

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 1994

Commission File Number: 1-9249

GRACO INC
(Exact name of Registrant as specified in its charter)

Minnesota 41-0285640
(State of incorporation) (I.R.S. Employer Identification Number)

4050 Olson Memorial Highway
Golden Valley, Minnesota 55422
(Address of principal executive offices) (Zip Code)

(612) 623-6000
(Registrants 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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

11,503,304 common shares were outstanding as of September 30, 1994.

GRACO INC. AND SUBSIDIARIES

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PART I

GRACO INC. AND SUBSIDIARIES

Item 1. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Thirteen Weeks Ended Thirty-Nine Weeks Ended
 Sept. 30, 1994 Sept. 24, 1993 Sept. 30, 1994 Sept. 24, 1993
 (In thousands except per share amounts)

Net sales	\$89,048	\$81,751	\$264,157	\$238,977
Cost of products sold	45,779	42,414	138,225	124,110
Gross profit	43,269	39,337	125,932	114,867
Product development	3,699	3,167	10,821	8,809
Selling	22,920	20,830	68,008	61,061
General and administrative	9,341	9,392	29,488	27,848
Operating profit	7,309	5,948	17,615	17,149
Interest expense	545	542	1,393	1,685
Other expense, net	116	343	293	615
Earnings before income taxes	6,648	5,063	15,929	14,849
Income taxes	2,400	1,600	5,650	4,700
Net earnings	\$4,248	\$3,463	\$10,279	\$10,149
Net earnings per common share	\$0.37	\$0.30	\$0.88	\$0.88
Cash dividend per common share	\$0.14	\$0.13	\$0.42	\$0.38

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	Sept. 30, 1994 December 31, 1993	
	(Unaudited)	
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$1,772	\$11,095
Marketable securities	0	26,345
Accounts receivable, less allowances of \$4,438 and \$4,100	67,292	62,178
Inventories	57,841	35,719
Deferred income taxes	9,826	8,843
Other current assets	4,763	3,079
Total current assets	141,494	147,259
Property, plant and equipment:		
Cost	142,145	129,876
Less accumulated depreciation	(76,259)	(72,132)
	65,886	57,744
Other assets	11,423	11,362
	\$218,803	\$216,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$22,372	\$3,234
Current portion of long-term debt	5,594	5,543
Trade accounts payable	19,399	16,737
Dividends payable	1,611	32,535
Income taxes payable	4,126	5,658
Other current liabilities	40,867	35,904
Total current liabilities	93,969	99,611
Long-term debt, less current portion above	13,226	13,937
Retirement benefits and deferred compensation	30,214	28,132
Shareholders' equity:		
Preferred stock	1,474	1,485
Common stock	11,503	11,449
Additional paid-in capital	20,176	19,813
Retained earnings	47,511	42,430
Other, net	730	(492)
	81,394	74,685
	\$218,803	\$216,365

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Thirty-Nine Weeks Ended
Sept. 30, 1994 Sept. 24, 1993
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$10,279	\$10,149
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,450	7,321
Deferred income taxes	(1,007)	355
Change in:		
Accounts receivable	(2,464)	376
Inventories	(20,836)	9,788
Trade accounts payable	1,983	(6,036)
Accrued salaries	574	(1,393)
Retirement benefits and deferred compensation	1,699	2,803
Other accrued liabilities	2,268	(6,995)
Other	(1,173)	(4,652)
	(1,227)	11,716

CASH FLOWS FROM INVESTING ACTIVITIES:

Property, plant and equipment additions	(15,151)	(10,184)
Proceeds from sale of property, plant, and equipment	287	681
Purchases of marketable securities	(5,464)	(10,601)
Proceeds from marketable securities	31,809	3,684
	11,481	(16,420)

CASH FLOWS FROM FINANCING ACTIVITIES:

Notes payable, net change	18,394	35
Payments on long-term debt	(663)	(226)
Common stock issued	2,775	2,618
Retirement of common and preferred stock	(2,224)	(1,750)
Cash divisions paid	(36,122)	(4,397)
Proceeds from long-term debt	0	707
	(17,840)	(3,013)

Effect of exchange rate changes on cash	(1,737)	751
Net decrease in cash and cash equivalents	(9,323)	(6,966)

Cash and cash equivalents:

Beginning of year	11,095	18,869
End of period	\$1,772	\$11,903

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet as of September 30, 1994, the consolidated statements of earnings for the thirty-nine weeks ended September 30, 1994, and September 24, 1993, and the consolidated statements of cash flows for the thirty-nine weeks then ended have been prepared by the Company without being audited.

In the opinion of management, these consolidated statements reflect all adjustments necessary to present fairly the financial position of Graco Inc. at September 30, 1994, and September 24, 1993, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1993 Form 10-K.

The results of operations for interim periods are not necessarily indicative of results which will be realized for the full fiscal year.

2. Major components of inventories were as follows:

	Sept. 30, 1994	Dec. 31, 1993
Finished products and components	\$52,154	\$42,010
Products and components in various stages of completion	31,510	21,410
Raw materials	10,970	8,642
Reduction to LIFO cost	\$(36,793)	\$(36,343)
	\$57,841	\$35,719

Item 2.

GRACO INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Net earnings in the third quarter of \$4,248,000 increased \$785,000 from the same period a year ago as the company continues to have strong sales in the Americas and reported growth both in Europe and in most of the Pacific, despite the economic downturn in Japan and expenses associated with ongoing cost reduction efforts. Net earnings of \$10,279,000 for the nine months ended September 30, 1994 increased \$130,000 from the same period a year ago.

Sales in the third quarter of \$89,048,000 increased \$7,297,000, or 9 percent, from the same period in 1993. Third quarter sales in the Americas increased 10 percent overall to \$57,900,000. Contractor Equipment sales and Lubrication Equipment sales were both up 14 percent and Industrial/Automotive Equipment sales rose 5 percent, with new product sales and an expanding economy continuing to drive these increases. Sales in Europe were up 6 percent to \$16,160,000 (a 2 percent volume increase, and a 4 percent gain due to exchange rates). In the Pacific, sales were also up 6 percent to \$14,988,000 (a 3 percent volume increase, and a gain of 3 percent on exchange rates).

Sales for the nine months were \$264,157,000, an 11 percent increase over the same period last year. In the Americas, sales increased 17 percent to \$183,008,000. European sales were up 1 percent to \$43,285,000 (a volume increase of 3 percent, offset by a 2 percent exchange rate loss). Sales in the Pacific decreased 4 percent to \$37,864,000 (a 8 percent volume decline, offset by a 4 percent exchange rate gain).

Operating expenses in the third quarter of \$35,960,000 increased \$2,571,000, or 8 percent, from the third quarter of 1993. Product development expense increased 17 percent over 1993, as previously announced spending increases continued. Selling expenses were up 10 percent, largely due to cost associated with the Company's ongoing cost reduction efforts. Operating expenses for the nine months increased \$10,599,000, or 11 percent.

For the third quarter, overall bookings were up 13%. Bookings remain strong in the Americas, were up significantly in Europe, but up only modestly in the Pacific due to poor bookings in Japan. Backlog at September 30, 1994 was \$30,000,000, consistent with the previous quarter, but an increase of \$10.6 million from \$19.5 million on September 24, 1993.

The Company expects continued strong performance in the Americas and improved performance in Europe as the economies there continue to strengthen. The Pacific, and Japan in particular, remains weak. The Company is encouraged by the increase in its bookings. It intends to continue making investments in manufacturing efficiency and new product development, and is striving for a more efficient global sales and marketing organization to improve its financial performance.

Financial Condition

Accounts receivable increased \$5,114,000 from the prior year-end due to the increased sales volume, and inventories increased \$22,122,000 primarily in production and in Europe for engineered systems. Property, plant and equipment totaling \$15,151,000 was purchased year-to-date. Marketable securities were sold to fund the special one-time dividend of \$31,200,000 which was paid in March of this year.

The Company has unused lines of credit available at September 30, 1994, totaling \$27 million.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Statement on Computation
of Per Share Earnings

Exhibit 11

Financial Data Schedule

Exhibit 27

- (b) No reports on Form 8-K have been
filed during the quarter for which
this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date: November 14, 1994

By: /s/ David A. Koch
David A. Koch
Chairman and Chief Executive Officer

Date: November 14, 1994

By: /s/ Robert A. Wagner
Robert A. Wagner
Vice President and Treasurer
(Principal Financial Officer)

EXHIBIT NO. 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 30, 1994	Sept. 24, 1993	Sept. 30, 1994	Sept. 24, 1993
	(In thousands except per share amounts)			
Net earnings applicable to common stock:				
Net earnings	\$4,248	\$3,463	\$10,279	\$10,149
Less dividends on preferred stock	19	19	56	56
	\$4,229	\$3,444	\$10,223	\$10,093
Average number of common and common equivalent shares outstanding:				
Average number of common shares outstanding	11,554	11,393	11,554	11,329
Dilutive effect of stock options computed on the treasury stock method	25	87	58	75
	11,579	11,480	11,612	11,404
Net earnings per common share and common equivalent share	\$0.37	\$0.30	\$0.88	\$0.88

Primary and fully diluted earnings per share are substantially the same.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS AND CONSOLIDATED BALANCE SHEETS FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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GRACO INC.

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QTR-3

DEC-30-1994

SEP-30-1994

1,772

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71,730

4,438

57,841

141,494

142,145

76,259

218,803

93,969

13,226

11,503

1,474

0

68,417

218,803

89,048

89,048

45,779

45,779

36,621

119

545

6,648

2,400

4,248

0

0

0

4,248

.37

.37