BRADY

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1204-001 -- Exposure Draft: "Business Combinations a replacement of FASB Statement No. 141" (the "Exposure Draft").

Dear Director:

On behalf of Brady Corporation, I am please to provide the FASB with comments on the Exposure Draft. Brady supports the FASB's efforts to improve financial reporting while promoting the international convergence of accounting standards. However, we have significant concerns with respect to the Exposure Draft and we are not supportive of issuing such a statement in its current form. I believe that this Exposure Draft will result in on-going adjustments to the income statements of acquirer companies that will be unrelated to the current operating performance of the combined entity and not understandable by the readers of financial statements, thus significantly reducing the relevance of financial statements to investors and other stakeholders.

The following comments are organized in response to selected questions in the 'Notice for Recipients of this Exposure Draft" section of the Exposure Draft. I have intentionally not provided responses to each question in an effort to limit the size of my response. However, my silence on the other questions included in the Exposure Draft does not indicate my agreement with the conclusions on those matters.

Question 5 – Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

No, I do not believe that the acquisition-date fair value of the consideration exchanged should be the measure of the value of the transaction. Currently, for transactions in which securities are exchanged, the valuation is determined based upon the market price of the securities for a reasonable period before and after the date that the terms of the acquisition are agreed to and announced. I believe that this provides a better gauge as to the true value of the transaction versus taking a snapshot of a company's stock only on the date that the acquisition is finalized. The value of equity securities for a period directly before and after a transaction is a much better gauge of the value of a transaction versus the value of a company's stock on the date the transaction is finalized.

Question 6 – Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

No. I do not believe that the accounting for contingent consideration as outlined in the Exposure Draft is appropriate. The theory behind your proposal appears to be sound, however, the practical implications of such a change present a serious problem that the FASB should not ignore if it wants to keep financial statements useful to investors and other stakeholders.

The fundamental reason for my disagreement is that I do not believe that it is appropriate for future fluctuations in the estimates of contingent consideration at the acquisition date to flow through the income statement. This accounting change will result in significant volatility in income statements simply as a result of changes in an estimate (an estimate that when originally established did not impact the income statement). This will reduce the usefulness of financial statements and make them significantly less valuable to investors.

Question 7 – Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If no, why?

No, I disagree. Acquisition costs are unavoidable costs of acquiring an entity and should be capitalized as part of the cost of the acquired business as these types of costs are clearly included the buyer's total purchase price of the acquiree. The true cost of an asset includes both the fair value of what is acquired as well as the direct costs incurred to acquire such asset. Expensing these types of costs at the outset would inappropriately reduce current period earnings because the economic impact of the associated transaction would continue over time.

If you go down the path of expensing accounting, legal, and other direct costs of the acquisition, this is contradictory to many other accounting principles, including the capitalizing of inbound freight costs into inventory and fixed assets. To expense these types of costs as period costs will understate the true cost to acquire an entity and will overstate current period expenses, thus creating undue volatility in financial statements and rendering financial statements significantly less useful to readers.

Question 8 – Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why and what alternatives do you propose?

I have limited my response to two key items covered by Question #8.

Contingencies – The recording of liabilities for contingencies at the date of acquisition that do not meet the definition of a liability in accordance with SFAS No. 5 is a mistake. The balance sheets of aquirer companies will be littered with liabilities – some of which meet the criteria of SFAS No. 5 for recognition and some of which do not meet the definition of a liability in accordance with SFAS No. 5. Additionally, this guidance will result in significant fluctuations in the income statements of companies when these liabilities are later reversed because they are no longer needed. By changing the accounting for contingencies in a purchase accounting transaction, we believe that the FASB is opening financial statements up to greater abuse and ultimately, financial statements will be more difficult to understand.

Restructuring Costs – Paragraph 37 of the Exposure Draft changes current practice to eliminate the recognition of restructuring and exit activities that do not meet the recognition criteria as outlined in SFAS No. 146 at the date of acquisition. As such, plans to terminate employees or exit facilities of the acquired company will be treated as a post-acquisition expense under the Exposure Draft.

In practice, restructuring costs that are contemplated by the acquirer at the time of the acquisition are considered part of the total cost of the acquisition of the acquiree. These types of costs are generally necessary to achieve the necessary synergies to justify the purchase price paid, thus these types of costs are clearly considered in determining the purchase price. To the extent that the decision to terminate employees or exit an activity is contemplated at the time of the acquisition (versus based on a decision after the fact), the related cost should be recognized as part of the cost of the acquisition as these costs were contemplated by the acquirer in determining the value to pay for the acquiree.

Question 13 – Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If no, what alternatives do you propose and why?

No. I do not agree. Financial statements consist of significant estimates and I do not believe that it is appropriate to restate previously issued financial statements for changes in such estimates. Paragraph 67 of the Exposure Draft requires a restatement of previously issued financial statement for adjustments made to the initial provisional estimates of values assigned to assets and liabilities. I believe that the required restatements of previously issued financial statements will result in significant confusion by the users of financial statements. I suggest that the FASB continue to account for changes in purchase price allocation or the assignment of value in a manner consistent with current accounting practice, which does not require adjustment to previously issued financial statements.

Thank you very much for considering these viewpoints. Please do not hesitate to contact me if you have further questions.

Sincerely,

David Mathieson

David Mathieson
Vice President and Chief Financial Officer
Brady Corporation