BRADY CORP
Form 10-Q
March 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended January 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 its charter)

Wisconsin	39-0178960
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6555 West Good Hope Road, Milwaukee, Wisconsin	53223
(Address of principal executive offices)	(Zip Code)

(414) 358-6600
(Registrant's telephone number, including area code)

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

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of March 6, 2013, there were 47,823,642 outstanding shares of Class A Nonvoting Common Stock and 3,538,628 shares of Class B Voting Common Stock. The Class B Voting Common Stock, all of which is held by affiliates of the Registrant, is the only voting stock.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
BRADY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	January 31, 2013 (Unaudited)	July 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$141,311	$305,900
Accounts receivable — net	229,219	199,006
Inventories:		
Finished products	75,040	64,740
Work-in-process	17,549	15,377
Raw materials and supplies	32,242	25,407
Total inventories	124,831	105,524
Prepaid expenses and other current assets	47,656	40,424
Total current assets	543,017	650,854
Other assets:		
Goodwill	877,972	676,791
Other intangible assets	185,495	84,119
Deferred income taxes	6,032	45,356
Other	22,711	20,584
Property, plant and equipment:		
Cost:		
Land	9,145	8,651
Buildings and improvements	105,501	101,962
Machinery and equipment	313,512	292,130
Construction in progress	12,444	10,417
	440,602	413,160
Less accumulated depreciation	289,860	283,145
Property, plant and equipment — net	150,742	130,015
Total	$1,785,969	$1,607,719
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Notes payable	$112,340	$—
Accounts payable	103,197	86,646
Wages and amounts withheld from employees	40,564	54,629
Taxes, other than income taxes	8,313	9,307
Accrued income taxes	8,869	14,357
Other current liabilities	46,930	40,815
Current maturities on long-term debt	61,264	61,264
Total current liabilities	381,477	267,018
Long-term obligations, less current maturities	264,417	254,944
Other liabilities	102,225	76,404
Total liabilities	748,119	598,366
Stockholders' investment:		
	513	513

Class A nonvoting common stock — Issued 51,261,487 and 51,261,487 shares, respectively and outstanding 47,711,496 and 47,630,926 shares, respectively		
Class B voting common stock — Issued and outstanding, 3,538,628 shares	35	35
Additional paid-in capital	315,425	313,008
Income retained in the business	731,294	732,290
Treasury stock — 3,234,991 and 3,245,561 shares, respectively of Class A nonvoting common stock, at cost	(88,354)	(92,600)
Accumulated other comprehensive income	81,475	59,411
Other	(2,538)	(3,304)
Total stockholders' investment	1,037,850	1,009,353
Total	$1,785,969	$1,607,719

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended January 31,		Six months ended January 31,	
	(Unaudited)		(Unaudited)	
	2013	2012	2013	2012
Net sales	$324,182	$320,584	$661,828	$670,092
Cost of products sold	174,130	167,279	347,156	348,956
Gross margin	150,052	153,305	314,672	321,136
Operating expenses:				
Research and development	8,551	9,972	17,036	19,781
Selling, general and administrative	112,020	104,843	223,719	213,775
Restructuring charges	4,031	—	4,031	—
Impairment charge	—	115,688	—	115,688
Total operating expenses	124,602	230,503	244,786	349,244
Operating income (loss)	25,450	(77,198)	69,886	(28,108)
Other income and (expense):				
Investment and other income	897	812	1,294	610
Interest expense	(4,406)	(4,933)	(8,569)	(9,980)
Income (loss) before income taxes	21,941	(81,319)	62,611	(37,478)
Income taxes	30,625	8,635	44,107	19,744
Net (loss) income	$(8,684)	$(89,954)	$18,504	$(57,222)
Per Class A Nonvoting Common Share:				
Basic net (loss) income	$(0.17)	$(1.72)	$0.36	$(1.09)
Diluted net (loss) income	$(0.17)	$(1.72)	$0.36	$(1.09)
Dividends	$0.19	$0.185	$0.38	$0.37
Per Class B Voting Common Share:				
Basic net (loss) income	$(0.17)	$(1.72)	$0.34	$(1.11)
Diluted net (loss) income	$(0.17)	$(1.72)	$0.34	$(1.11)
Dividends	$0.19	$0.185	$0.36	$0.35
Weighted average common shares outstanding (in thousands):				
Basic	51,177	52,447	51,108	52,552
Diluted	51,177	52,447	51,507	52,552

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended January 31, (Unaudited)		Six months ended January 31, (Unaudited)	
	2013	2012	2013	2012
Net (loss) income	$(8,684)	$(89,954)	$18,504	$(57,222)
Other comprehensive income:				
Foreign currency translation adjustments	9,578	(19,410)	28,071	(34,011)
Net investment hedge translation adjustments	(4,431)	10,024	(9,732)	13,252
Long-term intercompany loan translation adjustments	3,184	1,443	1,590	(2,241)
Cash flow hedges:				
Net (loss) gain recognized in other comprehensive income	(441)	718	(998)	1,728
Reclassification adjustment for (gains) losses included in net income	(90)	(142)	(557)	635
	(531)	576	(1,555)	2,363
Pension and other post-retirement benefits:				
Gain recognized in other comprehensive income	—	—	—	1,105
Actuarial gain amortization	(12)	(63)	(24)	(63)
Prior service credit amortization	(50)	(68)	(101)	(68)
	(62)	(131)	(125)	974
Other comprehensive income (loss), before tax	7,738	(7,498)	18,249	(19,663)
Income tax benefit (expense) related to items of other comprehensive income (loss)	1,560	(4,021)	3,815	(8,976)
Other comprehensive income (loss), net of tax	9,298	(11,519)	22,064	(28,639)
Comprehensive income (loss)	$614	$(101,473)	$40,568	$(85,861)

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended January 31, (Unaudited)	
	2013	2012
Operating activities:		
Net income (loss)	$18,504	$(57,222)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,046	22,176
Non-cash portion of restructuring charges	200	—
Non-cash portion of stock-based compensation expense	6,868	5,506
Impairment charge	—	115,688
Loss (gain) on sales of businesses	3,138	—
Deferred income taxes	26,050	(4,831)
Changes in operating assets and liabilities (net of effects of business acquisitions/divestitures):		
Accounts receivable	(5,418)	6,029
Inventories	(4,475)	(11,814)
Prepaid expenses and other assets	(2,772)	(5,155)
Accounts payable and accrued liabilities	(13,629)	(36,297)
Income taxes	(6,318)	9,221
Net cash provided by operating activities	44,194	43,301
Investing activities:		
Purchases of property, plant and equipment	(15,667)	(11,100)
Payments of remaining consideration	—	(2,580)
Settlement of net investment hedges	—	(797)
Acquisition of business, net of cash acquired	(300,757)	—
Sales of businesses, net of cash retained	10,178	—
Other	(549)	(128)
Net cash used in investing activities	(306,795)	(14,605)
Financing activities:		
Payment of dividends	(19,499)	(19,452)
Proceeds from issuance of common stock	4,409	2,301
Purchase of treasury stock	(5,121)	(12,309)
Proceeds from borrowing on notes payable	220,000	—
Repayment of borrowing on notes payable	(112,472)	—
Income tax benefit from the exercise of stock options and deferred compensation distributions, and other	1,273	566
Net cash provided by (used in) financing activities	88,590	(28,894)
Effect of exchange rate changes on cash	9,422	(9,442)
Net decrease in cash and cash equivalents	(164,589)	(9,640)
Cash and cash equivalents, beginning of period	305,900	389,971
Cash and cash equivalents, end of period	$141,311	$380,331
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	$7,866	$9,521
Income taxes, net of refunds	19,964	16,189
Acquisitions:		

Fair value of assets acquired, net of cash	$168,674	$—
Liabilities assumed	(57,859)	—
Goodwill	189,942	—
Net cash paid for acquisitions	$300,757	$—

See Notes to Condensed Consolidated Financial Statements.

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BRADY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended January 31, 2013
(Unaudited)
(In thousands, except share and per share amounts)

NOTE A — Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Brady Corporation and subsidiaries (the “Company” or “Brady”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the foregoing statements contain all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of January 31, 2013 and July 31, 2012, and its results of operations, comprehensive income, and cash flows for the three and six months ended January 31, 2013 and 2012. The condensed consolidated balance sheet as of July 31, 2012, has been derived from the audited consolidated financial statements of that date. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from the estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest annual report on Form 10-K for the year ended July 31, 2012.

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-05, “Presentation of Comprehensive Income,” which eliminates the option to present components of other comprehensive income (“OCI”) as part of the statement of changes in stockholders’ equity. The amendments in this standard require that all non-owner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, in December 2011, the FASB issued ASU 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income,” which indefinitely defers the requirements in ASU 2011-05 to present on the face of the financial statements adjustments for items that are reclassified from OCI to net income in the statement where the components of net income and the components of OCI are presented. The ASU does not change the items that must be reported in OCI. The Company has provided the required statements of comprehensive income beginning with the first quarter of fiscal 2013.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to disclose additional information for items reclassified out of accumulated other comprehensive income (AOCI). For items reclassified out of AOCI and into net income in their entirety, entities are required to disclose the effect of the reclassification on each affected net income line item. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP disclosures is required. This information may be provided either in the notes or parenthetically on the face of the statement that reports net income as long as all the information is disclosed in a single location. However, an entity is prohibited from providing this information parenthetically on the face of the statement that reports net income if it has items that are not reclassified in their entirety into net income. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The adoption of this update will not have a material impact on the financial statements of the Company.

NOTE B — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended January 31, 2013, are as follows:

	Americas	EMEA	Asia-Pacific	Total
Balance as of July 31, 2012	$417,886	$174,868	$84,037	$676,791

Current year acquisitions	189,942	—	—	189,942
Current year divestitures	(2,882)	—	—	(2,882)
Translation adjustments	728	12,635	758	14,121
Balance as of January 31, 2013	$605,674	$187,503	$84,795	$877,972

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Goodwill increased $201,181 during the six months ended January 31, 2013. Of the $201,181 increase, $189,942 was due to the acquisition of Precision Dynamics Corporation ("PDC"), and $14,121 was due to the positive effects of foreign currency translation. These increases were partially offset by the divestitures of the Precision Converting, LLC (“Brady Medical”) and the Varitronics businesses during the first quarter of fiscal 2013, which decreased goodwill by $863 and $2,019, respectively. Refer to Note K, “Acquisitions and Divestitures” for further discussion. The goodwill balance as of January 31, 2013, includes an accumulated impairment charge of $115,688 recognized during fiscal 2012 on the Company’s former North/South Asia reporting unit.

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

	January 31, 2013				July 31, 2012			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized other intangible assets:								
Patents	5	$10,679	$(9,352)	$1,327	5	$10,418	$(9,058)	$1,360
Trademarks and other	5	15,815	(7,196)	8,619	7	8,945	(7,094)	1,851
Customer relationships	8	267,905	(138,227)	129,678	7	164,392	(128,805)	35,587
Non-compete agreements and other	4	15,714	(15,271)	443	4	15,988	(15,417)	571
Unamortized other intangible assets:								
Trademarks	N/A	45,428	—	45,428	N/A	44,750	—	44,750
Total		$355,541	$(170,046)	$185,495		$244,493	$(160,374)	$84,119

The value of goodwill and other intangible assets in the condensed consolidated balance sheets at January 31, 2013, differs from the value assigned to them in the original allocation of purchase price due to the effect of fluctuations in the exchange rates used to translate the financial statements into the United States Dollar between the date of acquisition and January 31, 2013. The acquisition of PDC increased customer relationships and amortized trademarks by $101,500 and $6,800, respectively.

Amortization expense on intangible assets was $5,015 and $4,075 for the three-month periods ended January 31, 2013 and 2012, respectively, and $9,162 and $8,155 for the six-month periods ended January 31, 2013 and 2012, respectively. The amortization over each of the next five fiscal years is projected to be $19,995, $19,173, $16,955, $13,584 and 12,173 for the fiscal years ending July 31, 2014, 2015, 2016, 2017 and 2018, respectively.

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NOTE C — Net Income per Common Share

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

	Three months ended January 31,		Six months ended January 31,	
	2013	2012	2013	2012
Numerator: (in thousands)				
Net (loss) income	$(8,684)	$(89,954)	$18,504	$(57,222)
Less:				
Restricted stock dividends	(60)	(57)	(119)	(115)
Numerator for basic and diluted Class A net (loss) income per share	$(8,744)	$(90,011)	$18,385	$(57,337)
Less:				
Preferential dividends	—	—	(797)	(818)
Preferential dividends on dilutive stock options	—	—	(5)	(5)
Numerator for basic and diluted Class B net (loss) income per share	$(8,744)	$(90,011)	$17,583	$(58,160)
Denominator: (in thousands)				
Denominator for basic net (loss) income per share for both Class A and Class B	51,177	52,447	51,108	52,552
Plus: Effect of dilutive stock options	—	—	399	—
Denominator for diluted net (loss) income per share for both Class A and Class B	51,177	52,447	51,507	52,552
Class A Nonvoting Common Stock net (loss) income per share:				
Basic	$(0.17)	$(1.72)	$0.36	$(1.09)
Diluted	$(0.17)	$(1.72)	$0.36	$(1.09)
Class B Voting Common Stock net (loss) income per share:				
Basic	$(0.17)	$(1.72)	$0.34	$(1.11)
Diluted	$(0.17)	$(1.72)	$0.34	$(1.11)

In accordance with ASC 260, "Earnings per Share," dilutive options were not included in the computation of diluted loss per share for the three months ended January 31, 2013 and 2012, and the six months ended January 31, 2012, since to do so would reduce the calculated loss per share.

Options to purchase approximately 3,539,000 and 4,365,000 shares of Class A Nonvoting Common Stock for the three months ended January 31, 2013 and 2012, respectively, were not included in the computation of diluted net loss per share because the impact of the inclusion of the options would have been anti-dilutive. Options to purchase approximately 4,044,000 and 4,788,000 shares of Class A Nonvoting Common Stock for the six months ended January 31, 2013 and 2012, respectively, were not included in the computation of diluted net income or loss per share as the impact of the inclusion of the options would have been anti-dilutive.

NOTE D — Segment Information

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

The Company is organized and managed on a geographic basis by region. Each of these regions, Americas, EMEA and 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

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is evaluated based on regional segment profit. The Company has determined that these regions comprise its operating and reportable segments based on the information used by the Chief Executive Officer to allocate resources and assess performance.

Following is a summary of segment information for the three and six months ended January 31, 2013 and 2012:

	Americas	EMEA	Asia-Pacific	Total Region	Corporate and Eliminations	Totals
Three months ended January 31, 2013						
Revenues from external customers	$147,716	$94,395	$82,071	$324,182	$—	$324,182
Intersegment revenues	8,339	778	6,099	15,216	(15,216)	—
Segment profit	32,336	23,723	5,514	61,573	(1,794)	59,779
Three months ended January 31, 2012						
Revenues from external customers	$138,405	$95,593	$86,586	$320,584	$—	$320,584
Intersegment revenues	9,992	1,270	7,321	18,583	(18,583)	—
Segment profit	35,798	26,562	7,733	70,093	(2,359)	67,734
Six months ended January 31, 2013						
Revenues from external customers	$296,408	$187,628	$177,792	$661,828	$—	$661,828
Intersegment revenues	18,420	1,701	12,506	32,627	(32,627)	—
Segment profit	76,969	47,290	17,569	141,828	(3,767)	138,061
Six months ended January 31, 2012						
Revenues from external customers	$292,267	$192,949	$184,876	$670,092	$—	$670,092
Intersegment revenues	20,216	2,032	14,763	37,011	(37,011)	—
Segment profit	79,028	52,861	21,037	152,926	(5,622)	147,304

Following is a reconciliation of segment profit to net (loss) income for the three and six months ended January 31, 2013 and 2012:

	Three months ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Total profit from reportable segments	$61,573	$70,093	$141,828	$152,926
Corporate and eliminations	(1,794)	(2,359)	(3,767)	(5,622)
Unallocated amounts:				
Administrative costs	(35,518)	(29,244)	(65,926)	(59,724)
Restructuring charges	(4,031)	—	(4,031)	—
Impairment charge	—	(115,688)	—	(115,688)
Non-routine items (1)	5,220	—	1,782	—
Investment and other income	897	812	1,294	610
Interest expense	(4,406)	(4,933)	(8,569)	(9,980)
Income (loss) before income taxes	21,941	(81,319)	62,611	(37,478)
Income taxes	(30,625)	(8,635)	(44,107)	(19,744)

Net (loss) income	$(8,684)	$(89,954)	$18,504	$(57,222)

(1) - Non-routine items for the three months ended January 31, 2013, consist of the gain on the Thailand flood insurance settlement of $5,220 recognized within the Asia-Pacific reporting segment. Non-routine items for the six months ended

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January 31, 2013, consist of the gain on the Thailand flood insurance settlement of $5,220 recognized within the Asia-Pacific segment, partially offset by the net loss on the sales of businesses of $3,438 recognized within the Americas segment.

Following is a summary of sales by business platform for the three and six months ended January 31, 2013 and 2012:

	Three months ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Identification Solutions (1)	$185,218	$172,425	$371,519	$366,760
Direct Marketing	87,477	88,425	178,105	177,258
Die-Cut	51,487	59,734	112,204	126,074
Total	$324,182	$320,584	$661,828	$670,092

(1) - The Company acquired PDC during the three months ended January 31, 2013, which is included in the ID Solutions business platform.

NOTE E – Stock-Based Compensation

The Company has an incentive stock plan under which the Board of Directors may grant nonqualified stock options to purchase shares of Class A Nonvoting Common Stock or restricted shares of Class A Nonvoting Common Stock to employees and non-employee directors. The options have an exercise price equal to the fair market value of the underlying stock at the date of grant and generally vest ratably over a three-year period, with one-third becoming exercisable one year after the grant date and one-third additional in each of the succeeding two years. Options issued under the plan, referred to herein as “service-based” options, generally expire 10 years from the date of grant. The Company also grants stock options to certain executives and key management employees that vest upon meeting certain financial performance conditions over the vesting schedule described above. These options are referred to herein as “performance-based” options. Performance-based stock options expire 10 years from the date of grant. Restricted shares issued under the plan have an issuance price equal to the fair market value of the underlying stock at the date of grant. The restricted shares granted in fiscal 2008 were amended in fiscal 2011 to allow for vesting after either a five-year period or a seven-year period based upon both performance and service conditions. The restricted shares granted in fiscal 2011 vest ratably at the end of years 3, 4 and 5 upon meeting certain performance and service conditions. These shares are referred to herein as “performance-based restricted shares.” Restricted shares granted in fiscal 2013 vest at the end of a three-year period based upon service conditions. These shares are referred to herein as “cliff-vested restricted shares.”

The Company also grants restricted stock units to certain executives and key management employees that vest upon meeting certain financial performance conditions over a specified vesting period, referred to herein as “performance-based restricted stock units.” The performance-based restricted stock units granted in fiscal 2013 vest over a two-year period upon meeting both performance and service conditions.

As of January 31, 2013, the Company has reserved 6,529,489 shares of Class A Nonvoting Common Stock for outstanding stock options and restricted shares and 4,206,850 shares of Class A Nonvoting Common Stock remain for future issuance of stock options and restricted shares under the active plans. The Company uses treasury stock or will issue new Class A Nonvoting Common Stock to deliver shares under these plans.

The Company recognizes the compensation cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense recognized by the Company during the three months ended January 31, 2013 and 2012, was $2,521 ($1,538 net of taxes) and $1,939 ($1,183 net of taxes), respectively, and expense recognized during the six months ended January 31, 2013 and 2012 was $6,868 ($4,190 net of taxes), and $5,506 ($3,359 net of taxes), respectively. As of January 31, 2013, total unrecognized compensation cost related to share-based compensation awards was $14,179 pre-tax, net of estimated forfeitures, which the Company expects to recognize over a weighted-average period of 1.8 years.

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The Company has estimated the fair value of its service-based and performance-based stock option awards granted during the six months ended January 31, 2013 and 2012, using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes valuation model are reflected in the following table:

	Six Months Ended January 31, 2013				Six Months Ended January 31, 2012			
Black-Scholes Option Valuation Assumptions	Service-Based Option Awards		Performance-Based Option Awards		Service-Based Option Awards		Performance-Based Option Awards	
Expected term (in years)	5.95		—		5.89		6.57	
Expected volatility	38.68	%	—		39.40	%	39.21	%
Expected dividend yield	2.20	%	—		2.07	%	1.99	%
Risk-free interest rate	0.90	%	—		1.16	%	2.05	%
Weighted-average market value of underlying stock at grant date	$30.36		$—		$27.00		$29.55	
Weighted-average exercise price	$30.36		$—		$27.00		$29.55	
Weighted-average fair value of options granted during the period	$9.01		$—		$8.37		$10.01	

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

The Company granted 5,000 cliff-vested restricted shares in December 2012, with a grant price and fair value of $32.99. The Company granted 10,000 shares of performance-based restricted stock units in September 2012, with a grant price and fair value of $30.21. The Company granted 100,000 shares of performance-based restricted stock in August of 2010, with a grant price and fair value of $28.35, and 210,000 shares in fiscal 2008, with a grant price and fair value of $32.83. As of January 31, 2013, 5,000 cliff-vested restricted shares were outstanding, 10,000 performance-based restricted stock units were outstanding and 310,000 performance-based restricted shares were outstanding.

The Company granted 790,450 service-based stock options during the six months ended January 31, 2013, with a weighted average exercise price of $30.36 and a weighted average fair value of $9.01. There were no performance-based stock options granted during the six months ended January 31, 2013.

A summary of stock option activity under the Company's share-based compensation plans for the six months ended January 31, 2013 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 31, 2012	6,253,751	$29.24		
New grants	790,450	$30.36		
Exercised	(330,338)	$18.57		
Forfeited or expired	(497,273)	$30.53		
Outstanding at January 31, 2013	6,216,590	$29.84	6.3	$35,476
Exercisable at January 31, 2013	4,049,293	$30.19	5.1	$22,891

There were 4,049,293 and 4,024,955 options exercisable with a weighted average exercise price of $30.19 and $29.31 at January 31, 2013 and 2012, respectively. The cash received from the exercise of options during the three months ended January 31, 2013 and 2012, was $2,725 and $1,710, respectively. The cash received from the exercise of options during the six months ended January 31, 2013 and 2012, was $4,409 and $2,301, respectively. The tax benefit on stock options exercised during the three months ended January 31, 2013 and 2012, was $630 and $126, respectively. The tax benefit on stock options exercised during the six months ended January 31, 2013 and 2012, was $1,265 and $595, respectively.

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The total intrinsic value of options exercised during the six months ended January 31, 2013 and 2012, based upon the average market price at the time of exercise during the period, was $4,216 and $855, respectively. The total fair value of stock options vested during the six months ended January 31, 2013 and 2012, was $10,832 and $8,012, respectively.

NOTE F — Stockholders' Equity

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. 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 $5,121. There were no share repurchases during the three months ended January 31, 2013.

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. As of January 31, 2013, there remained 2,146,773 shares to purchase in connection with the Company's share repurchase plans.

NOTE G — Employee Benefit Plans

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

The Company funds benefit costs on a pay-as-you-go basis. There have been no changes to the components of net periodic benefit cost or the amount that the Company expects to fund in fiscal 2013 from those reported in Note 3 to the consolidated financial statements included in the Company's latest annual report on Form 10-K for the year ended July 31, 2012.

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NOTE H — Fair Value Measurements

In accordance with fair value accounting guidance, the Company’s assets and liabilities measured at fair market value are classified in one of the following categories:

Level 1 — Assets or liabilities for which fair value is based on quoted market prices in active markets for identical instruments as of the reporting date.

Level 2 — Assets or liabilities for which fair value is based on valuation models for which pricing inputs were either directly or indirectly observable.

Level 3 — Assets or liabilities for which fair value is based on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The following tables set forth by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at January 31, 2013, and July 31, 2012, according to the valuation techniques the Company used to determine their fair values.