 135,426    | \$ 58,234           | \$ 351,183       | \$ (9,048)                                | \$ 342,135   |
| July 31, 2007                      | 144,583         | 107,552       | 57,236              | 309,371          | (10,485)                                  | 298,886      |
| July 31, 2006                      | 125,065         | 83,970        | 49,316              | 258,351          | (13,173)                                  | 245,178      |

**Table of Contents****NET INCOME RECONCILIATION**

|                                      | <b>Years ended:</b>      |                          |                          |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
|                                      | <b>July 31,<br/>2008</b> | <b>July 31,<br/>2007</b> | <b>July 31,<br/>2006</b> |
| Total profit for reportable segments | \$ 351,183               | \$ 309,371               | \$ 258,351               |
| Corporate and eliminations           | (9,048)                  | (10,485)                 | (13,173)                 |
| Unallocated amounts:                 |                          |                          |                          |
| Administrative costs                 | (134,451)                | (126,899)                | (88,662)                 |
| Investment and other income net      | 4,888                    | 2,875                    | 2,403                    |
| Interest expense                     | (26,385)                 | (22,934)                 | (14,231)                 |
| Income before income taxes           | 186,187                  | 151,928                  | 144,688                  |
| Income taxes                         | (53,999)                 | (42,540)                 | (40,513)                 |
| Net income                           | \$ 132,188               | \$ 109,388               | \$ 104,175               |

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

**Americas**

Sales in the Americas region increased 9.4% from fiscal 2007 to fiscal 2008, and 22.2% from fiscal 2006 to fiscal 2007. Organic growth accounted for 0.9% in 2008 and 3.3% in 2007. The slowing growth in organic sales for fiscal 2008 was driven by softness in the manufacturing, construction, and utility markets, partially offset by solid performance in the education and OEM markets. The organic growth in fiscal 2007 was due to strong growth in the United States in both the Brady and direct marketing brands, with strong results from the electrical and wire identification products. The 2007 growth was partially offset by the planned transfer of die-cut business to Asia-Pacific in the early part of fiscal 2007. Canada and Brazil also experienced organic growth from fiscal 2006 to fiscal 2007. The acquisitions of CIPI, Precision Converters, Scafftag, Asterisco, Clement and SPC in fiscal 2007 and DAWG in fiscal 2008 added 6.5% to fiscal 2008 sales. The acquisitions of TruMed, J.A.M., Personnel Concepts and Identicard in fiscal 2006 and CIPI, Precision Converters, Scafftag, Asterisco, Clement and SPC in fiscal 2007 added 18.4% to fiscal 2007 sales. The positive effect of fluctuations in the exchange rates used to translate financial results into U.S. currency increased sales in the region by 2.0% and 0.5% in fiscal 2008 and 2007, respectively, when compared to the prior fiscal years.

In the Americas region, segment profit as a percentage of sales decreased slightly to 23.6% in 2008 from 23.7% in 2007. This decrease was primarily due to the slowing growth in high margin organic sales during fiscal 2008, mostly offset by cost control efforts and improvements made in the prior year to lower performing businesses. Comparing fiscal 2007 to 2006, segment profit as a percentage of sales decreased to 23.7% in 2007 from 25.1% in 2006. This decrease was due to the effect of the recent acquisitions. As expected, the segment's recent acquisitions have produced an initial rate of profit that is below the average rate of profit of the segment.

**Europe**

Sales in the European region increased 19.3% in fiscal 2008 from fiscal 2007 and 30.4% in fiscal 2007 from fiscal 2006. Organic sales declined 0.4% in fiscal 2008 compared to an increase of 8.3% in fiscal 2007. The decline in organic sales in fiscal 2008 was primarily the result of a weakening European economy as well as tough comparables over the prior year due to the implementation of No Smoking legislation in the U.K. and France, as these sales did not recur in fiscal 2008. The organic growth reported in fiscal 2007 was due to growth in the majority of the businesses with a more focused approach to market segments, in addition to No Smoking legislation implemented in the U.K. and France. The strength of the European economy benefited the segment as well. Foreign currency translation increased

the region's sales by 10.6% in 2008 and increased the segment's sales 9.0% in 2007. The acquisitions of CIPI, Scafftag, Moderno and SPC in fiscal 2007 and Transposafe in fiscal 2008 added 9.1% to the region's sales in fiscal 2008 and the acquisitions of Texit and Tradex in fiscal 2006 and CIPI, Scafftag, Moderno and SPC in fiscal 2007 added 13.1% to the region's sales in fiscal 2007.

Segment profit as a percentage of sales increased to 27.3% in fiscal 2008 from 25.8% in fiscal 2007 and decreased to 25.8% in fiscal 2007 from 26.3% in fiscal 2006. The increase in segment profit in fiscal 2008 was driven by the sales increases noted above in

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addition to the realization of savings from cost reduction activities taken at the end of fiscal 2007. The decrease experienced in fiscal 2007 from 2006 was due to the global headquarter costs of Tradex, partially offset by the strong performance of the direct marketing businesses in the region.

**Asia-Pacific**

Asia-Pacific sales increased 6.8% in fiscal 2008 from fiscal 2007 and 68.1% in fiscal 2007 from fiscal 2006. Organic sales declined 1.1% in fiscal 2008 and declined 0.4% in fiscal 2007. The decline in organic sales in fiscal 2008 was primarily the result of a drop in sales to OEM customers in the mobile handset market who lost significant market share, in addition to the competitive, less profitable business the Company chose to deemphasize. Declines in the mobile handset business were partially offset by solid growth in the smaller business lines of high performance labels, safety and facility identification, and hard disk drives during fiscal 2008. The decline in organic sales in fiscal 2007 was due to a slowdown in our OEM electronics business, led by the loss of certain programs in the hard disk drive business related to industry consolidation and a slowdown in high performance labeling. Foreign currency translation increased the region's sales by 7.6% from fiscal 2007 to 2008 compared to an increase of 5.2% from fiscal 2006 to 2007. The acquisitions of CIPI, Scafftag and SPC in fiscal 2007 added 0.3% to the segment's sales in fiscal 2008, whereas the acquisitions of QDPT, Accidental Health, Tradex, Carroll and Daewon in fiscal 2006 and CIPI, Scafftag and SPC in fiscal 2007 added 63.3% to the region's sales in fiscal 2007.

Segment profit as a percentage of sales decreased to 16.2% in fiscal 2008 from 17.0% in fiscal 2007 and to 17.0% in fiscal 2007 from 24.7% in fiscal 2006. The decline in segment profit as a percentage of sales in fiscal 2008 was due to the industry mix shift from high-end, feature rich mobile phones to low-end basic mobile phones and continued pricing pressures within the mobile handset supply chain, partially offset by cost reduction activities initiated in fiscal 2007. The decrease in fiscal 2007 was due to the slowdown in our OEM electronics business, excess capacity at our facilities and lower margins from acquisitions.

**Liquidity and Capital Resources**

Cash and cash equivalents were \$258.4 million at July 31, 2008, compared to \$142.8 million at July 31, 2007. The Company did not hold any short-term investments at July 31, 2008, compared to \$19.2 million of auction rate securities at July 31, 2007. Accounts receivable balances increased \$22.9 million from July 31, 2007 to July 31, 2008. The increase in accounts receivable was due primarily to the effects of foreign currency translation, the acquisitions of Transposafe and DAWG, and sales growth, partially offset by the impact of working capital initiatives. Inventories decreased \$5.2 million from July 31, 2007 to July 31, 2008 due to the impact of working capital initiatives, partially offset by the acquisitions of Transposafe and DAWG, as well as foreign currency translation. Current liabilities increased \$28.5 million primarily due to a significant increase in accounts payable driven by both working capital initiatives and foreign currency translation.

The Company has maintained significant cash balances due in large part to its strong operating cash flow, which totaled \$225.6 million for fiscal 2008, \$136.0 million for fiscal 2007 and \$114.9 million for fiscal 2006. The increase in operating cash flow from fiscal 2007 to fiscal 2008 was the result of the impact of working capital initiatives on inventory, accounts receivable, and accounts payable, in addition to a \$22.8 million increase in net income and a \$6.7 million increase in depreciation and amortization resulting from capital investments and acquisitions made during fiscal 2007 and 2008.

The Company believes its cash position is strong. While the Company strives to maximize investment income on its excess cash, preservation of principal is the first priority of the Company's investment policy. In volatile markets, as the Company has recently experienced, the Company's investment policy is intended to preserve principal as its primary goal, possibly at the expense of the yields historically achieved.

The acquisitions of businesses used \$29.3 million in fiscal 2008, \$159.5 million in fiscal 2007, and \$351.3 million in fiscal 2006. Contingent consideration payments of \$4.4 million, \$1.2 million, and \$0.2 million were made during fiscal 2008 to satisfy the earnout and holdback liabilities of the fiscal 2006 acquisitions of Daewon Industry Corporation and STOPware, Inc., and the fiscal 2007 acquisition of Asterisco, respectively.

Capital expenditures were \$26.4 million in fiscal 2008, \$51.9 million in fiscal 2007 and \$39.4 million in fiscal 2006. The Company's capital expenditures slowed in fiscal 2008, following two years of significant spending due to the global implementation of SAP in addition to the expansion of facilities in various countries. Fiscal 2007 capital

expenditures included \$9.8 million in spending on implementing SAP in 16 of Brady's global operations and ultimately increasing the coverage of SAP from 60% of total revenue in fiscal 2006 to nearly 80% of total revenue in fiscal 2009. The remainder of the increase in capital expenditures in fiscal 2007 was due to expansions in China, Canada, India, Mexico, the Philippines, Slovakia and other locations. Capital expenditures in

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2006 were driven by the completion of the central distribution warehouse in Milwaukee, Wisconsin, continued expansion in Asia, new facilities in Slovakia and in Canada and by upgrading existing plant and machinery.

Financing activities used \$76.9 million of cash in fiscal 2008, provided \$129.4 million of cash in fiscal 2007 and provided \$319.0 million in fiscal 2006. In fiscal 2006, the Company completed a secondary public offering of 4.6 million shares of its Class A nonvoting common stock and received proceeds of \$157.7 million. Cash used for dividends to shareholders was \$32.5 million in fiscal 2008, \$30.1 million in fiscal 2007, and \$26.1 million in fiscal 2006. Cash received from the exercise of stock options was \$14.5 million in fiscal 2008, \$6.8 million in fiscal 2007, and \$8.9 million in fiscal 2006. The Company purchased treasury stock of \$42.2 million in fiscal 2008; however, it did not purchase treasury stock in fiscal 2007, and purchased treasury stock of \$24.7 million in fiscal 2006. In fiscal 2008, two stock repurchase plans were authorized pursuant to which the Company can purchase up to two million shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock option plan and for other corporate purposes. The Company reacquired approximately 1,349,000 shares of its Class A Common Stock for \$42.2 million in fiscal 2008. As of July 31, 2008, the Company was authorized to purchase up to approximately 651,000 additional shares in connection with the share repurchase plans. In fiscal 2006, a similar stock repurchase plan was implemented, with repurchased shares available for use in connection with the Company's stock option plan and for other corporate purposes. The Company completed the repurchase of 800,000 shares of its Class A Common Stock for \$26.5 million in fiscal 2006.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain standard conditions, the available amount under the new credit facility may be increased from \$200 million up to \$300 million. Under the credit agreement, the Company has the option to select either a base interest rate (based upon the higher of the federal funds rate plus one-half of 1% or the prime rate of Bank of America) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). A commitment fee is payable on the unused amount of the facility. The agreement requires the Company to maintain two financial covenants. As of July 31, 2008, the Company was in compliance with the covenants of the agreement. The agreement restricts the amount of certain types of payments, including dividends, which can be made annually to \$50 million plus an amount equal to 75% of consolidated net income for the prior fiscal year of the Company. The Company believes that based on historic dividend practice, this restriction would not impede the Company in following a similar dividend practice in the future. On March 18, 2008, the Company entered into an amendment to the revolving loan agreement which extended the maturity date from October 5, 2011 to March 18, 2013. All other terms of the revolving loan agreement remained the same. During fiscal 2008, the Company borrowed \$18 million and repaid \$18 million under the revolving loan agreement. In fiscal 2007, the Company borrowed \$109.3 million and repaid \$109.3 million under the revolving loan agreement. As of July 31, 2008, there were no outstanding borrowings under the credit facility.

On March 23, 2007, the Company completed the private placement of \$150 million in ten-year fixed notes at 5.33% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2011 with interest payable on the notes semiannually on September 23 and March 23, which began in September 2007. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to reduce outstanding indebtedness under the Company's revolving loan agreement and fund its ongoing strategic growth plan. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The agreement also requires the Company to maintain a financial covenant. As of July 31, 2008, the Company was in compliance with this covenant.

On February 14, 2006, the Company completed the private placement of \$200 million in ten-year fixed notes at 5.3% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2010 with interest payable on the notes semiannually on August 14 and February 14, which began in August 2006. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic

subsidiaries. The Company used the net proceeds of the offering to finance acquisitions completed in fiscal 2006 and 2007 and for general corporate purposes. This private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The agreement also requires the Company to maintain a financial covenant. As of July 31, 2008, the Company was in compliance with this covenant.

On June 30, 2004, the Company finalized a debt offering of \$150 million of 5.14% unsecured senior notes due in 2014 in an offering exempt from the registration requirements of the Securities Act of 1933. The debt offering was in conjunction with the



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Company's acquisition of EMED. The notes will be paid over seven years beginning in 2008, with interest payable on the notes being due semiannually on June 28 and December 28, which began in December 2004. The Company used the proceeds of the offering to reduce outstanding indebtedness under the Company's revolving credit facilities used to initially fund the EMED acquisition. The debt has certain prepayment penalties for repaying the debt prior to its maturity date. The Company paid its first installment under the debt agreement in June 2008 for \$21.4 million. The agreement also requires the Company to maintain a financial covenant. As of July 31, 2008, the Company was in compliance with this covenant.

Long-term obligations as a percentage of long-term obligations plus stockholders' investment were 30.9% at July 31, 2008, and 34.9% at July 31, 2007. Long-term obligations decreased by \$21.4 million from July 31, 2007 to July 31, 2008 due to the portion of long-term obligations that is due for payment in fiscal 2009 that is recorded in current liabilities. Stockholders' investment increased \$130.8 million during this period primarily due to net earnings for fiscal 2008 and changes in accumulated other comprehensive income.

The Company intends to fund its short-term and long-term operating cash requirements, including its fiscal 2009 dividend payments and 2009 debt payments, primarily through net cash provided by operating activities.

The Company believes that its continued strong cash flows from operations, existing borrowing capacity and continued access to capital markets will enable it to execute its long-term strategic plan. This strategic plan includes investments, which expand its current market share, open new markets and geographies, develop new products and distribution channels and continue to improve our processes through the Brady Business Performance System. This strategic plan also includes executing key acquisitions.

**Subsequent Events Affecting Liquidity and Capital Resources**

On September 16, 2008, the Board of Directors announced an increase in the quarterly dividend to shareholders of the Company's Class A Common Stock, from \$0.15 to \$0.17 per share. The dividend will be paid on October 31, 2008, to shareholders of record at the close of business on October 10, 2008. This dividend represents an increase of 13% and is the 23rd consecutive annual increase in dividends since the Company went public in 1984.

In fiscal 2009 through September 22, 2008, under the share repurchase plans authorized by the Company's Board of Directors in fiscal 2008, the Company repurchased approximately 256,000 shares on the open market for \$8.6 million. Under the share repurchase plans, the Company is authorized to purchase up to an additional 395,000 shares.

**Off-Balance Sheet Arrangements**

The Company does not have material off-balance sheet arrangements or related party transactions. The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risks discussed in this filing and presented in other Company filings. However, the following additional information is provided to assist financial statement users.

*Operating Leases* These leases generally are entered into for investments in facilities such as manufacturing facilities, warehouses and office space, computer equipment and Company vehicles, when the economic profile is favorable.

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

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

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

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

**Table of Contents****Payments Due Under Contractual Obligations**

The Company's future commitments at July 31, 2008, for long-term debt, operating lease obligations, purchase obligations, interest obligations and other obligations are as follows (dollars in thousands):

| Contractual Obligations     | Total      | Payments Due by Period |              |              |                         |      | Uncertain<br>Timeframe |
|-----------------------------|------------|------------------------|--------------|--------------|-------------------------|------|------------------------|
|                             |            | Less than<br>1 Year    | 1-3<br>Years | 3-5<br>Years | More<br>than<br>5 Years |      |                        |
| Long-Term Debt Obligations  | \$ 478,574 | \$ 21,431              | \$ 121,429   | \$ 142,858   | \$ 192,856              | \$ 0 | \$ 0                   |
| Operating Lease Obligations | 77,937     | 26,151                 | 34,607       | 12,431       | 4,748                   | 0    | 0                      |
| Purchase Obligations(1)     | 31,570     | 31,208                 | 362          | 0            | 0                       | 0    | 0                      |
| Interest Obligations        | 124,100    | 25,204                 | 45,589       | 31,699       | 21,608                  | 0    | 0                      |
| Tax Obligations             | 16,017     | 0                      | 0            | 0            | 0                       | 0    | 16,017                 |
| Other Obligations(2)        | 11,552     | 511                    | 1,382        | 1,857        | 7,802                   | 0    | 0                      |
| Total                       | \$ 739,750 | \$ 104,505             | \$ 203,369   | \$ 188,845   | \$ 227,014              | \$ 0 | \$ 16,017              |

(1) Purchase obligations include all open purchase orders as of July 31, 2008.

(2) Other obligations represent expected payments under the Company's postretirement medical, dental, and vision plans as disclosed in Note 3 to the consolidated financial statements, under Item 8 of this report.

**Inflation and Changing Prices**

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

**Critical Accounting Estimates*****Income Taxes***

The Company's effective tax rate is based on pre-tax income and the tax rates applicable to that income in the various jurisdictions in which the Company operates. The Company considers the resolution of prior-year tax matters to be such items. Significant judgment is required in determining the Company's effective tax rate and in evaluating its tax positions. The Company establishes FIN 48 liabilities when it is not more likely than not that the Company will realize the full tax benefit of the position. The Company adjusts these FIN 48 liabilities in light of changing facts and circumstances.

Tax regulations may require items of income and expense to be included in a tax return in different periods than the items are reflected in the consolidated financial statements. As a result, the effective tax rate reflected in the consolidated financial statements may be different than the tax rate reported in the income tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as tax deductions or credits in the tax return in future years for which the Company has already recorded the tax benefit in the consolidated financial statements. The Company establishes valuation allowances for its deferred tax assets when it is more likely than not that the amount of expected future taxable income will not support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in the consolidated financial statements for which payment has been deferred or expense for which the Company has already taken a deduction on an income tax return, but has not yet recognized as expense in the consolidated financial statements.

#### ***Goodwill and Intangible Assets***

The allocation of purchase price for business combinations requires management estimates and judgment as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocation purposes. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill or require acceleration of the amortization expense of finite-lived intangible assets. In addition, SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill and other indefinite-lived intangible assets be tested at least annually for impairment. Changes in management's estimates or judgments could result in an impairment charge, and such a charge could have an adverse effect on the Company's financial condition and results of operations. To aid in establishing the value of goodwill and other intangible

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assets at the time of acquisition, Company policy requires that all acquisitions with a purchase price above \$5 million must be further evaluated in a more detailed review.

***Reserves and Allowances***

The Company has recorded reserves or allowances for inventory obsolescence, uncollectible accounts receivable, returns, credit memos, and income tax contingencies. These reserves require the use of estimates and judgment. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The Company believes that such estimates are made with consistent and appropriate methods. Actual results may differ from these estimates under different assumptions or conditions.

***New Accounting Standards***

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

***Forward-Looking Statements***

Brady believes that certain statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements related to future, not past, events included in this Form 10-K, including, without limitation, statements regarding Brady's future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations are forward-looking statements. When used in this Form 10-K, words such as may, will, expect, intend, estimate, anticipate, believe, should, project or plan or similar terminology are used to identify forward-looking statements. These forward-looking statements by their nature address matters that are, to different degrees, uncertain and are subject to risks, assumptions and other factors, some of which are beyond Brady's control, that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For Brady, uncertainties arise from future financial performance of major markets Brady serves, which include, without limitation, telecommunications, manufacturing, electrical, construction, laboratory, education, governmental, public utility, computer, transportation; difficulties in making and integrating acquisitions; risks associated with newly acquired businesses; Brady's ability to retain significant contracts and customers; future competition; Brady's ability to develop and successfully market new products; changes in the supply of, or price for, parts and components; increased price pressure from suppliers and customers; interruptions to sources of supply; environmental, health and safety compliance costs and liabilities; Brady's ability to realize cost savings from operating initiatives; Brady's ability to attract and retain key talent; difficulties associated with exports; risks associated with international operations; fluctuations in currency rates versus the US dollar; technology changes; potential write-offs of Brady's substantial intangible assets; risks associated with obtaining governmental approvals and maintaining regulatory compliance for new and existing products; business interruptions due to implementing business systems; and numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive and regulatory nature contained from time to time in Brady's U.S. Securities and Exchange Commission filings, including, but not limited to, those factors listed in the Risk Factors section located in Item 1A of Part I of 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.

***Risk Factors***

Please see the information contained in Item 1A Risk Factors.

***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 primary objective of the Company's foreign-currency exchange risk management is to minimize the impact of currency movements on intercompany transactions and foreign raw-material imports. To achieve this



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objective, we hedge a portion of known exposures using forward contracts. Main exposures are related to transactions denominated in the British Pound, the Euro, Canadian Dollar, Australian Dollar, Swedish Krona and Chinese Yuan currency. In the third quarter of fiscal 2006, we purchased a currency option to hedge against increases in the purchase price in U.S. dollar terms of Tradex, as the transaction was denominated in the Swedish Krona. A gain of approximately \$1.5 million was recorded in fiscal 2006 due to this option.

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, 2008, the Company had no interest rate derivatives.

The Company is subject to the risk of changes in foreign currency exchange rates due to its operations in foreign countries. The Company has manufacturing facilities in Australia, Brazil, Canada, China, Mexico, South Korea, Thailand, India and throughout Europe. It 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 dollar and the European currencies, primarily the euro, changes between the dollar and the Australian dollar, changes between the dollar and the Canadian dollar, and changes between the dollar and the Chinese yuan. Changes in foreign currency exchange rates for the Company's foreign subsidiaries reporting in local currencies are generally reported as a component of shareholders' equity. The Company's favorable currency translation adjustments recorded in fiscal 2008 and fiscal 2007 were \$128.0 million and \$79.8 million, respectively. As of July 31, 2008 and 2007, the Company's foreign subsidiaries had net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk of \$294.5 million and \$203.8 million, respectively. The potential decrease in the net current assets as of July 31, 2008 from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates would be approximately \$29.5 million. This sensitivity analysis assumes a parallel shift in foreign currency exchange rates. Exchange rates rarely move in the same direction relative to the dollar. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

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**Item 8. *Financial Statements and Supplementary Data***

**BRADY CORPORATION & SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Brady Corporation and subsidiaries (the Company ) as of July 31, 2008 and 2007, and the related consolidated statements of income, stockholders' investment, and cash flows for each of the three years in the period ended July 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2008, 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, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 26, 2008, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP  
Milwaukee, WI  
September 26, 2008



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**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**July 31, 2008 and 2007**

|   | <b>2008</b>           | <b>2007</b>  |
|---|-----------------------|--------------|
|   | <b>(In thousands)</b> |              |
| <b>ASSETS</b>   |                       |              |
| Current assets:   |                       |              |
| Cash and cash equivalents   | \$ 258,355            | \$ 142,846   |
| Short term investments  |                       | 19,200       |
| Accounts receivable, less allowance for losses (\$10,059 and \$9,109, respectively) | 262,461               | 239,569      |
| Inventories:  |                       |              |
| Finished products   | 75,665                | 80,486       |
| Work-in-process   | 21,187                | 21,309       |
| Raw materials and supplies  | 37,767                | 37,983       |
| Total inventories   | 134,619               | 139,778      |
| Prepaid expenses and other current assets   | 43,650                | 42,020       |
| Total current assets  | 699,085               | 583,413      |
| Other assets:   |                       |              |
| Goodwill  | 789,107               | 737,450      |
| Other intangibles assets  | 144,791               | 149,761      |
| Deferred income taxes   | 25,943                | 32,508       |
| Other   | 21,381                | 21,111       |
| Property, plant and equipment:  |                       |              |
| Cost:   |                       |              |
| Land  | 6,490                 | 6,332        |
| Buildings and improvements  | 98,646                | 90,688       |
| Machinery and equipment   | 282,232               | 248,356      |
| Construction in progress  | 6,040                 | 18,107       |
|   | 393,408               | 363,483      |
| Less accumulated depreciation   | 223,202               | 188,869      |
| Property, plant and equipment net   | 170,206               | 174,614      |
| Total   | \$ 1,850,513          | \$ 1,698,857 |
| <b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>                                      |                       |              |
| Current liabilities:  |                       |              |
| Accounts payable  | \$ 118,209            | \$ 91,596    |
| Wages and amounts withheld from employees   | 82,354                | 73,622       |
| Taxes, other than income taxes  | 10,234                | 8,461        |
| Accrued income taxes  | 21,523                | 24,677       |
| Other current liabilities   | 54,810                | 60,254       |
| Current maturities on long-term obligations   | 21,431                | 21,444       |

|  |              |              |
|--|--------------|--------------|
| Total current liabilities  | 308,561      | 280,054      |
| Long-term obligations, less current maturities   | 457,143      | 478,575      |
| Other liabilities  | 63,001       | 49,216       |
| Total liabilities  | 828,705      | 807,845      |
| Commitments and contingencies (See Note 9)   |              |              |
| Stockholders' investment:  |              |              |
| Common stock:  |              |              |
| Class A Nonvoting Issued 51,261,487 and 50,586,524 shares, respectively;<br>(aggregate liquidation preference of \$42,628 and \$42,240 at July 31, 2008 and<br>2007, respectively) | 513          | 506          |
| Class B Voting Issued and outstanding 3,538,628 shares   | 35           | 35           |
| Additional paid-in capital   | 292,769      | 266,203      |
| Earnings retained in the business  | 639,059      | 540,238      |
| Treasury stock 1,046,191 and 0 shares, respectively of Class A nonvoting<br>common stock, at cost  | (33,234)     |              |
| Accumulated other comprehensive income   | 128,161      | 83,376       |
| Other  | (5,495)      | 654          |
| Total stockholders' investment   | 1,021,808    | 891,012      |
| Total  | \$ 1,850,513 | \$ 1,698,857 |

See notes to consolidated financial statements.

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**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended July 31, 2008, 2007 and 2006**

|  | <b>2008</b>                                     | <b>2007</b>  | <b>2006</b>  |
|--|---|--------------|--------------|
|  | <b>(In thousands, except per share amounts)</b> |              |              |
| Net sales  | \$ 1,523,016                                    | \$ 1,362,631 | \$ 1,018,436 |
| Cost of products sold  | 778,821   | 705,587      | 492,681      |
| Gross margin   | 744,195   | 657,044      | 525,755      |
| Operating expenses:  |   |              |              |
| Research and development                                       | 40,607  | 35,954       | 30,443       |
| Selling, general and administrative                            | 495,904   | 449,103      | 338,796      |
| Total operating expenses                                       | 536,511   | 485,057      | 369,239      |
| Operating income   | 207,684   | 171,987      | 156,516      |
| Other income (expense):  |   |              |              |
| Investment and other income net                                | 4,888   | 2,875        | 2,403        |
| Interest expense   | (26,385)  | (22,934)     | (14,231)     |
| Net other expense  | (21,497)  | (20,059)     | (11,828)     |
| Income before income taxes                                     | 186,187   | 151,928      | 144,688      |
| Income taxes   | 53,999  | 42,540       | 40,513       |
| Net income   | \$ 132,188                                      | \$ 109,388   | \$ 104,175   |
| Net income per common share:                                   |   |              |              |
| Class A Nonvoting:   |   |              |              |
| Basic  | \$ 2.45   | \$ 2.03      | \$ 2.10      |
| Diluted  | \$ 2.41   | \$ 2.00      | \$ 2.07      |
| Dividends  | \$ 0.60   | \$ 0.56      | \$ 0.52      |
| Class B Voting:  |   |              |              |
| Basic  | \$ 2.43   | \$ 2.01      | \$ 2.09      |
| Diluted  | \$ 2.39   | \$ 1.98      | \$ 2.05      |
| Dividends  | \$ 0.58   | \$ 0.54      | \$ 0.50      |
| Weighted average Class A and Class B common shares outstanding |   |              |              |
| Basic  | 54,168  | 53,907       | 49,494       |
| Diluted  | 54,873  | 54,741       | 50,385       |

See notes to  
consolidated  
financial statements.

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**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS INVESTMENT**  
**Years Ended July 31, 2008, 2007 and 2006**

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Earnings<br>Retained<br>in the<br>Business<br>(In thousands, except per share amounts) | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income | Other      | Total<br>Comprehensive<br>Income |
|---|-----------------|----------------------------------|--|-------------------|---|------------|----------------------------------|
| Balances at July 31,<br>2005  | \$ 493          | \$ 99,029                        | \$ 382,880   | \$ (1,575)        | \$ 17,497                                       | \$ (1,050) |                                  |
| Net income  |                 |                                  | 104,175  |                   |   |            | \$ 104,175                       |
| Net currency<br>translation<br>adjustment and other                                   |                 |                                  |  |                   | 18,199  |            | 18,199                           |
| Total comprehensive<br>income   |                 |                                  |  |                   |   |            | \$ 122,374                       |
| Issuance of<br>4,600,000 shares of<br>Class A Common<br>Stock from equity<br>offering | 46              | 157,699                          |  |                   |   |            |                                  |
| Issuance of 4,200<br>shares of Class A<br>Common Stock<br>under stock option<br>plan  | 1               | (8,286)                          |  | 17,205            |   |            |                                  |
| Other (Note 6)  |                 |                                  |  |                   |   | 1,812      |                                  |
| Tax benefit from<br>exercise of stock<br>options                                      |                 | 4,912                            |  |                   |   |            |                                  |
| Purchase of 800,000<br>shares of Class A<br>Common Stock                              |                 |                                  |  | (26,495)          |   |            |                                  |
| Stock-based<br>compensation<br>expense  |                 | 5,568                            |  |                   |   |            |                                  |
| Cash dividends on<br>Common Stock:<br>Class A \$.52 per<br>share                      |                 |                                  | (24,283)   |                   |   |            |                                  |
| Class B \$.50 per<br>share  |                 |                                  | (1,781)  |                   |   |            |                                  |
| Balances at July 31,<br>2006  | \$ 540          | \$ 258,922                       | \$ 460,991   | \$ (10,865)       | \$ 35,696                                       | \$ 762     |                                  |

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|  |        |            |            |        |           |        |         |         |
|--|--------|------------|------------|--------|-----------|--------|---------|---------|
| Net income   |        |            | 109,388    |        |           |        | \$      | 109,388 |
| Net currency translation adjustment and other                                      |        |            |            |        | 44,256    |        |         | 44,256  |
| Total comprehensive income   |        |            |            |        |           |        | \$      | 153,644 |
| Issuance of 104,781 shares of Class A Common Stock under stock option plan         | 1      | (4,037)    |            | 10,865 |           |        |         |         |
| Other (Note 6)   |        | 108        |            |        |           |        | (108)   |         |
| Tax benefit from exercise of stock options and deferred compensation distributions |        | 4,303      |            |        |           |        |         |         |
| Stock-based compensation expense   |        | 6,907      |            |        |           |        |         |         |
| Adjustment to adopt SFAS No. 158, net of tax of \$1,551                            |        |            |            |        | 3,424     |        |         |         |
| Cash dividends on Common Stock:  |        |            |            |        |           |        |         |         |
| Class A \$.56 per share  |        |            | (28,218)   |        |           |        |         |         |
| Class B \$.54 per share  |        |            | (1,923)    |        |           |        |         |         |
| Balances at July 31, 2007  | \$ 541 | \$ 266,203 | \$ 540,238 | \$     | \$ 83,376 | \$ 654 |         |         |
| Net income   |        |            | 132,188    |        |           |        | \$      | 132,188 |
| Net currency translation adjustment and other                                      |        |            |            |        | 44,785    |        |         | 44,785  |
| Total comprehensive income   |        |            |            |        |           |        | \$      | 176,973 |
| Issuance of 464,963 shares of Class A Common Stock under stock option plan         | 5      | 5,553      |            | 8,941  |           |        |         |         |
| Other (Note 6)   | 2      | 6,147      |            |        |           |        | (6,149) |         |
|  |        |            | (903)      |        |           |        |         |         |

|  |        |            |            |             |            |            |
|--|--------|------------|------------|-------------|------------|------------|
| Cumulative impact of adoption of FIN 48  |        |            |            |             |            |            |
| Tax benefit from exercise of stock options and deferred compensation distributions |        | 4,638      |            |             |            |            |
| Stock-based compensation expense   |        | 10,228     |            |             |            |            |
| Purchase of 1,349,136 shares of Class A Common Stock                               |        |            |            | (42,175)    |            |            |
| Cash dividends on Common Stock Class A \$.60 per share                             |        |            | (30,400)   |             |            |            |
| Class B \$.58 per share  |        |            | (2,064)    |             |            |            |
| Balances at July 31, 2008  | \$ 548 | \$ 292,769 | \$ 639,059 | \$ (33,234) | \$ 128,161 | \$ (5,495) |

See notes to consolidated financial statements.

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**BRADY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended July 31, 2008, 2007 and 2006**

|  | 2008                   | 2007       | 2006       |
|--|------------------------|------------|------------|
|  | (Dollars in thousands) |            |            |
| Operating activities:  |                        |            |            |
| Net income   | \$ 132,188             | \$ 109,388 | \$ 104,175 |
| Adjustments to reconcile net income to net cash provided by operating activities:                    |                        |            |            |
| Depreciation and amortization  | 60,587                 | 53,856     | 35,144     |
| Gain on foreign currency contract  |                        |            | (1,516)    |
| Deferred income taxes  | (2,759)                | 70         | (1,843)    |
| Loss on sale of property, plant and equipment  | 1,672                  | 13         | 124        |
| Non-cash portion of stock-based compensation expense   | 10,228                 | 6,907      | 5,568      |
| Changes in operating assets and liabilities (net of effects of business acquisitions):               |                        |            |            |
| Accounts receivable  | (3,704)                | (17,021)   | (12,468)   |
| Inventories  | 16,224                 | (12,323)   | (16,961)   |
| Prepaid expenses and other assets  | (629)                  | (13,307)   | (2,163)    |
| Accounts payable and accrued liabilities   | 18,641                 | 8,058      | 10,421     |
| Income taxes   | (7,234)                | (6,821)    | 58         |
| Other liabilities  | 340                    | 7,198      | (5,643)    |
| Net cash provided by operating activities  | 225,554                | 136,018    | 114,896    |
| Investing activities:  |                        |            |            |
| Acquisitions of businesses, net of cash acquired   | (29,346)               | (159,475)  | (351,331)  |
| Payments of contingent consideration   | (5,798)                | (10,906)   |            |
| Purchases of short-term investments  | (10,350)               | (68,100)   | (150,900)  |
| Sales of short-term investments  | 29,550                 | 60,400     | 146,500    |
| Purchases of property, plant and equipment   | (26,407)               | (51,940)   | (39,410)   |
| Net settlement of foreign currency contract  |                        |            | 1,516      |
| Proceeds from sale of property, plant and equipment  | 880                    | 2,166      | 546        |
| Other  | 2,263                  | (9,184)    | (2,203)    |
| Net cash used in investing activities  | (39,208)               | (237,039)  | (395,282)  |
| Financing activities:  |                        |            |            |
| Payment of dividends   | (32,464)               | (30,141)   | (26,064)   |
| Proceeds from issuance of common stock   | 14,500                 | 6,829      | 166,664    |
| Principal payments on debt   | (39,443)               | (110,870)  | (417,601)  |
| Proceeds from issuance of debt   | 18,000                 | 259,300    | 615,730    |
| Purchase of treasury stock   | (42,175)               |            | (24,683)   |
| Excess income tax benefit from the exercise of stock options and deferred compensation distributions | 4,638                  | 4,303      | 4,912      |
| Net cash (used in) provided by financing activities  | (76,944)               | 129,421    | 318,958    |



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|   |            |            |            |
|---|------------|------------|------------|
| Effect of exchange rate changes on cash           | 6,107      | 1,438      | 1,466      |
| Net increase in cash and cash equivalents         | 115,509    | 29,838     | 40,038     |
| Cash and cash equivalents, beginning of year      | 142,846    | 113,008    | 72,970     |
| Cash and cash equivalents, end of year            | \$ 258,355 | \$ 142,846 | \$ 113,008 |
| Supplemental disclosure of cash flow information: |            |            |            |
| Cash paid during the year for:                    |            |            |            |
| Interest, net of capitalized interest             | \$ 26,308  | \$ 19,842  | \$ 8,991   |
| Income taxes, net of refunds                      | 51,834     | 49,233     | 37,661     |
| Acquisitions:                                     |            |            |            |
| Fair value of assets acquired, net of cash        | \$ 21,508  | \$ 87,398  | \$ 167,900 |
| Liabilities assumed                               | (9,038)    | (33,248)   | (63,667)   |
| Goodwill  | 16,876     | 105,325    | 247,098    |
| Net cash paid for acquisitions                    | \$ 29,346  | \$ 159,475 | \$ 351,331 |

See notes to consolidated financial statements.

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**BRADY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended July 31, 2008, 2007 and 2006**  
**(In thousands except share and per share amounts)**

**1. Summary of Significant Accounting Policies**

*Nature of Operations* Brady Corporation ( Brady or the Company ) is an international manufacturer and marketer of identification solutions and specialty products which identify and protect premises, products and people. Brady's core capabilities in manufacturing, printing systems, precision engineering and materials expertise make it a leading supplier to the Maintenance, Repair and Operations ( MRO ) market and to the Original Equipment Manufacturing ( OEM ) market.

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

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

*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 5 for more information regarding the fair value of long-term debt.

*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.

*Available-for-Sale Securities* Prior to January 2008, the Company had invested in certain marketable securities that are categorized as available-for-sale. These investments consisted of auction-rate securities and were classified as short-term investments available-for-sale for all periods presented. The amount of available-for-sale securities included in the consolidated balance sheets as of July 31, 2008 and July 31, 2007 was \$0 and \$19,200, respectively, and consisted solely of auction rate securities. The securities held at July 31, 2007 were sold at par value during fiscal 2008.

*Inventories* Inventories are stated at the lower of cost or market. Cost has been determined using the last-in, first-out ( LIFO ) method for certain domestic inventories (approximately 22% of total inventories at July 31, 2008 and approximately 27% of total inventories at July 31, 2007) and the first-in, first-out ( FIFO ) or average cost methods for other inventories. Had all domestic inventories been accounted for on a FIFO basis instead of on a LIFO basis, the carrying value would have increased by \$9,530 and \$8,228 at July 31, 2008 and 2007, respectively.

*Depreciation* The cost of buildings and improvements and machinery and equipment is being depreciated over their estimated useful lives using primarily the straight-line method for financial reporting purposes. The estimated useful lives range from 3 to 33 years as shown below.

| <b>Asset Category</b>         | <b>Range of Useful Lives</b> |
|-------------------------------|------------------------------|
| Buildings and improvements    | 10 to 33 Years               |
| Mainframe computing equipment | 5 Years                      |
| Machinery and equipment       | 3 to 10 Years                |

Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset.

*Goodwill and other Intangible Assets* The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed on a straight-line basis, over the estimated periods benefited. Intangible assets with indefinite useful lives and goodwill are not subjected to amortization. These assets are assessed for impairment annually and when deemed necessary.

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Changes in the carrying amount of goodwill for the years ended July 31, 2008 and 2007, are as follows:

|   | <b>Americas</b> | <b>Europe</b>  | <b>Asia-Pacific</b> | <b>Total</b>   |
|---|-----------------|----------------|---------------------|----------------|
| Balance as of July 31, 2006             | \$ 322,759      | \$ 111,792     | \$ 153,091          | \$ 587,642     |
| Goodwill acquired during the period     | 76,944          | 26,696         | 1,685               | 105,325        |
| Adjustments for prior year acquisitions | 2,161           | 15,005         | 4,239               | 21,405         |
| Translation adjustments                 | 2,210           | 10,206         | 10,662              | 23,078         |
| <br>Balance as of July 31, 2007         | <br>\$ 404,074  | <br>\$ 163,699 | <br>\$ 169,677      | <br>\$ 737,450 |
| Goodwill acquired during the period     | 3,615           | 13,261         |                     | 16,876         |
| Adjustments for prior year acquisitions | 2,563           | (2,928)        | 3,902               | 3,538          |
| Translation adjustments                 | 2,724           | 15,618         | 12,901              | 31,243         |
| <br>Balance as of July 31, 2008         | <br>\$ 412,976  | <br>\$ 189,650 | <br>\$ 186,480      | <br>\$ 789,107 |

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

|   | <b>Segment</b> | <b>Goodwill</b> |
|---|----------------|-----------------|
| Transposafe Systems B.V. and Holland Mounting Systems B.V. (collectively<br>Transposafe ) | Europe         | \$ 13,261       |
| DAWG, Inc. ( DAWG )   | Americas       | 3,615           |
| <br>Total   |                | <br>\$ 16,876   |

Goodwill also increased as a result of adjustments to the preliminary allocation of purchase price for the acquisitions completed in fiscal 2007, of which the largest adjustment related to the final purchase price adjustments for Comprehensive Identification Products, Inc ( CIPI ), which added \$3,948. Of the \$3,948 increase in goodwill attributed to the allocation of the purchase price for CIPI, \$1,246 related to the adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ( FIN 48 ), \$1,250 related to the accrual for employee termination costs, \$809 related to various exit costs associated with the closure of a facility, and the remaining \$643 related to tax and other liabilities existing at the time of acquisition. As of July 31, 2008, the remaining liability from these charges was approximately \$769. Goodwill increased \$1,467 related to the fiscal 2007 acquisition of Sorbent Products Co., Inc. ( SPC ), primarily due to an adjustment in income taxes. The increase in goodwill related to the acquisitions of CIPI and SPC was partially offset by a tax adjustment of \$1,893 associated with the fiscal 2006 acquisition of Identacam Systems relating to a deferred tax asset existing at the time of acquisition. During fiscal year 2008, the Company finalized the purchase price allocation of the SPC acquisition between the segments, resulting in a transfer of goodwill from Europe to the Americas.

The remaining \$31,243 increase to goodwill during fiscal 2008 was attributable to the effects of foreign currency translation.

The following acquisitions completed in fiscal 2007 increased goodwill during the year ended July 31, 2007 by the following amounts:

|  | <b>Segment</b>                          | <b>Goodwill</b> |
|--|---|-----------------|
| Comprehensive Identification Products, Inc. ( CIPI ) | Americas,<br>Europe and<br>Asia-Pacific | \$ 20,451       |
| Precision Converters, L.P. ( Precision Converters )  | Americas                                | 9,665           |

|   |   |            |
|---|---|------------|
| Scafftag, Ltd., Safetrak, Ltd. and Scafftag Pty., Ltd. (collectively Scafftag ) | Americas,<br>Europe and<br>Asia-Pacific | 7,030      |
| Asterisco Artes Graficas Ltda. ( Asterisco )                                    | Americas                                | 8,508      |
| Modernotecnica SpA ( Moderno )  | Europe                                  | 11,285     |
| Clement Communications, Inc. ( Clement )  | Americas                                | 12,960     |
| Sorbent Products Co., Inc. ( SPC )  | Americas,<br>Europe and<br>Asia-Pacific | 35,426     |
| Total   |   | \$ 105,325 |

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Goodwill also increased \$21,405 during the year ended July 31, 2007, as a result of adjustments to the allocation of the purchase price for acquisitions completed in fiscal 2006 and the recording of \$1,577 for the contingent payment due to the previous owners of QDP Thailand Co., Ltd. ( QDPT ) and \$1,000 for the contingent payment due to the previous owners of STOPware, Inc. ( Stopware ), which were both acquired in fiscal 2006 (see Note 2 for more information). The largest components of the increase were as a result of adjustments to the allocation of purchase price related to Tradex Converting AB ( Tradex ) and Daewon Industry Corporation ( Daewon ), which added \$14,843 and \$2,940, respectively.

Of the \$14,843 increase in goodwill related to the allocation of the purchase price for Tradex, \$6,788 of the increase was due to the accrual for planned cost reduction activities contemplated at the date of the acquisition. The accrual consists of \$2,639 for severance and other employee termination costs, \$2,885 for contract termination and facility exit costs, and \$1,264 for changes in the valuation of fixed assets. As of July 31, 2008, the remaining liability from such charges was approximately \$1,316.

Of the \$2,940 increase in goodwill related to the allocation of the purchase price for Daewon, \$1,829 of the increase was due to the finalization and payment of the purchase price adjustment owed to the former owners of Daewon and \$1,013 of the increase was due to the accrual for planned cost reduction activities contemplated at the date of the acquisition. The accrual consists of \$289 for severance and other employee termination costs, \$277 for contract termination and facility exit costs, and \$447 for changes in the valuation of assets. As of July 31, 2008, the Company had no remaining liability from these charges.

The remaining \$23,078 increase to goodwill during fiscal 2007 was attributable to the effects of foreign currency translation.

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

|                                      | July 31, 2008  |                             |                             |                   | July 31, 2007  |                             |                             |                   |
|--------------------------------------|--|-----------------------------|-----------------------------|-------------------|--|-----------------------------|-----------------------------|-------------------|
|                                      | Weighted<br>Average<br>Amortization<br>Period<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value | Weighted<br>Average<br>Amortization<br>Period<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
| Amortized other intangible assets:   |  |                             |                             |                   |  |                             |                             |                   |
| Patents                              | 15   | \$ 8,603                    | \$ (6,592)                  | \$ 2,011          | 15   | \$ 8,392                    | \$ (5,913)                  | \$ 2,479          |
| Trademarks and other                 | 7  | 8,079                       | (4,688)                     | 3,391             | 5  | 4,510                       | (3,250)                     | 1,260             |
| Customer relationships               | 7  | 151,704                     | (59,101)                    | 92,603            | 7  | 134,125                     | (36,674)                    | 97,451            |
| Non-compete agreements               | 4  | 12,222                      | (8,446)                     | 3,776             | 4  | 11,364                      | (6,294)                     | 5,070             |
| Other                                | 4  | 3,299                       | (3,294)                     | 5                 | 5  | 3,297                       | (2,554)                     | 743               |
| Unamortized other intangible assets: |  |                             |                             |                   |  |                             |                             |                   |
| Trademarks                           | N/A  | 43,005                      |                             | 43,005            | N/A  | 42,758                      |                             | 42,758            |
| Total                                |  | \$ 226,912                  | \$ (82,121)                 | \$ 144,791        |  | \$ 204,446                  | \$ (54,685)                 | \$ 149,761        |

The acquisitions completed in fiscal 2008 (see Note 2 for more information) attributed to the increases in amortizable trademarks and customer relationships. The largest components of the increase in customer relationships relate to the acquisitions of Transposafe and DAWG, which added \$9,349 and \$659, respectively. The increase in amortized trademarks primarily relates to the acquisition of Transposafe which added \$2,191.

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

Amortization expense of intangible assets during fiscal 2008, 2007, and 2006 was \$25,422, \$21,882, and \$13,633, respectively. The amortization over each of the next five fiscal years is projected to be \$24,685, \$23,677, \$19,937, \$12,478 and \$9,201 for the years ending July 31, 2009, 2010, 2011, 2012 and 2013, respectively.

*Impairment of Long-Lived and Other Intangible Assets* The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived and other finite-lived intangible assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on fair value of the

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assets generally estimated by the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. If an impairment is determined to exist, any related impairment loss is calculated based on the fair value of the asset. Based on the assessments completed in fiscal 2008, there have been no indications of impairment in the Company's long-lived and other intangible assets.

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

The Company performed its annual assessments in the fourth quarter of the fiscal year. The assessments included comparing the carrying amount of net assets, including goodwill, of each reporting unit to its respective fair value as of the date of the assessment. Fair value was estimated based upon discounted cash flow analyses. Because the estimated fair value of each of the Company's reporting units exceeded its carrying amount, management believes that no impairment existed as of the date of the latest assessment. No indications of impairment have been identified between the date of the latest assessment and July 31, 2008.

*Catalog Costs and Related Amortization* The Company accumulates all direct costs incurred, net of vendor cooperative advertising payments, in the development, production, and circulation of its catalogs on its balance sheet until such time as the related catalog is mailed. The catalogs are subsequently amortized into SG&A expense over the expected sales realization cycle, which is one year or less. Consequently, any difference between the estimated and actual revenue stream for a particular catalog and the related impact on amortization expense is neutralized within a period of one year or less. The estimate of the expected sales realization cycle for a particular catalog is based on the Company's historical sales experience with identical or similar catalogs, an assessment of prevailing economic conditions and various competitive factors. The Company tracks subsequent sales realization, reassesses the marketplace, and compares its findings to the previous estimate, and adjusts the amortization of future catalogs, if necessary. At July 31, 2008 and 2007, \$13,214 and \$15,292, respectively, of prepaid catalog costs were included in prepaid expenses and other current assets.

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

*Sales Incentives* In accordance with the Financial Accounting Standard Board's Emerging Issues Task Force Issue (EITF) No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product, the Company accounts for cash consideration (such as sales incentives and cash discounts) given to its customers or resellers as a reduction of revenue rather than an operating expense.

*Shipping and Handling Fees and Costs* The Company accounts for shipping and handling fees and costs in accordance with EITF Issue No. 00-10, Accounting for Shipping and Handling Fees and Costs. Under EITF No. 00-10 amounts billed to a customer in a sale transaction related to shipping costs are reported as net sales and the related costs incurred for shipping are reported as cost of goods sold.

*Advertising Costs* Advertising costs are expensed as incurred, except catalog and mailer costs as outlined above. Advertising expense for the years ended July 31, 2008, 2007 and 2006 were \$85,908, \$75,452 and \$57,253, respectively.

*Stock-Based Compensation* Effective August 1, 2005, the Company adopted SFAS No. 123(R), Share-Based Payment. In accordance with this standard, the Company recognizes the compensation cost of all share-based awards using the grant-date fair value of those awards (the fair-value-based method). The expense is recognized on a straight-line basis over the vesting period of the award. Total stock compensation expense recognized by the Company

during the years ended July 31, 2008, 2007, and 2006 was \$10,228 (\$6,239 net of taxes), \$6,907 (\$4,213 net of taxes), and \$5,568 (\$3,396 net of taxes), respectively. As of July 31, 2008, total unrecognized compensation cost related to share-based compensation awards was \$17,900, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 2.7 years.



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The Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified-prospective-transition method. Under that transition method, compensation cost recognized during fiscal 2008, 2007, and 2006 included: (a) compensation costs for all share-based payments granted prior to, but not yet vested as of August 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to August 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Prior periods are not restated under this method of adoption.

The Company has estimated the fair value of its performance-based and service-based option awards granted after August 1, 2005 using the Black-Scholes option-pricing model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

| <b>Black-Scholes Option Valuation Assumptions</b>               | <b>2008</b>                           |                                  | <b>2007</b>                           |                                  | <b>2006</b>                           |                                  |
|---|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
|   | <b>Performance-<br/>Based Options</b> | <b>Service-Based<br/>Options</b> | <b>Performance-<br/>Based Options</b> | <b>Service-Based<br/>Options</b> | <b>Performance-<br/>Based Options</b> | <b>Service-Based<br/>Options</b> |
| Expected term (in years)  | 6.57                                  | 6.04                             | 6.57                                  | 6.07                             | 3.39                                  | 5.72                             |
| Expected volatility   | 33.68%                                | 32.05%                           | 34.66%                                | 33.99%                           | 31.10%                                | 34.54%                           |
| Expected dividend yield   | 1.58%                                 | 1.62%                            | 1.51%                                 | 1.46%                            | 1.50%                                 | 1.52%                            |
| Risk-free interest rate   | 4.66%                                 | 3.44%                            | 4.90%                                 | 4.52%                            | 4.09%                                 | 4.53%                            |
| Weighted-average market value of underlying stock at grant date | \$35.35                               | \$38.22                          | \$33.32                               | \$38.17                          | \$33.89                               | \$37.62                          |
| Weighted-average exercise price                                 | \$35.35                               | \$38.22                          | \$33.32                               | \$38.17                          | \$33.89                               | \$37.62                          |
| Weighted-average fair value of options granted                  | \$12.83                               | \$11.94                          | \$12.57                               | \$13.56                          | \$ 8.34                               | \$13.11                          |

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

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

*Other comprehensive income* Other comprehensive income consists of foreign currency translation adjustments, net unrealized gains and losses from cash flow hedges and other investments, the unamortized gain on the post-retirement medical, dental and vision plan and their related tax effects. The components of accumulated other comprehensive income were as follows:

|  | <b>July 31,<br/>2008</b> | <b>July 31,<br/>2007</b> |
|--|--------------------------|--------------------------|
| Unrealized (loss) gain on cash flow hedges and securities in deferred compensation plans, net of tax of \$263 and \$93, respectively | \$ (971)                 | \$ 145                   |
| Unamortized gain on post-retirement medical, dental and vision plan, net of tax of \$2,663 and \$1,551, respectively                 | 2,493                    | 3,424                    |
| FIN 48 contingency reserve   | (1,356)                  | 0                        |
| Cumulative translation adjustments   | 127,995                  | 79,807                   |
| Accumulated other comprehensive income   | \$ 128,161               | \$ 83,376                |

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

*Income Taxes* The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Beginning August 1, 2007, the Company recognizes the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. Prior to August 1, 2007, the Company recognized the effect of income tax positions only if such positions

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were probable of being sustained.

*Risk Management Activities* The Company is exposed to market risk, such as changes in interest rates and currency exchange rates. The Company does not hold or issue derivative financial instruments for trading purposes.

*Currency Rate Hedging* The primary objectives of the foreign exchange risk management activities are to understand and mitigate the impact of potential foreign exchange fluctuations on the Company's financial results and its economic well-being. While the Company's risk management objectives and strategies will be driven from an economic perspective, the Company will attempt, where possible and practical, to ensure that the hedging strategies it engages in can be treated as hedges from an accounting perspective or otherwise result in accounting treatment where the earnings effect of the hedging instrument provides substantial offset (in the same period) to the earnings effect of the hedged item. Generally, these risk management transactions will involve the use of foreign currency derivatives to protect against exposure resulting from intercompany sales and identified inventory or other asset purchases.

The Company primarily utilizes forward exchange contracts with maturities of less than 12 months, which qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and intercompany charges. The fair value of these instruments at July 31, 2008 and 2007 was \$(96) and \$(421), respectively. As of July 31, 2008, the notional amount of outstanding forward exchange contracts was \$18.3 million.

Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged item. Hedge accounting is permitted only if the hedging relationship is expected to be highly effective at the inception of the hedge and on an on-going basis. Any ineffective portions are to be recognized in earnings immediately as a component of investment and other income. The amount of hedge ineffectiveness was not significant for the years ended July 31, 2008, 2007 and 2006.

*New Accounting Standards* The Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) effective August 1, 2007. Among other things, FIN 48 prescribes a more-likely-than-not threshold to the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to the positions and requires the cumulative effect of applying the provisions of FIN 48 be reported as an adjustment to the opening balance of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The adoption of FIN 48 resulted in a \$903 reduction to earnings retained in the business as of August 1, 2007. Upon adoption of FIN 48, the Company also reclassified \$15,907 from accrued income taxes to other liabilities in the Company's consolidated balance sheet.

Effective August 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. The Company does not believe the adoption of SFAS No. 157 will have a material impact on the Company's consolidated financial statements.

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

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

- a) Acquisition costs will generally be expensed as incurred;
- b) Noncontrolling interests in subsidiaries will be valued at fair value at the acquisition date and classified as a separate component of equity;
- c) Liabilities related to contingent consideration will be re-measured at fair value in each subsequent reporting period;
- d)

Restructuring costs associated with a business combination will generally be expensed after the acquisition date; and

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- e) In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date.

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

In March 2008, the FASB issued SFAS No. 161, Disclosure about Derivative Instruments and Hedging Activities. SFAS No. 161 requires expanded quantitative, qualitative, and credit-risk disclosures about an entity's derivative instruments and hedging activities. This statement will be effective for fiscal years and interim periods beginning after November 15, 2008. The Company expects that the adoption of SFAS No. 161 will not have a material impact on its financial position and results of operations. The Company is in the process of evaluating the impact that will result from adopting SFAS No. 161 on the Company's financial disclosures when such statement is adopted.

In June 2008, the FASB issued Staff Position on EITF Issue 03-6 ( FSP 03-6 ), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP 03-6 requires that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends be considered participating securities in undistributed earnings with common shareholders. This staff position will be effective for fiscal years and interim periods beginning after December 15, 2008. The Company is in the process of evaluating the impact that will result from adopting FSP 03-6 on the Company's results of operations and financial disclosures when such statement is adopted.

**2. Acquisitions of Businesses**

The Company completed two business acquisitions during the fiscal year ended July 31, 2008, seven business acquisitions during the fiscal year ended July 31, 2007 and eleven acquisitions during the fiscal year ended July 31, 2006. All of these transactions were accounted for using the purchase method of accounting; therefore, the results of operations are included in the accompanying consolidated financial statements only since their acquisition dates. The Company is continuing to evaluate the initial purchase price allocations for the acquisitions completed during the fiscal year ended July 31, 2008, and will adjust the allocations as additional information relative to the fair values of assets and liabilities of the acquired businesses become known.

***Fiscal 2008***

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

Transposafe is headquartered near Amsterdam, Netherlands with operations in Belgium, Germany, and Poland. Transposafe specializes in security sealing and identification solutions for protecting assets during transport. Transposafe was acquired in November 2007.

DAWG is headquartered in Terryville, Connecticut. DAWG is an Internet marketer of sorbents, spill-containment products, safety-storage cabinets, first aid kits, and other products that help keep facilities safe and clean. DAWG was acquired in March 2008.

The purchase agreement for Transposafe includes a provision for contingent payments based upon meeting certain performance conditions over a two-year period of time subsequent to the acquisition. The total maximum contingent payment of approximately \$3,000 has been placed in an escrow account for the acquisition of Transposafe. The Company has recorded the contingent payment as an other long-term asset on the accompanying consolidated balance sheet.

The allocation of the purchase price of each company acquired during fiscal 2008 is preliminary pending the final valuation of intangible assets as well as certain tangible assets and liabilities. The following table summarizes the combined estimated fair values of the assets acquired and liabilities assumed at the date of the acquisitions.

|                             |          |
|-----------------------------|----------|
| Current assets net of cash  | \$ 8,373 |
| Property, plant & equipment | 348      |

|                        |        |
|------------------------|--------|
| Goodwill               | 16,876 |
| Customer relationships | 10,008 |
| Trademarks             | 2,341  |

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|                                   |           |
|-----------------------------------|-----------|
| Other intangible assets           | 438       |
| Total assets acquired net of cash | 38,384    |
| Liabilities assumed               | 9,038     |
| Net assets acquired               | \$ 29,346 |

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

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

***Fiscal 2007***

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

CIPI is headquartered in Burlington, Massachusetts, with operations in Hong Kong, China and the Netherlands. CIPI is a market leader in badging accessories used to identify and track employees and visitors in a variety of settings including businesses, healthcare facilities, special events and government buildings. CIPI was acquired in August 2006.

Precision Converters is located in Dallas, Texas and is a supplier of die-cut products to the medical market with a specific focus on disposable, advanced wound-care products. Precision Converters was acquired in October 2006.

Scafftag is located in Barry, Wales, U.K., with operations in Australia and in the United States and a sales office in the United Arab Emirates. Scafftag is an industry leader in safety identification and facility management products in the U.K., specializing in products that help companies meet legislative requirements for safety standards in the oil and gas, construction and scaffolding industries. Scafftag was acquired in December 2006.

Asterisco is located in Sao Paulo, Brazil and is a leading manufacturer of industrial high-performance labels in Brazil, specializing in custom labels printed on film materials for the electronics, automotive, pharmaceutical and other industries. Asterisco was acquired in December 2006.

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

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

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

The purchase agreements for Scafftag and Asterisco each include provisions for contingent payments based upon meeting certain performance conditions over a period of time subsequent to the acquisition. The total maximum contingent payments of \$5.2 million have not been accrued as liabilities on the accompanying consolidated financial statements as the payments are based on attaining certain financial results. Approximately \$4.9 million of the

contingency related to the Asterisco acquisition had been placed in an escrow account in compliance with the terms of the purchase agreement. During fiscal 2008, the Company paid the former owners of Astersico \$0.2 million to satisfy the terms of the earnout agreement, while the remaining \$4.7 million was returned to Brady due to the acquired business not meeting certain performance criteria. The purchase agreement of Asterisco also includes a holdback provision of approximately \$2.3 million that has been recorded as a liability in the accompanying consolidated financial statements at July 31, 2008.

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



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

Of the \$105,325 allocated to goodwill, \$72,134 is expected to be deductible for tax purposes based on preliminary analysis.

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

***Fiscal 2006***

The Company acquired the following companies in fiscal 2006 for a total combined purchase price, net of cash acquired, of \$351,331. A brief description of each company acquired during the year is included below:

Stopware is located in San Jose, California and is a manufacturer of visitor-badging and lobby-security software used to identify and track visitors. Stopware was acquired in August 2005.

Textit is a manufacturer and distributor of wire markers and cable-management products headquartered in Odense, Denmark, with operations in Alesund, Norway. Textit was acquired in September 2005.

TruMed is a converter of disposable products and components for manufacturers in the medical device, diagnostic, personal care and industrial markets and is located in Burnsville, Minnesota. TruMed was acquired in October 2005. During fiscal 2008, TruMed combined its operations with Precision Converters in a facility in Dallas, Texas.

QDPT was formerly located in Wangnoi, Ayutthaya, Thailand and designs and manufactures high-precision components for the electronic, medical and automotive industries, specializing in precision laminating, stamping and contract assembly. QDPT was acquired in October 2005. In fiscal 2007, QDPT combined its operations with TPS in a facility in Klongluang, Pathumthani, Thailand.

J.A.M. was formerly located in Anaheim, California and specializes in the sale and manufacture of security-related accessory products including patented badge holders, lanyards and retractable badge reels. J.A.M. was acquired in December 2005. In fiscal 2007, the operations of J.A.M. were merged with CIPI.

Personnel Concepts is located in Pomona, California and is a direct marketer of labor-law compliance posters and related products. Personnel Concepts also offers consultative expertise on required communication of federal and state minimum wages, HIPAA privacy regulations, and EEO compliance, among other regulatory areas. Personnel Concepts was acquired in January 2006.

IDenticard is located in Lancaster, Pennsylvania and its affiliate IDenticam is located in Markham, Ontario. The companies are market leaders in personal identification, access control and consumable identification badges. IDenticard and IDenticam were acquired in February 2006.

Accidental Health was formerly located in Glendenning, New South Wales, Australia and is a supplier and distributor of customized first-aid kits, related safety products and signage for commercial enterprises. Accidental Health was acquired in March 2006. In fiscal 2007, Accidental Health combined its operations with Brady Australia Pty. Ltd. in Sydney, Australia.

Tradex is headquarterd in Kungälv, Sweden with operations in Sweden, China, Korea, Mexico, the United States, Brazil, and Taiwan. Tradex is a leading manufacturer and supplier of pressure sensitive, die-cut adhesive components for the mobile handset and electronics industries. Tradex was acquired in May 2006. In fiscal 2007, the operations in Suzhou, China and

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Brazil were closed.

Carroll is located in Sydney, New South Wales, Australia and is a supplier and distributor of identification products for the electrical industry, with a complete line of wiring accessory products including prepared wire and cable markers, termination and connection supplies, wire-bundling materials and electrical circuit protection products. Carroll also markets to the automotive and marine markets. Carroll was acquired in June 2006.

Daewon is based in Seoul, South Korea with additional operations in Gumi, South Korea and former operations in Suzhou, China. Daewon is a manufacturer and supplier of pressure sensitive, die-cut adhesive components for the mobile handset and electronics industry and was acquired in July 2006. In fiscal 2007, the operations in Suzhou, China were closed.

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

|                             |            |
|-----------------------------|------------|
| Current assets              | \$ 72,882  |
| Property, plant & equipment | 22,159     |
| Goodwill                    | 247,098    |
| Customer relationships      | 56,538     |
| Trademarks                  | 10,619     |
| Non-compete agreements      | 3,206      |
| Purchased software          | 378        |
| Patents                     | 610        |
| Other intangible assets     | 1,508      |
| Total assets acquired       | 414,998    |
| Liabilities assumed         | 63,667     |
| Net assets acquired         | \$ 351,331 |

Of the \$247,098 allocated to goodwill, \$26,209 is expected to be deductible for tax purposes based on preliminary analysis.

The purchase agreements for Texit, QDPT, and Stopware each included provisions for contingent payments based upon meeting certain performance conditions over a period of time subsequent to the acquisition. In fiscal 2006 and 2007, \$1,800 and \$2,577, respectively, of the conditions were met and recorded in goodwill; payments of \$3,377 were made during fiscal 2007 to satisfy the contingent payment requirements. The remaining \$1,000 liability was paid in fiscal 2008 for the acquisition of Stopware. The purchase agreements for QDPT, Stopware and Daewon included holdback provisions of \$310, \$200 and \$4,350, respectively. The holdback provision for QDPT was paid in fiscal 2007 and the holdback provisions for Stopware and Daewon were paid in fiscal 2008.

**3. Employee Benefit Plans**

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

In October 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement requires full recognition of the funded status of defined benefit and other postretirement plans on the balance sheet as an asset or a liability. SFAS No. 158 also continues to require that unrecognized prior service costs/credits, gains/losses, and transition obligations/assets be recorded in Accumulated Other Comprehensive Income, thus not changing the income statement recognition rules for such plans. The Company adopted the provisions of SFAS No. 158 for the fiscal year ended July 31, 2007.

The incremental effects of the initial application of SFAS No. 158 to the consolidated balance sheet at July 31, 2007 were as follows:

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|  | <b>Before<br/>Application<br/>of<br/>SFAS No.<br/>158</b> | <b>Adjustments</b> | <b>After<br/>Application<br/>of<br/>SFAS No.<br/>158</b> |
|--|---|--------------------|--|
| Deferred income taxes                  | \$ 34,059   | \$ (1,551)         | \$ 32,508  |
| Total assets                           | 1,700,408   | (1,551)            | 1,698,857  |
| Other current liabilities              | 60,254  |                    | 60,254   |
| Total current liabilities              | 280,054   |                    | 280,054  |
| Other liabilities                      | 54,191  | (4,975)            | 49,216   |
| Total liabilities                      | 812,820   | (4,975)            | 807,845  |
| Accumulated other comprehensive income | 79,952  | 3,424              | 83,376   |
| Total stockholders investment          | \$ 887,588  | \$ 3,424           | \$ 891,012   |

The adoption of SFAS No. 158 had no effect on the Company's net earnings.

The Plan is unfunded and recorded as a liability in the accompanying consolidated balance sheets as of July 31, 2008 and 2007. The following table provides a reconciliation of the changes in the Plan's accumulated benefit obligations during the years ended July 31:

|                                  | <b>2008</b> | <b>2007</b> |
|----------------------------------|-------------|-------------|
| Obligation at beginning of year  | \$ 11,705   | \$ 12,650   |
| Service cost                     | 919         | 967         |
| Interest cost                    | 771         | 797         |
| Actuarial gain                   | (96)        | (2,097)     |
| Benefit payments                 | (687)       | (612)       |
| Plan Amendments                  | (413)       |             |
| Obligation at end of fiscal year | \$ 12,199   | \$ 11,705   |

As of July 31, 2008 and 2007, amounts recognized as liabilities in the accompanying consolidated balance sheets consist of:

|                      | <b>2008</b> | <b>2007</b> |
|----------------------|-------------|-------------|
| Current liability    | \$ 511      | \$ 575      |
| Noncurrent liability | 11,688      | 11,130      |
|                      | \$ 12,199   | \$ 11,705   |

As of July 31, 2008 and 2007, pre-tax amounts recognized in accumulated other comprehensive income in the accompanying consolidated balance sheets consist of:

|                      | <b>2008</b> | <b>2007</b> |
|----------------------|-------------|-------------|
| Net actuarial gain   | \$ 4,499    | \$ 4,698    |
| Prior service credit | 657         | 277         |
|                      | \$ 5,156    | \$ 4,975    |

Net periodic benefit cost for the Plan for fiscal years 2008, 2007 and 2006 includes the following components:

|   | <b>Years Ended July 31,</b> |             |             |
|---|-----------------------------|-------------|-------------|
|   | <b>2008</b>                 | <b>2007</b> | <b>2006</b> |
| Net periodic postretirement benefit cost included the following components: |                             |             |             |
| Service cost – benefits attributed to service during the period             | \$ 919                      | \$ 967      | \$ 1,049    |
| Prior service cost  | (33)                        | (33)        | (33)        |
| Interest cost on accumulated postretirement benefit obligation              | 771                         | 797         | 675         |
| Amortization of unrecognized gain   | (295)                       | (119)       | (27)        |
| Periodic postretirement benefit cost  | \$ 1,362                    | \$ 1,612    | \$ 1,664    |

The estimated actuarial gain and prior service credit that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost over the next fiscal year are \$351 and \$78, respectively.

The following assumptions were used in accounting for the Plan:

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|  | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|--|-------------|-------------|-------------|
| Weighted average discount rate used in determining accumulated postretirement benefit obligation liability | 6.8%        | 6.3%        | 6.0%        |
| Weighted average discount rate used in determining net periodic benefit cost                               | 6.3%        | 6.0%        | 5.0%        |
| Assumed health care trend rate used to measure APBO at July 31   | 8.0%        | 9.0%        | 10.0%       |
| Rate to which cost trend rate is assumed to decline (the ultimate trend rate)                              | 5.5%        | 5.5%        | 5.5%        |
| Fiscal year the ultimate trend rate is reached   | 2013        | 2011        | 2011        |

The assumed health care cost trend rate has a significant effect on the amounts reported for the Plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

|  | <b>One-Percentage<br/>Point Increase</b> | <b>One-Percentage<br/>Point<br/>Decrease</b> |
|--|--|--|
| Effect on future service and interest cost                               | \$ (82)                                  | \$ 93  |
| Effect on accumulated postretirement benefit obligation at July 31, 2008 | 91                                       | (112)  |

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

|                   | <b>Prior to<br/>Medicare Part<br/>D</b> | <b>After<br/>Medicare Part<br/>D</b> | <b>Impact of<br/>Medicare<br/>Part D</b> |
|-------------------|---|--------------------------------------|--|
| 2009              | \$ 557                                  | \$ 511                               | \$ (46)                                  |
| 2010              | 655                                     | 655                                  |  |
| 2011              | 727                                     | 727                                  |  |
| 2012              | 864                                     | 864                                  |  |
| 2013              | 993                                     | 993                                  |  |
| 2014 through 2018 | 7,802                                   | 7,802                                |  |

The Company has retirement and profit-sharing plans covering substantially all full-time domestic employees and certain of its foreign subsidiaries. Contributions to the plans are determined annually or quarterly, according to the respective plans, based on earnings of the respective companies and employee contributions. At July 31, 2008 and 2007, \$6,633 and \$6,590, respectively, of accrued profit-sharing contributions were included in other current liabilities and other long-term liabilities on the accompanying consolidated balance sheets.

The Company also has deferred compensation plans for directors, officers and key executives which are discussed below. At July 31, 2008 and 2007, \$11,095 and \$10,147, respectively, of deferred compensation was included in current and other long-term liabilities in the accompanying consolidated balance sheets.

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

During fiscal 2002, the Company adopted a new deferred compensation plan that allows future contributions to be invested in shares of the Company's Class A Nonvoting Common Stock or in certain other investment vehicles. Prior deferred compensation deferrals must remain in the Company's Class A Nonvoting Common Stock. All participant deferrals into the new plan result in purchases of Class A Nonvoting Common Stock or certain other investment vehicles by the Rabbi Trust. Balances held by the Rabbi Trust are distributed to participants upon separation from the

Company as defined in the plan agreement. On May 1, 2006, the plan was amended to require that deferrals into the Company's Class A Nonvoting Common Stock must remain in the Company's Class A Nonvoting Common Stock and be distributed in shares of the Company's Class A Nonvoting Common Stock.

The amounts charged to expense for the retirement, profit sharing and deferred compensation plans described above were \$17,275, \$14,990 and \$9,862 during the years ended July 31, 2008, 2007 and 2006, respectively.

**4. Income Taxes**

*Income before income taxes consists of the following:*

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|               | <b>Years Ended July 31,</b> |                   |                   |
|---------------|-----------------------------|-------------------|-------------------|
|               | <b>2008</b>                 | <b>2007</b>       | <b>2006</b>       |
| United States | \$ 46,388                   | \$ 58,538         | \$ 46,790         |
| Other Nations | 139,799                     | 93,390            | 97,898            |
| <b>Total</b>  | <b>\$ 186,187</b>           | <b>\$ 151,928</b> | <b>\$ 144,688</b> |

***Income taxes consist of the following:***

|  | <b>Years Ended July 31,</b> |                  |                  |
|--|-----------------------------|------------------|------------------|
|  | <b>2008</b>                 | <b>2007</b>      | <b>2006</b>      |
| Current income tax expense:            |                             |                  |                  |
| United States                          | \$ 15,356                   | \$ 5,439         | \$ 14,201        |
| Other Nations                          | 40,735                      | 34,835           | 26,143           |
| States (U.S.)                          | 667                         | 2,336            | 2,012            |
|  | 56,758                      | 42,610           | 42,356           |
| Deferred income tax expense (benefit): |                             |                  |                  |
| United States                          | 29                          | 2,728            | (75)             |
| Other Nations                          | (2,793)                     | (4,151)          | (472)            |
| States (U.S.)                          | 5                           | 1,353            | (1,296)          |
|  | (2,759)                     | (70)             | (1,843)          |
| <b>Total</b>                           | <b>\$ 53,999</b>            | <b>\$ 42,540</b> | <b>\$ 40,513</b> |

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:

|                                 | <b>July 31, 2008</b> |                    |               |
|---------------------------------|----------------------|--------------------|---------------|
|                                 | <b>Assets</b>        | <b>Liabilities</b> | <b>Total</b>  |
| Inventories                     | \$ 7,594             |                    | \$ 7,594      |
| Prepaid catalog costs           |                      | \$ (3,076)         | (3,076)       |
| Employee benefits               | 3,546                |                    | 3,546         |
| Allowance for doubtful accounts | 2,197                |                    | 2,197         |
| Other, net                      | 5,467                | (45)               | 5,422         |
| <b>Current</b>                  | <b>18,804</b>        | <b>(3,121)</b>     | <b>15,683</b> |
| Fixed Assets                    | 434                  | (6,857)            | (6,423)       |
| Intangible Assets               | 2,656                | (18,292)           | (15,636)      |
| Capitalized R&D expenditures    | 1,866                |                    | 1,866         |
| Deferred compensation           | 17,033               |                    | 17,033        |
| Postretirement benefits         | 7,017                |                    | 7,017         |
| Tax loss carryforwards          | 24,620               |                    | 24,620        |
| Less valuation allowance        | (23,484)             |                    | (23,484)      |

|            |           |             |           |
|------------|-----------|-------------|-----------|
| Other, net | 573       | (2,308)     | (1,735)   |
| Noncurrent | 30,715    | (27,457)    | 3,258     |
| Total      | \$ 49,519 | \$ (30,578) | \$ 18,941 |

|                                 | <b>July 31, 2007</b> |                    |              |
|---------------------------------|----------------------|--------------------|--------------|
|                                 | <b>Assets</b>        | <b>Liabilities</b> | <b>Total</b> |
| Inventories                     | \$ 6,289             |                    | \$ 6,289     |
| Prepaid catalog costs           |                      | \$ (1,785)         | (1,785)      |
| Employee benefits               | 2,318                |                    | 2,318        |
| Allowance for doubtful accounts | 851                  |                    | 851          |
| Other, net                      | 1,939                |                    | 1,939        |
| Current                         | 11,397               | (1,785)            | 9,612        |
| Depreciation                    |                      | (3,777)            | (3,777)      |
| Amortization                    | 8,170                | (19,629)           | (11,459)     |
| Capitalized R&D expenditures    | 2,333                |                    | 2,333        |
| Deferred compensation           | 13,799               |                    | 13,799       |

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|                          | <b>Assets</b> | <b>July 31, 2007<br/>Liabilities</b> | <b>Total</b> |
|--------------------------|---------------|--------------------------------------|--------------|
| Postretirement benefits  | 6,630         |                                      | 6,630        |
| Tax loss carryforwards   | 25,926        |                                      | 25,926       |
| Less valuation allowance | (19,687)      |                                      | (19,687)     |
| Other, net               | 333           | (1,898)                              | (1,565)      |
| Noncurrent               | 37,504        | (25,304)                             | 12,200       |
| Total                    | \$ 48,901     | \$ (27,089)                          | \$ 21,812    |

The valuation allowance increased \$3,797, \$4,019 and \$10,791 during the fiscal years ended July 31, 2008, 2007 and 2006, respectively.

Tax loss carry forwards at July 31, 2008 are comprised of foreign net operating losses of \$91,358, of which \$66,313 have no expiration date. The remaining balance relates to \$1,232 of foreign tax credits, state net operating losses of \$42,368, and state credits of \$1,256. The Company expects to utilize all credits; however, state net operating losses have begun to expire.

**Rate Reconciliation**

A reconciliation of the tax computed by applying the statutory U.S. Federal income tax rate to income before income taxes to the total income tax expense is as follows:

|  | <b>Years Ended July 31,</b> |             |             |
|--|-----------------------------|-------------|-------------|
|  | <b>2008</b>                 | <b>2007</b> | <b>2006</b> |
| Tax at statutory rate  | 35.0%                       | 35.0%       | 35.0%       |
| State income taxes, net of Federal tax benefit               | 0.2%                        | 1.6%        | 0.2%        |
| International rate differential                              | (5.9)%                      | (3.3)%      | (6.8)%      |
| Rate variances arising from foreign subsidiary distributions | (1.3)%                      | (2.7)%      | 0.2%        |
| Adjustments to tax accruals and reserves                     | 1.2%                        | (2.0)%      | (0.9)%      |
| Other, net   | (0.2)%                      | (0.6)%      | 0.3%        |
| Effective tax rate   | 29.0%                       | 28.0%       | 28.0%       |

The Company adopted FIN 48 on August 1, 2007. The adoption resulted in a \$903 reduction to earnings retained in the business as of August 1, 2007. Upon adoption of FIN 48, the Company also reclassified \$15,907 from accrued income taxes to other liabilities in the Company's consolidated balance sheets.

A reconciliation of unrecognized tax benefits (excluding interest and penalties) is as follows:

|   | <b>Year Ended<br/>July 31,<br/>2008</b> |
|---|---|
| Balance at August 1, 2007   | \$ 13,731                               |
| Additions based on tax positions related to the current year <sup>(1)</sup> | 3,003                                   |
| Additions for tax positions of prior years <sup>(1)</sup>                   | 580                                     |
| Reductions for tax positions of prior years                                 | (579)                                   |
| Lapse of statute of limitations   | (1,435)                                 |
| Cumulative Translation Adjustments  | 717                                     |

Balance at July 31, 2008 \$ 16,017

(1) Includes acquisitions.

Included in the balance of total unrecognized tax benefits at July 31, 2008 are potential benefits of approximately \$12,749, that if recognized, would affect the Company's effective income tax rate.

The Company does not anticipate any significant increases or decreases in the total amount of unrecognized tax benefits within the next 12 months.

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Interest expense is recognized on the amount of potentially underpaid taxes associated with the Company's tax positions, beginning in the first period in which interest starts accruing under the respective tax law and continuing until the tax positions are settled. During fiscal 2008, the Company recognized \$96 of interest expense and \$208 of penalties related to the reserve for uncertain tax positions, net of amounts reversing due to statute lapses. Such interest expense and penalties are included in the accompanying consolidated statements of income as a component of income tax expense. At July 31, 2008, the Company had \$2,146 accrued for interest on unrecognized tax benefits. Penalties are accrued if the tax position does not meet the minimum statutory threshold to avoid the payment of a penalty. At July 31, 2008, the Company had \$384 accrued for penalties on unrecognized tax benefits.

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

| <b>Jurisdiction</b>     | <b>Open Tax<br/>Years</b> |      |
|-------------------------|---------------------------|------|
| United States - Federal | F 05                      | F 08 |
| France                  | F 05                      | F 08 |
| Germany                 | F 03                      | F 08 |
| United Kingdom          | F 06                      | F 08 |

***Unremitted Earnings***

The Company's policy is to remit earnings from foreign subsidiaries only to the extent any resultant foreign income taxes are creditable in the United States. Accordingly, the Company does not currently provide for the additional United States and foreign income taxes which would become payable upon remission of undistributed earnings of foreign subsidiaries. The cumulative undistributed earnings of such subsidiaries at July 31, 2008 amounted to approximately \$403,432.

**Table of Contents****5. Long-Term Obligations**

On March 23, 2007, the Company completed the private placement of \$150 million in ten-year fixed notes at 5.33% interest to institutional investors. The notes will be amortized in equal installments over seven years, beginning in 2011, with interest payable on the notes semiannually on September 23 and March 23, which began in September 2007. The notes have been fully and unconditionally guaranteed on an unsecured basis by the Company's domestic subsidiaries. The Company used the net proceeds of the offering to reduce outstanding indebtedness under the Company's revolving loan agreement and fund its ongoing strategic growth plan. The private placement was exempt from the registration requirements of the Securities Act of 1933. The notes were not registered for resale and may not be resold absent such registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The notes have certain prepayment penalties for repaying them prior to the maturity date. The agreement also requires the Company to maintain a financial covenant. As of July 31, 2008, the Company was in compliance with this covenant.

On October 5, 2006, the Company entered into a \$200 million multi-currency revolving loan agreement with a group of five banks that replaced the Company's previous credit agreement. At the Company's option, and subject to certain standard conditions, the available amount under the new credit facility may be increased from \$200 million up to \$300 million. Under the credit agreement, the Company has the option to select either a base interest rate (based upon the higher of the federal funds rate plus one-half of 1% or the prime rate of Bank of America) or a Eurocurrency interest rate (at the LIBOR rate plus a margin based on the Company's consolidated leverage ratio). A commitment fee is payable on the unused amount of the facility. The agreement requires the Company to maintain two financial covenants. As of July 31, 2008, the Company was in compliance with the covenants of the agreement. The agreement restricts the amount of certain types of payments, including dividends, which can be made annually to \$50 million plus an amount equal to 75% of consolidated net income for the prior fiscal year of the Company. The Company believes that based on historic dividend practice, this restriction would not impede the Company in following a similar dividend practice in the future. On March 18, 2008, the Company entered into an amendment to the revolving loan agreement which extended the maturity date from October 5, 2011 to March 18, 2013. All other terms of the revolving loan agreement remained the same. During fiscal 2008 the Company borrowed \$18 million and repaid \$18 million under the revolving loan agreement. During fiscal 2007, the Company borrowed \$109.3 million and repaid \$109.3 million under the revolving loan agreement. As of July 31, 2008, there were no outstanding borrowings under the credit facility.

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

On June 30, 2004, the Company finalized a debt offering of \$150 million of 5.14% fixed rate unsecured senior notes due in 2014 in an offering exempt from the registration requirements of the Securities Act of 1933. The debt offering was in conjunction with the Company's acquisition of EMED. The notes will be repaid over seven years beginning in 2008 with interest payable on the notes semiannually on June 28 and December 28, which began in December 2004. The Company used the proceeds of the offering to reduce outstanding indebtedness under the Company's revolving credit facilities. The debt has certain prepayment penalties for repaying the debt prior to its maturity date. The Company paid its first installment under the debt agreement in June 2008 for \$21.4 million. The agreement also requires the Company to maintain a financial covenant. As of July 31, 2008, the Company was in compliance with this covenant.

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

|                         | <b>2008</b> | <b>2007</b> |
|-------------------------|-------------|-------------|
| Various bank loans      | \$ 3        | \$ 19       |
| Fixed debt              | 478,571     | 500,000     |
|                         | 478,574     | 500,019     |
| Less current maturities | \$ (21,431) | \$ (21,444) |
|                         | \$ 457,143  | \$ 478,575  |

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The fair value of the Company's long-term obligations approximates \$495,476 at July 31, 2008. The fair value of the Company's long-term obligations is estimated based on quoted market prices for the same or similar issue and on the current rates offered for debt of the same maturities.

Maturities on long-term debt are as follows:

**Years Ending July 31,**

|            |            |
|------------|------------|
| 2009       | \$ 21,431  |
| 2010       | 50,000     |
| 2011       | 71,429     |
| 2012       | 71,429     |
| 2013       | 71,429     |
| Thereafter | 192,856    |
| Total      | \$ 478,574 |

The Company had outstanding letters of credit of \$1,959 and \$1,680 at July 31, 2008 and 2007, respectively.

**6. Stockholders Investment**

Information as to the Company's capital stock at July 31, 2008 and 2007 is as follows:

|                                     | July 31, 2008        |                  |        | July 31, 2007        |                  |        |
|-------------------------------------|----------------------|------------------|--------|----------------------|------------------|--------|
|                                     | Shares<br>Authorized | Shares<br>Issued | Amount | Shares<br>Authorized | Shares<br>Issued | Amount |
| Preferred Stock, \$.01<br>par value | 5,000,000            |                  |        | 5,000,000            |                  |        |
| Cumulative Preferred<br>Stock:      |                      |                  |        |                      |                  |        |
| 6% Cumulative                       | 5,000                |                  |        | 5,000                |                  |        |
| 1972 Series                         | 10,000               |                  |        | 10,000               |                  |        |
| 1979 Series                         | 30,000               |                  |        | 30,000               |                  |        |
| Common Stock, \$.01<br>par value:   |                      |                  |        |                      |                  |        |
| Class A Nonvoting                   | 100,000,000          | 51,261,487       | \$ 513 | 100,000,000          | 50,586,524       | \$ 506 |
| Class B Voting                      | 10,000,000           | 3,538,628        | 35     | 10,000,000           | 3,538,628        | 35     |
|                                     |                      |                  | \$ 548 |                      |                  | \$ 541 |

Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of \$.01665 per share. Thereafter, any further dividend in that fiscal year must be paid on each share of Class A Common Stock and Class B Common Stock on an equal basis.

Other than as required by law, holders of the Class A Common Stock are not entitled to any vote on corporate matters, unless, in each of the three preceding fiscal years, the \$.01665 preferential dividend described above has not been paid in full. Holders of the Class A Common Stock are entitled to one vote per share for the entire fiscal year immediately following the third consecutive fiscal year in which the preferential dividend is not paid in full. Holders of Class B Common Stock are entitled to one vote per share for the election of directors and for all other purposes.

Upon liquidation, dissolution or winding up of the Company, and after distribution of any amounts due to holders of Cumulative Preferred Stock, holders of the Class A Common Stock are entitled to receive the sum of \$0.835 per share before any payment or distribution to holders of the Class B Common Stock. Thereafter, holders of the Class B Common Stock are entitled to receive a payment or distribution of \$0.835 per share. Thereafter, holders of the Class A Common Stock and Class B Common Stock share equally in all payments or distributions upon liquidation,



dissolution or winding up of the Company.

The preferences in dividends and liquidation rights of the Class A Common Stock over the Class B Common Stock will terminate at any time that the voting rights of Class A Common Stock and Class B Common Stock become equal.

In September 2007, the Company announced that the Board of Directors of the Company had authorized a share repurchase plan for up to one million shares of the Company's Class A Nonvoting Common Stock. The share repurchase plan may be implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. In March 2008, the Company announced that the Board of Directors of the Company authorized a share repurchase plan for up to an additional one million shares of the Company's Class A Nonvoting Common Stock. Under the repurchase plans approved by the Board of Directors, the Company reacquired approximately 1,349,000 shares of its Class A Common Stock for \$42.2 million in fiscal 2008. As of July 31, 2008, the Company was authorized to purchase up to approximately 651,000 additional shares in connection with the share repurchase plans.

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In September 2005, the Company announced that the Board of Directors of the Company approved a share repurchase program for up to 800,000 shares of the Company's Class A Common Stock during fiscal 2006. The share repurchase plan was implemented by purchasing shares on the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock option plan and for other corporate purposes. The Company completed the repurchase of all 800,000 shares of its Class A Common Stock for \$26,495 under the repurchase plan approved by the Board of Directors during the fiscal year ended July 31, 2006.

In June 2006, the Company sold, pursuant to an underwritten public offering, 4,600,000 shares of its Class A nonvoting common stock at a price of \$36 per share. Cash proceeds from the offering, net of underwriting discounts, were \$158,148. In addition to underwriting discounts, the Company incurred \$403 of additional accounting, legal and other expenses related to the offering that were charged to additional paid-in capital. The proceeds were used to fund acquisitions completed in fiscal 2006 and early fiscal 2007.

The following is a summary of other activity in stockholders' investment for the years ended July 31, 2008, 2007 and 2006:

|                                  | <b>Unearned<br/>Restricted</b> | <b>Deferred</b>     | <b>Shares Held<br/>in Rabbi<br/>Trust, at</b> | <b>Total</b> |
|----------------------------------|--------------------------------|---------------------|---|--------------|
|                                  | <b>Stock</b>                   | <b>Compensation</b> | <b>cost</b>                                   |              |
| Balances July 31, 2005           | \$ 0                           | \$ 14,775           | \$ (15,825)                                   | \$ (1,050)   |
| Shares at July 31, 2005          |                                | 950,222             | 997,034                                       |              |
| Sale of shares at cost           |                                | (450)               | 451   | 1            |
| Purchase of shares at cost       |                                | 573                 | (1,466)                                       | (893)        |
| Effect of plan amendment         |                                | 2,704               |   | 2,704        |
| Balances at July 31, 2006        | \$ 0                           | \$ 17,602           | \$ (16,840)                                   | \$ 762       |
| Shares at July 31, 2006          |                                | 1,012,914           | 1,012,914                                     |              |
| Sale of shares at cost           |                                | (5,242)             | 5,134   | (108)        |
| Purchase of shares at cost       |                                | 1,215               | (1,215)                                       |              |
| Balances at July 31, 2007        | \$ 0                           | \$ 13,575           | \$ (12,921)                                   | \$ 654       |
| Shares at July 31, 2007          |                                | 724,417             | 724,417                                       |              |
| Sale of shares at cost           |                                | (1,121)             | 1,154   | 33           |
| Purchase of shares at cost       |                                | 1,189               | (1,189)                                       |              |
| Issuance of restricted stock     | (6,892)                        |                     |   | (6,892)      |
| Amortization of restricted stock | 710                            |                     |   | 710          |
| Balances at July 31, 2008        | \$ (6,182)                     | \$ 13,643           | \$ (12,956)                                   | \$ (5,495)   |
| Shares at July 31, 2008          |                                | 690,539             | 690,539                                       |              |

Prior to 2002, all Brady Corporation deferred compensation was invested in the Company's Class A Nonvoting Common Stock. In 2002, the Company adopted a new deferred compensation plan which allowed investing in other investment funds in addition to the Company's Class A Nonvoting Common Stock. Under this plan, participants were

allowed to transfer funds between the Company's Class A Nonvoting Common Stock and the other investment funds. On May 1, 2006 the plan was amended with the provision that deferrals into the Company's Class A Nonvoting Common Stock must remain in the Company's Class A Nonvoting Common Stock and be distributed in shares of the Company's Class A Nonvoting Common Stock. At July 31, 2008, the deferred compensation balance in stockholders investment represents the investment at the original cost of shares held in the Company's Class A Nonvoting Common Stock for the deferred compensation plan prior to 2002 and the investment at the cost of shares held in the Company's Class A Nonvoting Common Stock for the plan subsequent to 2002, adjusted for the plan amendment on May 1, 2006. The balance of shares held in the Rabbi Trust represents the investment in the Company's Class A Nonvoting Common Stock at the original cost of all the Company's Class A Nonvoting Common Stock held in deferred compensation plans.

The Company's Employee Monthly Stock Investment Plan (the Plan) provides that eligible employees may authorize a fixed dollar amount between \$20 and \$500 per month to be deducted from their pay. The funds deducted are forwarded to the Plan administrator and are used to purchase the Company's Class A Nonvoting Common Stock at the market price. As part of the Plan, Brady pays all brokerage fees for stock purchases and dividend reinvestments.

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock or restricted shares of Class A Nonvoting Common Stock to employees. Additionally, the Company has a nonqualified stock option plan for non-employee directors under which stock options to purchase shares of Class A Nonvoting Common Stock are available for grant. The options have an exercise price equal to the fair market value of the

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underlying stock at the date of grant and generally vest ratably over a three-year period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Options issued under these plans, referred to herein as service-based options, generally expire 10 years from the date of grant. The Company also grants stock options to certain executives and key management employees that vest upon meeting certain financial performance conditions over the vesting schedule described above. These options are referred to herein as performance-based options. All performance-based options that were granted in fiscal 2006 and in prior years expire five years from the date of grant. Performance-based options granted in fiscal 2007 and forward expire 10 years from the date of grant. Restricted shares have an issuance price equal to the fair market value of the underlying stock at the date of grant. They vest at the end of a five-year period and upon meeting certain financial performance conditions. These shares are referred to herein as performance-based restricted shares.

As of July 31, 2008, the Company has reserved 4,195,208 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 972,500 shares of Class A Nonvoting Common Stock remain for future issuance of stock options and restricted shares under the various plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

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Changes in the options are as follows:

|                        | <b>Option Price</b> | <b>Options Outstanding</b> | <b>Weighted Average Exercise Price</b> |
|------------------------|---------------------|----------------------------|--|
| Balance, July 31, 2005 | \$ 9.59 - \$31.54   | 3,529,331                  | \$ 18.41                               |
| Options granted        | 33.75 - 40.37       | 955,500                    | 36.33                                  |
| Options exercised      | 9.59 - 28.84        | (596,643)                  | 14.95                                  |
| Options cancelled      | 16.00 - 40.37       | (73,136)                   | 27.20                                  |
| Balance, July 31, 2006 | \$ 9.59 - \$40.37   | 3,815,052                  | \$ 23.27                               |
| Options granted        | 32.93 - 38.19       | 908,000                    | 36.74                                  |
| Options exercised      | 9.59 - 28.84        | (397,682)                  | 17.13                                  |
| Options cancelled      | 16.00 - 40.37       | (142,631)                  | 35.40                                  |
| Balance, July 31, 2007 | \$ 9.59 - \$40.37   | 4,182,739                  | \$ 26.36                               |
| Options granted        | 35.10 - 38.31       | 977,500                    | 37.41                                  |
| Options exercised      | 9.59 - 38.19        | (763,708)                  | 19.02                                  |
| Options cancelled      | 14.16 - 30.37       | (411,326)                  | 36.42                                  |
| Balance, July 31, 2008 | \$ 9.59 - \$40.37   | 3,985,205                  | \$ 29.43                               |

The total fair value of options vested during the fiscal years ended July 31, 2008, 2007 and 2006 was \$8,626, \$4,687 and \$4,744, respectively. The total intrinsic value of options exercised during the fiscal years ended July 31, 2008, 2007 and 2006 was \$14,479, \$8,272 and \$13,974, respectively.

There were 2,399,742, 2,300,239 and 2,062,153 options exercisable with a weighted average exercise price of \$24.42, \$21.07 and \$17.02 at July 31, 2008, 2007 and 2006, respectively. The cash received from the exercise of options and the tax benefit on these exercises during the fiscal years ended July 31, 2008, 2007, and 2006 was \$18,685, \$8,321, and \$13,828, respectively.

The following table summarizes information about stock options outstanding at July 31, 2008:

| <b>Range of Exercise Prices</b> | <b>Options Outstanding</b>                           |   |  | <b>Options Outstanding and Exercisable</b> |  |
|---------------------------------|--|---|--|--|--|
|                                 | <b>Number of Shares Outstanding at July 31, 2008</b> | <b>Weighted Average Remaining Contractual Life (in years)</b> | <b>Weighted Average Exercise Price</b> | <b>Shares Exercisable at July 31, 2008</b> | <b>Weighted Average Exercise Price</b> |
| Up to \$14.99                   | 320,834  | 3.7   | \$13.42                                | 320,834                                    | \$13.42                                |
| \$15.00 to \$29.99              | 1,396,869  | 5.0   | 21.07                                  | 1,396,869                                  | 21.07                                  |
| \$30.00 and up                  | 2,267,502  | 8.1   | 36.84                                  | 682,039                                    | 36.46                                  |

|       |           |     |       |           |       |
|-------|-----------|-----|-------|-----------|-------|
| Total | 3,985,205 | 6.7 | 29.43 | 2,399,742 | 24.42 |
|-------|-----------|-----|-------|-----------|-------|

As of July 31, 2008, the aggregate intrinsic value of the number of options outstanding and the number of options outstanding and exercisable was \$31,092 and \$29,986, respectively. The Company granted 210,000 performance-based restricted shares during fiscal 2008, with a grant price and fair value of \$32.83. As of July 31, 2008, 210,000 performance-based restricted shares were outstanding.

## 7. Segment Information

The Company evaluates short-term segment performance based on segment profit or loss and customer sales. Corporate long-term performance is evaluated based on shareholder value enhancement ( SVE ), which incorporates the cost of capital as a hurdle rate for capital expenditures, new product development, acquisitions, and long-term lines of business. Segment profit or loss does not include certain administrative costs, interest, foreign exchange gain or loss, other expenses not allocated to a segment, and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Company is organized and managed on a geographic basis by region. Each of these regions, Brady Americas, Brady Europe and Brady Asia Pacific, has a President that reports directly to the Company's chief operating decision maker, its Chief Executive Officer. Each region has its own distinct operations, is managed locally by its own management team, maintains its own financial reports and is evaluated based on regional segment profit. In applying the criteria set forth in SFAS 131 Disclosures about Segments of an Enterprise and Related Information , the Company has determined that these regions comprise its reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

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

Intersegment sales and transfers are recorded at cost plus a standard percentage markup. Intercompany profit is eliminated in consolidation. It is not practicable to disclose enterprise-wide revenue from external customers on the basis of product or service.

|  | <b>Americas</b> | <b>Europe</b> | <b>Asia-Pacific</b> | <b>Subtotals</b> | <b>Corporate<br/>and<br/>Eliminations</b> | <b>Totals</b> |
|--|-----------------|---------------|---------------------|------------------|---|---------------|
| Year ended July 31,<br>2008:                         |                 |               |                     |                  |   |               |
| Revenues from<br>external customers                  | \$667,106       | \$496,715     | \$359,195           | \$1,523,016      |   | \$1,523,016   |
| Intersegment<br>revenues                             | 54,677          | 8,511         | 25,995              | 89,183           | \$ (89,183)                               |               |
| Depreciation and<br>amortization expense             | 24,856          | 11,172        | 15,482              | 51,510           | 9,077                                     | 60,587        |
| Segment profit                                       | 157,523         | 135,426       | 58,234              | 351,183          | (9,048)                                   | 342,135       |
| Assets   | 755,770         | 396,058       | 397,531             | 1,549,359        | 301,154                                   | 1,850,513     |
| Expenditures for<br>property, plant and<br>equipment | 7,535           | 4,714         | 5,269               | 17,518           | 8,889                                     | 26,407        |
| Year ended July 31,<br>2007:                         |                 |               |                     |                  |   |               |
| Revenues from<br>external customers                  | \$609,855       | \$416,514     | \$336,262           | \$1,362,631      |   | \$1,362,631   |
| Intersegment<br>revenues                             | 52,595          | 6,511         | 23,554              | 82,660           | \$ (82,660)                               |               |
| Depreciation and<br>amortization expense             | 23,643          | 8,363         | 16,913              | 48,919           | 4,937                                     | 53,856        |
| Segment profit                                       | 144,583         | 107,552       | 57,236              | 309,371          | (10,485)                                  | 298,886       |
| Assets   | 781,868         | 347,827       | 376,645             | 1,506,340        | 192,517                                   | 1,698,857     |
| Expenditures for<br>property, plant and<br>equipment | 19,834          | 5,849         | 15,301              | 40,984           | 10,956                                    | 51,940        |
| Year ended July 31,<br>2006:                         |                 |               |                     |                  |   |               |
| Revenues from<br>external customers                  | \$498,916       | \$319,432     | \$200,088           | \$1,018,436      |   | \$1,018,436   |
| Intersegment<br>revenues                             | 54,716          | 4,017         | 6,376               | 65,109           | \$ (65,109)                               |               |
| Depreciation and<br>amortization expense             | 20,407          | 6,282         | 7,435               | 34,124           | 1,020                                     | 35,144        |
| Segment profit                                       | 125,065         | 83,970        | 49,316              | 258,351          | (13,173)                                  | 245,178       |
| Assets   | 643,206         | 255,635       | 338,424             | 1,237,265        | 127,921                                   | 1,365,186     |
| Expenditures for<br>property, plant and              | 22,838          | 6,397         | 7,303               | 36,538           | 2,872                                     | 39,410        |

equipment

|                                      | <b>Years Ended July 31,</b> |             |             |
|--------------------------------------|-----------------------------|-------------|-------------|
|                                      | <b>2008</b>                 | <b>2007</b> | <b>2006</b> |
| Net income reconciliation:           |                             |             |             |
| Total profit for reportable segments | \$ 351,183                  | \$ 309,371  | \$ 258,351  |
| Corporate and eliminations           | (9,048)                     | (10,485)    | (13,173)    |
| Unallocated amounts:                 |                             |             |             |
| Administrative costs                 | (134,451)                   | (126,899)   | (88,662)    |
| Investment and other income net      | 4,888                       | 2,875       | 2,403       |
| Interest expense                     | (26,385)                    | (22,934)    | (14,231)    |
| Income before income taxes           | 186,187                     | 151,928     | 144,688     |
| Income taxes                         | (53,999)                    | (42,540)    | (40,513)    |
| Net income                           | \$ 132,188                  | \$ 109,388  | \$ 104,175  |

|                         | <b>Revenues*</b>            |              |              | <b>Long-Lived Assets**</b>        |              |             |
|-------------------------|-----------------------------|--------------|--------------|-----------------------------------|--------------|-------------|
|                         | <b>Years Ended July 31,</b> |              |              | <b>As of Years Ended July 31,</b> |              |             |
|                         | <b>2008</b>                 | <b>2007</b>  | <b>2006</b>  | <b>2008</b>                       | <b>2007</b>  | <b>2006</b> |
| Geographic information: |                             |              |              |                                   |              |             |
| United States           | \$ 622,618                  | \$ 589,013   | \$ 484,387   | \$ 532,273                        | \$ 537,182   | \$ 439,467  |
| China                   | 192,048                     | 184,413      | 90,519       | 131,810                           | 121,181      | 114,653     |
| Other                   | 794,036                     | 671,865      | 508,639      | 440,021                           | 403,462      | 307,539     |
| Eliminations            | (85,686)                    | (82,660)     | (65,109)     |                                   |              |             |
| Consolidated total      | \$ 1,523,016                | \$ 1,362,631 | \$ 1,018,436 | \$ 1,104,104                      | \$ 1,061,825 | \$ 861,659  |



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\* Revenues are attributed based on country of origin.

\*\* Long-lived assets consist of property, plant, and equipment, other intangible assets and goodwill.

**Table of Contents****8. Net Income Per Common Share**

Net income per Common Share is computed by dividing net income (after deducting the applicable preferential Class A Common Stock dividends) by the weighted average Common Shares outstanding of 54,167,746 for 2008, 53,906,769 for 2007, and 49,493,976 for 2006. The preferential dividend on the Class A Common Stock of \$.01665 per share has been added to the net income per Class A Common Share for all years presented.

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

|   | Years ended July 31, |            |            |
|---|----------------------|------------|------------|
|   | 2008                 | 2007       | 2006       |
| Numerator   |                      |            |            |
| Net income (numerator for basic and diluted Class A net income per share) | \$ 132,188           | \$ 109,388 | \$ 104,175 |
| Less:   |                      |            |            |
| Preferential dividends  | (847)                | (836)      | (758)      |
| Preferential dividends on dilutive stock options                          | (13)                 | (15)       | (15)       |
| Numerator for basic and diluted Class B net income per share              | \$ 131,328           | \$ 108,537 | \$ 103,402 |
| Denominator:  |                      |            |            |
| Denominator for basic net income per share for both Class A and B         | 54,168               | 53,907     | 49,494     |
| Plus: effect of dilutive stock options                                    | 705                  | 834        | 850        |
| Treasury shares - deferred compensation plan                              |                      |            | 41         |
| Denominator for diluted net income per share for both Class A and B       | 54,873               | 54,741     | 50,385     |
| Class A common stock net income per share calculation:                    |                      |            |            |
| Basic   | \$ 2.45              | \$ 2.03    | \$ 2.10    |
| Diluted   | \$ 2.41              | \$ 2.00    | \$ 2.07    |
| Class B common stock net income per share calculation:                    |                      |            |            |
| Basic   | \$ 2.43              | \$ 2.01    | \$ 2.09    |
| Diluted   | \$ 2.39              | \$ 1.98    | \$ 2.05    |

Options to purchase 1,599,792, 1,132,750 and 650,500 shares of Class A common stock were excluded from the computations of diluted net income per share for years ended July 31, 2008, 2007 and 2006, respectively, because the option exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

**9. Commitments and Contingencies**

The Company has entered into various noncancellable operating lease agreements. Rental expense charged to operations on a straight-line basis was \$27,443, \$22,779 and \$15,181 for the years ended July 31, 2008, 2007 and 2006, respectively. Future minimum lease payments required under such leases in effect at July 31, 2008 are as follows, for the years ending July 31:

|      |           |
|------|-----------|
| 2009 | \$ 26,151 |
| 2010 | 20,515    |
| 2011 | 14,092    |

|            |           |
|------------|-----------|
| 2012       | 7,371     |
| 2013       | 5,060     |
| Thereafter | 4,748     |
|            | \$ 77,937 |

In the normal course of business, the Company is named as a defendant in various lawsuits in which claims are asserted against the Company. In the opinion of management, the liabilities, if any, which may ultimately result from lawsuits are not expected to have a material adverse effect on the consolidated financial statements of the Company.

**Table of Contents****10. Unaudited Quarterly Financial Information**

|   | <b>Quarters</b> |               |              |               |              |
|---|-----------------|---------------|--------------|---------------|--------------|
|   | <b>First</b>    | <b>Second</b> | <b>Third</b> | <b>Fourth</b> | <b>Total</b> |
| <b>2008</b>                             |                 |               |              |               |              |
| Net Sales                               | \$380,134       | \$364,124     | \$381,909    | \$396,849     | \$1,523,016  |
| Gross Margin                            | 187,667         | 175,023       | 189,576      | 191,929       | 744,195      |
| Operating Income                        | 58,338          | 42,444        | 52,582       | 54,320        | 207,684      |
| Net Income                              | 36,370          | 26,690        | 34,353       | 34,775        | 132,188      |
| Net Income Per Class A<br>Common Share: |                 |               |              |               |              |
| Basic                                   | 0.67            | 0.49          | 0.64         | 0.65          | 2.45         |
| Diluted                                 | 0.66            | 0.48          | 0.63         | 0.64          | 2.41         |
| <b>2007</b>                             |                 |               |              |               |              |
| Net Sales                               | \$332,259       | \$321,275     | \$346,332    | \$362,765     | \$1,362,631  |
| Gross Margin                            | 164,128         | 150,161       | 169,151      | 173,604       | 657,044      |
| Operating Income                        | 51,941          | 32,724        | 46,303       | 41,019        | 171,987      |
| Net Income                              | 34,448          | 19,709        | 28,987       | 26,244        | 109,388      |
| Net Income Per Class A<br>Common Share: |                 |               |              |               |              |
| Basic                                   | 0.64            | 0.37          | 0.54         | 0.49          | 2.03         |
| Diluted                                 | 0.63            | 0.36          | 0.53         | 0.48          | 2.00         |

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures:**

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of July 31, 2008.

**Management's Report on Internal Control Over Financial Reporting:**

The management of Brady Corporation and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.

With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of July 31, 2008, based on the framework and criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management concluded that, as of July 31, 2008, the Company's internal control over financial reporting is effective based on those criteria. The Company's internal control over financial reporting, as of July 31, 2008, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Because of the inherent limitations of internal control over financial reporting, misstatements may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Changes in Internal Control Over Financial Reporting:**

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

There were no other changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the internal control over financial reporting of Brady Corporation and subsidiaries (the Company) as of July 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management report (Management's Report on Internal Control over Financial Reporting). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended July 31, 2008, of the Company and our report dated September 26, 2008, expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP  
Milwaukee, WI  
September 26, 2008

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**Item 9B. *Other Information***

None.

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**Table of Contents****PART III****Item 10. Directors and Executive Officers of the Registrant**

| <b>Name</b>           | <b>Age</b> | <b>Title</b>   |
|-----------------------|------------|--|
| Frank M. Jaehnert     | 51         | President, CEO and Director                              |
| Thomas J. Felmer      | 46         | Sr. V.P., CFO  |
| Barbara Bolens        | 47         | V.P., Treasurer, Director of Investor Relations          |
| Allan J. Klotsche     | 43         | President Brady Asia-Pacific and V.P., Brady Corporation |
| Peter C. Sephton      | 49         | President Brady Europe and V.P., Brady Corporation       |
| Matt O. Williamson    | 52         | President Brady Americas and V.P., Brady Corporation     |
| Robert L. Tatterson   | 43         | V.P. and Chief Technology Officer                        |
| Conrad G. Goodkind    | 64         | Director   |
| Elizabeth Pungello    | 41         | Director   |
| Robert C. Buchanan    | 68         | Director   |
| Richard A. Bemis      | 67         | Director   |
| Frank W. Harris       | 66         | Director   |
| Gary E. Nei           | 64         | Director   |
| Frank R. Jarc         | 66         | Director   |
| Chan W. Galbato       | 45         | Director   |
| Patrick W. Allender   | 61         | Director   |
| Bradley C. Richardson | 50         | Director   |

*Frank M. Jaehnert* Mr. Jaehnert joined the Company in 1995 as Finance Director of the Identification Solutions & Specialty Tapes Group. He served as Chief Financial Officer from November 1996 to January 2002. He served as Senior Vice President of the Company and President, Identification Solutions and Specialty Tapes Group from January 2002 to March 2003. In February 2003, he was appointed to his current position, effective April 1, 2003. He has served as a Director of the Company since April 2003. Before joining the Company, he held various financial and management positions for Robert Bosch GmbH from 1983 to 1995.

*Thomas J. Felmer* Mr. Felmer joined the Company in 1989 and has held several sales and marketing positions until being named Vice President and General Manager of Brady's U.S. Signmark Division in 1994. In 1999, Mr. Felmer moved to Europe where he led the European Signmark business for two years, then gained additional responsibility for the combined European Seton and Signmark businesses, which he also led for two years. In 2003, Mr. Felmer returned to Milwaukee where he was responsible for Brady's global sales and marketing processes, Brady Software businesses, and due diligence/integration of the EMED acquisition. In June 2004, he was appointed President-Direct Marketing Americas, and was named Chief Financial Officer in January 2008.

*Barbara Bolens* Ms. Bolens joined the Company in 1986 and has held a wide variety of positions beginning in customer service and customer service management and progressing through product management and new product development. For 10 years, she had been the Assistant Treasurer and has held several other positions on the Corporate Finance Team throughout that time. She was appointed to her present position in November 2004. Ms. Bolens also holds the position of Director of Investor Relations.

*Allan J. Klotsche* Mr. Klotsche joined the Company in 1988. He served in a variety of sales, marketing, technical, and management roles until 1998, when he was appointed V.P. and General Manager of the Precision Tapes Group. He was appointed to his current position in April 2003.

*Peter C. Sephton* Mr. Sephton joined the Company in 1997 as Managing Director Seton-U.K. From 2001 to 2003 he served as managing director for Brady's Identification Solutions Business in Europe. In April 2003, he was appointed to his current position. Before joining Brady, he served in a variety of international managerial roles with Tate and Lyle Plc, Sutcliffe Speakman Plc and Morgan Crucible Plc. He is a graduate in accountancy and law from The University of Wales (UCC).



*Matthew O. Williamson* Mr. Williamson joined the Company in 1979. From 1979 to 1994, he served in a variety of sales and marketing leadership roles. In 1995, Mr. Williamson served as the V.P. and General Manager of the Specialty Tape business. From 1996 to 1998, Mr. Williamson served as the V.P. and General Manager of the Identification Solutions and Specialty Tapes Division. From 1998 to 2001, he served as V.P. and General Manager of the Identification Solutions Division. From 2001 to 2003, he served as

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V.P. and General Manager of the Global High Performance Identification Business. In April 2003, he was appointed President of the Brady Americas business. In addition to his role as President of the Brady Americas business, in January of 2008, Mr. Williamson assumed responsibility for the Direct Marketing Americas, and is currently serving as President of the Americas segment.

*Robert L. Tatterson* Mr. Tatterson joined the Company in 2006 as Vice President and Chief Technology Officer. Before joining Brady, he held a variety of positions with increasing responsibility at GE since 1992. Most recently, Mr. Tatterson served as Technology General Manager for GE Plastics Display and Optical Film business in Mt. Vernon, Indiana. He is a 6 Sigma Master Blackbelt and holds a Ph.D. in chemical engineering from the University of Michigan in Ann Arbor.

*Conrad G. Goodkind* Mr. Goodkind served as Secretary of the Company from November 1999 until November 2007, and was elected to the Board of Directors in September 2007. He serves as a member of the Governance and Retirement Committees, and chairs the Finance Committee. He is an attorney in the law firm of Quarles & Brady LLP, which he joined in 1979. He served as a member of the Executive Committee of Quarles & Brady LLP from 1983 to 2005. Mr. Goodkind was a director of Cade Industries, Inc. from 1989 to 1999, and a director of Able Distributing Co., Inc., from 1994 to 2005.

*Elizabeth Pungello* Dr. Pungello has been a Director of the Company since November 2003. She is a member of the Company's Finance, Governance and Technology Committees. Dr. Pungello is the great-granddaughter of Brady founder William H. Brady, Sr., and a developmental psychologist at the Frank Porter Graham Child Development Institute at the University of North Carolina at Chapel Hill. She has served as president of the Brady Education Foundation (formerly the W.H. Brady Foundation) since January 2001.

*Robert C. Buchanan* Mr. Buchanan has been a Director of the Company since November 1987. Mr. Buchanan is chair of the Corporate Governance Committee, and serves as a member of the Audit and Compensation Committees. Mr. Buchanan is the retired Chairman of the Board of Fox Valley Corporation in Appleton, Wisconsin. He is also a trustee of The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.

*Richard A. Bemis* Mr. Bemis has been a Director of the Company since January 1990 and is a member of its Corporate Governance, Finance and Technology Committees. Mr. Bemis is Co-chairman of the Board of Directors of Bemis Manufacturing Company, a manufacturer of molded plastic products in Sheboygan Falls, Wisconsin. He is also a director of Integrys Corporation, Chicago, Illinois.

*Frank W. Harris* Dr. Harris has been a Director of the Company since November 1991. Dr. Harris is a member of its Finance Committee, and chair of the Technology Committee. He is an Emeritus Distinguished Professor of Polymer Science at the University of Akron, and has been on its faculty since 1983. He is also President and CEO of Akron Polymer Systems, a company that develops and markets polymer films, coatings and resins for high-performance applications.

*Gary E. Nei* Mr. Nei has been a Director of the Company since November 1992. Mr. Nei is a member of the Company's Finance Committee and Chair of its Compensation Committee. Mr. Nei is Chairman of Nei-Turner Media, a publishing company in Williams Bay, Wisconsin. He also serves as Chairman of the Beverage Testing Institute, a publishing company in Chicago, Illinois and Chairman of Tastings Imports, an importer of fine wines headquartered in Chicago, Illinois.

*Frank R. Jarc* Mr. Jarc has been a Director of the Company since May 2000. Mr. Jarc is chair of Brady's Audit and Retirement Committees and is a member of the Compensation Committee. He is a consultant specializing in corporate development and international acquisitions. From April 1999 to March 2000 he was Senior Vice President of Corporate Development at Office Depot, an operator of office supply superstores. Between June 1996 and March 1999, he was Executive Vice President and Chief Financial Officer of Viking Office Products, a direct mail marketer of office products. Prior to that, he was Executive Vice President and Chief Financial Officer of R.R. Donnelley and Sons, a global printing company.

*Chan W. Galbato* Mr. Galbato was elected to the Board of Directors in November 2006, and serves as a member of the Audit and Technology Committees. Since 2007, he has provided strategy and operations consulting services for CWG Hillside Investments. Prior to his current position, he served as President and CEO of the controls division of Invensys plc from 2005 to 2007. Prior to his position with Invensys, he served as president of services at Home Depot;

president and chief executive officer of Armstrong Floor Products; chief executive officer of Choice Parts; and chief executive officer of Coregis Insurance Company, a GE Capital company.

*Patrick W. Allender* Mr. Allender was elected to the Board of Directors in September 2007 and serves as a member of the Audit and Compensation Committees. He is the former Executive Vice President and Chief Financial Officer of Danaher Corporation,

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which he joined in 1987 as CFO and secretary. Prior to joining Danaher, Mr. Allender was a partner with Arthur Andersen LLP. Mr. Allender is currently a member of the Board of Directors of Colfax Corporation.

*Bradley C. Richardson* Mr. Richardson was elected to the Board of Directors in November 2007 and serves as a member of the Audit and Finance Committees. He is Executive Vice President, Corporate Strategy and Chief Financial Officer of Modine Manufacturing Company. Prior to his current position, he spent more than twenty years in a variety of financial and operational positions at BP Amoco including CFO and VP of performance management and control for their Worldwide Exploration and Production division based in London, president of their businesses in Venezuela and CFO for Amoco Energy Group North America. Mr. Richardson currently serves on the Board of Directors for Modine Manufacturing Company and Tronox Incorporated.

All directors serve until their respective successors are elected at the next annual meeting of shareholders. Officers serve at the discretion of the Board of Directors. None of the Company's directors or executive officers has any family relationship with any other director or executive officer.

*Audit Committee Financial Expert* The Company's board of directors has determined that at least one audit committee financial expert is serving on its audit committee. Mr. Jarc, chair of the audit committee, Mr. Allender, member of the audit committee, Mr. Richardson, member of the audit committee, and Mr. Galbato, member of the audit committee are financial experts and are independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

*Director Independence* A majority of the directors must meet the criteria for independence established by the Board in accordance with the rules of the New York Stock Exchange. In determining the independence of a director, the Board must find that a director has no relationship that may interfere with the exercise of his or her independence from management and the Company. Based on these guidelines all directors, with the exception of Frank Jaehnert, President and CEO, are deemed independent.

*Meetings of Non-management Directors* The non-management directors of the Board regularly meet alone without any members of management present. Mr. Buchanan, Chairman of the Corporate Governance Committee, is the presiding director at these sessions. In fiscal 2008 there were six executive sessions. Interested parties can raise concerns to be addressed at these meetings by calling the confidential Brady hotline at 1-800-368-3613.

*Audit Committee Members* The Audit Committee, which is a separately-designated standing committee of the Board of Directors, is composed of Mr. Jarc (Chairman), Mr. Buchanan, Mr. Galbato, Mr. Richardson and Mr. Allender. Each member of the Audit Committee has been determined by the Board to be independent under the rules of the SEC and NYSE. The charter for the Audit Committee is available on the Company's corporate website at [www.bradycorp.com](http://www.bradycorp.com).

*Code of Ethics* For a number of years, the Company has had a code of ethics for its employees. This code of ethics applies to all of the Company's employees, officers and Directors. The code of ethics can be viewed at the Company's corporate website, [www.bradycorp.com](http://www.bradycorp.com), or may be obtained in print by any person, without charge, by contacting Brady Corporation, Investor Relations, P.O. Box 571, Milwaukee, WI 53201. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of its code of ethics by placing such information on its Internet website.

*Corporate Governance Guidelines* Brady's Corporate Governance Principles as well as the charters for the Audit Committee, Corporate Governance Committee, and Compensation Committee, are available on the Company's Corporate website, [www.bradycorp.com](http://www.bradycorp.com). Shareholders may request printed copies of these documents from Brady Corporation, Investor Relations, P.O. Box 571, Milwaukee, WI 53201.

*Certifications* We have attached the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to this report. Additionally, on November 2, 2007, the Company filed with the New York Stock Exchange ( NYSE ) an annual certification regarding our compliance with the NYSE's corporate governance listing standards as required by NYSE Rule 303A.12(a).

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company.

Executive officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

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To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended July 31, 2008, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with respect to the following:

From September 2007 through March 2008, Richard A. Bemis, Barbara Bolens, Robert C. Buchanan, Mary K. Bush, Thomas J. Felmer, Conrad G. Goodkind, Frank W. Harris, David R. Hawke, Frank M. Jaehnert, Frank R. Jarc, Allan J. Klotsche, Peter J. Lettenberger, David Mathieson, Gary E. Nei, Michael O. Oliver, Elizabeth Pungello, Bradley C. Richardson, and Matthew O. Williamson inadvertently failed to file Forms 4 for the monthly acquisition of deferred compensation units within the Company's deferred compensation plans.

Director Elizabeth Pungello's Form 4 filing on April 3, 2008 contained twenty one transactions made from March 19, 2008 through March 27, 2008 by the EBL GRAT No. 3 trust that were inadvertently reported late.

**Item 11. Executive Compensation*****Compensation Discussion and Analysis***

The Compensation Discussion and Analysis explains the compensation philosophy, policies and practices of the Company with respect to its named executive officers. This section focuses on the compensation provided to the Company's principal executive officer, principal financial officers and its other three most highly compensated executives, who are collectively referred to in this section as the named executive officers.

For purposes of this section, named executive officers refers to Frank M. Jaehnert, President, Chief Executive Officer and Director; Thomas J. Felmer, Senior Vice President and Chief Financial Officer; David Mathieson, former Senior Vice President and Chief Financial Officer; Peter C. Sephton, President Brady Europe and Vice President, Brady Corporation; Matthew O. Williamson, President Brady Americas and Vice President, Brady Corporation; and Robert L. Tatterson, Vice President R&D and Chief Technology Officer.

Effective December 31, 2007, David Mathieson resigned as Senior Vice President and Chief Financial Officer of the Company and Thomas J. Felmer was named Senior Vice President and Chief Financial Officer effective January 9, 2008.

***Executive Compensation Overview and Philosophy***

The goal of our executive compensation program is to build long-term value for our shareholders by aligning the financial interests of our management team with those of our shareholders. It is also intended to properly attract, motivate and retain a management team that can run a top-tier performance company and ensure that executives are in possession of a meaningful amount of Company stock.

The Compensation Committee of the Board of Directors is responsible for monitoring and approving the compensation of the Company's named executive officers. In compliance with this responsibility, the Committee annually reviews and approves the individual performance of these executives along with any changes in their base salary, the payment of an annual cash incentive and grant of equity awards. The Committee utilizes the services of an independent executive compensation consulting firm to assist with the review and evaluation of our compensation levels and policies. Their expertise may also be utilized in modifying any existing or proposing any new compensation arrangements. In addition to this professional advice, the Committee relies upon its collective judgment and other available competitive information and data in making executive compensation decisions. The Committee has avoided strict adherence to rigid guidelines, formulas or short-term fluctuations in our stock price when determining or modifying executive compensation.

In order to successfully achieve our Company objectives, a combination of short-term and long-term incentives has been developed. The Compensation Committee believes a proper balance between these elements is necessary and includes a combination of cash and equity, with fixed and variable components. These components are heavily dependent upon Company financial performance, while also taking into account personal performance to a lesser degree. Our short-term incentive is in the form of cash, while the long-term incentive is equity based and includes performance-based and time-based stock options, along with performance-based restricted shares. We believe these programs are designed to specifically support the achievement of the Company's profitability and sales goals. We also believe these programs further enhance the performance of the Company by providing effective tools to retain, attract

and motivate a group of highly skilled executives. This results in strong financial and operational performance, which supports the preservation and enhancement of shareholder value over time, without incurring undue risk to our shareholders.

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Annually senior management recommends a proposal to the Compensation Committee for compensation for each named executive officer, with the exception of Frank M. Jaehnert, President and Chief Executive Officer, with respect to whom the Compensation Committee determines compensation. The Compensation Committee reviews the proposal for each officer and ultimately approves a compensation arrangement for them. The resulting approved compensation levels, including the President and Chief Executive Officer's compensation, are then reported by the Compensation Committee to the full Board of Directors.

**Elements of Executive Compensation for Fiscal 2008**

As noted above, it is the Compensation Committee's philosophy that an executive compensation program should be used to promote both the short and long-term financial objectives of the Company, encourage the executives to act as owners of the Company and attract and retain people who are qualified, motivated and committed to excellence. The Compensation Committee believes this can be accomplished through compensation programs that provide a balanced mix of performance-based cash and equity compensation. The annual bonus and equity compensation provide incentives that reward superior performance and provide financial consequences for underperformance.

The Compensation Committee is responsible for reviewing the overall level of compensation, as well as the various elements of compensation for each of the named executive officers. In addition to the specific process noted below for base salaries, annual cash incentives and long-term equity compensation, the Compensation Committee reviews individual comprehensive tally sheets which include the annual cash and equity grants, along with all other benefits over a trailing four-year period. Stock options exercised and the impact of the issuance of stock options on earnings per share dilution are monitored on a regular basis as well.

**Base Salary**

Individual performance and competitiveness in the market are key components in determining base salary and any changes in base salary. Nationally recognized compensation surveys utilizing all companies and industries are obtained annually. A regression analysis is then performed by the Company's Human Resources team based on the appropriate organization level (company, group, division) and sales volume of the appropriate Brady business. The base salary is designed to compensate executives for their level of responsibility and sustained individual performance. One consideration is the comparison of the individual base salaries to the median for like positions and responsibilities based on these nationally recognized compensation surveys. Further, the Compensation Committee has flexibility to increase base salaries above the median to retain or attract key employees whose performance merits higher base salaries, or to set base salary below the median where individuals are new to the job and performance is being evaluated. The Compensation Committee annually reviews base salaries to ensure, on the basis of responsibility and performance, that executive compensation is meeting the Compensation Committee's principles.

In addition to the nationally recognized compensation surveys, the Compensation Committee uses peer group data for similar positions nationally to test the reasonableness and competitiveness of several components of compensation, including base salaries, annual incentives, and long term incentives by position, but also uses judgment to determine the appropriate level of base salary, which we believe reflects individual performance and responsibilities. The peer group utilized includes 29 companies that are in a similar industry with annual revenues up to approximately \$5 billion: Actuant Corporation, Agilent Technologies, Inc., Alliant Techsystems Inc., AMETEK, Inc., Amphenol Corporation, Anixter International Inc., Barnes Group Inc., Bemis Company, Inc., Benchmark Electronics, Inc., Cooper Industries, Ltd., Donaldson Company, Inc., DRS Technologies, Inc., Energizer Holdings, Inc., Exide Technologies, Fastenal Company, Hubbell Incorporated, IDEX Corporation, Molex Incorporated, MSC Industrial Direct Company, Inc., Nordson Corporation, Pentair, Inc., Rogers Corporation, Roper Industries, Inc., SPX Corporation, Teleflex Incorporated, Thomas & Betts Corporation, Vishay Intertechnology, Inc., WESCO International, Inc., and Zebra Technologies Corporation. Included in this peer group is a smaller subset of 13 companies that have annual revenues of less than \$2 billion to provide data for similar sized companies to Brady. This subset includes: Actuant Corporation, AMETEK, Inc., Barnes Group Inc., Donaldson Company, Inc., DRS Technologies, Inc., Fastenal Company, IDEX Corporation, MSC Industrial Direct Company, Inc., Nordson Corporation, Rogers Corporation, Roper Industries, Inc., Thomas & Betts Corporation, and Zebra Technologies Corporation. This list may vary in the future due to changes in our business or the business of the companies utilized as peers. The determination of base salary also affects the annual bonus payout since an individual's annual bonus



target is expressed as a percentage of base salary. The Compensation Committee also utilizes the services of an outside consultant to assist in understanding the compensation levels in the market.

As a result of the factors noted above, base salary increases varied for the named executive officers. For fiscal 2008, the increases ranged from five to fifteen percent.

**Table of Contents****Annual Cash Incentive Bonus**

All named executive officers participate in an annual cash incentive plan. This plan has a short-term focus (one year) and is mainly based on the fiscal year financial results. Corporate earnings per share is a major component in each individual bonus plan. Other components include consolidated net sales, segment sales, segment profit, and working capital; each component is based on the individual's role at either the corporate or segment level. In addition, some executives may have up to 20% of their bonus based on achievement of individual goals.

As part of the annual review of compensation, the Compensation Committee takes into account total annual cash compensation in the marketplace, as reflected in the above mentioned peer group and nationally recognized compensation surveys. Salary combined with annual target bonus levels that have been established as a percentage of salary are intended to approximate the median of the market total annual cash compensation, as defined in nationally recognized compensation surveys, provided that Brady performs at a level to pay out at 100% of the targeted annual incentive award. Brady's actual annual bonus payouts will vary above or below the targeted amount based on the actual performance of the Company during the fiscal year. The payouts can range from 0% to 150% of the target. The Compensation Committee expects management to propose ambitious targets. Any bonus payment above 100% of the target requires superior performance by the Company. In order to be eligible to receive a bonus payout, an employee must hold a position within the Company on the last day of the fiscal year.

The Compensation Committee annually reviews the components of these plans, the required performance levels at each target payout level and the calculation of the individual bonus awards. Sales and net income must exceed the prior year in order for these components of the bonus plan to pay out, and no payment will be made on the sales component unless the Company has met a minimum earnings per share amount (\$2.18).

The individual incentive target amounts are set at a percentage of base salary and the target amounts are larger for individuals with greater levels of responsibility. The target bonus percentage for Mr. Jaehnert is 100% of his base salary, and for Messrs. Felmer, Mathieson, Sephton, Williamson and Tatterson are 70% of their base salaries. Due to Mr. Felmer's midyear transition from his previous regional role to that of Chief Financial Officer, he retained regional bonus components for fiscal 2008. The following table provides the components of the target bonus percentages.

| Name                  | Earnings               |           |                 |                   |                | Individual Goals | Target Payout |
|-----------------------|------------------------|-----------|-----------------|-------------------|----------------|------------------|---------------|
|                       | Consolidated Net Sales | Per Share | Working Capital | Segment Sales (1) | Segment Profit |                  |               |
| Frank M. Jaehnert     | 10.0%                  | 60.0%     | 10.0%           | NA                | NA             | 20.0%            | 100.0%        |
| Thomas J. Felmer      | NA                     | 10.5%     | 7.0%            | 7.0%              | 31.5%          | 14.0%            | 70.0%         |
| David Mathieson       | 7.0%                   | 42.0%     | 7.0%            | NA                | NA             | 14.0%            | 70.0%         |
| Peter C. Sephton      | NA                     | 10.5%     | 7.0%            | 7.0%              | 31.5%          | 14.0%            | 70.0%         |
| Matthew O. Williamson | NA                     | 10.5%     | 7.0%            | 7.0%              | 31.5%          | 14.0%            | 70.0%         |
| Robert L. Tatterson   | 5.2%                   | 31.5%     | 5.3%            | 14.0%             | NA             | 14.0%            | 70.0%         |

(1) Segment sales for Messrs. Felmer, Sephton, and Williamson are based on regional sales. Segment sales for Mr. Tatterson are based on

new products  
launched.

For the fiscal year ended July 31, 2008, the Company paid the following annual cash incentive bonuses:

|  | <b>Name</b>           | <b>Bonus (\$)</b> | <b>Salary %</b> |
|--|-----------------------|-------------------|-----------------|
|  | Frank M. Jaehnert     | 703,554           | 97.3%           |
|  | Thomas J. Felmer      | 98,128            | 33.5%           |
|  | David Mathieson       | 0                 | 0%              |
|  | Peter C. Sephton      | 314,097           | 78.6%           |
|  | Matthew O. Williamson | 183,410           | 61.3%           |
|  | Robert L. Tatterson   | 226,647           | 76.7%           |

The 2008 allocation of the annual cash incentive bonuses by component is as follows:

| <b>Name</b>       | <b>Consolidated</b> | <b>Earnings</b> |                | <b>Working</b> | <b>Segment</b> | <b>Segment</b> | <b>Individual</b> | <b>Actual</b> |
|-------------------|---------------------|-----------------|----------------|----------------|----------------|----------------|-------------------|---------------|
|                   | <b>Net Sales</b>    | <b>Per</b>      | <b>Capital</b> |                |                |                | <b>Profit</b>     |               |
| Frank M. Jaehnert | 15.0%               | 58.8%           | 11.0%          | NA             | NA             | 12.5%          | 97.3%             |               |
| Thomas J. Felmer  | NA                  | 10.3%           | 8.1%           | 0%             | 0%             | 15.1%          | 33.5%             |               |

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| Name                  | Consolidated | Earnings Per | Working | Segment | Segment | Individual | Actual |
|-----------------------|--------------|--------------|---------|---------|---------|------------|--------|
|                       | Net Sales    | Share (1)    | Capital | Sales   | Profit  | Goals      | Payout |
| David Mathieson       | 0%           | 0%           | 0%      | NA      | NA      | 0%         | 0%     |
| Peter C. Sephton      | NA           | 10.3%        | 0%      | 10.5%   | 47.3%   | 10.5%      | 78.6%  |
| Matthew O. Williamson | NA           | 10.3%        | 4.6%    | 9.0%    | 26.2%   | 11.2%      | 61.3%  |
| Robert L. Tatterson   | 7.9%         | 30.9%        | 5.8%    | 18.1%   | NA      | 14.0%      | 76.7%  |

(1) Earnings per share as utilized in the individual bonus plans is calculated using a fixed amount of 55 million shares.

The payouts in fiscal 2008 represent an achievement of 150% for the consolidated net sales target of \$1.42 billion, 98% for the earnings per share target of \$2.42, 0% to 117% for the working capital targets, and 0% to 150% for the regional net sales targets and 0% to 150% for the regional segment profit targets for those named executive officers with regional responsibility. A component of the payout was also influenced by the individual's performance against his individual goals.

**Equity Incentives: Long-term Incentive Compensation**

The Company utilizes a combination of performance-based stock options, time-based stock options and performance-based restricted shares to attract, retain and motivate key employees who directly impact the performance of the Company over a timeframe of greater than a year. The combination of performance-based stock options, time-based stock options and performance-based restricted shares is used to provide a balance between annual Company performance and the generation of long-term shareholder value. Stock option based plans are influenced by Brady's stock price, which directly affects the amount of compensation the executive receives upon vesting and exercising the options. The size and type of equity awards is determined by the Compensation Committee with periodic input from its outside consultant.

**Performance-based Stock Options:**

In order to provide greater alignment between the financial performance of the Company and the executive's long-term incentive compensation, the named executive officers have been issued performance-based stock options which require specific earnings per share target attainment over a three-year period in order to vest. The earnings per share target set on the options granted in fiscal 2008 was \$2.64 per share, which was an aggressive target to reach and was subsequently not met. As the targets for the fiscal year ended July 31, 2008 were not met, one-third of these options, which were tied to fiscal 2008 performance, did not vest.

The grant date of the options was pre-determined in advance to coincide with the beginning of the Company's fiscal year. Consistent with the practice, the stock option grants were reviewed and approved by the Compensation Committee in July with an effective grant date of the first working day of August. The grant price is the fair market value of the stock on the grant date and is calculated by taking the average of the high and low stock price on that date. These stock options vest one-third each fiscal year following the grant based on attaining the predetermined minimum consolidated earnings per share target each year. These options have a maximum ten year life following the grant date.

**Time-based Stock Options:**

The timing of the grant of time-based stock options is determined at the mid-November Compensation Committee meeting each year. The grant date is established approximately two weeks following the release of the first quarter earnings in November. Time-based stock option grants in fiscal 2008 were reviewed and approved by the Compensation Committee on November 20, 2007 with an effective grant date of December 4, 2007. The grant price is the fair market value of the stock on the grant date and is calculated by taking the average of the high and low stock price on that date. The time-based stock options vest one-third each year for the first three years and have a ten year life.

***Performance-based Restricted Stock***

Periodically, the Company issues restricted stock grants to key executives as an additional retention element of their overall compensation. In January 2008, the Compensation Committee approved the issuance of performance restricted stock awards to six of Brady's senior executives. A total of 210,000 restricted shares were issued and included both a performance vesting requirement (earnings per share) and a service vesting requirement (five years).

**Employment and Post-Employment Benefits**

***General Benefits:***

The named executive officers receive the same basic benefits that are offered by the Company to other employees, including medical, dental, disability and life insurance.

**Table of Contents*****Retirement Benefits:***

Most Brady employees in the United States and certain expatriate employees working for its international subsidiaries are eligible to participate in Brady Corporation's Funded Retirement Plan ( Funded Retirement Plan ) and the Brady Corporation Matched 401(k) Plan (the Employee 401(k) Plan ). Under these plans the Company agrees to contribute certain amounts to both Plans. Under the Funded Retirement Plan, the Company contributes 4% of the eligible earnings of each person covered by the Funded Retirement Plan. In addition, participants may elect to have their annual pay reduced by up to 5% and have the amount of this reduction contributed to the Employee 401(k) Plan and matched by an additional 4% contribution by the Company. Participants may also elect to have up to another 20% of their eligible earnings contributed to the Employee 401(k) Plan (without an additional matching contribution by the Company). The assets of the Employee 401(k) Plan and Funded Retirement Plan credited to each participant are invested by the trustee of the Plans as directed by each plan participant in several investment funds as permitted by the Employee 401(k) Plan and Funded Retirement Plan.

Due to the IRS income limitations for participating in the Employee 401(k) Plan and the Funded Retirement Plan, the named executive officers are eligible to participate in the Brady Restoration Plan, which is a non-qualified deferred compensation plan that allows an equivalent benefit to the Employee 401(k) Plan and the Funded Retirement Plan for the executives on their income above the IRS limits.

Benefits are generally payable upon the death, disability, or retirement of the participant or upon termination of employment before retirement, although benefits may be withdrawn from the employee 401(k) Plan and paid to the participant if required for certain emergencies. Under certain specified circumstances, the employee 401(k) Plan allows loans to be drawn on a participant's account. The participant is immediately fully vested with respect to the contributions attributable to reductions in pay; all other contributions become fully vested over a two-year period of continuous service for the employee 401(k) Plan and after six years of continuous service for the Funded Retirement Plan.

**Deferred Compensation Arrangements** During fiscal 2002, the Company adopted a deferred compensation plan titled the Brady Corporation Executive Deferred Compensation Plan ( Executive Deferred Compensation Plan ), under which executive officers, corporate staff officers and certain key management employees of the Company are permitted to defer portions of their salary and bonus into a plan account, the value of which is measured by the fair value of the underlying investments. The assets of the Executive Deferred Compensation Plan are held in a Rabbi Trust and are invested by the trustee as directed by the participant in several investment funds as permitted by the Executive Deferred Compensation Plan. The investment funds available in the Executive Deferred Compensation Plan include Brady Corporation Class A Nonvoting Common Stock and various mutual funds that are provided in the Employee 401(k) Plan.

At least one year prior to termination of employment, the executive must elect whether to receive his account balance following termination of employment in a single lump sum payment or by means of distribution under an Annual Installment Method. If the executive does not submit an election form or has not submitted one timely, then payment shall be made each year for a period of ten years. The first payment must be one-tenth of the balance held; the second one-ninth; and so on, with the balance held in the Rabbi Trust reduced by each payment.

Effective January 1, 2008, the Executive Deferred Compensation Plan was amended and restated to comply with the provisions of Section 409A of the Internal Revenue Code. Amounts deferred prior to January 1, 2005 (which were fully vested under the terms of the plan), including past and future earnings credited thereon, will remain subject to the terms in place prior to January 1, 2005.

***Perquisites:***

Brady provides the named executive officers with the following perquisites that are not available to other non-executive employees:

Annual allowance for financial and tax planning

Eligibility for annual physical

Company car

Long-term care insurance

Personal liability insurance

**Stock Ownership Guidelines**

In order to encourage our executive officers and directors to acquire and retain ownership of a significant number of shares of the Company's stock, stock ownership guidelines have been established. This supports our belief that stock ownership better aligns the interests of our executives and directors with the Company's shareholders.

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The Board of Directors has established the following stock ownership guidelines for our named executive officers:

|                     |                   |
|---------------------|-------------------|
| Frank M. Jaehnert   | 100,000<br>shares |
| Thomas J. Felmer    | 30,000 shares     |
| David Mathieson     | 30,000 shares     |
| Peter C. Sephton    | 30,000 shares     |
| Matt O. Williamson  | 30,000 shares     |
| Robert L. Tatterson | 30,000 shares     |

Each director is required to beneficially own 5,000 shares of Company stock.

Named executive officers have up to five years to achieve these ownership levels. If an executive does not meet the ownership level at the end of the fifth year, the executive's after-tax payout on any incentive plans will be in Class A Nonvoting Common Stock to bring the executive up to the required level. The Compensation Committee reviews the actual stock ownership levels of each of the named executive officers on an annual basis to ensure the guidelines are met within the five-year period.

For purposes of determining whether an executive meets the required ownership level, Company stock owned outright, Company stock held in the Executive Deferred Compensation Plan and Company stock owned in the Employee 401(k) Plan is included. In addition, twenty percent of any vested stock options that are in the money are included.

**Employment and Change of Control Agreements**

The Board of Directors of Brady Corporation approved change of control agreements for certain executive officers of the Company, including all the named executive officers. The agreements call for payment of an amount equal to two times their annual base salary and two times the average bonus payment received in the two years immediately prior to the date the change of control occurs in the event of termination or resignation upon a change of control. The agreements also call for reimbursement of any excise taxes imposed and up to \$25,000 of attorney fees to enforce the executive's rights under the agreement. Payments under the agreement will be spread over two years.

In May 2003, the Board approved a Change of Control Agreement for Mr. Jaehnert. The agreement calls for payment of an amount equal to three times the annual salary and bonus for Mr. Jaehnert in the event of termination or resignation upon a change of control. The agreement also calls for reimbursement of any excise taxes imposed and up to \$25,000 of attorney fees to enforce the executive's rights under the agreement. Payments under the agreement will be spread over three years.

**Compliance with Tax Regulations Regarding Executive Compensation**

Section 162(m) of the Internal Revenue Code, added by the Omnibus Budget Reconciliation Act of 1993, generally disallows a tax deduction to public companies for compensation over \$1 million paid to the corporation's chief executive officer and the other named executive officers. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The Company's executive compensation program, as currently constructed, is not likely to generate significant nondeductible compensation in excess of these limits. The Compensation Committee will continue to review these tax regulations as they apply to the Company's executive compensation program. It is the Compensation Committee's intent to preserve the deductibility of executive compensation to the extent reasonably practicable and to the extent consistent with its other compensation objectives.

**Compensation Committee Interlocks and Insider Participation**

During fiscal 2008, the Board's Compensation Committee was composed of Messrs. Allender, Buchanan, Jarc, Nei, Peirce, and Ms. Bush. None of these persons has at any time been an employee of the Company or any of its subsidiaries. During fiscal 2008, Mr. Peirce and Ms. Bush retired from the Board of Directors. There are no relationships among the Company's executive officers, members of the Compensation Committee or entities whose executives serve on the Board that require disclosure under applicable SEC regulations.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management; and





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based on the review and discussions, the Compensation Committee, consisting of Messrs. Nei (Chairman), Allender, Buchanan, and Jarc, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K.

**Summary Compensation Table**

The following table sets forth compensation awarded to, earned by, or paid to the named executive officers, who served as executive officers during the fiscal year ended July 31, 2008 for services rendered to the Company and its subsidiaries during the fiscal years ended July 31, 2008 and 2007.

| Name And Principal Position  | Fiscal Year | Salary (\$) | Restricted Stock Awards (\$)(1) | Non-Equity Incentive  |                           |                                | Total (\$) |
|--|-------------|-------------|---------------------------------|-----------------------|---------------------------|--------------------------------|------------|
|  |             |             |                                 | Option Awards (\$)(1) | Plan Compensation (\$)(2) | All Other Compensation (\$)(3) |            |
| F.M. Jaehnert<br>President & Chief Executive Officer               | 2008        | 723,077     | 191,508                         | 804,867               | 703,554                   | 134,273                        | 2,557,279  |
|  | 2007        | 638,987     |                                 | 860,224               | 430,677                   | 146,592                        | 2,076,480  |
| T. Felmer<br>Senior Vice President & Chief Financial Officer(4)    | 2008        | 293,269     | 134,056                         | 402,433               | 98,128                    | 66,115                         | 994,001    |
|  | 2007        | 268,269     |                                 | 416,072               | 184,458                   | 69,875                         | 938,674    |
| D. Mathieson<br>Senior Vice President & Chief Financial Officer(4) | 2008        | 145,500     |                                 | 123,444               |                           | 44,262                         | 313,206    |
|  | 2007        | 293,046     |                                 | 438,301               | 144,413                   | 68,349                         | 944,109    |
| P.C. Sephton(5)<br>Vice President Brady Europe                     | 2008        | 399,920     | 134,056                         | 402,433               | 314,097                   | 271,246                        | 1,521,752  |
|  | 2007        | 352,970     |                                 | 418,232               | 326,886                   | 95,539                         | 1,193,627  |
| M. O. Williamson<br>Vice President Brady Americas                  | 2008        | 299,615     | 134,056                         | 402,433               | 183,410                   | 71,894                         | 1,091,408  |
|  | 2007        | 279,340     |                                 | 418,232               | 234,939                   | 66,817                         | 999,328    |
| R. Tatterson<br>Vice President & Chief Technology Officer          | 2008        | 295,962     | 76,603                          | 225,333               | 226,647                   | 56,258                         | 880,803    |
|  | 2007        | 209,615     |                                 | 79,222                | 106,217                   | 35,720                         | 430,774    |

(1) Represents the amounts expensed in fiscal 2008 relating to grants of performance-based stock options, time-based stock options and restricted stock awards. The

Company accounts for stock-based compensation in accordance with SFAS No. 123(R), which requires it to recognize compensation expense for stock options granted to employees and directors based on the estimated fair value of the awards at the time of grant. The assumptions used to determine the value of the awards, including the use of the Black-Scholes method of valuation by the Company, are discussed in Note 1 of the Notes to Consolidated Financial Statements of the Company contained in Item 8 of this Form 10-K for the fiscal year ended July 31, 2008.

The actual value of a restricted stock award will depend on the market value of the Company's common stock on the date the stock is sold.

The actual value, if any, which an option holder will realize upon the exercise of an option will depend

on the excess of the market value of the Company's common stock over the exercise price on the date the option is exercised, which cannot be forecasted with any accuracy.

- (2) Reflects incentive plan compensation earned during the listed fiscal years, which was paid during the next fiscal year.
- (3) The amounts in this column for Messrs. Jaehnert, Felmer, Mathieson, Williamson, and Tatterson include: matching contributions to the Company's Matched 401(k) Plan, Funded Retirement Plan and Restoration Plan, the costs of group term life insurance for each named executive officer, use of a Company car and associated expenses, the cost of long-term care insurance, the cost of personal liability insurance and other perquisites. The perquisites may include an annual allowance for financial and tax planning and the cost of an annual

physical health  
exam.

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The amounts in this column for Mr. Sephton include: contributions for the Brady U.K. Pension Plan, the cost of group term life insurance, vehicle allowance and associated expenses and other perquisites as listed above.

| <b>Name</b>      | <b>Fiscal Year</b> | <b>Retirement Plan Contributions (\$)</b> | <b>Group Term Life Insurance (\$)</b> | <b>Company Car (\$)</b> | <b>Long-term Care Insurance (\$)</b> | <b>Personal Liability Insurance (\$)</b> | <b>Other (\$)</b> | <b>Total (\$)</b> |
|------------------|--------------------|---|---------------------------------------|-------------------------|--------------------------------------|--|-------------------|-------------------|
| F.M. Jaehnert    | 2008               | 93,254                                    | 3,042                                 | 26,129                  | 1,683                                | 9,505                                    | 660               | 134,273           |
|                  | 2007               | 104,230                                   | 4,259                                 | 26,935                  | 1,683                                | 7,885                                    | 1,600             | 146,592           |
| T. Felmer(4)     | 2008               | 37,434                                    | 572                                   | 20,380                  | 1,683                                | 5,426                                    | 620               | 66,115            |
|                  | 2007               | 41,585                                    | 872                                   | 20,993                  | 1,683                                | 4,742                                    |                   | 69,875            |
| D. Mathieson(4)  | 2008               | 30,629                                    | 318                                   | 9,892                   | 570                                  | 2,853                                    |                   | 44,262            |
|                  | 2007               | 36,801                                    | 744                                   | 23,149                  | 1,368                                | 5,362                                    | 925               | 68,349            |
| P.C. Sephton(5)  | 2008               | 232,191                                   | 2,308                                 | 36,747                  |                                      |  |                   | 271,246           |
|                  | 2007               | 56,475                                    | 2,349                                 | 36,715                  |                                      |  |                   | 95,539            |
| M. O. Williamson | 2008               | 42,241                                    | 590                                   | 21,280                  | 1,683                                | 6,100                                    |                   | 71,894            |
|                  | 2007               | 36,396                                    | 733                                   | 22,510                  | 1,683                                | 5,495                                    |                   | 66,817            |
| R. Tatterson     | 2008               | 29,443                                    | 356                                   | 18,795                  | 1,881                                | 5,143                                    | 640               | 56,258            |
|                  | 2007               | 9,750                                     | 381                                   | 16,693                  | 1,568                                | 4,170                                    | 3,158             | 35,720            |

(4) Mr. Mathieson resigned as Senior Vice President & Chief Financial Officer effective December 31, 2007.  
Mr. Felmer

served as  
 President  
 Direct  
 Marketing  
 Americas  
 through  
 January 8, 2008,  
 at which time he  
 was named  
 Senior Vice  
 President &  
 Chief Financial  
 Officer.

- (5) The amounts in this table for Mr. Sephton, who works and lives in the United Kingdom, were paid to him in British Pounds. The amounts shown in U.S. dollars in the table above were converted from British Pounds at the average exchange rate for fiscal 2008: \$1 = £0.5001 and fiscal 2007: \$1 = £0.5135.

***Grants of Plan-Based Awards for 2008***

The following table summarizes grants of plan-based awards made during fiscal 2008 to the named executive officers.

| Compensation | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) | Estimated Future Payouts Under Equity Incentive Plan Awards (2) | All   | All  | Exercise or Base Price of Stock or Option Awards | Grant Date Fair Value of Stock and Option |
|--------------|---|---|---|--|--|---|
|              |   |   | Other Stock Awards; Number of Shares or Units | Other Option Awards; Number of Securities Underlying Options |  |   |
|              |   |   |   |  |  |   |

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| Name             | Grant Date | Commitment Approval Date | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (#) | Target (#) | Maximum (#) | (3) (#) | (4) (#) | (5) (\$/Share) | Awards (\$) |
|------------------|------------|--------------------------|----------------|-------------|--------------|---------------|------------|-------------|---------|---------|----------------|-------------|
| F.M.<br>Jaehnert | 8/1/2007   | 7/23/2007                |                | 723,077     | 1,084,616    |               | 60,000     | 60,000      |         |         | 35.3500        | 769,800     |
|                  | 12/4/2007  | 11/15/2007               |                |             |              |               |            |             |         | 50,000  | 38.3100        | 639,000     |
|                  | 1/8/2008   | 12/21/2007               |                |             |              |               |            |             | 50,000  |         | 32.6050        | 1,641,500   |
| T.<br>Felmer     | 8/1/2007   | 7/23/2007                |                | 205,288     | 307,932      |               | 25,000     | 25,000      |         |         | 35.3500        | 320,750     |
|                  | 12/4/2007  | 11/15/2007               |                |             |              |               |            |             |         | 25,000  | 38.3100        | 319,500     |
|                  | 1/8/2008   | 12/21/2007               |                |             |              |               |            |             | 35,000  |         | 32.6050        | 1,149,050   |
| P.C.<br>Sephton  | 8/1/2007   | 7/23/2007                |                | 277,270     | 415,905      |               | 25,000     | 25,000      |         |         | 35.3500        | 320,750     |
|                  | 12/4/2007  | 11/15/2007               |                |             |              |               |            |             |         | 25,000  | 38.3100        | 319,500     |
|                  | 1/8/2008   | 12/21/2007               |                |             |              |               |            |             | 35,000  |         | 32.6050        | 1,149,050   |



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| Name            | Grant Date | Compensation Committee Approval Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) |         |         | Estimated Future Payouts Under Equity Incentive Plan Awards (2) |        |         | All Other Stock Awards; Number of Shares or Units (#)(3) | All Other Option Awards; Number of Underlying Options (#)(4) | Exercise or Base Price of Stock or Option Awards (\$/Share) (5) | Grant Date Fair Value of Stock and Option Awards (\$) |
|-----------------|------------|--------------------------------------|---|---------|---------|---|--------|---------|--|--|---|---|
|                 |            |                                      | Threshold   | Target  | Maximum | Threshold   | Target | Maximum |  |  |   |   |
| M.O. Williamson | 8/1/2007   | 7/23/2007                            | 209,730   | 314,595 | 25,000  | 25,000  |        |         |  | 35.3500  | 320,750   |   |
|                 | 12/4/2007  | 11/15/2007                           |   |         |         |   |        |         | 25,000   | 38.3100  | 319,500   |   |
|                 | 1/8/2008   | 12/21/2007                           |   |         |         |   |        | 35,000  |  | 32.6050  | 1,149,050   |   |
| R. Tatterson    | 8/1/2007   | 7/23/2007                            | 207,173   | 310,760 | 20,000  | 20,000  |        |         |  | 35.3500  | 256,600   |   |
|                 | 12/4/2007  | 11/15/2007                           |   |         |         |   |        |         | 25,000   | 38.3100  | 319,500   |   |
|                 | 1/8/2008   | 12/21/2007                           |   |         |         |   |        | 20,000  |  | 32.6050  | 656,600   |   |

(1) The awards were made under the Company's annual cash incentive plan. The structure of the plan is described in Compensation Discussion and Analysis above. Award levels are set prior to the beginning of the fiscal year and payouts can range from 0% to 150% of the target.

(2) The options granted equally vest upon meeting certain financial goals in fiscal 2008, 2009 and 2010. The structure of the grants is described

in Compensation Discussion and Analysis above. The financial goals in 2008 have not been met so one-third of the options have not vested and were cancelled. The options have a term of ten years.

- (3) The awards granted vest upon meeting certain performance-based and service-based requirements. These requirements are described in the Compensation Discussion and Analysis above.
- (4) The options granted become exercisable as follows:
  - one-third of the shares on December 4, 2008,
  - one-third of the shares on December 4, 2009
  - and one-third of the shares on December 4, 2010.These options have a term of ten years.
- (5) The exercise price is the average of the highest and lowest sale prices of the Company's Class A Common Stock as reported by the New York Stock Exchange on the date of the grant. The closing

prices of the Company's Class A Common Stock as reported by the New York Stock Exchange on the dates of the grants were \$35.57 per share on August 1, 2007, \$38.34 per share on December 4, 2007 and \$31.68 per share on January 8, 2008, respectively.

***Outstanding Equity Awards at 2008 Fiscal Year End***

| Name          | Option Awards (1)   |   |  |                       | Stock Awards           |   |   |
|---------------|---|---|--|-----------------------|------------------------|---|---|
|               | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options Unearned | Option Exercise Price | Option Expiration Date | Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |
|               | (#)   | (#)   | Options (#)  | (\$)                  | Date                   | (#)   | (\$)  |
| F.M. Jaehnert | 5,000   |   |  | 10.1719               | 8/3/2008               |   |   |
|               | 60,000  |   |  | 22.6325               | 8/2/2009               |   |   |
|               | 17,200  |   |  | 15.2813               | 10/14/2009             |   |   |
|               | 40,000  |   | 20,000(2)  | 33.8900               | 8/1/2010               |   |   |
|               | 20,000  |   |  | 14.1575               | 10/24/2010             |   |   |
|               | 26,000  |   |  | 16.0000               | 10/16/2011             |   |   |
|               | 30,000  |   |  | 16.3875               | 11/14/2012             |   |   |
|               | 200,000   |   |  | 13.3100               | 2/24/2013              |   |   |
|               | 72,000  |   |  | 17.3250               | 11/20/2013             |   |   |
|               | 60,000  |   |  | 28.8425               | 11/18/2014             |   |   |
|               | 33,333  | 16,667(3)   |  | 37.8300               | 11/30/2015             |   |   |
|               | 16,667  | 33,333(5)   | 16,667(4)  | 33.2250               | 8/1/2016               |   |   |
|               |   |   | 40,000(6)  | 38.1900               | 11/30/2016             |   |   |
|               |   |   |  | 35.3500               | 8/1/2017               |   |   |
|               |   | 50,000(7)   |  | 38.3100               | 12/4/2017              |   |   |
|               |   |   |  |                       |                        | 50,000(8)   | 1,833,500   |

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|           |        |           |         |            |
|-----------|--------|-----------|---------|------------|
| T. Felmer | 30,000 |           | 22.6325 | 8/2/2009   |
|           | 8,000  |           | 15.2813 | 10/14/2009 |
|           | 20,000 | 10,000(2) | 33.8900 | 8/1/2010   |
|           | 8,000  |           | 14.1575 | 10/24/2010 |
|           | 8,000  |           | 160000  | 10/16/2011 |
|           | 10,000 |           | 16.3875 | 11/14/2012 |
|           | 10,000 |           | 17.3250 | 11/20/2013 |
|           | 30,000 |           | 28.8425 | 11/18/2014 |

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| Name            | Option Awards (1)   |   |   |                            |                        | Stock Awards  |  |
|-----------------|---|---|---|----------------------------|------------------------|---|--|
|                 | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|                 | 16,667  | 8,333(3)  |   | 37.8300                    | 11/30/2015             |   |  |
|                 |   |   | 8,334(4)  | 33.2250                    | 8/1/2016               |   |  |
|                 | 8,333   | 16,667(5)   |   | 38.1900                    | 11/30/2016             |   |  |
|                 |   |   | 16,667(6)   | 35.3500                    | 8/1/2017               |   |  |
|                 |   | 25,000(7)   |   | 38.3100                    | 12/4/2017              |   |  |
|                 |   |   |   |                            |                        | 35,000(8)   | 1,283,450  |
| P.C. Sephton    | 30,000  |   |   | 22.6325                    | 8/2/2009               |   |  |
|                 | 20,000  |   | 10,000(2)   | 33.8900                    | 8/1/2010               |   |  |
|                 | 14,000  |   |   | 17.3250                    | 11/20/2013             |   |  |
|                 | 30,000  |   |   | 28.8425                    | 11/18/2014             |   |  |
|                 | 16,667  | 8,333(3)  |   | 37.8300                    | 11/30/2015             |   |  |
|                 |   |   | 8,334(4)  | 33.2250                    | 8/1/2016               |   |  |
|                 | 8,333   | 16,667(5)   |   | 38.1900                    | 11/30/2016             |   |  |
|                 |   |   | 16,667(6)   | 35.3500                    | 8/1/2017               |   |  |
|                 |   | 25,000(7)   |   | 38.3100                    | 12/4/2017              |   |  |
|                 |   |   |   |                            |                        | 35,000(8)   | 1,283,450  |
| M.O. Williamson | 30,000  |   |   | 22.6325                    | 8/2/2009               |   |  |
|                 | 20,000  |   | 10,000(2)   | 33.8900                    | 8/1/2010               |   |  |
|                 | 5,500   |   |   | 16.0000                    | 10/16/2011             |   |  |
|                 | 10,000  |   |   | 16.3875                    | 11/14/2012             |   |  |
|                 | 14,000  |   |   | 17.3250                    | 11/20/2013             |   |  |
|                 | 30,000  |   |   | 28.8425                    | 11/18/2014             |   |  |
|                 | 16,667  | 8,333(3)  |   | 37.8300                    | 11/30/2015             |   |  |
|                 |   |   | 8,334(4)  | 33.2250                    | 8/1/2016               |   |  |
|                 | 8,333   | 16,667(5)   |   | 38.1900                    | 11/30/2016             |   |  |
|                 |   |   | 16,667(6)   | 35.3500                    | 8/1/2017               |   |  |
|                 |   | 25,000(7)   |   | 38.3100                    | 12/4/2017              |   |  |
|                 |   |   |   |                            |                        | 35,000(8)   | 1,283,450  |

|              |       |           |           |         |            |           |         |
|--------------|-------|-----------|-----------|---------|------------|-----------|---------|
| R. Tatterson |       |           | 5,000(9)  | 34.9510 | 10/2/2016  |           |         |
|              | 8,333 | 16,667(5) |           | 38.1900 | 11/30/2016 |           |         |
|              |       |           | 13,333(6) | 35.3500 | 8/1/2017   |           |         |
|              |       | 25,000(7) |           | 38.3100 | 12/4/2017  |           |         |
|              |       |           |           |         |            | 20,000(8) | 733,400 |

(1) Adjusted for a two-for-one stock split in the form of a 100% stock dividend, effective December 31, 2004.

(2) All vested on August 1, 2008 as the performance criteria for fiscal 2008 consolidated net income of \$115 million have been met.

(3) All vest on November 30, 2008.

(4) All will vest on August 1, 2009 if the performance criteria for fiscal 2009 net income are met.

(5) One-half vest on November 30, 2008 and one-half vest on November 30, 2009.

(6) One-half of the options will vest on August 1, 2009 if the performance

criteria for fiscal  
2009 earnings  
per share are  
met and  
one-half will  
vest on  
August 1, 2010  
if the  
performance  
criteria for fiscal  
2010 earnings  
per share are  
met.

- (7) One-third of the options vest on December 4, 2008, one-third of the options vest on December 4, 2009 and one-third of the options vest on December 4, 2010.
- (8) All vest on January 8, 2013.
- (9) All will vest on October 2, 2009 if the performance criteria for fiscal 2009 net income are met.

**Table of Contents****Option Exercises and Stock Vested for Fiscal 2008**

The following table summarizes option exercises completed during fiscal 2008 to the named executive officers.

| Name            | Option Awards                             |                                 |
|-----------------|---|---------------------------------|
|                 | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) |
| F.M. Jaehnert   | 81,895                                    | 2,414,874                       |
| T. Felmer       | 48,000                                    | 975,814                         |
| D. Mathieson    | 115,600                                   | 1,869,572                       |
| P.C. Sephton    | 25,000                                    | 557,023                         |
| M.O. Williamson | None                                      | None                            |
| R. Tatterson    | None                                      | None                            |

**Non-Qualified Deferred Compensation for Fiscal 2008**

The following table summarizes the activity within the Executive Deferred Compensation Plan and the Brady Restoration Plan during fiscal 2008 for the named executive officers.

| Name            | Executive Contributions in Last Fiscal Year (\$) | Registrant Contributions in Last Fiscal Year (\$) | Aggregate Earnings in Last Fiscal Year (\$) | Aggregate Withdrawals/ Distributions (\$) | Aggregate Balance at Last Fiscal Year (\$) |
|-----------------|--|---|---|---|--|
| F.M. Jaehnert   | 381,153  | 75,485  | 90,129                                      | 0   | 2,896,075                                  |
| T. Felmer       | 119,511  | 19,064  | (11,225)                                    | 0   | 758,282                                    |
| D. Mathieson    | 124,491  | 17,922  | 23,298                                      | 0   | 816,056                                    |
| P.C. Sephton    | 0  | 0   | 0   | 0   | 0  |
| M.O. Williamson | 58,909   | 23,841  | 8,596                                       | 0   | 610,522                                    |
| R. Tatterson    | 40,671   | 12,112  | (729)                                       | 0   | 52,056                                     |

See discussion of the Company's nonqualified deferred compensation plan in the Compensation Discussion and Analysis. The executive contribution amounts reported here are reported in the salary and non-equity incentive plan compensation columns of the Summary Compensation Table.

**Potential Payments Upon Termination or Change in Control**

As described in the Employment and Change of Control Agreements section of the Compensation Discussion and Analysis above, the Company has entered into change of control agreements with each of the named executive officers. The terms of the change of control agreement are triggered if within a 24 month period beginning with the date a change of control occurs, (i) the executive's employment with the Company is involuntarily terminated other than by reason of death, disability or cause or (ii) the executive's employment with the Company is voluntarily terminated by the executive subsequent to (a) any reduction in the total of the executive's annual base salary, exclusive



of fringe benefits, and the executive's target bonus in comparison with the executive's annual base salary and target bonus immediately prior to the date the change of control occurs, (b) a significant diminution in the responsibilities or authority of the executive in comparison with the executive's responsibility and authority immediately prior to the date the change of control occurs, or (c) the imposition of a requirement by the Company that the executive relocate to a principal work location more than 50 miles from the executive's principal work location immediately prior to the date the change of control occurs.

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Following termination due to a change in control, the executive shall be paid a multiplier of his annual base salary in effect immediately prior to the date the change of control occurs, plus a multiplier of his average bonus payment received over either a two or three-year period, depending on the terms of the agreement, prior to the date the change of control occurs. The Company will also reimburse the executive for any excise tax incurred by the executive as a result of Section 280(G) of the Internal Revenue Code. The Company will also reimburse a maximum of \$25,000 of legal fees incurred by the executive in order to enforce the change of control agreement, in which the executive prevails.

The following information and tables set forth the amount of payments to each named executive officer in the event of termination of employment as a result of a change of control. No other employment agreements have been entered into between the Company and any of the named executive officers.

**Assumptions and General Principles.** The following assumptions and general principles apply with respect to the tables that follow in this section.

The amounts shown in the tables assume that each named executive officer terminated employment on July 31, 2008. Accordingly, the tables reflect amounts earned as of July 31, 2008 and include estimates of amounts that would be paid to the named executive officer upon the occurrence of a change in control. The actual amounts that would be paid to a named executive officer can only be determined at the time of termination.

The tables below include amounts the Company is obligated to pay the named executive officer as a result of the executed change in control agreement. The tables do not include benefits that are paid generally to all salaried employees or a broad group of salaried employees. Therefore, the named executive officers would receive benefits in addition to those set forth in the tables.

A named executive officer is entitled to receive base salary earned during his term of employment regardless of the manner in which the named executive officer's employment is terminated. As such, this amount is not shown in the tables.

**Frank M. Jaehnert**

The following table shows the amount payable assuming that the terms of the change of control agreement were triggered on July 31, 2008 and the named executive officer had to legally enforce the terms of the agreement.

| Base Salary (\$) | Bonus (\$) | Restricted Stock<br>Award Acceleration<br>Gain \$ (3) | Stock Option<br>Acceleration Gain \$<br>(4) | Excise Tax<br>Reimbursement (\$) | Legal Fee<br>Reimbursement (\$) | Total (\$) |
|------------------|------------|---|---|----------------------------------|---------------------------------|------------|
| (1)              | (2)        | (3)   | (4)   | (5)                              | (5)                             | Total (\$) |
| 2,250,000        | 2,027,887  | 1,833,500   | 165,818                                     | 1,036,959                        | 25,000                          | 7,339,164  |

(1) Represents three times the base salary in effect at July 31, 2008.

(2) Represents three times the average bonus payment received in the last three fiscal years ended July 31.

(3)

Represents the closing market price of \$36.67 on 50,000 unvested awards that would vest due to the change in control.

(4) Represents the difference between the closing market price of \$36.67 and the exercise price on 76,667 unvested stock options in-the-money that would vest due to the change in control.

(5) Represents the maximum reimbursement of legal fees allowed.

**Table of Contents****Thomas J. Felmer**

The following table shows the amount payable assuming that the terms of the change of control agreement were triggered on July 31, 2008 and the named executive officer had to legally enforce the terms of the agreement.

| Base Salary (\$) | Bonus (\$) | Restricted Stock<br>Award Acceleration<br>Gain \$ | Stock Option<br>Acceleration Gain \$ | Excise Tax<br>Reimbursement (\$) | Legal Fee<br>Reimbursement (\$) | Total (\$) |
|------------------|------------|---|--------------------------------------|----------------------------------|---------------------------------|------------|
| (1)              | (2)        | (3)   | (4)                                  | (5)                              | (5)                             | Total (\$) |
| 600,000          | 463,781    | 1,283,450   | 78,511                               | 454,851                          | 25,000                          | 2,905,593  |

(1) Represents two times the base salary in effect at July 31, 2008.

(2) Represents two times the average bonus payment received in the last two fiscal years ended July 31.

(3) Represents the closing market price of \$36.67 on 35,000 unvested awards that would vest due to the change in control.

(4) Represents the difference between the closing market price of \$36.67 and the exercise price on 35,000 unvested stock options in-the-money that would vest due to the change in control.

(5)

Represents the maximum reimbursement of legal fees allowed.

**David Mathieson**

Mr. Mathieson resigned as Senior Vice President and Chief Financial Officer of the Company effective December 31, 2007. His resignation did not accelerate the vesting of any unvested restricted stock awards or unvested stock options and did not result in any payment under his change of control agreement.

**Peter C. Sephton**

The following table shows the amount payable assuming that the terms of the change of control agreement were triggered on July 31, 2008 and the named executive officer had to legally enforce the terms of the agreement.

| Base Salary (\$) |                | Restricted Stock<br>Award Acceleration | Stock Option<br>Acceleration Gain \$ | Excise Tax<br>Reimbursement (\$) | Legal Fee<br>Reimbursement (\$) | Total (\$) |
|------------------|----------------|--|--------------------------------------|----------------------------------|---------------------------------|------------|
| (1)              | Bonus (\$) (2) | Gain \$ (3)                            | (4)                                  |                                  | (5)                             |            |
| 812,005          | 615,133        | 1,283,450                              | 78,511                               | 467,443                          | 25,000                          | 3,281,542  |

- (1) Represents two times the base salary in effect at July 31, 2008.

As Mr. Sephton works and lives in the United Kingdom, his base salary is paid to him in British Pounds. The amount shown in U.S. dollars was converted from British Pounds at the July month-end exchange rate: \$1 = £0.5050.

- (2) Represents two times the average bonus payment received in the last two fiscal years ended July 31.

- (3) Represents the closing market price of \$36.67

on 35,000  
unvested awards  
that would vest  
due to the  
change in  
control.

(4) Represents the  
difference  
between the  
closing market  
price of \$36.67  
and the exercise  
price on 35,000  
unvested stock  
options  
in-the-money  
that would vest  
due to the  
change in  
control.

(5) Represents the  
maximum  
reimbursement  
of legal fees  
allowed.

**Matthew O. Williamson**

The following table shows the amount payable assuming that the terms of the change of control agreement were triggered on July 31, 2008 and the named executive officer had to legally enforce the terms of the agreement.

| Base Salary (\$) | Bonus (\$) | Restricted Stock<br>Award Acceleration<br>Gain \$ | Stock Option<br>Acceleration Gain \$ | Excise Tax<br>Reimbursement (\$) | Legal Fee<br>Reimbursement (\$) | Total (\$) |
|------------------|------------|---|--------------------------------------|----------------------------------|---------------------------------|------------|
| (1)              | (2)        | (3)   | (4)                                  | (5)                              | (5)                             | Total (\$) |
| 610,000          | 504,462    | 1,283,450   | 78,511                               | 442,801                          | 25,000                          | 2,944,224  |

(1) Represents two  
times the base  
salary in effect  
at July 31, 2008.

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- (2) Represents two times the average bonus payment received in the last two fiscal years ended July 31.
- (3) Represents the closing market price of \$36.67 on 35,000 unvested awards that would vest due to the change in control.
- (4) Represents the difference between the closing market price of \$36.67 and the exercise price on 35,000 unvested stock options in-the-money that would vest due to the change in control.
- (5) Represents the maximum reimbursement of legal fees allowed.

**Robert Tatterson**

The following table shows the amount payable assuming that the terms of the change of control agreement were triggered on July 31, 2008 and the named executive officer had to legally enforce the terms of the agreement.

| Base Salary (\$) |                       | Restricted Stock<br>Award Acceleration<br>Gain \$ (3) | Stock Option<br>Acceleration Gain \$<br>(4) | Excise Tax<br>Reimbursement (\$) | Legal Fee<br>Reimbursement (\$)<br>(5) | Total (\$) |
|------------------|-----------------------|---|---|----------------------------------|--|------------|
| (1)<br>600,000   | Bonus (\$)<br>212,434 | 733,400   | 26,374                                      | 282,934                          | 25,000                                 | 1,880,142  |

(1)

Represents two times the base salary in effect at July 31, 2008.

- (2) Represents two times the bonus payment received in the last fiscal year ended July 31.
- (3) Represents the closing market price of \$36.67 on 20,000 unvested awards that would vest due to the change in control.
- (4) Represents the difference between the closing market price of \$36.67 and the exercise price on 18,333 unvested stock options in-the-money that would vest due to the change in control.
- (5) Represents the maximum reimbursement of legal fees allowed.

***Potential Payments Upon Termination Due to Death or Disability***

In the event of termination due to death or disability, all unexercised, unexpired stock options would immediately vest and all restricted stock awards would immediately become unrestricted and fully vested. The following table shows the amount payable to the named executive officers should this event occur on July 31, 2008.

| Unvested<br>Shares of<br>Restricted<br>Stock as of | Restricted Stock<br>Award | Unvested Stock<br>Options<br>In-the Money as<br>of | Stock Option |
|--|---------------------------|--|--------------|
|--|---------------------------|--|--------------|



| <b>Name</b>     | <b>July 31, 2008</b> | <b>Acceleration<br/>Gain \$ (1)</b> | <b>July 31, 2008</b> | <b>Acceleration<br/>Gain \$ (2)</b> |
|-----------------|----------------------|-------------------------------------|----------------------|-------------------------------------|
| F.M. Jaehnert   | 50,000               | 1,833,500                           | 76,667               | 165,818                             |
| T. Felmer       | 35,000               | 1,283,450                           | 35,000               | 78,511                              |
| P.C. Sephton    | 35,000               | 1,283,450                           | 35,000               | 78,511                              |
| M.O. Williamson | 35,000               | 1,283,450                           | 35,000               | 78,511                              |
| R. Tatterson    | 20,000               | 733,400                             | 18,333               | 26,374                              |

(1) Represents the closing market price of \$36.67 on unvested shares that would vest due to the change in control.

(2) Represents the difference between the closing market price of \$36.67 and the exercise price on unvested stock options in-the-money that would vest due to death or disability.

### **Compensation of Directors**

To ensure competitive compensation for the directors, surveys prepared by various consulting firms and the National Association of Corporate Directors are reviewed by the Corporate Governance Committee in making recommendations to the Board of Directors regarding director compensation. Directors who are employees of the Company receive no additional compensation for service on the Board or on any committee of the Board. Directors who were not also employees of the Company received an annual retainer of

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\$35,000 plus \$6,000 for each committee they chair (\$10,000 for the audit committee chair) and \$1,500 plus expenses for each meeting of the Board or any committee thereof, which they attend and are a member or \$1,000 for single issue telephonic committee meetings of the Board. Directors also receive \$1,000 for each meeting they attend of any committee for which they are not a member and \$500 for each telephonic committee meeting they attend of any committee for which they are not a member. Effective December 1, 2008, the annual retainer will increase from \$35,000 to \$45,000.

Directors are also granted 6,000 time-based stock options in November/December of each year while they are serving on the Board. Effective December 1, 2008, the annual grant will increase from 6,000 to 6,600 time-based stock options. Upon election to the Board, a director is granted 10,000 time-based stock options. The grant price is the fair market value of the stock on the grant date and is calculated by taking the average of the high and low stock price on that date. The options vest one-third each year for the first three years and have a ten year life.

Directors are also eligible to defer portions of their fees into the Brady Corporation Director Deferred Compensation Plan ( Director Deferred Compensation Plan ), the value of which is measured by the fair value of the underlying investments. The assets of the Director Deferred Compensation Plan are held in a Rabbi Trust and are invested by the trustee as directed by the participant in several investment funds as permitted by the Director Deferred Compensation Plan. The investment funds available in the Director Deferred Compensation Plan include Brady Corporation Class A Nonvoting Common Stock and various mutual funds that are provided in the Employee 401(k) Plan.

At least one year prior to termination from the Board, the director must elect whether to receive his/her account balance following termination in a single lump sum payment or by means of distribution under an Annual Installment Method. If the director does not submit an election form or has not submitted one timely, then payment shall be made each year for a period of ten years. The first payment must be one-tenth of the balance held; the second one-ninth; and so on, with the balance held in the Trust reduced by each payment.

***Director Compensation Table***

| <b>Name</b>               | <b>Fees Earned or Paid in</b> |                           | <b>Total (\$)</b> |
|---------------------------|-------------------------------|---------------------------|-------------------|
|                           | <b>Cash (\$)</b>              | <b>Option Awards (\$)</b> |                   |
| Elizabeth Pungello        | 65,500                        | 75,512                    | 141,012           |
| Peter J. Lettenberger (2) | 16,708                        | 58,338                    | 75,046            |
| Robert C. Buchanan        | 89,000                        | 75,512                    | 164,512           |
| Roger D. Peirce (2)       | 16,708                        | 58,338                    | 75,046            |
| Richard A. Bemis          | 73,000                        | 75,512                    | 148,512           |
| Frank W. Harris           | 70,000                        | 75,512                    | 145,512           |
| Gary E. Nei               | 73,500                        | 75,512                    | 149,012           |
| Mary K. Bush (2)          | 4,500                         | 58,338                    | 62,838            |
| Frank R. Jarc             | 104,250                       | 75,512                    | 179,762           |
| Chan W. Galbato           | 72,000                        | 64,974                    | 136,974           |

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|                       |        |        |         |
|-----------------------|--------|--------|---------|
| Patrick W. Allender   | 71,000 | 53,778 | 124,778 |
| Conrad G. Goodkind    | 95,250 | 53,778 | 149,028 |
| Bradley C. Richardson | 60,542 | 28,622 | 89,164  |

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- (1) Represents the amounts expensed in fiscal 2008 relating to grants of stock options. The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), which requires it to recognize compensation expense for stock options granted to employees and directors based on the estimated fair value of the awards at the time of grant. The assumptions used to determine the value of the awards, including the use of the Black-Scholes method of valuation by the Company, are discussed in Note 1 of the Notes to Consolidated Financial Statements of the Company contained in Item 8 of this Form 10-K for the fiscal year ended July 31, 2008. The grant date fair value of

options granted in fiscal 2008 for each director was \$77,280 for Ms. Pungello, Mr. Buchanan, Mr. Bemis, Mr. Harris, Mr. Nei, Mr. Jarc and Mr. Galbato, \$202,780 for Mr. Allender and Mr. Goodkind and \$128,800 for Mr. Richardson. No options were granted in fiscal 2008 to Mr. Lettenberger, Mr. Peirce and Ms. Bush.

The actual value, if any, which an option holder will realize upon the exercise of an option will depend on the excess of the market value of the Company's common stock over the exercise price on the date the option is exercised, which cannot be forecasted with any accuracy.

Outstanding option awards at July 31, 2008 for each individual serving as a director on that date include the following:  
Ms. Pungello,  
30,000 shares;

Mr. Buchanan,  
 18,000 shares;  
 Mr. Bemis,  
 41,000 shares;  
 Mr. Harris,  
 39,000 shares;  
 Mr. Nei, 39,000  
 shares; Mr. Jarc,  
 42,000 shares;  
 Mr. Galbato,  
 16,000 shares;  
 Mr. Allender,  
 16,000 shares;  
 Mr. Richardson,  
 10,000 shares;  
 and  
 Mr. Goodkind,  
 16,000 shares.

- (2) Served as  
 Director through  
 the Annual  
 Meeting of  
 Shareholders  
 occurring in  
 November 2007.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

**(a) Security Ownership of Certain Beneficial Owners**

The following table sets forth the current beneficial ownership of shareholders who are known by the Company to own more than five percent (5%) of any class of the Company's voting shares on August 15, 2008. As of that date, nearly all of the voting stock of the Company was held by two trusts controlled by direct descendants of the Company's founder, William H. Brady, as follows:

| <b>Title of Class</b> | <b>Name and Address of Beneficial Owner</b>   | <b>Amount of Beneficial Ownership</b> | <b>Percent of Ownership(2)</b> |
|-----------------------|---|---------------------------------------|--------------------------------|
| Class B Common Stock  | Brady Corporation Class B Common Stock Trust(1)<br>c/o Elizabeth P. Pungello<br>2002 S. Hawick Ct.<br>Chapel Hill, NC 27516 | 1,769,304                             | 50%                            |
|                       | William H. Brady III Revocable Trust of 2003(3)<br>c/o William H. Brady III<br>249 Rosemont Ave.<br>Pasadena, CA 91103      | 1,769,304                             | 50%                            |

- (1) The trustee is  
 Elizabeth P.  
 Pungello, who has

sole voting and  
dispositive power  
and who is the  
remainder  
beneficiary.

Elizabeth Pungello  
is the  
great-granddaughter  
of William H. Brady  
and currently serves  
on the Company's  
Board of Directors.

- (2) An additional 20  
shares are owned by  
a third trust with  
different trustees.
- (3) William H. Brady III  
is special trustee of  
this trust and has  
sole voting and  
dispositive powers  
with respect to these  
shares. William H.  
Brady III is the  
grandson of William  
H. Brady.

**(b) *Security Ownership of Management***

The following table sets forth the current beneficial ownership of each class of equity securities of the Company by each Director or Nominee and by all Directors and Officers of the Company as a group as of July 31, 2008. Unless otherwise noted, the address for

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each of the listed persons is c/o Brady Corporation, 6555 West Good Hope Road, Milwaukee, Wisconsin 53223. Except as otherwise indicated, all shares are owned directly.

| <b>Title of Class</b> | <b>Name of Beneficial Owner &amp; Nature of Beneficial Ownership</b> | <b>Amount of Beneficial Ownership(6)</b> | <b>Percent of Ownership</b> |
|-----------------------|--|--|-----------------------------|
| Class A Common Stock  | Elizabeth P. Pungello(1)   | 1,048,945                                | 2.1%                        |
|                       | Frank M. Jaehnert(2)   | 725,698                                  | 1.4                         |
|                       | Allan J. Klotsche  | 189,824                                  | 0.4                         |
|                       | Thomas J. Felmer   | 169,581                                  | 0.3                         |
|                       | Matthew O. Williamson  | 156,618                                  | 0.3                         |
|                       | Peter C. Sephton   | 129,001                                  | 0.3                         |
|                       | Richard A. Bemis   | 94,448                                   | 0.2                         |
|                       | Robert C. Buchanan(3)  | 77,625                                   | 0.2                         |
|                       | Frank W. Harris  | 66,488                                   | 0.1                         |
|                       | Gary E. Nei(4)   | 62,937                                   | 0.1                         |
|                       | Conrad G. Goodkind   | 52,195                                   | 0.1                         |
|                       | Frank R. Jarc  | 42,861                                   | 0.1                         |
|                       | Barbara Bolens   | 27,696                                   | 0.1                         |
|                       | Robert L. Tatterson  | 8,334                                    | *                           |
|                       | Chan W. Galbato  | 3,334                                    | *                           |
|                       | Patrick W. Allender  | 3,334                                    | *                           |
|                       | Bradley C. Richardson  | 379                                      | *                           |
|                       | All Officers and Directors as a Group (17 persons)(5)                | 2,859,298                                | 5.6%                        |
| Class B Common Stock  | Elizabeth P. Pungello(1)   | 1,769,304                                | 50.0%                       |

\* Indicates less than one-tenth of one percent.

(1) Ms. Pungello's holdings of Class A Common Stock include 300,000 shares held jointly with her spouse and 728,999 shares owned by trusts for which she is a trustee and has either sole or joint dispositive and voting authority.



Ms. Pungello's holdings of Class B Common Stock include 1,769,304 shares owned by a trust over which she has sole dispositive and voting authority.

- (2) Of the amount reported, Mr. Jaehnert's spouse owns 5,446 shares of Class A Common Stock directly.
- (3) Of the amount reported, Mr. Buchanan owns 14,534 shares as co-trustee of three separate trusts.
- (4) Of the amount reported, Mr. Nei owns 9,665 shares of Class A Common Stock directly (with respect to which he shares voting and investment power with his spouse).
- (5) The amount shown for all officers and directors individually and as a group (17 persons) includes options to

acquire a total of  
1,393,475 shares  
of Class A  
Common Stock,  
which are  
currently  
exercisable or  
will be  
exercisable  
within 60 days of  
July 31, 2008,  
including the  
following:

Ms. Pungello,  
18,000 shares;

Mr. Jaehnert,  
600,201 shares;

Mr. Klotsche,  
180,535 shares;

Mr. Felmer,  
159,001 shares;

Mr. Williamson,  
144,501 shares;

Mr. Sephton,  
129,001 shares;

Mr. Bemis,  
29,000 shares;

Mr. Buchanan,  
6,000 shares;

Mr. Harris,  
27,000 shares;

Mr. Nei, 27,000  
shares;

Mr. Goodkind,  
3,334 shares;

Mr. Jarc, 30,000  
shares;

Ms. Bolens,  
24,900 shares;

Mr. Tatterson,  
8,334 shares;

Mr. Galbato,  
3,334 shares;

Mr. Allender,  
3,334 shares;

Mr. Richardson,  
0 shares. It does  
not include other

options for  
Class A

Common Stock

which have been granted at later dates and are not exercisable within 60 days of July 31, 2008.

- (6) The amount shown for all officers and directors individually and as a group (17 persons) includes Class A Common Stock owned in deferred compensation plans totaling 238,271 shares of Class A Common Stock, including the following:
- Ms. Pungello, 1,946 shares;
  - Mr. Jaehnert, 60,023 shares;
  - Mr. Klotsche, 7,128 shares;
  - Mr. Felmer, 9,837 shares;
  - Mr. Williamson, 12,117 shares;
  - Mr. Sephton, 0 shares;
  - Mr. Bemis, 47,448 shares;
  - Mr. Buchanan, 55,391 shares;
  - Mr. Harris, 79 shares; Mr. Nei, 26,272 shares;
  - Mr. Goodkind, 2,533 shares;
  - Mr. Jarc, 12,861 shares;
  - Ms. Bolens, 2,257 shares;
  - Mr. Tatterson, 0

shares;  
Mr. Galbato, 0  
shares;  
Mr. Allender, 0  
shares;  
Mr. Richardson,  
379 shares.

**(c) *Changes in Control***

No arrangements are known to the Company, which may, at a subsequent date, result in a change in control of the Company.

**(d) *Equity Compensation Plan Information***

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| <b>Plan Category</b>                                       | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b><br><b>(a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b><br><b>(b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b><br><b>(c)</b> |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 3,985,205  | \$ 29.43   | 972,500  |
| Equity compensation plans not approved by security holders | None   | None   | None   |
| <b>Total</b>   | <b>3,985,205</b>   | <b>\$ 29.43</b>  | <b>972,500</b>   |

The Company's Nonqualified Stock Option Plans allow the granting of stock options to various officers, directors and other employees of the Company at prices equal to fair market value at the date of grant. The Company has reserved 300,000 and 2,000,000 shares of Class A Nonvoting Common Stock for issuance under the 2005 and 2006 Plans, respectively. Generally, options will not be exercisable until one year after the date of grant, and will be exercisable thereafter, to the extent of one-third per year and have a maximum term of ten years. In August 2003, 2004, 2005, 2006, and 2007, certain executives and key management employees were issued stock options that vest upon meeting certain financial performance conditions in addition to the vesting schedule described above. The options granted in 2003, 2004 and 2005 have a maximum term of five years and the options granted in 2006 and 2007 have a maximum term of ten years. All grants under the Option Plans are at market price on the date of the grant. The Company granted 210,000 performance-based restricted shares during fiscal 2008, with a grant price and fair value of \$32.83. As of July 31, 2008, 210,000 performance-based restricted shares were outstanding.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Conrad G. Goodkind has been a member of the Board of Directors of the Company since September 2007, and the Company's Secretary until November 2007. Until October 2007, he was an equity partner of Quarles & Brady LLP, which provides legal services to the Company.

See Item 10 Directors and Executive Officers of the Registrant for a discussion of director independence.

**Item 14. Principal Accounting Fees and Services**

The following table presents the aggregate fees incurred for professional services by Deloitte & Touche LLP and Deloitte Tax LLP during the years ended July 31, 2008 and 2007. Other than as set forth below, no professional services were rendered or fees billed by Deloitte & Touche LLP or Deloitte Tax LLP during the years ended July 31, 2008 and 2007.

|  | <b>2008</b>                   | <b>2007</b> |
|--|-------------------------------|-------------|
|  | <b>(Dollars in thousands)</b> |             |
| <i>Audit, audit-related and tax compliance</i> |                               |             |
| Audit fees(1)                                  | \$ 1,663                      | \$ 2,014    |

|  |                 |                 |
|--|-----------------|-----------------|
| Audit-related fees(2)  | 56              | 60              |
| Tax fees compliance  | 863             | 600             |
| <i>Subtotal audit, audit-related and tax compliance fees</i> | 2,582           | 2,674           |
| <i>Non-audit related</i>                                     |                 |                 |
| Tax fees planning and advice                                 | 1,233           | 1,699           |
| Other fees (3)   | 399             | 195             |
| <i>Subtotal non-audit related fees</i>                       | 1,632           | 1,894           |
| <b>Total fees</b>  | <b>\$ 4,214</b> | <b>\$ 4,568</b> |

(1) Audit fees consist of professional services rendered for the audit of the Company's annual financial statements, attestation of management's assessment of internal control, reviews of the quarterly financial statements and statutory reporting compliance.

(2) Audit-related fees include fees related to due diligence and employee benefit plan audits.

(3) All other fees relate to expatriate activities.

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|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| Ratio of Tax Planning and Advice Fees and All Other Fees to Audit Fees,<br>Audit-Related Fees and Tax Compliance Fees  | .6 to 1     | .7 to 1     |
| <p><i>Pre-Approval Policy</i> The services performed by the Independent Registered Public Accounting Firm ( Independent Auditors ) in fiscal 2007 and 2008 were pre-approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee at its November 19, 2003 meeting. The policy requires the Audit Committee to pre-approve the audit and non-audit services performed by the Independent Auditors in order to assure that the provision of such services does not impair the auditor s independence. Unless a type of service to be performed by the Independent Auditors has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee.</p> |             |             |

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

Item 15 (a) The following documents are filed as part of this report:

1) & 2) Consolidated Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted as they are not required, or the required information is shown in the consolidated financial statements or notes thereto.

3) Exhibits See Exhibit Index at page IV-2 of this Form 10-K.

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1                       | Restated Articles of Incorporation of Brady Corporation (1)  |
| 3.2                       | By-laws of Brady Corporation, as amended (2)   |
| *10.1                     | Form of Brady Corporation (2004) Change of Control Agreement entered into with Tom Felmer, David Mathieson, Peter Sephton, and Matthew Williamson (12)                           |
| *10.2                     | Brady Corporation BradyGold Plan, as amended (2)   |
| *10.3                     | Executive Additional Compensation Plan, as amended (2)   |
| *10.4                     | Executive Deferred Compensation Plan, as amended (16)  |
| *10.5                     | Directors Deferred Compensation Plan, as amended (16)  |
| *10.6                     | Forms of Non-Qualified Employee Stock Option Agreement, Director Stock Option Agreement, and Employee Performance Stock Option Agreement under 2006 Omnibus Incentive Stock Plan |
| *10.7                     | Brady Corporation 2004 Omnibus Incentive Stock Plan, as amended  |
| *10.8                     | Form of Brady Corporation 2004 Nonqualified Stock Option Agreement under the 2004 Omnibus Incentive Stock Plan, as amended (13)  |
| 10.9                      | Brady Corporation Automatic Dividend Reinvestment Plan (4)   |
| *10.10                    | Brady Corporation 2005 Nonqualified Plan for Non-employee Directors, as amended  |
| *10.11                    | Forms of Nonqualified Stock Option Agreements under 2005 Non-qualified Plan for Non-employee Directors, as amended (8)   |
| *10.12                    | Brady Corporation 1997 Omnibus Incentive Stock Plan, as amended  |
| *10.13                    | Brady Corporation 1997 Nonqualified Stock Option Plan for Non-Employee Directors, as amended   |
| 10.14                     | Revolving Credit Facility Credit Agreement (14)  |
| *10.15                    | Brady Corporation 2006 Omnibus Incentive Stock Plan, as amended  |
| *10.16                    | Brady Corporation Incentive Compensation Plan for Elected Corporate Officers (15)  |
| 10.17                     | First Amendment to Revolving Credit Facility Credit Agreement (6)  |
| *10.18                    | Complete and Permanent Release and Retirement Agreement, dated July 9, 2007, between Brady Corporation and David R. Hawke (3)  |



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- \*10.19 Form of Performance-based Restricted Stock Agreement under Brady Corporation 2006 Omnibus Incentive Stock Plan (7)
- \*10.20 Amendment to Change of Control Agreement dated May 20, 2003, between Brady Corporation and Frank M. Jaehnert (10)
- \*10.21 Restated Brady Corporation Restoration Plan (5)
- \*10.22 Brady Corporation 2001 Omnibus Incentive Stock Plan, as amended
- \*10.23 Brady Corporation 2003 Omnibus Incentive Stock Plan, as amended
- 10.24 Brady Note Purchase Agreement dated June 28, 2004 (11)
- 10.25 First Supplement to Note Purchase Agreement, dated February 14, 2006 (9)
- 10.26 Second Supplement to Note Purchase Agreement, dated March 23, 2007 (5)
- \*10.27 Change of Control Agreement entered into with Robert Tatterson
- 21 Subsidiaries of Brady Corporation
- 23 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Frank M. Jaehnert

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| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 31.2                      | Rule 13a-14(a)/15d-14(a) Certification of Thomas J. Felmer |
| 32.1                      | Section 1350 Certification of Frank M. Jaehnert            |
| 32.2                      | Section 1350 Certification of Thomas J. Felmer             |

- \* Management contract or compensatory plan or arrangement
- (1) Incorporated by reference to Registrant's Registration Statement No. 333-04155 on Form S-3
- (2) Incorporated by reference to Registrant's Current Report on Form 8-K filed September 15, 2006
- (3) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2007
- (4) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1992

- (5) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2008
- (6) Incorporated by reference to Registrant's Current Report on Form 8-K filed March 19, 2008
- (7) Incorporated by reference to Registrant's Current Report on Form 8-K filed January 9, 2008
- (8) Incorporated by reference to Registrant's Current Report on Form 8-K filed December 4, 2006
- (9) Incorporated by reference to Registrant's Current Report on Form 8-K filed February 17, 2006
- (10) Incorporated by reference to Registrant's Quarterly Report on Form

10-Q for the  
fiscal quarter  
ended April 30,  
2003

(11) Incorporated by  
reference to  
Registrant's  
8-K/A filed  
August 3, 2004

(12) Incorporated by  
reference to  
Registrant's  
Current Report  
on Form 8-K  
filed  
November 24,  
2004

(13) Incorporated by  
reference to  
Registrant's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
July 31, 2005

(14) Incorporated by  
reference to  
Registrant's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
July 31, 2006

(15) Incorporated by  
reference to  
Registrant's  
Current Report  
on Form 8-K  
filed  
November 20,  
2006

(16) Incorporated by  
reference to  
Registrant's  
Current Report

on Form 8-K  
filed  
September 17,  
2007

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**BRADY CORPORATION AND SUBSIDIARIES**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

| <b>Description</b>   | <b>Year ended July 31,</b>    |               |               |
|--|-------------------------------|---------------|---------------|
|  | <b>2008</b>                   | <b>2007</b>   | <b>2006</b>   |
|  | <b>(Dollars in thousands)</b> |               |               |
| Valuation accounts deducted in balance sheet from assets to which they apply |                               |               |               |
| Accounts receivable allowance for losses:                                    |                               |               |               |
| Balances at beginning of period  | \$ 9,109                      | \$ 6,390      | \$ 3,726      |
| Additions Charged to expense   | 2,480                         | 3,287         | 1,152         |
| Due to acquired businesses   | 34                            | 660           | 2,861         |
| Deductions Bad debts written off, net of recoveries                          | (1,564)                       | (1,228)       | (1,349)       |
| <br>Balances at end of period  | <br>\$ 10,059                 | <br>\$ 9,109  | <br>\$ 6,390  |
| <br>Inventory reserve for slow-moving inventory:                             |                               |               |               |
| Balances at beginning of period  | \$ 18,073                     | \$ 13,555     | \$ 8,573      |
| Net charged to expense   | 3,822                         | 2,542         | 2,441         |
| Due to acquired businesses   | 253                           | 1,976         | 2,541         |
| <br>Balances at end of period  | <br>\$ 22,148                 | <br>\$ 18,073 | <br>\$ 13,555 |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 26th day of September 2008.

Brady Corporation

By: /s/ Thomas J. Felmer  
 Thomas J. Felmer  
*Senior Vice President & Chief Financial Officer*  
*(Principal Accounting Officer)*  
*(Principal Financial Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

|                     |   |                       |
|---------------------|---|-----------------------|
| /s/ F. M. Jaehnert  | President and Director<br><br>(Principal Executive Officer) | September 26,<br>2008 |
| F. M. Jaehnert      |   |                       |
| /s/ B.C. Richardson | Director  | September 26,<br>2008 |
| B.C. Richardson     |   |                       |
| /s/ R. A. Bemis     | Director  | September 26,<br>2008 |
| R. A. Bemis         |   |                       |
| /s/ F. W. Harris    | Director  | September 26,<br>2008 |
| F. W. Harris        |   |                       |
| /s/ R. C. Buchanan  | Director  | September 26,<br>2008 |
| R. C. Buchanan      |   |                       |
| /s/ G. E. Nei       | Director  | September 26,<br>2008 |
| G. E. Nei           |   |                       |
| /s/ F. R. Jarc      | Director  | September 26,<br>2008 |

|                    |          |                       |
|--------------------|----------|-----------------------|
| F. R. Jarc         |          |                       |
| /s/ E. P. Pungello | Director | September 26,<br>2008 |
| E. P. Pungello     |          |                       |
| /s/ C. W. Galbato  | Director | September 26,<br>2008 |
| C. W. Galbato      |          |                       |
| /s/ C.G. Goodkind  | Director | September 26,<br>2008 |
| C. G. Goodkind     |          |                       |
| /s/ P. W. Allender | Director | September 26,<br>2008 |
| P. W. Allender     |          |                       |