

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 26, 1998

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 ☒

No ☐

20,039,793 common shares were outstanding as of July 24, 1998.

PART I

GRACO INC. AND SUBSIDIARIES

Item 1. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 26, 1998	June 27, 1997	June 26, 1998	June 27, 1997
(In thousands except per share amounts)				
Net Sales	\$ 115,153	\$ 111,721	\$ 220,870	\$ 203,820
Cost of products sold	57,066	58,322	110,838	105,888
Gross Profit	58,087	53,399	110,032	97,932

Product development	4,716	4,828	9,498	9,653
Selling	21,550	23,764	44,197	45,397
General and administrative	12,254	8,284	22,419	16,839
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Operating Profit	19,567	16,523	33,918	26,043
Interest expense	173	240	398	447
Other (income) expense, net	(171)	615	108	247
	-----	-----	-----	-----
Earnings Before Income Taxes	19,565	15,668	33,412	25,349
Income taxes	6,800	5,250	11,700	8,750
	-----	-----	-----	-----
Net Earnings	\$ 12,765	\$ 10,418	\$ 21,712	\$ 16,599
	=====	=====	=====	=====
Basic Net Earnings Per Common Share*	\$ .49	\$ .41	\$ .84	\$ .65
	=====	=====	=====	=====
Diluted Net Earnings Per Common Share*	.48	\$ .40	\$ .82	\$ .64
	=====	=====	=====	=====
Basic Weighted Average Number of Common Shares*	25,817	25,701	25,644	25,680
Diluted Weighted Average Number of Common Shares*	26,755	26,208	26,497	26,243

\*All 1997 per share data has been restated for the three-for-two stock split paid February 4, 1998.

See notes to consolidated financial statements.

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

	June 26, 1998	December 26, 1997
	-----	-----
ASSETS (Unaudited)		
Current Assets:		
Cash and cash equivalents	\$ 34,226	\$ 13,523
Accounts receivable, less allowances of \$5,200 and \$4,100	86,499	86,148
Inventories	43,822	43,942
Deferred income taxes	11,322	11,140
Other current assets	1,526	1,539
	-----	-----
Total current assets	177,395	156,292
Property, Plant and Equipment:		
Cost	199,671	196,940
Accumulated depreciation	(101,065)	(96,760)
	-----	-----
	98,606	100,180
Other Assets	7,797	8,060
	-----	-----
	\$ 283,798	\$ 264,532
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	\$ 4,472	\$ 2,911
Current portion of long-term debt	1,788	1,796
Trade accounts payable	12,731	12,542
Salaries, wages & commissions	12,586	14,903
Accrued insurance liabilities	10,887	10,227
Income taxes payable	6,089	5,546
Other current liabilities	20,321	21,055
	-----	-----
Total current liabilities	68,874	68,980
Long-term Debt, less current portion	5,422	6,163
Retirement Benefits and Deferred Compensation	31,301	31,880
Shareholders' Equity:		
Common stock	25,833	25,553
Additional paid-in capital	29,970	26,085
Retained earnings	121,376	105,030
Other, net	1,022	841
	-----	-----
Total shareholders' equity	178,201	157,509
	-----	-----
	\$ 283,798	\$ 264,532
	=====	=====

See notes to consolidated financial statements.

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

Twenty-Six Weeks  
-----

June 26, 1998    June 27, 1997  
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CASH FLOWS FROM OPERATING ACTIVITIES:

(In thousands)

Net Earnings	\$ 21,712	\$ 16,599
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,864	7,284
Deferred income taxes	(436)	(1,715)
Change in:		
Accounts receivable	(2,063)	(8,832)
Inventories	45	(3,042)
Trade accounts payable	236	950
Retirement benefits and deferred compensation	(348)	1,286
Other accrued liabilities	(1,816)	(7,633)
Other	538	(1,055)
	-----	-----
	25,732	3,842
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Property, plant and equipment additions	(6,492)	(12,881)
Proceeds from sale of property, plant and equipment	386	1,555
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	(6,106)	(11,326)
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowing on notes payable and lines of credit	5,789	37,420
Payments on notes payable and lines of credit	(3,960)	(28,805)
Payments on long-term debt	(722)	(714)
Common stock issued	4,164	2,850
Retirement of common stock	(12)	(5,145)
Cash dividends paid	(5,649)	(4,836)
	-----	-----
	(390)	770
	-----	-----

Effect of exchange rate changes on cash	1,467	2,437
	-----	-----
Net increase (decrease) in cash and cash equivalents	20,703	(4,277)

Cash and cash equivalents:

Beginning of year	13,523	6,535
	-----	-----
End of period	\$ 34,226	\$ 2,258
	=====	=====

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 26, 1998 and the related statements of earnings for the thirteen and twenty-six weeks ended June 26, 1998, and June 27, 1997, and cash flows for the twenty-six weeks ended June 26, 1998, and June 27, 1997, 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 26, 1998, 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 1997 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 26, 1998	Dec 26, 1997
	-----	-----
Finished products and components	\$ 35,897	\$ 38,290
Products and components in various stages of completion	25,527	25,320
Raw materials	18,846	16,715
	-----	-----
	80,270	80,325
Reduction to LIFO cost	(36,448)	(36,383)
	-----	-----
	\$ 43,822	\$ 43,942

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

3. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information", which will be effective for the Company at the end of the 1998 fiscal year. SFAS No. 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company has not yet determined the nature of its segments, nor has it determined how adoption of SFAS No. 131 will impact its future disclosures.
4. To match North American and European fiscal years, Europe's December 1997 operating results were recorded as an adjustment to equity. Those results included sales of \$3,836,000 and net earnings of \$300,000. The results of operations for Graco Inc. for the quarter ended June 26, 1998 include Europe's operations for the months of April, May and June. Second quarter 1997 results included the months of March, April and May, 1997. The inclusion of the months of April, May, and June in the operating results for Europe in the second quarter of 1997 would have had an immaterial impact on sales, net earnings, and diluted earnings per share.
5. On July 2, 1998, the Company repurchased 5,800,000 shares of common stock, for \$190,887,000, from its largest shareholder, the Trust under the Will of Clarissa L. Gray, pursuant to an agreement executed in May, 1998. The stock repurchase was funded with cash of \$32,887,000 and \$158,000,000 from the credit facility discussed below.

On July 2, 1998 the Company entered into a five-year \$190,000,000 reducing revolving credit facility (the Revolver) with a syndicate of ten banks including the lead bank, US Bank National Association. The Company's initial borrowing of \$158,000,000 financed a portion of the stock repurchase discussed above. \$135,500,000 of the outstanding balance bears interest at the London Interbank Offered Rate ("LIBOR") plus 0.625%. The remaining \$22,500,000 balance bears interest at Prime. The Revolver requires quarterly reductions of the maximum amount of the credit line, and requires the Company to maintain certain financial covenants as to net worth, cash flow leverage and fixed charge coverage.

In conjunction with the aforementioned Revolver, the Company entered into a two-year, \$75,000,000 interest rate swap agreement on July 2, 1998 with Wachovia Bank, National Association to manage its exposure to interest rate changes.

## GRACO INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

## 5. (cont.)

The pro forma net income of the Company, assuming the stock repurchase and related signing of the Revolver had occurred on December 27, 1997, would have been \$18.3 million for the six months ended June 26, 1998, including the impact of increased interest expense net of related income taxes. For the six months then ended, the pro forma basic and diluted earnings per share are \$.92 and \$.88. The pro forma condensed balance sheet of the Company as of June 26, 1998 is shown below.

	June 26, 1998 As Reported -----	June 26, 1998 Pro Forma -----
Cash	\$ 34,226	\$ 1,226
Current Assets	177,395	144,395
Total Assets	283,798	250,798
Current Liabilities	68,874	68,874
Long-term Debt	5,422	163,422
Total Liabilities	105,597	263,597
Shareholders' Equity	\$ 178,201	\$ (12,799)
Common Shares Outstanding	25,836	20,036

## 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 14, 1998

By: /s/ Mark W. Sheahan  
Title: Treasurer