

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 June 28, 1996

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

(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, and (2) has been subject to such filing requirements
for the past 90 days.

Yes X No

17,261,240 common shares were outstanding as of July 26, 1996.

GRACO INC. AND SUBSIDIARIES

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PART I

GRACO INC. AND SUBSIDIARIES

Item I. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 28, 1996	June 30, 1995	June 28, 1996	June 30, 1995
	(In thousands except per share amounts)			
Net Sales	\$ 97,099	\$ 103,402	\$ 187,252	\$ 198,929
Cost of products sold	47,677	51,987	92,993	100,987
Gross Profit	49,422	51,415	94,259	97,942
Product development	4,623	3,941	8,852	7,862
Selling	21,240	22,068	41,090	43,758
General and administrative	10,005	10,982	21,680	22,082
Operating Profit	13,554	14,424	22,637	24,240
Interest expense	345	745	577	1,429
Other (income) expense, net	(1,323)	(53)	(757)	343
Earnings Before Income Taxes	14,532	13,732	22,817	22,468
Income taxes	4,500	5,200	7,200	8,500
Net Earnings	\$ 10,032	\$ 8,532	\$ 15,617	\$ 13,968
Net Earnings Per Common and Common Equivalent Share	\$.57	\$.49	\$.89	\$.80
Cash Dividend Per Common Share	\$.12	\$.11	\$.24	\$.22

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	June 28, 1996 ----- (Unaudited)	December 29, 1995 -----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,340	\$ 1,643
Accounts receivable, less allowances of \$5,036 and \$4,856	74,357	73,205
Inventories	47,024	41,693
Deferred income taxes	10,634	10,608
Other current assets	2,019	1,333
	-----	-----
Total current assets	136,374	128,482
Property, Plant and Equipment:		
Cost	165,026	156,168
Accumulated depreciation	(85,175)	(79,310)
	-----	-----
	79,851	76,858
Other Assets	11,264	12,493
	-----	-----
	\$ 227,489	\$ 217,833
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	\$ 5,734	\$ 5,051
Current portion of long-term debt	1,865	1,935
Trade accounts payable	12,490	13,849
Dividends payable	2,071	2,072
Income taxes payable	3,612	4,229
Other current liabilities	45,763	44,447
	-----	-----
Total current liabilities	71,535	71,583
Long-term Debt, less current portion	9,117	10,074
Retirement Benefits and Deferred Compensation	32,971	32,605
Shareholders' Equity:		
Common stock	17,261	17,265
Additional paid-in capital	19,170	20,397
Retained earnings	76,346	64,949
Other, net	1,089	960
	-----	-----
	113,866	103,571
	-----	-----
	\$ 227,489	\$ 217,833
	=====	=====

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Twenty-Six Weeks	
	June 28, 1996	June 30, 1995

	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 15,617	\$ 13,968
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,563	6,381
Deferred income taxes	841	321
Change in:		
Accounts receivable	(3,358)	(2,623)
Inventories	(5,779)	(1,542)
Trade accounts payable	(1,025)	(2,125)
Retirement benefits and deferred compensation	628	1,950
Other accrued liabilities	4,096	(5,438)
Other	(3,084)	(121)
	-----	-----
	14,499	10,771
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(9,600)	(11,189)
Proceeds from sale of property, plant, and equipment	6	260
	-----	-----
	(9,594)	(10,929)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing on notes payable and lines of credit	2,907	92,331
Payments on notes payable and lines of credit	(1,901)	(89,041)
Borrowing on long-term debt	9,892	--
Payments on long-term debt	(10,778)	(410)
Common stock issued	2,309	2,157
Retirement of common and preferred stock	(3,540)	0
Cash dividends paid	(4,221)	(3,765)
	-----	-----
	(5,331)	1,272
	-----	-----
Effect of exchange rate changes on cash	1,123	(2,421)
	-----	-----
Net increase (decrease) in cash and cash equivalents	697	(1,307)
Cash and cash equivalents:		
Beginning of year	1,643	2,444
	-----	-----
End of period	\$ 2,340	\$ 1,137
	=====	=====
See notes to consolidated financial statements		

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of June 28, 1996 and the related statements of earnings and cash flows for the twenty-six weeks ended June 28, 1996, and June 30, 1995, 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. and Subsidiaries as of June 28, 1996, 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 1995 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 (in thousands):

	June 28, 1996	Dec 29, 1995
	-----	-----
Finished products and components	\$ 45,081	\$ 40,335
Products and components in various		
stages of completion	25,691	22,597
Raw materials	11,858	13,152
	-----	-----
	82,630	76,084
Reduction to LIFO cost	(35,606)	(34,391)
	-----	-----
	\$ 47,024	\$ 41,693
	=====	=====

Item 2. GRACO INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

- - - - -

Net earnings of \$10.0 million for the quarter ended June 28, 1996 increased \$1.5 million, or 18 percent, over the same period last year. Net earnings of \$15.6 million for the six months ended June 28, 1996 increased \$1.6 million, or 12 percent, over the first six months of 1995. The earnings improvement came primarily as a result of reduced operating expenses, a \$1.5 million pretax settlement of a lawsuit involving an escrow deposit dating back to 1986, lower interest expense resulting from lower debt balances, and a lower effective tax rate, partially offset by a decrease in sales.

Sales for the quarter of \$97.1 million were \$6.3 million, or 6 percent, lower than the second quarter of 1995. Year-to-date sales of \$187.3 million were \$11.7 million, or 6 percent, lower than 1995. The decline in sales can be attributed primarily to economic softness in the European markets and currency fluctuations.

Sales in the Americas were at the 1995 level for the quarter at \$64.0 million and slightly lower than the 1995 six month level at \$125.8 million. European sales continue to lag behind last year with quarterly and year-to-date sales of \$17.0 million and \$32.8 million, respectively. Europe's second quarter sales performance is 19 percent lower than the same period of 1995 (a 16 percent volume decrease, and a 3 percent loss due to exchange rates) and is 12 percent lower than 1995 for the first six months (entirely a volume decrease). In Asia Pacific, sales decreased 13 percent from last year's second quarter to \$16.1 million (a 3 percent volume decrease, and a 10 percent loss due to exchange rates). For the six month period ended June 28, 1996, Asia Pacific sales of \$28.6 million were 12 percent lower than 1995 (a 6 percent volume decrease and a 6 percent loss due to exchange rates).

Worldwide, Industrial/Automotive Equipment sales declined 11 percent to \$52.6 million from last year's second quarter of \$59.4 million, Contractor Equipment sales declined 1 percent to \$33.2 million from \$33.6 million, and Lubrication Equipment sales increased 9 percent to \$11.3 million from \$10.4 million. For 1996's first six months, Industrial/Automotive Equipment sales of \$99.9 million were 11 percent lower than the same period last year, Contractor Equipment sales of \$66.0 million were 1 percent lower, and Lubrication Equipment sales of \$21.3 million were 6 percent higher. The Company believes that increased levels of automotive activity should provide opportunities for top line growth in the second half of the year.

The gross profit margin percentage for the quarter increased 1 percentage point over a year ago to 51 percent. The year-to-date gross profit margin of 50 percent is also 1 percentage point over last year. The improvement in gross profit margins is due to manufacturing efficiencies, favorable product sourcing in Japan, pricing and product mix.

Operating expenses of \$35.9 million for the quarter and \$71.6 million for the first six months are both 3 percent lower than the same periods last year. While investments in product development increased substantially, close control of selling and general and administrative costs have kept operating expenses below 1995 levels.

Interest expense of \$0.3 million is \$0.4 million, or 54 percent, lower than the second quarter of 1995. Year-to-date interest expense of \$0.6 million is \$0.9 million, or 60 percent lower. The decreases in interest expense result from lower debt balances at June 28, 1996 as compared to June 30, 1995.

The effective tax rates for the quarter and for the six month period are 31.0 percent and 31.5 percent, respectively. These rates are lower than 1995's quarterly and six month effective rates of 37.9 percent and 37.8 percent, respectively. The decline in the effective tax rate in 1996 results from lower effective tax rates on foreign earnings.

Liquidity and Capital Resources

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The Company generated cash from operations of \$14.5 million for the first six months of 1996 as compared to \$10.8 million for the same period last year. Significant uses of cash include purchases of property, plant and equipment, payments of cash dividends and repurchases of common stock. Working capital increased \$7.9 million, or 14 percent, to \$64.8 million at June 28, 1996 from \$56.9 million at December 29, 1995. The Company plans on spending approximately \$17.0 million in 1996 for the construction of a 325,000 square foot world-class manufacturing facility and global distribution center in Rogers, Minnesota (approximately 20 miles northwest of Minneapolis). This expenditure will be funded primarily with cash generated through operations. The Company has unused lines of credit available at June 28, 1996 totaling \$70.2 million.

PART II

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

At the Annual Meeting of Shareholders held on May 7, 1996, David A. Koch, Richard D. McFarland, Lee R. Mitau, and Martha A. M. Morfitt were elected to the Office of Director with the following votes:

	FOR -----	WITHHELD -----
David A. Koch	15,160,399	124,918
Richard D. McFarland	15,247,269	38,048
Lee R. Mitau	15,157,343	127,974
Martha A. M. Morfitt	15,251,335	33,982

At the same meeting, the following matters were also voted upon with the votes as indicated:

An amendment to the Employee Stock Purchase Plan to authorize the sale of an additional 750,000 common shares pursuant to the Plan was approved, with the following votes:

For ---	Against -----	Abstentions -----	Broker Non-Vote -----
12,947,200	1,446,348	53,841	837,928

An amendment to the Long Term Stock Incentive Plan to authorize the issuance of an additional 1,000,000 common shares pursuant to the Plan was approved, with the following votes:

For ---	Against -----	Abstentions -----	Broker Non-Vote -----
12,042,788	2,138,843	64,260	1,239,426

The Graco Inc. Nonemployee Director Stock Option Plan was approved, with the following votes:

For ---	Against -----	Abstentions -----	Broker Non-Vote -----
13,387,592	750,522	107,777	1,039,426

The selection of Deloitte & Touche as independent auditors for the current year was approved and ratified, with the following votes:

For ---	Against -----	Abstentions -----	Broker Non-Vote -----
15,186,565	27,721	71,031	0

No other matters were voted on at the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1996 Corporate and Business Unit Annual Bonus Plan	Exhibit 10.1
Long Term Stock Incentive Plan, as amended through May 7, 1996	Exhibit 10.2
Nonemployee Director Stock Option Plan	Exhibit 10.3
Form of Agreement used for award of nonstatutory stock options to nonemployee directors, dated May 7, 1996	Exhibit 10.4
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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: August 9, 1996

By:/S/James A. Graner

James A. Graner
Vice President & Controller
("duly authorized officer")

Date: August 9, 1996

By:/S/David M. Lowe

David M. Lowe
Treasurer
(Principal Financial Officer)

GRACO INC.

1996 CORPORATE

&

BUSINESS UNIT

ANNUAL BONUS PLAN

Effective January 1, 1996
Human Resources

1996 EXECUTIVE CORPORATE & SBU BONUS PLAN

Objectives

- - - - -

- - - To create shareholder value through achievement of annual financial objectives.
- - - To motivate and retain those key executives and managers who work in positions where they can impact the Company's annual financial objectives.

Plan Design

- - - - -

The Plan links the size of each individual's award to specific financial objectives. These objectives are tailored for the Corporation and for each Business Unit. These objectives are:

- - - Corporation
 - Corporate earnings
- - - Business Units
 - Profitability objective

Eligibility Requirements

- - - - -

Only those positions which carry clear managerial responsibility for directly contributing to Graco's Corporate earnings objective and Business Unit profitability and sales objectives are eligible to be included in this Plan.

Only those individuals in eligible positions who have demonstrated and are maintaining a performance level that meets the supervisor's normal expectations for that position are eligible for annual participation in this Plan as well as the receipt of any annual Bonus Payments.

Participation

- - - - -

The top executive in each organizational unit may nominate managers for participation in this Plan when the established position and individual eligibility requirements have been met.

The Management Organization and Compensation Committee of the Graco Inc. Board of Directors has sole authority to approve the participation of the Chief Executive Officer in the Plan.

Participants must maintain satisfactory performance throughout the Plan year in order to be eligible to receive a bonus award payment.

In addition, a participant whose employment termination has been requested due to performance or otherwise for cause will be ineligible for a bonus payment even though the participant is still employed at year-end.

8. Corporate earnings calculations will include such effects as those created by foreign exchange gain/loss translation and income tax rate changes.
9. Corporate earnings calculations will be based on actual exchange rates, not plan rates.
10. Acquisitions and divestitures not included in the annual business plan for the Plan Year will be excluded from the corporate earnings calculations.
11. Significant changes in historical FASB accounting practices or income tax rates will be included in corporate earnings calculations at the discretion of the Management Organization and Compensation Committee of the Board of Directors.
12. Payments will be made by March 15th of the year following each successive Corporate and Business Unit performance year.

LONG TERM STOCK INCENTIVE PLAN

1. Purpose. The purpose of the Graco Inc. Long Term Stock Incentive Plan (the "Plan") is to further the growth in earnings and market appreciation of Graco Inc. (the "Company"). The Plan provides substantial contributions to the Company through ability, performance, industry and invention. The Company intends that the Plan will thereby facilitate securing, retaining and motivating officers and key employees of high caliber and good potential.
2. Administration. The Plan shall be administered by a committee (the "Committee") selected by the Board of Directors of the Company (the "Board"). The Committee shall consist of three or more members who (a) need not be members of the Board of Directors or officers of the Company, (b) who shall be appointed by the Board and (c) who shall be "disinterested persons" within the meaning of Rule 16b-3 under the Securities Act of 1934 (the "Act"). No member of the Committee shall be eligible or receive awards under the Plan while serving on the Committee, and no member of the Committee shall have been eligible to receive awards for one year prior to serving on the Committee.

The Committee shall have full and final authority in its discretion to interpret the provisions of the Plan and to decide all questions of fact arising in its application; to determine the employees to whom awards shall be made under the Plan; to determine the type of award to be made and the amount, size, terms and conditions of each such award; to determine and establish additional terms and conditions not consistent with the Plan and for any agreements entered into with participants in connection with the Plan; to determine the time when awards will be granted and when rights may be exercised, which may be after termination of employment; and to make all other determinations necessary or advisable for the administration of the Plan.

The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority vote at a meeting duly called and held. The granting of a stock option or restricted stock award pursuant to the Plan shall be effective only if a written agreement shall have been duly executed and delivered by and on behalf of the Company and, in the case of a restricted stock award, by the employee to whom such right is granted. The Committee may appoint a Secretary and may make such rules and regulations for the conduct of its business as it shall deem advisable.

3. Participants. Persons eligible to participate in the Plan shall be those officers and key employees of the Company or its subsidiaries who are in positions in which their decisions, actions and counsel significantly impact the performance of the Company or its subsidiaries. Directors of the Company who are not otherwise salaried employees of the Company shall not be eligible to receive awards under the Plan. For the purpose of awards of incentive stock options (as hereinafter defined) made under the Plan, the term "subsidiary" shall have the meaning given to it by Section 424 of the Internal Revenue Code of 1986, as amended (the "Code"). For the purpose of all other awards made under the Plan, the term "subsidiary" shall have the meaning given to it by Rule 405 promulgated under the Securities Act of 1933, as amended. References to "the Company" in this Plan or in any option or other award granted pursuant to the Plan shall be deemed references to a subsidiary if appropriate.
4. Awards under the Plan. Awards by the Committee under the Plan may be in the form of stock options intended to qualify as "incentive stock options" under the provisions of Section 422 of the Code, stock options which do not qualify for special tax treatment under Section 422, restricted stock and other stock awards pursuant to such bonus and incentive plans as the Committee may deem appropriate.
5. Shares Subject to Plan. The shares that may be issued under the Plan shall not exceed in the aggregate 3,475,000 common shares, \$1.00 par value, of the Company. Except as otherwise provided herein, any shares subject to an option or right or other awards which for any reason expires or terminates without issuance or final vesting of such shares shall again be available under the Plan. No fractional shares shall be issued under the Plan.
6. Stock Options. Stock options shall be evidenced by stock option agreements in such form not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions.
 - 6.1. Option Price. The purchase price per common share deliverable upon the exercise of an option shall not be less than 100% of the fair market value of the stock on the day the option is granted, as determined by the Committee.
 - 6.2. Exercise of Option. Each stock option agreement shall state the period or periods of time within which the option may be exercised by the participant, in whole or in part, which shall be such period or periods of time as may be determined by the Committee, provided that the option period shall not end later than ten years after the date of the grant of the option.
 - 6.3. Payment of Shares. An optionee electing to exercise an option shall

give written notice to the Company of such election and of the number of shares subject to such exercise. The full purchase price of such shares shall be tendered with such notice of exercise or, at the discretion of the Committee, pursuant to any arrangements satisfactory to the Committee which provide that the Company will be paid at the time the shares are delivered to the optionee or his designee. Payment shall be made either in cash (including check, bank draft or money order) or, at the discretion of the Committee, (i) by delivering the Company's common shares already owned by the optionee having a fair market value equal to the full purchase price of the shares, or (ii) a combination of cash and such shares.

6.4. Special Rule for Incentive Stock Options. The aggregate fair market value (determined as of the time the option is granted) of the common shares with respect to which all incentive stock options granted after January 1, 1987 are exercisable for the first time by any individual during any calendar year (under all option plans of the Company and its parent and subsidiary corporations) shall not exceed \$100,000.

7. Restricted Stock Awards. Restricted stock awards shall be evidenced by restricted stock agreements in such form not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions.

7.1. Restriction Period. Shares awarded pursuant to restricted stock awards shall be subject to such conditions, terms and restrictions (including continued employment, achievement of performance targets, forfeiture and transfer) and for such period or periods as shall be determined by the Committee. The Committee shall have the power, in its discretion, to permit an acceleration of the expiration of the applicable restriction period with respect to any part of all of the shares awarded to a participant.

7.2. Restrictions Upon Transfer. The common shares subject to an award, may not be sold, assigned, transferred, exchanged, pledged, hypothecated, or otherwise encumbered, except as herein provided, during the restriction period applicable to such shares, but a participant shall have all the other rights of a stockholder, including the right to receive cash dividends and the right to vote such shares, until such time as the restrictions have lapsed or the shares have been forfeited.

7.3. Certificates. Each certificate issued in respect of common shares awarded to a participant shall be deposited with the Company, or its designee, and shall bear an appropriate legend noting the existence of restrictions upon the transfer of such Common Stock.

7.4. Lapse of Restrictions. The agreement governing the awards shall specify the conditions and terms upon which any restrictions upon shares awarded under the Plan shall lapse, as determined by the Committee. Upon lapse of such restrictions, common shares free of any restrictive legend, other than as may be required under Section 9 hereof, shall be issued and delivered to the participant of his legal representative.

8. Fair Market Value. The fair market value of the Company's common shares for purposes of the Plan shall be the last sale price of the common shares as reported on the New York Stock Exchange on the business day as of which the fair market value is being determined or if no sale occurred on that date, the last sale on the most recent date for which a sale is reported. If the Company's common shares are not then traded on the New York Stock Exchange, the Committee may determine fair market value in some other reasonable way.

9. General Restrictions. Each award under the Plan shall be subject to the requirement that, if at anytime the Committee shall determine that (a) the listing, registration or qualification of the common shares subject or related thereto upon any securities exchange or under any state or federal law, or (b) the consent or approval of any government regulatory body, or (c) an agreement by the recipient of an award with respect to the disposition of common shares, is necessary or desirable in connection with, the granting of such award or the issue or purchase of common shares thereunder, such award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee. A participant shall agree, as a condition of receiving any award under the Plan, to execute any documents, make any representations, agree to restrictions on stock transferability and take any actions which in the opinion of legal counsel to the Company is required by any applicable law, ruling or regulation.

10. Rights of a Shareholder. The recipient of any award under the Plan, unless otherwise provided by the Plan, shall have no rights as a shareholder with respect thereto unless and until certificates for common shares are issued to the recipient.

11. Right to Terminate Employment. Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any participant the right to continue in the employment of the Company or its subsidiaries, or affect any right which the Company or such subsidiaries may have to terminate the employment of the participant.

12. Withholding.

12.1. Payment of Withholding Taxes. Whenever the Company proposes or is required to issue or transfer common shares under the Plan, the Company shall have the right to require the recipient to remit to the Company, or provide indemnification satisfactory to the Company for, an amount sufficient to satisfy any federal, state or local

withholding tax requirements prior to the issuance or delivery of any certificate or certificates for such shares.

12.2. Use of Common Shares to Satisfy Tax Obligation. In order to assist an optionee or grantee in paying all federal, state and local taxes to be withheld or collected upon exercise of an option or the grant of a stock award or the lapse of restrictions relating to a restricted stock award hereunder, the Committee in its sole discretion and subject to such rules as it may adopt, may permit the optionee or grantee to satisfy such tax obligation, in whole or in part, by (i) electing to have the Company withhold common shares otherwise to be delivered with a fair market value equal to the amount of such tax obligation, or (ii) electing to surrender to the Company previously owned common shares with a fair market value equal to the amount of such tax obligation. The election must be made on or before the date that the amount of tax to be withheld is determined.

13. Non-Assignability. No award under the Plan shall be assignable or transferable by the participant except by will or by laws of descent and distribution. During the life of a participant, such award shall be exercisable only by the participant or by the participant's guardian or legal representative.

14. Non-Uniform Determinations. The Committee's determinations under the Plan (including, without limitation, determinations of the persons to receive awards, the form, amount and timing of such awards, the terms and provisions of awards and the agreements evidencing the awards, and the establishment of values and performance targets) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan whether or not such persons are similarly situated.

15. Adjustments in Shares. In the event of any change in the outstanding common shares of the Company by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or otherwise, the Board shall adjust the number of shares which may be issued under the Plan and the Board shall provide for an equitable adjustment of any shares issuable pursuant to awards outstanding under the Plan.

16. Adoption, Amendment and Termination.

16.1. Adoption. This Plan was originally adopted in February 1982 as the Graco Inc. Incentive Stock Option Plan. The Plan was amended and restated as the Graco Inc. Long Term Stock Incentive Plan by the Board of Directors on March 4, 1988 and was further amended by the Board on December 13, 1991, February 21, 1992, February 23, 1996 and May 7, 1996, which amendments requiring shareholder approval were approved by the shareholders on May 5, 1992 and May 7, 1996, respectively.

16.2. Amendment. The Board may amend, suspend, or terminate the Plan at any time, but without shareholder approval, no amendment shall materially increase the maximum number of shares which may be issued under the Plan (other than increases pursuant to Section 15 hereof), materially increase the benefits accruing to participants under the Plan, materially modify the requirements as to eligibility for participation, or extend the term of the Plan.

16.3. Termination. Unless the Plan shall have been discontinued at an earlier date, the Plan shall terminate on December 13, 2001. No option, restricted stock award or stock awards may be granted after such termination, but termination of the Plan shall not, without the consent of the optionee or grantee, alter or impair any rights or obligations under any award theretofore granted.

Nonemployee Director Stock Option Plan

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING
SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES
ACT OF 1933.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY
THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE
SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE
COMMISSION NOR ANY STATE SECURITIES COMMISSION PASSED UPON
THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY
REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

GRACO INC. NONEMPLOYEE DIRECTOR STOCK OPTION PLAN

1. Purpose

The purpose of the Graco Inc. Nonemployee Director Stock Option Plan (the "Plan") is to secure for Graco Inc. (the "Company") and its shareholders the benefits of the long-term incentives inherent in increased common stock ownership by the members of the Board of Directors (the "Board") of the Company who are not employees of the Company or its Affiliates, by strengthening the identification of Nonemployee Directors with the interests of all Graco shareholders.

2. Definitions

The terms defined in this Section 2 shall have the following meanings, unless the context otherwise requires.

- a. Affiliate shall mean any corporation, partnership, joint venture or other entity in which the Company holds an equity, profit or voting interest of more than fifty percent (50%).
- b. Annual Meeting of Shareholders shall mean the annual meeting of shareholders of the Company held each calendar year.
- c. Code shall mean the Internal Revenue Code of 1986, as amended to date and as it may be amended from time to time.
- d. Company shall mean Graco Inc., a Minnesota corporation.
- e. ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended to date and as it may be amended from time to time.
- f. Fair Market Value per Share shall mean as of any day
 - (1) The fair market value of a share of the Company's common stock is the last sale price reported on the composite tape by the New York Stock Exchange on the business day immediately preceding the date as of which fair market value is being determined or, if there were no sales of shares of the Company's common stock reported on the composite tape on such day, on the most recently preceding day on which there were sales, or
 - (2) if the shares of the Company's stock are not listed or admitted to trading on the New York Stock Exchange on the day as of which the determination is made, the amount determined by the Board or its delegate to be the fair market value of a share on such day.
- g. Nonemployee Director shall mean a member of the Board of Directors of the Company who is not also an officer or other employee of the Company or an Affiliate.
- h. Nonstatutory Stock Option ("NSO") shall mean a stock option, which does not qualify for special tax treatment under Sections 421 or 422 of the Internal Revenue Code.
- i. Option shall mean either a First Option or an Annual Option granted pursuant to the provisions of Section 4 of this Plan.
- j. Participant shall mean any person who holds an Option granted under this Plan.

- k. Plan shall mean this Graco Inc. Nonemployee Director Stock Option Plan.

3. Administration

- a. The Plan shall be administered by the Board. The Board may, by resolution, delegate part or all of its administrative powers with respect to the Plan.
- b. The Board shall have all of the powers vested in it by the terms of the Plan, such powers to include the authority, within the limits prescribed herein, to establish the form of the agreement embodying grants of Options made under the Plan.
- c. The Board shall, subject to the provisions of the Plan, have the power to construe the Plan, to determine all questions arising thereunder and to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, such administrative decisions of the Board to be final and conclusive.
- d. The Board shall have no discretion to select the Nonemployee Directors to receive Option grants under the Plan, to determine the number of shares of the Company's common stock subject to the Plan or to each grant, nor the exercise price of the Options granted pursuant to the Plan.
- e. The Board may authorize any one or more of their number or the Secretary or any other officer of the Company to execute and deliver documents on behalf of the Board. The Board hereby authorizes the Secretary to execute and deliver all documents to be delivered by the Board pursuant to the Plan.
- f. The expenses of the Plan shall be borne by the Company.

4. Automatic Grants to Nonemployee Directors

- a. As of the date of adoption of this Plan by the shareholders of the Company, each Nonemployee Director shall be granted an option to purchase two thousand (2,000) shares of the Company's common stock under the Plan (the "First Option"). Thereafter, as of the day upon which shareholders vote to elect directors at each annual meeting of the Company, each Nonemployee Director of the Board shall be granted an additional option to purchase fifteen hundred (1,500) shares of the Company's common stock under the Plan (the "Annual Option"); provided, however, that a Nonemployee Director who has not previously been elected as a member of the Board of Directors of the Company shall also be granted a First Option; i.e., an option to purchase two thousand (2,000) shares of the Company's common stock under the Plan, on the first business day of the Nonemployee Director's election to the Board, including election by the Board of Directors to fill a vacancy on the Board.
- b. The automatic grants to Nonemployee Directors shall not be subject to the discretion of any person.
- c. Each Option granted under the Plan shall be evidenced by a written Agreement. Each Agreement shall be subject to, and incorporate, by reference or otherwise, the applicable terms of this Plan.
- d. During the lifetime of a Participant, each Option shall be exercisable only by the Participant. No Option granted under the Plan shall be assignable or transferable by the Participant, except by will or by the laws of descent and distribution.

5. Shares of Stock Subject to the Plan

- a. Subject to adjustment as provided in Section 10 of the Plan, an aggregate of two hundred thousand (200,000) shares of the Company's common stock, \$1.00 par value, shall be available for issuance to Nonemployee Directors under the Plan. No fractional shares shall be issued.
- b. First Option Grants and Annual Option Grants shall reduce the shares available for issuance under the Plan by the number of shares subject thereto. The shares deliverable upon exercise of any First Option Grant or Annual Option Grant may be made available from authorized but unissued shares or shares reacquired by the Company, including shares purchased in the open market or in private transactions. If any unexercised First Option Grant or Annual Option Grant shall terminate for any reason, the shares subject to, but not delivered under, such First Option Grant or Annual Option Grant shall be available for other First Option Grants or Annual Option Grants.

6. Nonstatutory Options.

- a. All Options granted to Nonemployee Directors pursuant to the Plan shall be NSOs.

7. Exercise Price.

- a. The price per share of the shares of the Company's common stock which may be purchased upon exercise of an Option ("Exercise Price") shall be one hundred percent (100%) of the Fair Market Value per Share on

the date the Option is granted and shall be payable in full at the time the Option is exercised as follows:

- (1) in cash or by certified check,
- (2) by delivery of shares of common stock to the Company which shall have been owned for at least six (6) months and have a Fair Market Value per Share on the date of surrender equal to the exercise price, or
- (3) by delivery to the Company of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company from sale or loan proceeds the amount required to pay the exercise price.

b. Such price shall be subject to adjustment as provided in Section 10 hereof.

8. Duration and Vesting of Options.

a. The term of each Option granted to a Nonemployee Director shall be for ten (10) years from the date of grant, unless terminated earlier pursuant to the provisions of Section 9 hereof.

b. Each Option shall vest and become exercisable according to the following schedule:

- (1) twenty-five percent (25%) of the total number of shares covered by the Option shall become exercisable beginning with the first anniversary date of the grant of the Option;
- (2) thereafter twenty-five percent (25%) of the total number of shares covered by the Option shall become exercisable on each subsequent anniversary date of the grant of the Option until the fourth anniversary date of the grant of the Option upon which the total number of shares covered by Option shall become exercisable.

9. Effect of Termination of Membership on the Board.

a. The right to exercise an Option granted to a Nonemployee Director shall be limited as follows, provided the actual date of exercise is in no event after the expiration of the term of the Option:

(1) If a Nonemployee Director ceases being a director of the Company for any reason other than the reasons identified in subparagraph (2) of this Section 9, the Nonemployee Director shall have the right to exercise the Options as follows, subject to the condition that no Option shall be exercisable after the expiration of the term of the Option:

(a) If the Nonemployee Director was a member of the Board of Directors of the Company for five (5) or more years, all outstanding Options become immediately exercisable upon the date the Nonemployee Director ceases being a director. The Nonemployee Director may exercise the Options for a period of thirty-six months (36) from the date the Nonemployee Director ceased being a director, provided that if the Nonemployee Director dies before the thirty-six (36) month period has expired, the Options may be exercised by the Nonemployee Director's legal representative or any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death for a period of twelve (12) months from the date of the Nonemployee Director's death.

(b) If the Nonemployee Director was a member of the Board of Directors of the Company for less than five (5) years, the Nonemployee Director may exercise the Options, to the extent they were exercisable at the date the Nonemployee Director ceases being a member of the Board, for a period of thirty (30) days following the date the Nonemployee Director ceased being a director, provided that, if the Nonemployee Director dies before the thirty (30) day period has expired, the Options may be exercised by the Nonemployee Director's legal representative, or any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death, for a period of twelve (12) months from the date of the Nonemployee Director's death.

(c) If the Nonemployee Director dies while a member of the Board, the Options, to the extent exercisable by the Nonemployee Director at the date of death, may be exercised by the Nonemployee Director's legal representative, or any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death, for a period of twelve (12) months from the date of the Nonemployee Director's death.

(d) In the event any Option is exercised by the executors, administrators, legatees, or distributees of the estate of a deceased optionee, the Company shall be under no obligation to issue stock thereunder unless and until the Company is satisfied that the person or persons exercising the Option are the duly appointed legal representatives of the deceased optionee's estate or the proper legatees or distributees thereof.

- (2) If a Nonemployee Director ceases being a director of the Company due to an act of
- (a) fraud or intentional misrepresentation or
 - (b) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any Affiliate of the Company or
 - (c) any other gross or willful misconduct as determined by the Board, in its sole and conclusive discretion, all Options granted to such Nonemployee Director shall immediately be forfeited as of the date of the misconduct.

10. Adjustments and Changes in the Stock

- a. If there is any change in the common stock of the Company by reason of any stock dividend, stock split, spin-off, split-up, merger, consolidation, recapitalization, reclassification, combination or exchange of shares, or any other similar corporate event, the aggregate number of shares available under the Plan, and the number and the price of shares of common stock subject to outstanding Options shall be appropriately adjusted automatically.
- b. No right to purchase fractional shares shall result from any adjustment in Options pursuant to this Section 10. In case of any such adjustment, the shares subject to the Option shall be rounded down to the nearest whole share.
- c. Notice of any adjustment shall be given by the Company to each holder of any Option which shall have been so adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

11. Effective Date of the Plan

- a. The Plan shall become effective on the date it is approved by the shareholders of the Company.
- b. Any amendment to the Plan shall become effective when adopted by the Board, unless specified otherwise, but no Option granted under any increase in shares authorized to be issued under this Plan shall be exercisable until the increase is approved in the manner prescribed in Section 12 of this Plan.

12. Amendment of the Plan

- a. The Board of Directors may amend, suspend or terminate the Plan at any time, but without shareholder approval, no amendment shall materially increase the maximum number of shares which may be issued under the Plan (other than adjustments pursuant to Section 10 hereof), materially increase the benefits accruing to Participants under the Plan, materially modify the requirements as to eligibility for participation or extend the term of the Plan. Approval of the shareholders may be obtained, at a meeting of shareholders duly called and held, by the affirmative vote of a majority of the holders of the Company's voting stock who are present or represented by proxy and are entitled to vote on the Plan.
- b. It is intended that the Plan meet the requirements of Rule 16b-3 or any successor thereto promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, including any applicable requirements regarding shareholder approval. Amendments to the Plan shall be subject to approval by the shareholders of the Company to the extent determined by the Board of Directors to be necessary to satisfy such requirements as in effect from time to time.
- c. Rights and obligations under any Option granted before any amendment of this Plan shall not be materially and adversely affected by amendment of the Plan, except with the consent of the person who holds the Option, which consent may be obtained in any manner that the Board or its delegate deems appropriate.
- d. The Board of Directors may not amend the provisions of Sections 4, 6, 7, 8 and 9 hereof more than once every six (6) months, other than to comport with changes in the Code, ERISA, or the rules thereunder.

13. Termination of the Plan

- a. The Plan, unless sooner terminated, shall terminate at the end of ten (10) years from the date the Plan is approved by the shareholders of the Company. No Option may be granted under the Plan while the Plan is suspended or after it is terminated.
- b. Rights or obligations under any Option granted while the Plan is in effect, including the maximum duration and vesting provisions, shall not be altered or impaired by suspension or termination of the Plan, except with the consent of the person who holds the Option, which consent may be obtained in any manner that the Board or its delegate deems appropriate.

14. Registration, Listing, Qualification, Approval of Stock and Options

- a. If the Board shall determine, in its discretion, that it is necessary or desirable that the shares of common stock subject to any Option
 - (1) be registered, listed or qualified on any securities exchange or under any applicable law, or
 - (2) be approved by any governmental regulatory body, or
 - (3) approved by the shareholders of the Company, as a condition of, or in connection with, the granting of such Option, or the issuance or purchase of shares upon exercise of the Option, the Option may not be exercised in whole or in part unless such registration, listing, qualification or approval has been obtained free of any condition not acceptable to the Board of Directors.

15. No Right to Option or as Shareholder

- a. No Nonemployee Director or other person shall have any claim or right to be granted an Option under the Plan, except as expressly provided herein. Neither the Plan nor any action taken hereunder shall be construed as giving any Nonemployee Director any right to be retained in the service of the Company.
- b. Neither a Nonemployee Director, the Nonemployee Director's legal representative, nor any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any shares of common stock receivable upon the exercise of any Option granted under this Plan, in whole or in part, unless and until certificates for such shares shall have been issued.

16. Governing Law

The validity, construction, interpretation, administration and effect of this Plan and any rules, regulations and actions relating to this Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota.

NONEMPLOYEE DIRECTOR
NONSTATUTORY STOCK OPTION AGREEMENT
(NSO)

THIS AGREEMENT, made this day of , 199 by and between Graco Inc., a Minnesota corporation (the "Company") and (the "Nonemployee Director").

WITNESSETH THAT:

WHEREAS, the Company pursuant to its Nonemployee Director Stock Option Plan wishes to grant this stock option to Nonemployee Director.

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Grant of Option

The Company hereby grants to Nonemployee Director, the right and option (the "Option") to purchase all or any part of an aggregate of common shares, par value \$1.00 per share, at the price of \$ per share on the terms and conditions set forth herein. This is a nonstatutory stock Option which does not qualify for special tax treatment under Sections 421 or 422 of the Internal Revenue Code.

2. Duration and Exercisability

- a. This Option may not be exercised by Employee until the expiration of one (1) year from the date of grant, and this Option shall in all events terminate ten (10) years after the date of Grant. During the first year from the date of grant of this Option, no portion of this Option may be exercised. Thereafter this Option shall become exercisable in four cumulative installments of 25% as follows:

Date ----	Total Portion of Option Which is Exercisable -----
One Year after Date of Grant	25%
Two Years after Date of Grant	50%
Three Years after Date of Grant	75%
Four Years after Date of Grant	100%

In the event that Nonemployee Director does not purchase in any one year the full number of shares of common stock of the Company to which he/she is entitled under this Option, he/she may, subject to the terms and conditions of Section 3 hereof, purchase such shares of common stock in any subsequent year during the term of this Option.

- b. During the lifetime of the Nonemployee Director, the Option shall be exercisable only by him/her and shall not be assignable or transferable by him/her otherwise than by will or the laws of descent and distribution.

3. Effect of Termination of Membership on the Board

- a. In the event a Nonemployee Director ceases being a director of the Company for any reason other than the reasons identified in section 3b below, the Nonemployee Director shall have the right to exercise the Option as follows, subject to the condition that no Option shall be exercisable after the expiration of the term of the Option:

- (1) If the Nonemployee Director was a member of the Board of Directors of the Company for five (5) or more years, the option becomes immediately exercisable upon the date the Nonemployee Director ceases being a director. The Nonemployee Director may exercise the Option for a period of thirty six (36) months from the date the Nonemployee Director ceased being a director, provided that if the Nonemployee Director dies before the thirty-six (36) month period has expired, the Option may be exercised by the Nonemployee Director's legal representative or any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death for a period of twelve (12) months from the date of the Nonemployee Director's death.
- (2) If the Nonemployee Director was a member of the Board of Directors of the Company for less than five (5) years, the Nonemployee Director may exercise the Option, to the extent the Option was exercisable at the date the Nonemployee Director ceases being a member of the Board, for a period of thirty (30) days following the date the Nonemployee Director ceased being a director, provided that, if the Nonemployee Director dies before the thirty (30) day period has expired, the Option may be exercised by the Nonemployee Director's legal representative, or any person who acquires the right to exercise an Option by reason of the Nonemployee Director's death, for a period of twelve (12) months from the date of the Nonemployee Director's death.
- (3) If the Nonemployee Director dies while a member of the Board of Directors of the Company, the Option, to the extent exercisable by the Nonemployee Director at the date of death, may be exercised by the Nonemployee Director's legal representative, or any person who acquires the right to exercise an Option by reason

of the Nonemployee Director's death, for a period of twelve (12) months from the date of the Nonemployee Director's death.

- (4) In the event the Option is exercised by the executors, administrators, legatees, or distributees of the estate of a deceased optionee, the Company shall be under no obligation to issue stock thereunder unless and until the Company is satisfied that the person or persons exercising the Option are the duly appointed legal representatives of the deceased optionee's estate or the proper legatees or distributees thereof.

- b. If a Nonemployee Director ceases being a director of the Company due to an act of (a) fraud or intentional misrepresentation or (b) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any Affiliate of the Company or (c) any other gross or willful misconduct, as determined by the Board, in its sole and conclusive discretion, the Option granted to such Nonemployee Director shall immediately be forfeited as of the date of the misconduct.

4. Manner of Exercise

- a. The Option can be exercised only by Nonemployee Director or other proper party within the Option period by delivering written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the Option is being exercised and, except as provided in sections 4b(2) and 4b(3) below, accompanied by payment in full of one hundred percent (100%) of the Option price.
- b. The Nonemployee Director may, at his/her election, pay the Option price as follows:
 - (1) by cash or by certified check,
 - (2) by delivery of shares of common stock to the Company, which shall have been owned for at least six (6) months and have a fair market value per share on the date of surrender equal to the exercise price, or
 - (3) by delivery to Company of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company from sale or loan proceeds the amount required to pay the exercise price.

For purposes of subsection 4b(2) hereunder, the fair market value per share is the last sale price reported on the composite tape by the New York Stock Exchange on the business day immediately preceding the date as of which fair market value is being determined or, if there were no sales of shares of the Company's common stock reported on the composite tape on such day, on the most recently preceding day on which there were sales, or if the shares of the Company's stock are not listed or admitted to trading on the New York Stock Exchange on the day as of which the determination is made, the amount determined by the Board or its delegate to be the fair market value of a share on such day.

- c. Such Option price shall be subject to adjustment as provided in Section 5 hereof.

5. Adjustments and Changes in the Stock

- a. If Nonemployee Director exercises all or any portion of the Option subsequent to any change in the common stock of the Company by reason of any stock dividend, stock split, spin-off, split-up, merger, consolidation, recapitalization, reclassification, combination or exchange of shares, or any other similar corporate event, the aggregate number of shares available under the Plan, and the number and the price of shares of common stock subject to outstanding Options shall be appropriately adjusted automatically.
- b. No right to purchase fractional shares shall result from any adjustment in the Option pursuant to sub section 5a of this Agreement. In case of any such adjustment, the shares subject to the Option shall be rounded down to the nearest whole share.
- c. Notice of any adjustment shall be given by the Company to Nonemployee Director for the Option which shall have been so adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

6. Miscellaneous

- a. This Option is issued pursuant to the Company's Nonemployee Director Stock Option Plan and is subject to its terms. A copy of the Plan has been given to the Nonemployee Director. The terms of the Plan are also available for inspection during business hours at the principal offices of the Company.
- b. This Agreement shall not confer on Nonemployee Director or other person any claim or right to be granted an Option under the Plan, except as expressly provided in the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving Nonemployee Director any right to be retained in the service of the Company.
- c. Neither Nonemployee Director, the Nonemployee Director's legal representative, nor any person who acquires the right to exercise this Option by reason of the Nonemployee Director's death shall be or have any of the rights or privileges of, a shareholder of the Company in

respect of any shares of common stock receivable upon the exercise of this Option, in whole or in part, unless and until certificates for such shares shall have been issued upon exercise of this Option.

- d. The Company shall at all times during the term of the Option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.
- e. This Agreement will be governed by and constructed exclusively in accordance with the laws of the State of Minnesota.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

GRACO INC.

By _____

Its _____

Nonemployee Director

GRACO INC. AND SUBSIDIARIES
COMPUTATION OF NET EARNINGS PER COMMON SHARE
(Unaudited)

	Thirteen Weeks Ended		Twenty Six Weeks Ended	
	June 28, 1996	June 30, 1995	June 28, 1996	June 30, 1995
(In thousands except per share amounts)				
Net earnings applicable to common stock:				
Net earnings	\$10,032	\$ 8,532	\$15,617	\$13,968
				\$10,279
Less dividends on preferred stock	--	19	--	37
	-----	-----	-----	-----
	\$10,032	\$ 8,513	\$15,617	\$13,931
	=====	=====	=====	=====
Average number of common and common equivalent shares outstanding:				
Average number of common shares outstanding	17,349	17,234	17,333	17,180
Dilutive effect of stock options computed on the treasury stock method	239	220	238	172
	-----	-----	-----	-----
	17,588	17,454	17,571	17,352
	=====	=====	=====	=====
Net earnings per common and common equivalent share	\$.57	\$.49	\$.89	\$.80
	=====	=====	=====	=====

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 June 28, 1996 and is qualified in its entirety by reference to such financial statements.

0000042888
GRACO INC.

1,000
U.S. Dollars

6-mos

Dec-27-1996	
Mar-30-1996	
Jun-28-1996	
1	2,340
0	
74,357	
5,036	
47,024	
136,374	165,026
85,175	
227,489	
71,535	10,982
0	
0	
17,261	
96,605	
227,489	187,252
187,252	92,993
92,993	
71,442	
67	
577	
22,817	
7,200	
15,617	
0	
0	
0	
15,617	
.89	
.89	