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 24, 1999

Commission File Number: 001-9249

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 ____

20,415,979 common shares were outstanding as of October 22, 1999.

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	
	Sept 24, 1999	Sept 25, 1998	Sept 24, 1999	Sept 25,1998
	(In thousands except per share amounts)			
Net Sales	$ 110,076	$ 106,202	$ 328,020	$ 327,072
Cost of products sold	52,566	52,221	158,034	163,059
Gross Profit	57,510	53,981	169,986	164,013
Product development	4,845	4,369	14,370	13,867
Selling, marketing and distribution	19,049	19,725	57,289	63,922
General and administrative	9,599	9,920	28,729	32,339
Operating Profit	24,017	19,967	69,598	53,885
Interest expense	1,661	2,569	5,472	2,967
Other (income) expense, net	(187)	675	(2,579)	783
Earnings Before Income Taxes	22,543	16,723	66,705	50,135
Income taxes	7,500	5,650	22,500	17,350
Net Earnings	$ 15,043	$ 11,073	$ 44,205	$ 32,785
Basic Net Earnings Per Common Share	$ .74	$ .54	$ 2.19	$ 1.38
Diluted Net Earnings Per Common Share	$ .72	$ .53	$ 2.12	$ 1.35

See notes to consolidated financial statements.

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

	Sept 24, 1999	Dec. 25, 1998
ASSETS (Unaudited)		
Current Assets:		
Cash and cash equivalents	$ 2,082	$ 3,555
Accounts receivable, less allowances of $4,800 and $4,400	79,081	80,146
Inventories	36,293	34,018
Deferred income taxes	12,769	12,384
Other current assets	1,846	1,217
Total current assets	132,071	131,320
Property, Plant and Equipment:		
Cost	189,191	199,122
Accumulated depreciation	(102,478)	(102,756)
	86,713	96,366
Other Assets	13,219	6,016
	$ 232,003	$ 233,702
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 4,284	$ 14,560
Current portion of long-term debt	1,715	3,157
Trade accounts payable	10,349	11,965
Salaries, wages & commissions	13,137	14,025
Accrued insurance liabilities	11,153	10,809
Income taxes payable	6,391	5,134
Other current liabilities	22,284	23,316
Total current liabilities	69,313	82,966
Long-Term Debt, less current portion	82,098	112,582
Retirement Benefits and Deferred Compensation	30,484	28,841
Shareholders' Equity:		
Common stock	20,415	20,097
Additional paid-in capital	29,480	23,892
Retained deficit	(1,639)	(35,878)
Other, net	1,852	1,202
Total shareholders' equity	50,108	9,313
	$ 232,003	$ 233,702

See notes to consolidated financial statements.

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

	Thirty-Nine Weeks	
	Sept 24, 1999	Sept 25, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net Earnings	$ 44,205	$ 32,785
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,451	10,975
Deferred income taxes	(88)	(1,052)
(Gain) loss on sale of fixed assets	(3,147)	211
Change in:		
Accounts receivable	2,534	2,100
Inventories	4,910	3,949
Trade accounts payable	(1,554)	(1,703)
Salaries, wages and commissions	(656)	(1,352)
Retirement benefits and deferred compensation	(715)	(1,705)
Other accrued liabilities	689	4,507
Other	300	1,906
	57,929	50,621
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(5,947)	(8,486)
Proceeds from sale of property, plant and equipment	9,523	112
Acquisition of business	(18,389)	-
	(14,813)	(8,374)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on notes payable and lines of credit	90,243	39,407
Payments on notes payable and lines of credit	(100,585)	(32,591)
Borrowings on long-term debt	25,001	176,200
Payments on long-term debt	(56,821)	(41,045)
Common stock issued	6,125	4,709
Retirement of common stock	(3,468)	(190,899)
Cash dividends paid	(6,682)	(8,491)
	(46,187)	(52,710)
Effect of exchange rate changes on cash	1,598	582
Net increase in cash and cash equivalents	(1,473)	(9,881)
Cash and cash equivalents:		
Beginning of period	3,555	13,523
End of period	$ 2,082	$ 3,642

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 September 24, 1999, and the related statements of earnings for the thirteen and thirty-nine weeks ended September 24, 1999 and September 25, 1998, and cash flows for the thirty-nine weeks ended September 24, 1999 and September 25, 1998 have been prepared by the Company without being audited.

   In the opinion of management, these consolidated statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 24, 1999, 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 1998 Form 10-K.

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

2. Major components of inventories were as follows (in thousands):

	Sept 26, 1999	Dec 25, 1998
Finished products and components	$ 32,397	$ 27,764
Products and components in various stages of completion	20,865	23,024
Raw materials	18,551	18,970
	71,813	69,758
Reduction to LIFO cost	(35,520)	(35,740)
	$ 36,293	$ 34,018

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. The Company has three reportable segments: Industrial/Automotive, Contractor and Lubrication. Assets of the Company are not identified along reportable segment lines. Sales and operating profit by segment for the thirteen and thirty-nine weeks ended September 24, 1999 and September 25, 1998 are as follows (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept 24,1999	Sept 25,1998	Sept 24, 1999	Sept 25,1998
Net Sales				
Industrial/Automotive	$ 56,982	$ 55,331	$ 161,677	$ 172,078
Contractor	42,988	39,785	134,402	121,432
Lubrication	10,106	11,086	31,941	33,562
Total	$ 110,076	$ 106,202	$ 328,020	$ 327,072
Operating Profit				
Industrial/Automotive	$ 11,846	$ 10,345	$ 34,533	$ 26,969
Contractor	11,038	9,623	33,081	27,503
Lubrication	2,326	2,222	7,291	6,350
Unallocated Corporate expenses	(1,193)	(2,223)	(5,307)	(6,937)
Total	$ 24,017	$ 19,967	$ 69,598	$ 53,885

4. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", which will be effective for the Company in 2001. SFAS No. 133 requires that all derivatives are recognized in the financial statements as either assets or liabilities measured at fair value and also specifies new methods of accounting for hedging transactions. The Company has not yet determined the impact of SFAS 133, if any.

5. The Company formed Graco Verfahrenstechnik (GV) which on June 1, 1999 purchased certain assets and assumed certain liabilities of Bollhoff Verfahrenstechnik (BV), located in Bielefeld, Germany. BV designed, manufactured and sold fluid application equipment for industrial and automotive markets, primarily in Germany, and had 1998 sales of approximately $20 million.

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

Results of Operations

Net earnings of $15.0 million and diluted earnings per share of $0.72 for the quarter ended September 24, 1999 were up 36 percent from the third quarter of 1998. Reduced expenses and improved sales drove the quarterly performance. For the nine months ended September 24, 1999, net earnings of $44.2 million are 35 percent higher than the earnings in the same period a year ago while diluted earning per share of $2.12 are up 57 percent due to improved earnings and the common stock repurchase in 1998. Year to date net earnings include a non-recurring after-tax gain of $2.1 million, or $0.10 per diluted share, from the sale of the Company's Plymouth, Michigan and Los Angeles facilities.

The following table sets forth items from the Company's Consolidated Statements of Earnings as percentages of net sales:

	Third Quarter (13 weeks) Ended		Nine Months (39 weeks) Ended	
	September 24, 1999	September 25, 1998	September 24, 1999	September 25, 1998
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	47.8	49.2	48.2	49.9
Product development	4.4	4.1	4.4	4.2
Selling, marketing and distribution	17.3	18.6	17.5	19.5
General and administrative	8.7	9.3	8.7	9.9
Operating Profit	21.8	18.8	21.2	16.5
Interest expense	1.5	2.5	1.7	1.0
Other (income) expense, net	(0.2)	.6	(0.8)	.2
Earnings Before Income Taxes	20.5	15.7	20.3	15.3
Income taxes	6.8	5.3	6.9	5.3
Net Earnings	13.7%	10.4%	13.4%	10.0%

Net Sales

Net sales in the third quarter of $110.1 million were up 4 percent from the third quarter of 1998. Year-to-date sales of $328.0 million were up slightly when compared to last year.

Contractor Equipment segment sales were up 8 percent in the quarter and 11 percent year-to-date as the housing market in the North America has remained strong. Industrial/Automotive segment sales were up slightly for the quarter but remained below 1998 on a year-to-date basis primarily due to the Company's exit from the custom designed systems business. Lubrication Equipment segment sales were below 1998 in the third quarter due in part to a shift in promotional activity from the third quarter last year into the fourth quarter of 1999.

Geographically, sales in the America's of $75.0 million were flat for the quarter when compared to the same period last year. Year-to-date sales were up 3 percent from the first nine months of 1998. European sales of $18.4 million were 12 percent higher than last year's third quarter, and would have been 18 percent higher with consistent exchange rates. Third quarter sales growth in Europe was due primarily to Industrial/Automotive sales generated by Graco Verfahrenstechnik, acquired in June of 1999. Year-to-date sales in Europe were down 7 percent. Asia Pacific quarterly sales of $11.1 million increased 21 percent from last year (up 11 percent with consistent exchange rates) as business improved throughout the Asia Pacific region, except in Japan. Sales in Asia Pacific for the first nine months were up 13 percent from last year and were up 5 percent with consistent exchange rates.

Gross Profit

Gross profit as a percentage of quarterly and year-to-date sales has risen to 52.2 and 51.8 percent, up 1.4 and 1.7 percentage points from the same periods in 1998. The increases were due primarily to the change in approach to serving the automotive industry by providing pre-engineered packages rather than custom designed systems, pricing and cost containment.

Operating Expenses

Third quarter operating expenses of $33.5 million decreased 2 percent from the third quarter of 1999, despite the addition of GV. Selling, marketing and distribution expenditures are down 10 percent in the first nine months of 1999, when compared to the same period last year due primarily to restructuring of the Company's industrial and automotive businesses in 1998. Year-to-date general and administrative expenses were 11 percent lower than 1998 due largely to the results of restructuring the Company's Asia Pacific operations last year and due to decreased Year 2000 related expenditures.

Interest Expense

Interest expense was $1.6 and $5.5 million for the quarter and first nine months of 1999, down significantly from the third quarter of 1998 as the Company continues to pay down the debt related to the repurchase of 5.8 million shares of the Company's common stock for $190.9 million in July of 1998.

Other Income (Expense)

Other income was $0.2 million in the third quarter of 1999, compared to $0.7 million expense in 1998. The third quarter of 1998 was unfavorably impacted by the settlement of a lawsuit. Other income for the nine months ended September 24, 1999 included gains on the sale of real estate totaling $3.2 million.

Income Taxes

The third quarter and year-to-date income tax rates were 33 and 34 percent in 1999 versus 34 and 35 percent for the same periods in 1998.

Liquidity and Capital Resources

The Company generated $57.9 million of cash from operating activities in the first nine months of 1999, compared to $50.6 million for the same period last year. Cash flow from operating activities and $9.5 million received from the sale of real estate was used to pay $18.6 million for a business acquisition. In addition, the company made net payments on borrowings (short and long-term debt) of $42.2 million in the first nine months of 1999. The company had unused lines of credit available at September 24, 1999 totaling $83.1 million.

Year 2000

The Year 2000 issue is the result of computer programs that were written using two digits rather than four to define the applicable year, which could cause potential failure or miscalculation in date-sensitive software that recognizes "00" as 1900 rather than 2000.

The Company has nearly completed its program, begun in 1996, to ensure that all information technology systems and non-information technology (non-IT) systems will be Year 2000 compliant. The assessment phase of the Year 2000 Project determined that the Company needed to modify or upgrade most of its mainframe applications, operating systems, network hardware and software and desktop hardware and software. In addition, many non-IT systems required upgrading or replacement in order to ensure proper functioning beyond the year 1999.

The mainframe modification phase involving the conversion of core business applications was completed in July 1998 and the operating systems' upgrades were completed in November 1998. Testing of all mission critical mainframe applications and databases was completed in June 1999. The network and desktop upgrades, involving the replacement of certain hardware and software, was substantially complete in September 1999.

The Company has incurred costs totaling approximately $6.2 million, including $1.4 million in 1999, and estimates an additional $0.3 million will be spent in the remainder of 1999 to resolve Year 2000 issues. These costs are charged to expense as incurred and include software license fees and cost of persons assigned to the project. Existing resources were redeployed and other projects delayed to accommodate Year 2000 related projects. These delays are not expected to have a material adverse impact on future results of operations or financial condition.

Business continuation plans for critical business processes and applications have been developed. These plans include adequate staffing on-site during the Year 2000 date change to quickly repair any errant applications. In addition in the event of any problems, the Company will follow its current computer outage business continuation plans until such problems are corrected.

Approximately 300 non-IT applications were identified at the Company. Non-IT applications are primarily microprocessors and other electronic controls embedded in non-computer equipment used by the Company. All business critical, and substantially all non-business critical non-IT applications were compliant as of September 1999. Conversion of the remaining non-IT applications will continue through the remainder of 1999.

The Company has a very limited number of products with embedded controls and does not believe there are any Year 2000 compatibility issues with these products. The Company has very few customers whose loss of business would be material to the Company. It is not aware of any Year 2000 issues with these customers that would have a material adverse impact on the Company's results.

The Company had discussions with, and sent questionnaires to, its suppliers to assess their Year 2000 readiness. The Company is not aware of any Year 2000 issues with its suppliers that would have a material impact on the Company's results.

Management believes that sufficient resources have been allocated and project plans are in place to avoid any adverse material impact on operations or operating results. However, there can be no guarantee that the Company's systems were successfully converted and that Year 2000 problems will not have an adverse effect on the Company. The Year 2000 efforts of third parties are not within the Company's control and their failure to respond to Year 2000 issues successfully could result in business disruption and increased operating costs to the Company. At the present time, it is not possible to determine whether any such events are likely to occur, or to quantify any potential impact they may have on the Company's future results of operations and financial condition.

Readers are cautioned that forward-looking statements contained in the Year 2000 Update should be read in conjunction with the company's disclosures under the heading: "SAFE HARBOR CAUTIONARY STATEMENT" below.

Outlook

The company is optimistic that sales growth will continue for the remainder of the year while maintaining gross profit percentages.

SAFE HARBOR CAUTIONARY STATEMENT

The information in this 10-Q contains "forward-looking statements" about the Company's expectations of the future, which are subject to certain risk factors that could cause actual results to differ materially from those expectations. These factors include economic conditions in the United States and other major world economies, currency exchange fluctuations, the results of the efforts of the Company, its suppliers and customers to avoid any adverse effect as a result of the Year 2000 issue, and additional factors identified in Exhibit 99 to the Company's Report on Form 10-K for fiscal year 1998.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Amendment dated August 31, 1999, to Credit Agreement dated June 26, 1998 between the Company and Wachovia Bank, N.A.	Exhibit 4
Retirement and Release Agreement between Clayton R. Carter and the Company dated June 26, 1999.	Exhibit 10
Separation and Release Agreement between Roger L. King and the Company, dated August 10, 1999.	Exhibit 10.1
Computation of Net Earnings per Common Share	Exhibit 11
Financial Data Schedule (EDGAR filing only)	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: October 27, 1999	By: /s/James A. Earnshaw James A. Earnshaw President & Chief Executive Officer
Date: October 27, 1999	By: /s/James A. Graner James A. Graner Vice President & Controller (duly authorized officer)

Exhibit 4

AMENDED AND RESTATED CONFIRMATION

TO: Graco Inc.

ATTN: Mark Sheahan

FAX: (612) 623-6942

FROM: Rafeek Ghafur
Wachovia Bank, N.A.
Derivative Products Services

DATE: August 31, 1999

- --

This Confirmation cancels and replaces in its entirety our Confirmation dated June 26, 1998, evidencing that certain Swap Transaction entered into between Wachovia Bank, N.A. and Shamrock Corporation on June 26, 1998 (the "Transaction), which transaction is hereby restated.

The purpose of this letter agreement is to confirm the terms and conditions of the Amended and Restated Swap Transaction entered into between Wachovia Bank, N.A. ("Wachovia") and Graco Inc. ("Company") on the Trade Date specified below (the "Amended and Restated Swap Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the Agreement (as defined below).

The definition and provisions contained in the 1991 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. (the "Definitions") are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to the 1992 Master Agreement dated July 2, 1998 as amended and supplemented from time to time (the "Agreement") between you and us. All provisions contained in the Agreement will govern this Confirmation except as expressly modified below.

2. The terms of the particular Amended and Restated Swap Transaction to which this Confirmation relates are as follows:

A.	TRADE DETAILS
Notional Amount:	USD 75,000,000.00, 7-2-98 to 9-2-99 USD 50,000,000.00, 9-2-99 to 7-3-00
Trade Date:	June 26, 1998, amended August 31, 1999
Effective Date:	July 2, 1998
Termination Date:	July 3, 2000, subject to adjustment in accordance with The Modified Following Business Day Convention.
Fixed Amounts:	
Fixed Rate Payer:	The Company
Fixed Rate Payer Payment Dates:	The 2nd day of each month, commencing August 3, 1998 up to and including the Termination Date subject to adjustment in accordance with The Modified Following Business Day Convention.
Fixed Rate:	5.74% per annum from 7-2-98 to 9-2-99 5.76% per annum from 9-2-99 to 7-3-00
Fixed Rate Day Count Fraction:	Actual / 360
Floating Amounts:	
Floating Rate Payer:	Wachovia
Floating Rate Payer	

Payment Dates:	The 2nd day of each month, commencing August 3, 1998 up to and including the Termination Date subject to adjustment in accordance with The Modified Following Business Day Convention.
Floating Rate for Initial Calculation Period:	5.66016 per annum
Floating Rate Option:	USD-LIBOR-BBA
Designated Maturity:	One Month
Floating Rate Day Count Fraction:	Actual / 360
Reset Dates:	First Day of each Calculation Period
Business Days:	London Business Days for rate resets and London and New York Business Days for payments.
Calculation Agent:	Wachovia Bank, N.A.

B. ACCOUNT DETAILS

Payments to Wachovia:	Wachovia Bank N.A.
Fed Routing No.:	061-000-010
For the Account of:	Derivatives Settlement
Account Number:	18805813
Attention:	Susan Lucia
Payments to the Company:	US Bank N.A.
Fed Routing No.:	091-000-022
For the Account of:	Graco Inc.
Account Number:	1502-5004-2184
Attention:	Mark Sheahan

C. OFFICES

Wachovia Bank, N.A.:	191 Peachtree Street Atlanta, GA 30303
Telephone:	(404) 332-6970
Fax:	(404) 332-6880
Graco Inc.:	PO Box 1441 Minneapolis MN 55440-1441
Telephone:	(612) 623-6656
Fax:	(612) 623-6942

3. The Company has consulted, to the extent it has deemed necessary, with its legal, tax and financial advisors regarding its decision to enter into the Amended and Restated Swap Transaction and has had an opportunity to ask questions of, and has obtained all requested information from, Wachovia concerning the Amended and Restated Swap Transaction. The Company has made its own independent decision to enter into the Amended and Restated Swap Transaction based upon its own judgment, with full understanding of the economic, legal and other risks associated with the Amended and Restated Swap Transaction (which risks it is willing to assume) and is entering into the Amended and Restated Swap Transaction without relying upon any advice (oral or written) or projections provided by Wachovia. The Company understands that Wachovia is relying on the statements made by the Company in this paragraph in entering into the Amended and Restated Swap Transaction.

Please confirm that the foregoing correctly set out the terms of our agreement by signing a copy of this Confirmation and returning it to us with two Business Days.

Wachovia Bank, N.A.	Graco Inc.
By: /s/Rafeek Ghafur	By: /s/Mark W. Sheahan

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Name: Rafeek Ghafur Name: Mark W. Sheahan

Title: Vice President Title: Vice President & Treasurer

Exhibit 10

RETIREMENT AND RELEASE AGREEMENT

THIS AGREEMENT is effective the 26th day of June, 1999, by and between Graco Inc., a Minnesota corporation ("Graco"), with its principal offices at 4050 Olson Memorial Highway, Golden Valley, Minnesota, 55422 and Clayton R. Carter, an individual, residing at 4667 Bayswater Road, Shorewood, MN. 55331 ("Mr. Carter").

WHEREAS, Mr. Carter is now employed by Graco; and

WHEREAS, The parties have agreed that Mr. Carter will retire as an officer and employee of Graco effective June 30, 1999, and will terminate his employment relationship with Graco in accordance with the terms of this Agreement.

NOW, THEREFORE, It is hereby mutually agreed by and between the parties for good and valuable consideration as follows:

1. Separation Payment

   On or before July 2, 1999, or two business days after Mr. Carter executes this Agreement, whichever is later, Graco will pay to Mr. Carter in a lump sum as a separation payment the amount of two hundred thousand dollars ($200,000), subject to tax withholding and deductions required by law.

2. Annual Bonus Plan

   Mr. Carter shall be entitled to payment under the 1999 Corporate and Business Unit Annual Bonus Plan of one-half of the full year annual bonus to which he would have been entitled under said plan had he stayed in the position he held upon retirement until the end of 1999. Said payment shall be made in 2000 when the payments under said plan are made to all participants therein.

3. Stock Options

   All stock options granted to Mr. Carter under the Graco Long Term Incentive Plan shall be governed by the provisions of said plan and the stock option agreements executed between Graco and Mr. Carter pursuant to said plan.

4. Benefits

   Mr. Carter's entitlement to, continuation or cessation of retirement benefits following the date of his retirement are described in a letter from the Graco Benefits Department to Mr. Carter's attention, dated March 16, 1999

5. Cooperation

   Mr. Carter shall render all reasonable cooperation to Graco in connection with the prosecution or defense of any lawsuit or other judicial or administrative action, including participating as a source of information or witness in any such action. Graco shall reimburse Mr. Carter for any reasonable out-of-pocket expenses (including attorneys' fees, if necessary) incurred by him in connection with rendering such cooperation.

6. Confidentiality

   a. Mr. Carter hereby agrees that, for a period of three (3) years after June 30, 1999, he will not, directly or indirectly, disclose any Confidential Information, as defined in subsection (b) below, to any other party, and will not in any way use such Confidential Information in the course of any future employment.

   b. As used herein, the term "Confidential Information" shall mean all information which is treated as confidential or proprietary by Graco in the normal course of its business, including, without limitation, documents so marked, or is a trade secret of Graco, which has been disclosed by Graco to Mr. Carter, including, without limitation, information relating to Graco products, processes, product development or research, equipment, machinery, apparatus, business operations, financial results or condition, strategic plans or projections, customers, suppliers, marketing, sales, management practices, technical information, drawings, specifications, material, and the like, and any knowledge or information developed by Mr. Carter relating to the same, provided, however, that Confidential Information shall not include information which is at the time of disclosure, or thereafter becomes, a part of the public domain through no act or omission by Mr. Carter, or information which Mr. Carter is required to disclose in a court or other judicial proceeding or is otherwise legally required to disclose.

c. The provisions of this Section 6 are in addition to, and not in lieu of, the fiduciary and other duties and obligations of Mr. Carter as an employee, officer and director of Graco, and this Section 6 does not limit said obligations in any way, by time or otherwise.

7. Release

a. Except with respect to the provisions of this Agreement and the provisions of the letter dated March 16, 1999 referenced above, Mr. Carter hereby releases and forever discharges Graco and its officers, employees, agents, successors, and assigns from any and all claims, causes of action, demands, damages, liability and responsibility whatsoever, arising prior to the date of this Agreement, including without limitation, any rights or claims for further compensation, or any rights to participate in any Company-sponsored program relating to the purchase or acquisition of any Graco common stock, preferred stock, or other equity in Graco or any subsidiary thereof, except as specifically provided in this Agreement, including the Exhibit hereto, or any right or claim Mr. Carter may have or assert under the common law or any state, municipal, federal, or other statute or regulation regarding the rights of employees generally or based on discrimination on the basis of race, creed, gender, age, or other protected status. This Section 7 shall not affect Mr. Carter's rights to indemnification as an officer, director, and employee of Graco under Graco's by-laws and applicable Minnesota law nor any rights which he has accrued by participating in any Graco benefit plan, subject to the provisions of this Agreement and the terms and conditions set forth in such plan as of his retirement date.

b. Mr. Carter certifies, represents and agrees that:

(i) this Agreement is written in a manner that he understands;

(ii) he understands that this Section 7 specifically waives any rights or claims he may have arising under federal, state, and local laws prohibiting employment discrimination, such as the Age Discrimination in Employment Act, the Minnesota Human Rights Act, Title VII of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans with Disabilities Act and/or any claims for damages or for injuries based on common law theories of contract, quasi-contract or tort;

(iii) the waiver herein of rights or claims are to those which may have arisen prior to the execution date of this Agreement;

(iv) a portion of the consideration set out in this Agreement is in addition to compensation that he may already have been entitled to;

(v) he has been specifically advised in writing to consult with an attorney prior to executing this Agreement;

(vi) he has been informed that he has a period of at least twenty-one (21) calendar days within which to consider this Agreement;

(vii) he specifically understands that he may revoke this Agreement for a period of at least fifteen (15) calendar days following his execution of this Agreement, and that this Agreement is not effective or enforceable until the fifteen (15) day revocation period has expired;

(viii) if he decides to revoke this Agreement within said fifteen (15) day period, he must provide written notice to the Vice President, General Counsel and Secretary, delivered in person or by mail. If his revocation is sent by mail, it must be postmarked on or before July 15, 1999, properly addressed to Robert M. Mattison, Vice President, General Counsel and Secretary, Graco Inc., P.O. Box 1441, Minneapolis, MN. 55440, and sent by certified mail, return receipt requested. Mr. Carter understands that Graco will have no obligation to pay him anything under this Agreement if he revokes his acceptance within the time limit specified, and that he will be obligated to immediately refund to Graco all sums paid to him by Graco pursuant hereto.

(ix) Mr. Carter expressly agrees that the waiver of his rights pursuant to the Agreement is knowing and voluntary on his part.

8. Applicable Law

Except to the extent governed by federal law, this Agreement and any controversies between the parties shall be governed by and construed in accordance with the laws of the State of Minnesota.

9. Entire Agreement

This Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and, except as otherwise specifically provided herein, specifically supersedes and replaces any and all prior written or oral agreements or understandings. This Agreement may not be amended except in a writing signed by authorized representatives of both parties.

10. Headings

The headings of the paragraphs herein are included solely for the convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate originals on the day and year first above written.

GRACO INC.

By: /s/James A. Earnshaw

James A. Earnshaw
President and Chief Executive Officer

CLAYTON R. CARTER

By: /s/Clayton R. Carter

SEPARATION AND RELEASE AGREEMENT

THIS AGREEMENT is effective the 10th day of August, 1999, by and between Graco Inc., a Minnesota corporation ("Graco"), with its principal offices at 4050 Olson Memorial Highway, Golden Valley, Minnesota, 55422, and Roger L King, an individual, with a residence at 2011 Sugarwoods Drive, Orono, Mn. 55356 ("Mr. King").

WHEREAS, Mr. King is now employed by Graco; and

WHEREAS, the parties have agreed that Mr. King will cease to be an officer and employee of Graco effective March 2, 2000 (the "Separation Date"), and will complete and terminate his employment relationship with Graco in accordance with the terms of this Agreement.

NOW, THEREFORE, it is hereby mutually agreed by and between the parties for good and valuable consideration as follows:

1. Duties Prior to Separation

As of September 1, 1999, Mr. King will end his assignment as Vice President and General Manager, European Operations, and assume the title of Vice President. From September 1, 1999, to October 31, 1999, Mr. King will continue to work at Graco's Maasmechelen, Belgium, facility assisting in the transition of leadership for the Graco European Operations. On or before October 31, 1999, the Company shall repatriate Mr. King in accordance with its standard practice.

After Mr. King is repatriated and until the Separation Date, he shall not have any specific duties or responsibilities, but shall be available to the Chief Executive Officer for consultation and advice. In the event that Mr. King obtains, and performs, full time employment with another entity prior to the Separation Date, Mr. King will immediately resign from Graco and his employment shall terminate as of the date of said resignation, rather than the Separation Date, in accordance with normal Graco policy and practice.

2. Salary and Annual Bonus Plan

Mr. King's current base salary, and all benefits, shall continue until the Separation Date. He shall be entitled to payment under the 1999 Corporate and Business Unit Annual Bonus Plan for the full year annual bonus to which he would have been entitled under said plan had he stayed in the position of Vice President and General Manager, European Operations. Said payment shall be made in 2000 when the payments under said plan are made to all participants therein. He shall not be entitled to any bonus under the Annual Bonus Plan for 2000.

3. Stock Options

All stock options granted to Mr. King under the Graco Long Term Incentive Plan shall be governed by the provisions of said plan and the stock option agreements executed between Graco and Mr. King pursuant to said plan, based on a Separation Date of March 2, 2000, or earlier termination date if Mr. King's employment is otherwise terminated as provided herein.

4. Cooperation

For a period of three (3) years after March 2, 2000, Mr. King shall render all reasonable cooperation to Graco in connection with the prosecution or defense of any lawsuit or other judicial or administrative action, including participating as a source of information or witness in any such action. Graco shall reimburse Mr. King for any reasonable out-of-pocket expenses (including attorneys' fees, if necessary) incurred by him in connection with rendering such cooperation.

5. Confidentiality

a. Mr. King hereby agrees that, for a period of three (3) years after March 2, 2000, he will not, directly or indirectly, disclose any Confidential Information, as defined in subsection (b) below, to any other party, and will not in any way use such

Confidential Information in the course of any future employment.

b. As used herein, the term "Confidential Information" shall mean all information which is treated as confidential or proprietary by Graco in the normal course of its business, including, without limitation, documents so marked, or is a trade secret of Graco, which has been disclosed by Graco to Mr. King, including, without limitation, information relating to Graco products, processes, product development or research, equipment, machinery, apparatus, business operations, financial results or condition, strategic plans or projections, customers, suppliers, marketing, sales, management practices, technical information, drawings, specifications, material, and the like, and any knowledge or information developed by Mr. King relating to the same, provided, however, that Confidential Information shall not include information which is at the time of disclosure, or thereafter becomes, a part of the public domain through no act or omission by Mr. King, or information which Mr. King is required to disclose in a court or other judicial proceeding or is otherwise legally required to disclose.

c. The provisions of this Section 5 are in addition to, and not in lieu of, the fiduciary and other duties and obligations of Mr. King as an employee, officer and director of Graco, and this Section 6 does not limit said obligations in any way, by time or otherwise.

6. Release
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a. Except with respect to the provisions of this Agreement, Mr. King hereby releases and forever discharges Graco and its officers, employees, agents, successors, and assigns from any and all claims, causes of action, demands, damages, liability and responsibility whatsoever, arising prior to the Separation Date, including without limitation, any rights or claims for further compensation, or any rights to participate in any Company-sponsored program relating to the purchase or acquisition of any Graco common stock, preferred stock, or other equity in Graco or any subsidiary thereof, except as specifically provided in this Agreement, or any right or claim Mr. King may have or assert under the common law or any state, municipal, federal, or other statute or regulation regarding the rights of employees generally or based on discrimination on the basis of race, creed, gender, age, or other protected status. This Section 6 shall not affect Mr. King's rights to indemnification as an officer, director, and employee of Graco under Graco's by-laws and applicable Minnesota law nor any rights which he has accrued by participating in any Graco benefit plan, subject to the provisions of this Agreement and the terms and conditions set forth in such plan as of the Separation Date.

b. Mr. King certifies, represents and agrees that:

(i) this Agreement is written in a manner that he understands;

(ii) he understands that this Section 6 specifically waives any rights or claims he may have arising under federal, state, and local laws prohibiting employment discrimination, such as the Age Discrimination in Employment Act, the Minnesota Human Rights Act, Title VII of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans with Disabilities Act and/or any claims for damages or for injuries based on common law theories of contract, quasi-contract or tort;

(iii) the waiver herein of rights or claims are to those which may have arisen prior to the execution date of this Agreement or arise prior to the Separation Date;

(iv) a portion of the consideration set out in this Agreement is in addition to compensation that he may already have been entitled to;

(v) he has been specifically advised in writing to consult with an attorney prior to executing this Agreement;

(vi) he has been informed that he has a period of at least twenty-one (21) calendar days within which to consider this Agreement;

(vii) he specifically understands that he may revoke this Agreement for a period of at least fifteen (15) calendar days following his execution of this Agreement, and that this Agreement is not effective or enforceable until the fifteen (15) day revocation period has expired;

(viii) if he decides to revoke this Agreement within said fifteen (15) day period, he must provide written notice to the Vice President, General Counsel and Secretary, delivered in person or by mail. If his revocation is sent by mail, it must be properly addressed to Robert M. Mattison, Vice President, General Counsel and Secretary, Graco Inc., P.O. Box 1441, Minneapolis, MN. 55440, and sent by certified mail, return receipt requested. Mr. King understands that Graco will have no obligation under this Agreement if he revokes his acceptance within the time limit specified.

(ix). Mr. King expressly agrees that the waiver of his rights pursuant to the Agreement is knowing and voluntary on his part.

7. Termination for Cause; Death or Disability

It is understood that notwithstanding this Agreement, the Company may terminate Mr. King for cause, as defined herein. In the event that Mr. King shall die, or his employment is terminated due to disability as defined in the Graco Long-Term Disability Plan, or his employment is terminated for cause (defined herein as his gross or willful misconduct, including but not limited to the wrongful appropriation of Company funds or the commission of a felony), in each case prior to the Separation Date, then in all such cases the standard Graco policies, and with respect to stock options the provisions of the Graco Long Term Incentive Plan and the stock option agreements executed between Graco and Mr. King, shall govern any such termination notwithstanding the provisions of this Agreement.

8. Applicable Law

Except to the extent governed by federal law, this Agreement and any controversies between the parties shall be governed by and construed in accordance with the laws of the State of Minnesota.

9. Entire Agreement

This Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and, except as otherwise specifically provided herein, specifically supersedes and replaces any and all prior written or oral agreements or understandings. This Agreement may not be amended except in a writing signed by authorized representatives of both parties.

10. Headings

The headings of the paragraphs herein are included solely for the convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate originals on the day and year first above written.

GRACO INC.

By: /s/James A. Earnshaw
James A. Earnshaw
President and Chief Executive Officer

ROGER L. KING

By: /s/Roger L. King

EXHIBIT 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 24, 1999	Sept 25, 1998	Sept 24, 1999	Sept 25, 1998
	(In thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	$ 15,043	$ 11,073	$ 44,205	$ 32,785
Weighted average shares outstanding for basic earnings per share	20,338	20,388	20,194	23,793
Dilutive effect of stock options computed using the treasury stock method and the average market price	678	591	629	638
Weighted average shares outstanding for diluted earnings per share	21,016	20,979	20,823	24,431
Basic earnings per share	$ .74	$ .54	$ 2.19	$ 1.38
Diluted earnings per share	$ .72	$ .53	$ 2.12	$ 1.35

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This schedule contains summary financial information extracted from Graco Inc. and subsidiearies consolidated balance sheets for the quarterly period ending September 24, 1999 and is qualified in its entirety by reference to such statements.

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Graco Inc.
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U.S. DOLLARS

3-MOS
DEC-31-1999
JUN-26-1999
SEP-24-1999
1
2,082
0
79,081
4,779
36,293
132,071
189,191
102,478
232,003
69,313
83,813
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20,415
29,693
232,003
110,076
110,076
52,566
52,566
34,967
70
1,661
22,543
7,500
15,043
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15,043
.74
.72