BRADY CORP
Form 10-K
September 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended July 31, 2013
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 ý 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 ý

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 ý No ¨

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 ý

The aggregate market value of the non-voting common stock held by non-affiliates of the registrant as of January 31, 2013, was approximately $1,441,914,982 based on closing sale price of $34.89 per share on that date as reported for the New York Stock Exchange. As of September 24, 2013, there were 48,561,004 outstanding shares of Class A Nonvoting Common Stock (the "Class A Common Stock"), and 3,538,628 shares of Class B Common Stock. The Class B Common Stock, all of which is held by affiliates of the registrant, is the only voting stock.

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PART I

Item 1. Business

(a) General Development of Business

Brady Corporation (“Brady,” “Company,” “we,” “us,” “our”) was incorporated under the laws of the state of Wisconsin in 1914. The Company’s corporate headquarters are located at 6555 West Good Hope Road, Milwaukee, Wisconsin 53223, and the telephone number is (414) 358-6600.

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

The Company’s primary objective is to build upon its leading market position and increase shareholder value by leveraging competitive strengths including:

- Global leadership position in niche markets
- Innovation advantage — Internally developed products drive growth and sustain gross profit margins
- Operational excellence — Continuous productivity improvement, business simplification and process transformation
- Customer service — Focus on the customer and understanding customer needs
- Workplace Safety ("WPS") compliance expertise

In fiscal 2013, we made significant portfolio changes to better align the Company for growth in the future. These changes were a meaningful shift from the more volatile and less profitable consumer electronics die-cut business, to an expansion of our core Identification Solutions (“ID Solutions" or "IDS”) business to focus on markets with long-term growth trends. In our WPS business, our strategy to return to growth includes a focus on workplace safety critical industries in addition to increased investment in e-commerce expertise.

Key initiatives supporting the strategy in fiscal 2013 included:

- Strategic acquisition of Precision Dynamics Corporation (“PDC”) in the healthcare sector
- Global business simplification process
- Realignment of business structure from regional to two global product-based platforms: IDS and WPS
- Divestiture of non-strategic businesses including Precision Converting (“Brady Medical”) and Varitronics
- Announcement of management's intent to divest the Company's Asia Die-Cut and Europe businesses
- Decision to increase investment in the WPS platform and expand e-commerce capabilities

In the third quarter of fiscal 2013, the Company announced its plan to divest its Asia Die-Cut business. This is a part of the Company's ongoing efforts to shift its portfolio of businesses to less volatile industries that are supported by positive macro-economic trends. The Asia Die-Cut business platform primarily consists of the sale of high performance products such as gaskets, meshes, heat dissipation materials, antennae, dampers, filters, and similar products sold in the electronics industries, including the mobile handset and hard-disk drive industries. The Company included its Europe-based Die-Cut business, Balkhausen, into the Asia Die-Cut disposal group in the fourth quarter of fiscal 2013. The Balkhausen business consists of the sale of traditional die-cut parts and thermal management products mainly used in the automotive electronics and telecommunications markets. The criteria for classifying the assets and liabilities as held for sale was met in the third quarter of fiscal 2013 for the Asia Die-cut business and the fourth quarter of fiscal 2013 for the Balkhausen business. The assets and liabilities of these businesses are classified as held for sale in the consolidated balance sheet as of July 31, 2013.

The operating results of the Asia Die-Cut and Balkhausen businesses were reflected as discontinued operations in the consolidated statements of earnings for the years ended July 31, 2013, 2012 and 2011. In addition, the following previously divested businesses were reported within discontinued operations: Brady Medical and Varitronics (divested in fiscal 2013), Etimark (divested in fiscal 2012) and Teklynx (divested in fiscal 2011). These divested businesses were part of the IDS business platform.

(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. The financial information contained in Note 7 has been restated to reflect the realignment of the Company's reportable segments implemented in the fourth quarter of fiscal 2013.

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(c) Narrative Description of Business

Overview

Effective May 1, 2013, the Company is organized and managed on a global basis within two business platforms: Identification Solutions and Workplace Safety, which are the reportable segments. Prior to May 1, 2013, the Company was organized and managed on a geographic basis within three regions: Americas, EMEA (Europe, the Middle East and Africa), and Asia-Pacific. As such, all segment-related data has been conformed to the new reportable segments.

The IDS segment consists of high-performance and innovative identification and healthcare products that are manufactured internally under the Brady brand, and are primarily sold through distribution to a broad range of MRO and OEM customers.

The WPS segment consists of workplace safety and compliance products, which are sold under multiple brand names through catalog and e-business to a broad range of MRO customers. Approximately half of the business is resale product and half is manufactured internally.

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

	2013		2012		2011	
IDS	63.7	%	59.3	%	59.0	%
WPS	36.3	%	40.7	%	41.0	%
Total	100	%	100	%	100	%

ID Solutions

Within the ID Solutions platform, the primary product categories include:

- Facility identification, which includes safety signs, pipe markers, labeling systems, spill control products, and lockout/tagout devices
- Product identification, which includes materials and printing systems for product identification, brand protection labeling, work in process labeling, and finished product identification
- Wire identification, which includes hand-held printers, wire markers, sleeves, and tags
- People identification, which includes self-expiring name tags, badges, lanyards, and access control software
- Patient identification, which includes wristbands and labels used in hospitals for tracking and safety of patients
- Custom wristbands used in the leisure and entertainment industry such as theme parks, concerts and festivals

More than 75% of ID Solutions products are sold under the Brady brand. In the United States, identification products for the utility industry are marketed under the Electromark brand; spill-control products are marketed under the SPC brand; security and identification badges and systems are marketed in the B.I.G., Identicard/Identicam, STOPware, PromoVision, and Brady People ID brands; and wire identification products are marketed under the Modernotecnica brand in Italy. Lockout/tagout products are offered under the Scafftag brand in the U.K. Custom labels and nameplates are available under the Stickolor brand in Brazil; and identification and patient safety products in the healthcare industry and custom wristbands for the leisure and entertainment industry are available under the PDC Innovative brand.

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

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

The ID Solutions platform manufactures differentiated, proprietary products, most of which have been internally developed. These internally developed products include materials, printing systems, and software. IDS competes for business principally on the basis of production capabilities, engineering, research and development capabilities, materials expertise, global account management where needed, customer service, product quality and price.

Competition is highly fragmented, ranging from smaller companies offering minimal product variety, to some of the world's largest major adhesive and electrical product companies offering competing products as part of their overall product lines.

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Workplace Safety

Within the Workplace Safety business platform, the primary product categories are workplace safety and compliance products, which include informational signs, tags, security, safety and traffic compliance related products, first aid supplies, material handling, asset identification, safety and facility identification, and workplace regulatory products. Products within the Workplace Safety platform are sold under a variety of brands including: safety and facility identification products offered under the Seton, Emedco, Signals, Personnel Concepts, Safety Signs Service and Pervaco brands; first aid supplies under the Accidental Health and Safety, Trafalgar, and Securimed brands; industrial, office equipment under the Runelandhs brand; and wire identification products marketed under the Carroll brand. Workplace Safety markets and sells products through multiple channels, including catalog, telemarketing and e-commerce. The business serves customers in many industries, including process industries, manufacturers, government, education, construction, and utilities.

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

Discontinued Operations

The Company announced its plan to divest its Asia Die-Cut business during the three months ended April 30, 2013, and incorporated its Balkhausen business into that plan during the three months ended July 31, 2013. As such, the assets and liabilities of these businesses were classified as held for sale in the consolidated balance sheet as of July 31, 2013. The operating results of the Asia Die-Cut and Balkhausen businesses were reflected as discontinued operations in the consolidated statements of earnings for the years ended July 31, 2013, 2012 and 2011. In addition, the following previously divested businesses were reported within discontinued operations: Brady Medical and Varitronics (divested in fiscal 2013), Etimark (divested in fiscal 2012) and Teklynx (divested in fiscal 2011). These divested businesses were part of the IDS business platform.

The Die-Cut business produces customized precision die-cut products used to seal, dissipate heat, insulate, protect, shield, or provide other mechanical performance properties. Products within the Die-Cut business are sold primarily under the Brady brand, with some European business marketed as Balkhausen products. The business sells through a technical direct sales force and is supported by global strategic account management. The Die-Cut business serves customers in many industries, including mobile handset, hard disk drive, consumer electronics, and other computing devices, as well as products for the automotive and medical equipment industries.

Research and Development

The Company focuses its research and development ("R&D") efforts on pressure sensitive materials, printing systems and software, and it mainly supports the IDS segment. Material development involves the application of surface chemistry concepts for top coatings and adhesives applied to a variety of base materials. Systems design integrates materials, embedded software and a variety of printing technologies to form a complete solution for customer applications. In addition, the research and development team supports production and marketing efforts by providing application and technical expertise, which creates a competitive advantage through new product innovation for the Company that enables long-term organic sales growth and strong gross margin improvement.

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

The Company spent approximately $33.6 million, $34.5 million, and $38.3 million during the fiscal years ended July 31, 2013, 2012, and 2011, respectively, on its R&D activities related to continuing operations. The reduction in R&D spending in 2013 was primarily due to the consolidation of the product management office, which reduced costs while streamlining processes globally. In addition, variable incentive compensation was lower in fiscal 2013 compared to fiscal 2012. As of July 31, 2013, 188 employees were engaged in research and development activities for the Company.

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Operations

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

The Company purchases raw materials, components and finished products from many suppliers. Overall, the Company is not dependent upon any single supplier for its most critical base materials or components; however, the Company has chosen in certain situations to sole source materials, components or finished items for design or cost reasons. As a result, disruptions in supply could have an impact on results for a period of time, but we believe any disruptions would simply require qualification of new suppliers and the disruption would be modest. In certain instances, the qualification process could be more costly or take a longer period of time and in rare circumstances, such as a global shortage of a critical materials or components, the financial impact could be significant. The Company currently operates 45 manufacturing or distribution facilities globally.

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

The Company has a broad customer base, and no individual customer is 5% or more of total net sales. Sales to governmental customers represent an immaterial amount of the business.

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

Environment

Compliance with federal, state and local environmental protection laws during fiscal 2013 did not have a material impact on the Company’s business, financial condition or results of operations.

Employees

As of July 31, 2013, the Company employed approximately 7,400 individuals. Brady has never experienced a material work stoppage due to a labor dispute and considers its relations with employees to be good.

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

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

(e) Information Available on the Internet

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

Item 1A. Risk Factors

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

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Business Risks

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

In fiscal 2013, the Workplace Safety platform represented 36.3% of our total sales from continuing operations. Throughout the last two fiscal years, this platform has experienced deterioration in sales and profits due to increased competition and pricing pressure. An increasing number of customers are purchasing products on the Internet instead of through traditional direct marketing channels such as catalogs. The Company's strategy to grow this business includes: investing to improve e-commerce capabilities, pricing structure changes, and the expansion of products offered. There is a risk that the Company will not successfully implement this strategy, or if successfully implemented, not realize its expected benefits, due to the continued levels of increased competition and pricing pressure brought about by the Internet. There is also a risk that the Company may not be able to reverse the downward trends in this business and return the segment to historic levels of sales and profits. If these risks materialize, their effects could adversely impact our business, sales, results of operations, cash flow and liquidity.

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

Our business and operating results have been and will continue to be affected by global economic conditions. In fiscal 2013, sales were negatively impacted by the recession in Europe and Australia. When global economic conditions deteriorate or economic uncertainty continues, customers and potential customers may experience deterioration of their businesses, which may result in the delay or cancellation of plans to purchase our products. Our sensitivity to economic cycles and any related fluctuations in the businesses of our customers or potential customers could have a material adverse impact on our sales, results of operations, cash flow and liquidity.

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

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

- Future financial performance of major markets served
- Consolidation in the marketplace, allowing competitors and customers to be more efficient and more price competitive
- Future competitors entering the marketplace
- Large customer market share fluctuations
- Decreasing product life cycles
- Changes in customer preferences
- Cyclical demands of end-users
- Declines in general economic conditions

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

Price reductions or additional costs may need to be incurred to remain competitive in certain industries, which could have a negative impact on sales, profitability, results of operations, cash flow and liquidity.

We face substantial competition through the Internet in our entire business, but particularly within the Workplace Safety segment. Competition may force us to reduce prices or incur additional costs to remain competitive. We compete on the basis of price, customer support, product innovation, product offering, product quality, production capabilities, and for multinational customers, our global footprint. Present or future competitors may accept lower profit, have greater financial, technical or other resources, lower production costs or other pricing advantages, any of which could put us at a disadvantage by threatening our share of sales or reducing our profit margins, which would adversely impact our results of operations, cash flow and liquidity. Additionally, throughout our global business, distributors and customers may seek lower cost sourcing opportunities, which could result in a loss of business that may adversely impact sales, results of operations, cash flows, and liquidity.

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A large customer loss could significantly affect sales, results of operations, cash flow, and liquidity.
While we have a broad customer base and no individual customer represents 5% or more of total sales, we conduct business with several large customers and distribution companies. Our dependence on these customers makes relationships with them important. We cannot guarantee that these relationships will be retained in the future. Because these large customers account for a significant portion of sales, they may possess a greater capacity to negotiate reduced prices. If we are unable to provide products to our customers at the quality and prices acceptable to them, some of our customers may shift their business to competitors or may substitute another manufacturer's products. If one of the large customers consolidates, is acquired, or loses market share, the result of that event may have an adverse impact on our business. The loss of or reduction of business from one or more of these large customers could have a material adverse impact on our sales, results of operations, cash flows, and liquidity.
Divestitures could negatively impact our business and contingent liabilities from divested businesses could adversely affect our results of operations, cash flow and liquidity.
We continually assess the strategic fit of our existing businesses and may divest businesses that we determine do not align with our strategic plan, or that are not achieving the desired return on investment. For example, over the last three fiscal years, we have divested our Teklynx, Etimark, Brady Medical, and Varitronics businesses, and have announced plans to divest our Asia Die-Cut and Balkhausen businesses. Divestitures pose risks and challenges that could negatively impact our business. For example, when we decide to sell a business or assets, we may be unable to do so on satisfactory terms and within our anticipated time-frame, and even after reaching a definitive agreement to sell a business the sale is typically subject to satisfaction of pre-closing conditions which may not be satisfied. In addition, the impact of the divestiture on our revenue and net earnings may be larger than projected, which could distract management, and disputes may arise with buyers. In addition, we have retained responsibility for and have agreed to indemnify buyers against some contingent liabilities related to a number of businesses that we have recently sold. The resolution of these contingencies has not had a material adverse impact on our results of operations, cash flow and liquidity, but we cannot be certain that this favorable pattern will continue.
Inability to identify, complete and integrate acquisitions may adversely impact our sales, results of operations, cash flow and liquidity.
Our historical growth has included acquisitions, and our future growth strategy includes acquisition opportunities. For example, in fiscal 2013 the Company acquired Precision Dynamics Corporation ("PDC"), a manufacturer of identification products primarily for the healthcare sector, for $301.2 million. We may not be able to identify acquisition targets or successfully complete acquisitions in the future due to the absence of quality companies in our target markets, economic conditions, or price expectations from sellers. If we are unable to complete additional acquisitions, our growth may be limited.
Additionally, as we grow through acquisitions, we will continue to place significant demands on management, operational, and financial resources. Recent and future acquisitions will require integration of operations, sales and marketing, information technology, finance and administrative operations, which could decrease the time available to serve and attract customers. We cannot assure that we will be able to successfully integrate acquisitions, that these acquisitions will operate profitably, or that we will be able to achieve the desired financial or operational success. Our financial condition, cash flows, liquidity and results of operations could be adversely affected if we do not successfully integrate the newly acquired businesses, or if our other businesses suffer due to the increased focus on the newly acquired businesses.
Failure to successfully complete restructuring plans may adversely impact our sales, results of operations, cash flow and liquidity.
We continue to implement measures to reduce our cost structure, simplify our business structure and standardize our processes. Successful implementation of such initiatives is critical to our future competitiveness and to improve profitability. These actions include reorganization of the Company along global product lines, a restructuring of the global workforce, consolidation of facilities, reorganization and restructuring of resources and standardization of business systems, which impact all functions of the Company. Facility consolidations will result in a higher concentration of operations in certain locations. Risks include customer acceptance of these changes, inability to implement standard processes and systems, resource allocation among competing priorities, employee disruption and

turnover, inability to manufacture and supply products in the event of a material casualty event at one of our principal facilities and additional charges related to these actions. These actions to reduce our cost structure and the charges related to these actions could have a material adverse impact on our sales, results of operations, cash flows and liquidity.

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The global nature of our business exposes us to foreign currency fluctuations that could adversely affect sales, results of operations, cash flow, liquidity and profits.
Approximately 50% of our sales are derived outside the United States. Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar, and may adversely affect our financial statements. Increased strength of the U.S. dollar will increase the effective price of our products sold in currencies other than U.S. dollars into other countries. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products, and services purchased overseas. Our sales and expenses are translated into U.S. dollars for reporting purposes, and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. In addition, certain of our subsidiaries may invoice customers in a currency other than its functional currency, which could result in unfavorable translation effects on sales, profits, results of operations, cash flow and liquidity.

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

International operations are subject to various U.S. or country-specific regulations which could adversely affect our sales, results of operations, cash flow and liquidity.
Our operations are subject to the risks of doing business abroad, including the following:
- Delays or disruptions in product deliveries and payments in connection with international manufacturing and sales
- Political and economic instability and disruptions
- Imposition of duties and tariffs
- Import and export controls
- Changes in governmental policies and business environments
- Disadvantages from competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act (FCPA)
- Local labor market conditions
- Current and changing regulatory environments
- Potentially adverse tax consequences, including repatriation of earnings
- Stability of the Euro and its ability to serve as a single currency for a variety of countries

These events could have an adverse effect on our operations by reducing the demand, decreasing prices, or increasing costs for our products, which could adversely impact our financial condition and results of operations, cash flow and liquidity.
Failure to develop new products or gain acceptance of new products could adversely impact our sales, results of operations, cash flow and liquidity.
Development of proprietary products is a driver of core growth and reasonable gross profit margins both currently and in the future, particularly within our ID Solutions segment. Therefore, we must continue to develop new and innovative products, as well as acquire and retain the necessary intellectual property rights in these products. If we fail to make innovations, if we launch products with quality problems, or if customers do not accept our new products, then our sales, 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 our customers. Failure to develop successful new products may also cause 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 sales, results of operations, cash flow and liquidity.
Failure to comply with laws and regulations could adversely affect our financial condition, results of operations, cash flow, and reputation.

We are subject to extensive regulation by U.S. and non-U.S. governmental and self-regulatory entities at the federal, state and local levels, including the following:

- Regulations relating to climate change, air emissions, wastewater discharges, handling and disposal of hazardous materials and wastes
- Regulations relating to health, safety and the protection of the environment
- Specific country regulations where our products are manufactured or sold
- Import, export and economic sanction laws

- Laws and regulations that apply to companies doing business with the government, audit for compliance with requirements of government contracts including procurement integrity, export control, employment practices, and the accuracy of records and recording of costs

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

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

Computer systems and technology may be susceptible to cyber threats which could adversely impact results of operations, cash flow and liquidity.

Our exposure to cyber-security threats is growing as we expand and increase our reliance on computers and e-commerce technologies. Our business employs systems and websites designed for the secure storage and transmission of proprietary information. Security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

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

Our business exposes us to potential product liability risk, as well as warranty and recall claims that are inherent in the design, manufacture, sale and use of our products, including our healthcare products. We have not to date incurred material costs related to these claims. However, in the event our products actually or allegedly fail to perform as expected and we are subject to such claims above the amount of insurance coverage, our financial condition, results of operations and cash flows, as well as our reputation, could be materially and adversely affected.

Financial/Ownership Risks

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

We have goodwill of $617.2 million and other intangible assets of $156.9 million as of July 31, 2013, which represents 54% of our total assets. During fiscal 2013, we recorded impairment charges of $204.4 million primarily related to goodwill in the WPS Americas and IDS APAC reporting units. In fiscal 2012, we recorded impairment charges of $115.7 million related to the former North/South Asia reporting unit, which is now included in discontinued operations. We evaluate goodwill for impairment on an annual basis or more frequently if impairment indicators are present based upon the fair value of each reporting unit. We assess the impairment of other intangible assets on an annual basis, or more frequently if impairment indicators are present, based upon the expected future cash flows of the respective assets. These valuations include management's estimates of sales, profitability, cash flow generation, capital structure, cost of debt, interest rates, capital expenditures, and other assumptions. Significant negative industry or economic trends, disruptions to our business, inability to achieve sales projections or cost savings, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations. If the estimated fair value of our reporting units changes in future periods, we may be required to record an impairment charge related to goodwill or other intangible assets, which would reduce earnings in such period.

Changes in tax legislation or tax rates could adversely affect results of operations and financial statements. Additionally, audits by taxing authorities could result in tax payments for prior periods.

We are subject to income taxes in the U.S. and in many non-U.S. jurisdictions. As such, our earnings are subject to risk due to changing tax laws and tax rates around the world. At any point in time, there are a number of tax proposals

at various stages of legislation throughout the globe. While it is impossible for us to predict whether some or all of these proposals will be enacted, it likely would have an impact on our earnings.
Our tax filings are subject to audit by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in payments or assessments that differ from our reserves, our future net earnings may be adversely impacted.

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

Our annual cash needs could require us to repatriate cash to the U.S. from foreign jurisdictions. For example, in fiscal 2013 we repatriated cash to the U.S. in connection with the acquisition of PDC, which resulted in a tax charge of $26.6 million.

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

Substantially all of our voting stock is controlled by Elizabeth P. Pungello, one of the Directors, and William H. Brady III, both of whom are descendants of the Company's founder. All of our publicly traded shares are non-voting. Therefore, Ms. Pungello and Mr. Brady have control in most matters requiring approval or acquiescence by shareholders, including the composition of our Board of Directors and many corporate actions. Such concentration of ownership may discourage a potential acquirer from making a purchase offer that our public shareholders may find favorable, which in turn could adversely affect the market price of our common stock or prevent our shareholders from realizing a premium over our stock price. Furthermore, this concentration of voting share ownership may adversely affect the trading price for our non-voting common stock because investors may perceive disadvantages in owning stock in companies whose voting stock is controlled by a limited number of shareholders.

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

As of July 31, 2013, we had $313 million in outstanding indebtedness. In addition, based on the availability under our credit facilities as of July 31, 2013, we had the ability to incur an additional $411 million under our revolving credit agreement. Our current revolving credit agreement and long-term debt obligations also impose certain restrictions on us. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") within Item 7 for more information regarding our credit agreement and long-term debt obligations. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then subject to applicable cure periods, the outstanding indebtedness (and any other indebtedness with cross-default provisions) could be declared immediately due and payable, which would adversely affect our liquidity and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company currently operates 45 manufacturing or distribution facilities across the globe and are split by reporting segment as follows:

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

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

The Company's present operating facilities contain a total of approximately 2.5 million square feet of space, of which approximately 1.5 million square feet is leased. The Company believes that its equipment and facilities are modern, well maintained, and adequate for present needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

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Not applicable.

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PART II

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

(a) Market Information

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

	2013		2012		2011	
	High	Low	High	Low	High	Low
4th Quarter	$35.58	$29.76	$31.28	$25.15	$38.49	$29.60
3rd Quarter	$36.33	$31.51	$34.37	$29.41	$37.71	$33.37
2nd Quarter	$35.00	$30.18	$34.40	$27.09	$33.78	$30.83
1st Quarter	$31.22	$26.34	$32.24	$24.73	$31.33	$25.35

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

(b) Holders

As of September 24, 2013, there were 955 Class A Common Stock shareholders of record and approximately 6,550 beneficial shareholders. There are three Class B Common Stock shareholders.

(c) Issuer Purchases of Equity Securities

On September 9, 2011, the Company's Board of Directors authorized a share repurchase program for up to two million shares of the Company's Class A Nonvoting Common Stock. The plan may be implemented by purchasing shares in the open market or in privately negotiated transactions, with repurchased shares available for use in connection with the Company's stock-based plans and for other corporate purposes. As of July 31, 2012, there remained 334,940 shares to purchase in connection with this share repurchase plan.

On September 6, 2012, the Company's Board of Directors authorized an additional share repurchase program for up to two million additional shares of the Company's Class A Nonvoting Common Stock. During the three months ended October 31, 2012, the Company purchased 188,167 shares of its Class A Nonvoting Common Stock under this plan for $5.1 million. There were no additional shares repurchased during the remainder of the fiscal year. As of July 31, 2013, there remained 2,146,773 shares to purchase in connection with both repurchase plans.

(d) Dividends

The Company has historically paid quarterly dividends on outstanding common stock. Before any dividend may be paid on the Class B Common Stock, holders of the Class A Common Stock are entitled to receive an annual, noncumulative cash dividend of $0.01665 per share (subject to adjustment in the event of future stock splits, stock dividends or similar events involving shares of Class A Common Stock). Thereafter, any further dividend in that fiscal year must be paid on all shares of Class A Common Stock and Class B Common Stock on an equal basis. The Company believes that based on its historic dividend practice, this 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 2014, the Company declared the following dividends per share on its Class A and Class B Common Stock for the years ended July 31:

	2014	2013				2012			
	1st Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Class A	$0.195	$0.19	$0.19	$0.19	$0.19	$0.185	$0.185	$0.185	$0.185
Class B	0.17835	0.17335	0.19	0.19	0.19	0.16835	0.185	0.185	0.185

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(e) Common Stock Price Performance Graph

The graph below shows a comparison of the cumulative return over the last five fiscal years had $100 been invested at the close of business on July 31, 2008, in each of Brady Corporation Class A Common Stock, the Standard & Poor's (S&P) 500 index, the Standard and Poor's SmallCap 600 index, and the Russell 2000 index.

Comparison of 5 Year Cumulative Total Return*
Among Brady Corporation, The S&P 500 Index,
The S&P SmallCap 600 Index and The Russell 2000 Index

* $100 invested on July 31, 2008 in stock or index—including reinvestment of dividends. Fiscal years ended July 31:

	2008	2009	2010	2011	2012	2013
Brady Corporation	$100.00	$82.42	$79.81	$93.50	$85.89	$110.20
S&P 500 Index	100.00	80.04	91.11	109.02	118.97	148.72
S&P SmallCap 600 Index	100.00	80.73	96.21	119.99	124.78	168.17
Russell 2000 Index	100.00	79.25	93.88	116.32	116.53	157.01

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Item 6. Selected Financial Data

CONSOLIDATED STATEMENTS OF INCOME AND SELECTED FINANCIAL DATA
Years Ended July 31, 2009 through 2013

	2013	2012	2011	2010	2009
Operating Data (1)					
Net Sales	$1,152,109	$1,068,688	$1,059,355	$966,070	$954,737
Gross Margin	606,080	589,570	587,950	546,413	516,066
Operating Expenses:					
Research and development	33,552	34,528	38,268	38,279	29,853
Selling, general and administrative	427,661	392,526	397,472	381,071	349,358
Restructuring charges (2)	26,046	6,084	6,451	12,640	22,810
Impairment charges (3)	204,448	—	—	—	—
Total operating expenses	691,707	433,138	442,191	431,990	402,021
Operating (Loss) Income	(85,627)	156,432	145,759	114,423	114,045
Other Income (Expense):					
Investment and other income—net	3,522	2,082	3,989	1,169	1,800
Interest expense	(16,641)	(19,090)	(22,124)	(21,222)	(24,901)
Net other expense	(13,119)	(17,008)	(18,135)	(20,053)	(23,101)
(Loss) earnings from continuing operations before income taxes	(98,746)	139,424	127,624	94,370	90,944
Income Taxes (4)	42,070	36,953	21,667	18,605	23,366
(Loss) earnings from continuing operations	$(140,816)	$102,471	$105,957	$75,765	$67,578
(Loss) earnings from discontinued operations, net of income taxes (5)	(13,719)	(120,382)	2,695	6,191	2,544
Net (loss) earnings	$(154,535)	$(17,911)	$108,652	$81,956	$70,122
(Loss) earnings from continuing operations per Common Share— (Diluted):					
Class A nonvoting	$(2.75)	$1.94	$1.99	$1.43	$1.28
Class B voting	$(2.76)	$1.92	$1.97	$1.41	$1.28
(Loss) earnings from discontinued operations per Common Share - (Diluted):					
Class A nonvoting	$(0.27)	$(2.29)	$0.05	$0.12	$0.04
Class B voting	$(0.27)	$(2.28)	$0.05	$0.12	$0.03
Cash Dividends on:					
Class A common stock	$0.76	$0.74	$0.72	$0.70	$0.68
Class B common stock	$0.74	$0.72	$0.70	$0.68	$0.66
Balance Sheet at July 31:					
Working capital	$188,993	$383,836	$456,406	$375,184	$286,955
Total assets	1,438,683	1,607,719	1,861,505	1,746,231	1,583,267
Long-term obligations, less current maturities	201,150	254,944	331,914	382,940	346,457
Stockholders' investment	830,797	1,009,353	1,156,192	1,005,027	951,092
Cash Flow Data:					
	$143,503	$144,705	$167,350	$165,238	$126,645

Net cash provided by operating activities					
Net cash provided by investing activities	(325,766)	(64,604)	(22,631)	(48,681)	(19,044)
Net cash provided by financing activities	(33,060)	(147,824)	(91,574)	15,275	(160,311)
Depreciation and amortization	48,725	43,987	48,827	53,022	54,851
Capital expenditures	(35,687)	(24,147)	(20,532)	(26,296)	(24,027)

(1) Operating data has been impacted by the reclassification of the Asia Die-Cut and Balkhausen businesses into discontinued operations. The Company has elected to not separately disclose the cash flows related to the Asia Die-Cut and Balkhausen

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discontinued operations. Refer to Note 13 within Item 8 for further information on discontinued operations. The operating data is also impacted by the acquisitive nature of the Company as one, three, one, and three acquisitions were completed in fiscal years ended July 31, 2013, 2012, 2011, and 2010, respectively. There were no acquisitions during fiscal 2009. Refer to Note 2 within Item 8 for further information on the acquisitions that were completed.

(2) In fiscal 2009, in response to the global economic downturn, the Company initiated several measures to address its cost structure, including a reduction in its workforce and decreased discretionary spending. The Company continued certain of these measures during fiscal 2010, 2011, and 2012. During fiscal 2013, the Company executed a business simplification project which included various measures to address its cost structure and resulted in restructuring charges during fiscal 2013.

(3) The Company recognized an impairment charge of $204.4 million during the three months ended July 31, 2013, primarily related to the WPS segment. Refer to Note 1 within Item 8 for further information regarding the impairment charge.

(4) Fiscal 2013 was significantly impacted by the non-deductible portion of the goodwill impairment charge of $168.9 million recorded on the WPS Americas and IDS APAC reporting units, as well as a tax charge of $26.6 million associated with the funding of the PDC acquisition.

(5) The loss from discontinued operations in fiscal 2013 was primarily attributable to a $15.7 million write-down of the Asia Die-Cut disposal group to its estimated fair value less costs to sell. The loss from discontinued operations in fiscal 2012 was primarily attributable to the $115.7 million goodwill impairment charge recorded during the three months ending January 31, 2012, which was related to the Asia Die-Cut disposal group.

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

Overview

In fiscal 2013, the Company posted sales of $1,152.1 million and a net loss from continuing operations of $140.8 million. Sales increased by 7.8% from fiscal 2012. Organic sales decreased by 2.6%, currency fluctuations decreased sales by 0.9% and acquisitions (primarily PDC) increased sales by 11.3%. Fiscal 2013 sales growth was driven by the ID Solutions segment which grew by 15.7% from 2012 to 2013, primarily due to acquisitions, which was partially offset by the decline in sales in the Workplace Safety segment of 3.7%.

The fiscal 2013 net loss from continuing operations of $140.8 million was primarily due to non-cash impairment charges of $204.4 million and restructuring charges of $26.0 million.

The fiscal 2013 operating loss from continuing operations was $85.6 million. Excluding the impairment charges of $204.4 million and restructuring charges of $26.0 million, the Company generated operating income from continuing operations of $144.9 million for fiscal 2013. Fiscal 2012 operating income from continuing operations was $156.4 million. Excluding restructuring charges of $6.1 million, operating income from continuing operations was $162.5 million for fiscal 2012. This decline of $17.6 million was primarily due to the decrease in segment profit in the WPS business segment. The decline in operating results within the WPS business segment was due to increased competition and pricing pressure as customers migrate to the Internet rather than the traditional catalog model, and economic weakness in Europe and Australia. In addition, the Company reduced variable incentive compensation by approximately $10 million in fiscal 2013 compared to fiscal 2012, which was offset by investments to drive key initiative growth in both the IDS and WPS segments.

Results of Operations

A comparison of results of Operating (loss) income from continuing operations for the fiscal years ended July 31, 2013, 2012 and 2011 is as follows:

(Dollars in thousands)	2013	% Sales	% Change	2012	% Sales	% Change	2011	% Sales
Net Sales	$1,152,109		7.8 %	$1,068,688		0.9 %	$1,059,355	
Gross Margin	606,080	52.6 %	2.8 %	589,570	55.2 %	0.3 %	587,950	55.5 %
Operating Expenses:								

Research and Development	33,552	2.9	%	(2.8	)%	34,528	3.2	%	(9.8	)%	38,268	3.6 %
Selling, General & Administrative	427,661	37.1	%	9.0	%	392,526	36.7	%	(1.2	)%	397,472	37.5 %
Restructuring charges	26,046	2.3	%	328.1	%	6,084	0.6	%	(5.7	)%	6,451	0.6 %
Impairment charges	204,448	17.7	%	—		—	—	%	—	%	—	— %
Total operating expenses	691,707	60.0	%	59.7	%	433,138	40.5	%	(2.0	)%	442,191	41.7 %
Operating (loss) income	$(85,627)	(7.4	)%	(154.7	)%	$156,432	14.6	%	7.3	%	$145,759	13.8 %

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During fiscal 2013, net sales increased 7.8% from fiscal 2012, which consisted of an organic decline of 2.6%, currency impact of a negative 0.9% and growth from acquisitions of 11.3%. Over 90% of the acquisition growth was from the acquisition of PDC within the IDS segment in fiscal 2013, with the remainder attributable to the prior year acquisitions of Grafo in the IDS segment and Runelandhs and Pervaco in the WPS segment. Organic sales within the IDS segment were up 0.3%, while organic sales within the WPS platform declined by 7.0%.

During fiscal 2012, net sales increased 0.9% from fiscal 2011, which consisted of organic growth of 1.5%, currency impact of a negative 1.4% and growth from acquisitions of 0.8%. The acquisition growth was due to the fiscal 2012 acquisitions of Grafo in the IDS segment, and Runelandhs and Pervaco in the WPS segment during the second half of the fiscal year. Organic sales within the IDS segment grew 2.7%, while organic sales within the WPS segment declined by 0.2%.

Gross margin as a percentage of sales declined to 52.6% in fiscal 2013 from 55.2% in fiscal 2012. Approximately half of the decline was due to the acquisition of PDC within the IDS segment, as it is a lower gross margin business compared to the remainder of the Company. The remaining decline was attributed to the WPS segment in which the sales decline, increased pricing pressures and the challenging global economy equally contributed to the reduced gross margin.

Gross margin as a percentage of sales declined to 55.2% in fiscal 2012 from 55.5% in fiscal 2011. The reason for this decline was sales mix, as we realized no sales growth in the higher margin WPS business and modest growth in the IDS business. This decrease in gross margin was partially offset by a reduction in variable incentive compensation in fiscal 2012.

Research and development expenses decreased to $33.6 million in fiscal 2013 from $34.5 million in fiscal 2012. The decline was primarily due to the global consolidation of the project management office, which reduced costs while streamlining reporting processes globally. R&D expenses decreased to $34.5 million in fiscal 2012 from $38.3 million in 2011 due to a reduction in variable incentive compensation, as well as a reduction in external spending on systems development due to the timing of new product introductions.

Selling, general and administrative (“SG&A”) expenses include selling costs directly attributed to the IDS and WPS segments, as well as administrative expenses including finance, information technology, human resources and legal. SG&A expenses increased to $427.7 million in fiscal 2013 compared to $392.5 million in fiscal 2012. The increase was primarily due to the acquisition of PDC in December 2012, which resulted in $6 million of amortization of intangible assets. The total increase in SG&A was partially offset by a reduction in variable incentive compensation from fiscal 2012 to fiscal 2013.

SG&A expense decreased to $392.5 million in fiscal 2012 compared to $397.5 million in fiscal 2011 mainly due to a reduction in variable incentive compensation.

In fiscal 2013, the Company announced a restructuring action to reduce its global workforce by approximately 5-7% in order to address its cost structure, with expected annual savings of approximately $25 million to $30 million exclusive of reinvestments into ongoing business initiatives. In connection with this restructuring action, the Company incurred restructuring charges of $26.0 million in fiscal 2013. These charges consisted of $18.4 million of employee separation costs, $4.1 million of fixed asset write-offs and $3.5 million of other facility closure related costs. The charges for employee separation costs consisted of severance pay, outplacement services, medical and other benefits. Fixed asset write-offs include both the net book value of property, plant and equipment written off in conjunction with facility consolidations, as well as indefinite-lived tradenames written off in conjunction with brand consolidations within the WPS segment.

Restructuring charges were $6.1 million in fiscal 2012 and consisted of costs incurred to consolidate facilities within both the IDS and WPS segments primarily in the Americas. The remaining charges related to severance costs associated with a prior year restructuring program.

Restructuring charges were $6.5 million in fiscal 2011 and consisted of costs incurred to support the continued workforce reduction activities and consolidate facilities within both the IDS & WPS segments. The costs associated with the workforce reduction primarily included employee separation costs, consisting of severance pay, outplacement services, medical, and other related benefits for the Company's work force.

On September 11, 2013, the Company's Board of Directors approved a restructuring plan to consolidate facilities in North America, Europe and Asia. The Company is implementing the restructuring action to improve efficiency of operations, reduce operating expenses and enhance customer service. In connection with the restructuring action, the Company expects to incur pre-tax charges of approximately $30 million, substantially all of which are expected to be incurred during fiscal 2014. The charges include employee severance costs of approximately $13 million, facility shut-down costs and lease termination costs of

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approximately $12 million, and non-cash asset write-offs of approximately $5 million. Cash expenditures for these restructuring activities are expected to be approximately $25 million and are being funded with cash generated from operations. The Company expects the restructuring actions to be substantially complete by the end of fiscal 2014.

The Company performed its annual goodwill impairment assessment on May 1, 2013, and subsequently concluded that the WPS Americas and IDS APAC reporting units were impaired. In conjunction with the goodwill impairment analysis, management concluded tradenames and certain fixed assets within the reporting units were impaired. Refer to the Item 7 - Business Segment Operating Results as well as Note 1 - Summary of Significant Accounting Policies for further discussion regarding the impairment charges. Impairment charges in continuing operations were $204.4 million in fiscal 2013 and consisted of the following:

- $172.3 million in goodwill in the WPS Americas reporting unit
- $18.2 million in goodwill in the IDS APAC reporting unit
- $10.6 million in tradenames in the WPS segment
- $3.3 million in fixed assets in the IDS APAC reporting unit

Operating (loss) income of $(85.6) million excluding restructuring charges of $26.0 million and impairment charges of $204.4 million was $144.9 million in fiscal 2013. Operating income of $156.4 million excluding restructuring of $6.1 million was $162.5 million in fiscal 2012. The decrease was mainly due to the decline in segment profit of the WPS business, which is discussed in further detail within the Business Segment Operating Results section. This decline was partially offset by a decrease in variable incentive compensation of approximately $10 million.

Operating income of $156.4 million excluding restructuring of $6.1 million was $162.5 million in fiscal 2012. Operating income of $145.8 million excluding restructuring of $6.5 million was $152.2 million in fiscal 2011. This increase in operating income excluding restructuring was primarily due to the decrease in variable incentive compensation of approximately $20 million over the same period. This was partially offset by a decline in segment profit within the WPS business.

OPERATING INCOME TO NET INCOME						
(Dollars in thousands)	2013	% Sales	2012	% Sales	2011	% Sales
Operating (loss) income	$(85,627)	(7.4)%	$156,432	14.6%	$145,759	13.8%
Other income and (expense):						
Investment and other income	3,522	0.3%	2,082	0.2%	3,989	0.4%
Interest expense	(16,641)	(1.4)%	(19,090)	(1.8)%	(22,124)	(2.1)%
(Loss) earnings from continuing operations before tax	(98,746)	(8.6)%	139,424	13.0%	127,624	12.0%
Income taxes	42,070	3.7%	36,953	3.5%	21,667	2.0%
(Loss) earnings from continuing operations	(140,816)	(12.2)%	102,471	9.6%	105,957	10.0%
(Loss) earnings from discontinued operations, net of income taxes	(13,719)	(1.2)%	(120,382)	(11.3)%	2,695	0.3%
Net (loss) earnings	$(154,535)	(13.4)%	$(17,911)	(1.7)%	$108,652	10.3%

Investment and Other Income

These amounts mainly consist of interest income and gains and losses on foreign currency and securities held in executive deferred compensation plans. Income of $3.5 million in fiscal 2013, $2.1 million in fiscal 2012 and $4.0 million in fiscal 2011 remain relatively consistent with no material changes year over year.

Interest Expense

Interest expense decreased to $16.6 million in fiscal 2013 compared to $19.1 million in fiscal 2012 and $22.1 million in fiscal 2011. The decline since 2011