

**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 26, 2003**

Commission File Number: 001-9249

**GRACO INC.**

(Exact name of Registrant as specified in its charter)

Minnesota

(State of incorporation)

41-0285640

(I.R.S. Employer Identification Number)

88 - 11th Avenue N.E.  
Minneapolis, Minnesota

(Address of principal executive offices)

55413

(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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☒ No ☐

45,991,000 common shares were outstanding as of October 24, 2003.

**GRACO INC. AND SUBSIDIARIES**

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## PART I

## Item I.

GRACO INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS(Unaudited)  
(In thousands except per share amounts)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
Net Sales	\$133,788	\$125,832	\$399,812	\$366,485
Cost of products sold	62,385	60,418	189,474	178,767
Gross Profit	71,403	65,414	210,338	187,718
Product development	4,464	4,813	13,265	13,501
Selling, marketing and distribution	23,794	21,426	71,979	63,314
General and administrative	9,111	8,438	27,680	24,940
Operating Earnings	34,034	30,737	97,414	85,963
Interest expense	146	122	386	382
Other expense (income), net	377	321	360	525
Earnings Before Income Taxes	33,511	30,294	96,668	85,056
Income taxes	10,800	9,800	31,300	27,500
Net Earnings	\$ 22,711	\$ 20,494	\$ 65,368	\$ 57,556
Basic Net Earnings Per Common Share	\$ .50	\$ .43	\$ 1.41	\$ 1.21
Diluted Net Earnings Per Common Share	\$ .49	\$ .42	\$ 1.39	\$ 1.19
Cash Dividends Declared Per Common Share	\$ .08	\$ .07	\$ .25	\$ .22

See notes to consolidated financial statements.

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

	<u>Sept 26, 2003</u>	<u>Dec 27, 2002</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 95,993	\$ 103,333
Accounts receivable, less allowances of \$5,900 and \$5,600	95,521	93,617
Inventories	32,591	30,311
Deferred income taxes	13,800	12,022
Other current assets	1,480	1,241
Total current assets	239,385	240,524
Property, Plant and Equipment:		
Cost	226,114	219,427
Accumulated depreciation	(131,692)	(124,474)

	94,422	94,953
Goodwill	9,199	7,939
Other Intangible Assets, net	11,209	3,921
Other Assets	7,243	8,513
	<hr/>	<hr/>
	\$ 361,458	\$ 355,850
	<hr/>	<hr/>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Notes payable to banks	\$ 4,852	\$ 13,204
Trade accounts payable	12,915	13,031
Salaries, wages and commissions	14,231	14,490
Accrued insurance liabilities	10,241	10,251
Accrued warranty and service liabilities	7,731	6,294
Income taxes payable	4,237	5,583
Dividends payable	3,790	3,922
Other current liabilities	14,056	13,439
	<hr/>	<hr/>
Total current liabilities	72,053	80,214
Retirement Benefits and Deferred Compensation	29,766	28,578
Deferred Income Taxes	2,516	1,652
Shareholders' Equity		
Common stock	45,965	47,533
Additional paid-in capital	79,920	71,277
Retained earnings	132,256	128,125
Other, net	(1,018)	(1,529)
	<hr/>	<hr/>
Total shareholders' equity	257,123	245,406
	<hr/>	<hr/>
	\$ 361,458	\$ 355,850
	<hr/>	<hr/>

See notes to consolidated financial statements.

## GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(In thousands)

	Thirty-nine Weeks Ended	
	Sept 26, 2003	Sept 27, 2002
<b>Cash Flows from Operating Activities</b>		
Net Earnings	\$ 65,368	\$ 57,556
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	13,568	13,876
Deferred income taxes	(764)	344
Tax benefit related to stock options exercised	3,200	3,400
Change in:		
Accounts receivable	2,077	(5,615)
Inventories	957	2,248
Trade accounts payable	(1,539)	2,299
Salaries, wages and commissions	(547)	1,830
Retirement benefits and deferred compensation	2,173	(348)
Other accrued liabilities	47	(2,055)
Other	223	153
	<hr/>	<hr/>
	84,763	73,688
	<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>		
Property, plant and equipment additions	(10,934)	(7,255)
Proceeds from sale of property, plant and equipment	109	284
Acquisition of business	(13,514)	--
	<hr/>	<hr/>
	(24,339)	(6,971)
	<hr/>	<hr/>
<b>Cash Flows from Financing Activities</b>		
Borrowings on notes payable and lines of credit	12,588	16,418

Payments on notes payable and lines of credit	(21,217)	(13,771)
Payments on long-term debt	--	(50)
Common stock issued	9,427	12,114
Common stock retired	(55,496)	(3,162)
Cash dividends paid	(11,460)	(10,398)
	(66,158)	1,151
Effect of exchange rate changes on cash	(1,606)	(596)
Net increase (decrease) in cash and cash equivalents	(7,340)	67,272
Cash and cash equivalents		
Beginning of year	103,333	26,531
End of period	\$ 95,993	\$ 93,803

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

- The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of September 26, 2003, and the related statements of earnings for the thirteen and thirty-nine weeks ended September 26, 2003 and September 27, 2002, and cash flows for the thirty-nine weeks ended September 26, 2003 and September 27, 2002 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 Graco Inc. and Subsidiaries as of September 26, 2003, 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 2002 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.

- The Company accounts for stock option and purchase plans using the intrinsic value method and has adopted the "disclosure only" provisions of Statement of Financial Accounting Standards (SFAS) No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." No compensation cost has been recognized for the Employee Stock Purchase Plan and stock options granted under the various stock incentive plans.

Had compensation cost been determined based upon fair value (using the Black-Scholes option-pricing method) at the grant date for awards under these plans, the Company's net earnings and earnings per share would have been reduced as follows (in thousands, except per share amounts):

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
<b>Net earnings</b>				
As reported	\$22,711	\$20,494	\$65,368	\$57,556
Stock-based compensation, net of related tax effects	970	1,059	3,044	3,175
Pro forma	\$21,741	\$19,435	\$62,324	\$54,381
<b>Net earnings per common share</b>				
Basic as reported	\$ .50	\$ .43	\$ 1.41	\$ 1.21
Basic pro forma	.47	.41	1.35	1.15
Diluted as reported	.49	.42	1.39	1.19
Diluted pro forma	.47	.40	1.33	1.13

- Total comprehensive income in 2003 was \$22.7 million in the third quarter and \$65.6 million year-to-date. In 2002, comprehensive income was \$20.5 million for the third quarter and \$57.6 million for the nine-month period. There have been no significant changes to the components of comprehensive income from those noted on the 2002 Form 10-K.

- The Company has three reportable segments; Industrial/Automotive, Contractor and Lubrication. The Company does not identify assets by segment. Sales and operating earnings by segment for the thirteen and thirty-nine weeks ended September 26, 2003 and September 27, 2002 were as follows (in thousands):

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
<b>Net Sales</b>				
Industrial/Automotive	\$ 57,276	\$ 52,624	\$ 167,378	\$ 149,486

Contractor	65,316	62,990	197,060	182,718
Lubrication	11,196	10,218	35,374	34,281
Consolidated	\$ 133,788	\$ 125,832	\$ 399,812	\$ 366,485
<b>Operating Earnings</b>				
Industrial/Automotive	\$ 16,981	\$ 14,438	\$ 46,253	\$ 39,398
Contractor	17,493	15,412	48,186	43,520
Lubrication	1,549	1,869	7,136	7,390
Unallocated Corporate expenses	(1,989)	(982)	(4,161)	(4,345)
Consolidated	\$ 34,034	\$ 30,737	\$ 97,414	\$ 85,963

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

	<u>Sept 26, 2003</u>	<u>Dec 27, 2002</u>
Finished products and components	\$ 30,219	\$ 26,199
Products and components in various stages of completion	16,685	17,219
Raw materials and purchased components	15,989	18,021
	62,893	61,439
Reduction to LIFO cost	(30,302)	(31,128)
	\$ 32,591	\$ 30,311

6. At the beginning of the second quarter, the Company purchased certain assets and assumed certain liabilities of Sharpe Manufacturing Company for \$13.5 million cash. Sharpe manufactures spray guns and related parts and accessories for the automotive refinishing market, where the Company had no previous presence. Sharpe had sales of approximately \$11 million in 2002. Results of Sharpe's operations have been included in the Industrial/Automotive segment since the date of acquisition.

The purchase price was allocated as follows (in thousands):

Accounts receivable	\$ 1,300
Inventories	3,000
Property, plant and equipment	600
Identifiable intangible assets	8,900
Goodwill	1,300
Total purchase price	15,100
Liabilities assumed	(1,600)
Net assets acquired	\$ 13,500

Included in identifiable intangible assets is \$5.3 million assigned to the Sharpe brand name, which has an indefinite useful life. Remaining identifiable intangible assets mainly consist of Sharpe's distribution network, which is being amortized over an estimated useful life of 5 years. Goodwill is expected to be fully deductible for tax purposes.

7. Information related to other intangible assets follows (in thousands):

	<u>Sept 26, 2003</u>		<u>Dec 27, 2002</u>	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
<b>Subject to Amortization:</b>				
Customer lists and distribution network	\$ 8,336	\$4,564	\$5,134	\$3,472
Trademarks, trade names and non-compete agreements	2,803	1,496	2,503	1,150
Patents and other	1,241	391	2,355	1,449
	12,380	\$6,451	9,992	\$6,071

**Not Subject to Amortization:**

Brand name	5,280	--
	<u>\$17,660</u>	<u>\$9,992</u>

Amortization of intangibles was \$.6 million in the third quarter of 2003 and \$1.6 million year-to-date. Estimated annual amortization is as follows: \$2.2 million in 2003, \$1.7 million in 2004, \$1.1 million in 2005, \$.9 million in 2006 and \$.9 million in 2007.

8. A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific customer warranty issues. Following is a summary of 2003 activity in accrued warranty and service liabilities (in thousands):

Balance, beginning of year	\$ 6,294
Additions charged to cost and expenses	9,320
Reductions for claims settled	(7,883)
Balance, end of period	<u>\$ 7,731</u>

9. Subsequent Event: In October 2003, the Company made a voluntary \$20 million tax-deductible contribution to its defined benefit pension plan. The contribution will enhance the funded status of the plan, reduce future pension expense and reduce the need for additional cash contributions in the near term.

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

### Results of Operations

Third quarter sales and net earnings increased 6 percent and 11 percent, respectively. Year-to-date sales and net earnings increased 9 percent and 14 percent, respectively. Stronger foreign currencies versus the U.S. dollar helped to increase third quarter and year-to-date results when compared to 2002. Translated at consistent exchange rates, third quarter sales and net earnings each increased by 4 percent and year-to-date sales and net earnings increased by 5 percent and 3 percent, respectively.

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

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	46.6	48.0	47.4	48.8
Product development	3.4	3.8	3.3	3.7
Selling, marketing and distribution	17.8	17.1	18.0	17.2
General and administrative	6.8	6.7	6.9	6.8
Operating Earnings	25.4	24.4	24.4	23.5
Interest expense	0.1	0.1	0.1	0.1
Other (income) expense, net	0.3	0.2	0.1	0.2
Earnings Before Income Taxes	25.0	24.1	24.2	23.2
Income taxes	8.0	7.8	7.9	7.5
Net Earnings	<u>17.0%</u>	<u>16.3%</u>	<u>16.3%</u>	<u>15.7%</u>

### Net Sales

Sales by segment and geographic area were as follows (in thousands):

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
<b>By Segment</b>				
Industrial/Automotive	\$ 57,276	\$ 52,624	\$167,378	\$149,486
Contractor	65,316	62,990	197,060	182,718
Lubrication	11,196	10,218	35,374	34,281
Consolidated	<u>\$133,788</u>	<u>\$125,832</u>	<u>\$399,812</u>	<u>\$366,485</u>

## By Geographic Area

Americas <sup>1</sup>	\$ 93,307	\$ 89,654	\$278,303	\$265,452
Europe <sup>2</sup>	24,383	21,793	75,119	64,537
Asia Pacific	16,098	14,385	46,390	36,496
	<hr/>	<hr/>	<hr/>	<hr/>
Consolidated	\$133,788	\$125,832	\$399,812	\$366,485
	<hr/>	<hr/>	<hr/>	<hr/>

<sup>1</sup>North and South America, including the U.S.

<sup>2</sup>Europe, Africa and Middle East

Industrial/Automotive segment sales increased 9 percent for the quarter and 12 percent year-to date. The increase came from strong sales in Asia Pacific, currency translation and the Sharpe acquisition. Most of the currency translation effect came from Europe, where sales for the quarter were flat in local currencies but increased by 11 percent when translated to U.S. dollars. Year-to-date sales in Europe for this segment were down 2 percent in local currencies but increased by 14 percent when translated to U.S. dollars.

Contractor segment sales increased 4 percent for the quarter and 8 percent year-to-date. In the Americas, third quarter sales were higher in the paint store channel but decreased in the home center channel due to a change in inventory purchasing practices at a major customer. Management believes the full impact of this change was reflected in third quarter sales. Year-to-date sales increased in both the paint store and in the home center channels. Sales increases in Europe were mostly from currency translation. Sales in Asia Pacific were up 18 percent for the quarter and 32 percent year-to-date.

Lubrication segment sales were up 10 percent for the quarter and 3 percent year-to-date. The timing of promotions in the second quarter of 2002 and in the third quarter of 2003 influenced the increase in the third quarter.

## Gross Profit

For the quarter, gross margin rate was higher due to favorable exchange rates, pricing, material cost reductions and factory efficiencies. Year-to-date, gross margin rate was flat when translated at consistent exchange rates.

## Operating Expenses

Increased warranty and extended service costs, Sharpe operations and changes in exchange rates drove operating expenses higher in both the third quarter and year-to-date. Year-to-date operating expenses were also affected by increased payroll related costs including salaries (normal rate increases), incentives (higher sales and earnings) and benefits (pension and medical).

Year-to-date operations include \$1.3 million of pension expense related to the Company's U.S. defined benefit pension plan, compared to a \$.8 million credit in the same period last year. This change resulted from the decrease in pension plan assets due to recognition of investment losses. Pension expense/income is allocated to cost of products sold and operating expenses based on salaries and wages.

## Operating Earnings

Higher sales and gross profit rates in the quarter resulted in increased operating earnings in the Industrial/Automotive and Contractor segments. Lubrication segment operating earnings decreased due to re-work costs and warranty expenses of approximately \$1 million resulting from design problems associated with the Matrix fluid management system, a product launched in late 2002.

## Liquidity and Capital Resources

In March 2003, the Company repurchased 2.2 million shares of its common stock for \$54.8 million from David A. Koch, a former Chairman and Chief Executive Officer of the Company, his wife, a family trust and a family foundation. The repurchase is expected to be accretive to earnings per share and yield a rate of return to remaining shareholders that will exceed the Company's equity cost of capital. The per share purchase price represented a discount of 5.5 percent from the ten-day average closing price of the Company's stock immediately prior to the date of the transaction. The Company used available cash balances to fund the repurchase.

In the second quarter of 2003, the Company acquired the operations of Sharpe Manufacturing Company, utilizing available cash of \$13.5 million and assuming liabilities totaling \$1.6 million.

In October 2003, the Company made a \$20 million tax-deductible contribution to its defined benefit pension plan. The contribution was made to increase pension assets at a time when values have declined due to weak short-term asset performance. The contribution will enhance the funded status of the plan, reduce future pension expense and reduce the need for additional cash contributions in the near term.

The Company had unused lines of credit available at September 26, 2003 totaling \$47 million. Cash balances of \$96 million at September 26, 2003, internally generated funds and unused financing sources provide the Company with the financial flexibility to meet liquidity needs.

## Outlook

Despite ongoing soft conditions in its two largest geographic markets, the Company remains on track to make 2003 a year of sales and earnings growth. Management has yet to see any material signs of an increase in underlying demand for its Industrial/Automotive products in the Americas, and economic conditions throughout Europe remain weak. Management expects this to continue for at least the balance of this year. Asia, except for Japan, remains strong with higher demand for the Company's products as companies continue to invest in infrastructure and increased durable goods output.

## SAFE HARBOR CAUTIONARY STATEMENT

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Exhibit 99 to the Company's Annual Report on Form 10-K for fiscal year 2002 for a more comprehensive discussion of these and other risk factors.

## **Item 4. CONTROLS AND PROCEDURES**

### **Evaluation of disclosure controls and procedures**

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, Vice President and Controller, Vice President and Treasurer, and Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

### **Changes in internal controls**

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## **PART II**

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

None

### **Item 6. Exhibits and Reports on Form 8-K**

#### **(a) Exhibits**

- |      |  |
|------|--|
| 11   | Computation of Net Earnings per Common Share   |
| 31.1 | Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a)  |
| 31.2 | Certification of Vice President and Controller pursuant to Rule 13a-14(a)  |
| 31.3 | Certification of Vice President and Treasurer pursuant to Rule 13a-14(a)   |
| 32   | Certification of President and Chief Executive Officer, Vice President and Controller, and Vice President and Treasurer pursuant to Section 1350 of Title 18, U.S.C. |

#### **(b) Reports on Form 8-K**

The following Current Report on Form 8-K was filed during the quarter ended September 26, 2003: On July 18, 2003, Graco Inc. filed a current report on Form 8-K to furnish its earnings release for the second quarter of 2003.

## **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, 2003

By: /s/David A. Roberts

David A. Roberts  
President and Chief Executive Officer

Date: October 27, 2003

By: /s/James A. Graner

James A. Graner



Date: October 29, 2003

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By: /s/Mark W. Sheahan

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Mark W. Sheahan  
Vice President and Treasurer

**GRACO INC. AND SUBSIDIARIES**  
**COMPUTATION OF NET EARNINGS PER COMMON SHARE**

(Unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>	<u>Sept 26, 2003</u>	<u>Sept 27, 2002</u>
	(in thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	\$22,711	\$20,494	\$65,368	\$57,556
Weighted average shares outstanding for basic earnings per share	45,851	47,604	46,249	47,376
Dilutive effect of stock options computed using the treasury stock method and the average market price	827	682	744	804
Weighted average shares outstanding for diluted earnings per share	46,678	48,286	46,993	48,180
Basic earnings per share	\$ 0.50	\$ 0.43	\$ 1.41	\$ 1.21
Diluted earnings per share	\$ 0.49	\$ 0.42	\$ 1.39	\$ 1.19

## CERTIFICATIONS

I, David A. Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2003

/s/David A. Roberts  
David A. Roberts  
President and Chief Executive Officer

# CERTIFICATIONS

I, James A. Graner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2003

/s/James A. Graner  
James A. Graner  
Vice President and Controller

# CERTIFICATIONS

I, Mark W. Sheahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2003

/s/Mark W. Sheahan  
 Mark W. Sheahan  
 Vice President and Treasurer

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: October 27, 2003

/s/David A. Roberts  
President and Chief Executive Officer

Date: October 27, 2003

/s/James A. Graner  
Vice President and Controller  
Chief Accounting Officer

Date: October 29, 2003

/s/Mark W. Sheahan  
Vice President and Treasurer  
Principal Financial Officer