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 25, 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 ____

20,337,102 common shares were outstanding as of July 23, 1999.

GRACO INC. AND SUBSIDIARIES

INDEX

PART I

GRACO INC. AND SUBSIDIARIES

Item I. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Twenty Six Weeks Ended	
	June 25, 1999	June 26, 1998	June 25, 1999	June 26,1998
	(In thousands except per share amounts)			
Net Sales	$ 114,703	$ 115,153	$ 217,944	$ 220,870
Cost of products sold	55,084	57,066	105,468	110,838
Gross Profit	59,619	58,087	112,476	110,032
Product development	4,771	4,716	9,525	9,498
Selling, marketing and distribution	18,935	21,550	38,240	44,197
General and administrative	9,606	12,254	19,130	22,419
Operating Profit	26,307	19,567	45,581	33,918
Interest expense	1,858	173	3,811	398
Other (income) expense, net	(2,712)	(171)	(2,392)	108
Earnings Before Income Taxes	27,161	19,565	44,162	33,412
Income taxes	9,200	6,800	15,000	11,700
Net Earnings	$ 17,961	$ 12,765	$ 29,162	$ 21,712
Basic Net Earnings Per Common Share	$ .89	$ .49	$ 1.45	$ .84
Diluted Net Earnings Per Common Share	$ .86	$ .48	$ 1.41	$ .82

See notes to consolidated financial statements.

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

	June 25, 1999	Dec. 25, 1998
ASSETS (Unaudited)		
Current Assets:		
Cash and cash equivalents	$ 5,575	$ 3,555
Accounts receivable, less allowances of $4,716 and $4,400	80,998	80,146
Inventories	37,409	34,018
Deferred income taxes	12,353	12,384
Other current assets	1,629	1,217
Total current assets	137,964	131,320
Property, Plant and Equipment:		
Cost	192,062	199,122
Accumulated depreciation	(104,201)	(102,756)
	87,861	96,366
Other Assets	14,516	6,016
	$ 240,341	$ 233,702
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 5,664	$ 14,560
Current portion of long-term debt	1,715	3,157
Trade accounts payable	10,744	11,965
Salaries, wages & commissions	12,324	14,025
Accrued insurance liabilities	10,946	10,809
Income taxes payable	5,366	5,134
Other current liabilities	20,371	23,316
Total current liabilities	67,130	82,966
Long-term Debt, less current portion	104,032	112,582
Retirement Benefits and Deferred Compensation	30,897	28,841
Shareholders' Equity:		
Common stock	20,332	20,097
Additional paid-in capital	27,589	23,892
Retained deficit	(11,187)	(35,878)
Other, net	1,548	1,202
Total shareholders' equity	38,282	9,313
	$ 240,341	$ 233,702

See notes to consolidated financial statements.

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

	Twenty-six Weeks	
	June 25, 1999	June 26, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net Earnings	$ 29,162	$ 21,712
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,615	7,864
Deferred income taxes	123	(436)
(Gain) loss on sale of fixed assets	(3,209)	(172)
Change in:		
Accounts receivable	(2)	(2,063)
Inventories	4,041	45
Trade accounts payable	(997)	236
Salaries, wages and commissions	(1,940)	(2,197)
Retirement benefits and deferred compensation	(546)	(348)
Other accrued liabilities	(2,288)	381
Other	139	710
	32,098	25,732
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(3,844)	(6,492)
Proceeds from sale of property, plant and equipment	9,473	386
Acquisition of business	(18,389)	-
	(12,760)	(6,106)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on notes payable and lines of credit	58,688	5,789
Payments on notes payable and lines of credit	(67,382)	(3,960)
Borrowings on long-term debt	25,082	-
Payments on long-term debt	(34,988)	(722)
Common stock issued	3,933	4,164
Retirement of common stock	-	(12)
Cash dividends paid	(4,445)	(5,649)
	(19,112)	(390)
Effect of exchange rate changes on cash	1,794	1,467
Net increase in cash and cash equivalents	2,020	20,703
Cash and cash equivalents:		
Beginning of period	3,555	13,523
End of period	$ 5,575	$ 34,226

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 25, 1999, and the related statements of earnings and cash flows for the thirteen and twenty-six weeks ended June 25, 1999 and June 26, 1998 , and cash flows for the twenty-six weeks ended June 25, 1999 and June 26, 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 June 25, 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):

	June 26, 1999	Dec. 25, 1998
Finished products and components	$ 33,320	$ 27,764
Products and components in various stages of completion	21,332	23,024
Raw materials	18,400	18,970
	73,052	69,758
Reduction to LIFO cost	(35,643)	(35,740)
	$ 37,409	$ 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 twenty-six weeks ended June 25, 1999 and June 26, 1998 are as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 1999	June 26, 1998	June 25, 1999	June 26, 1998
Net Sales				
Industrial/Automotive	$ 53,948	$ 59,313	$ 104,695	$ 116,748
Contractor	49,719	44,255	91,414	81,646
Lubrication	11,036	11,579	21,835	22,476
Total	$ 114,703	$ 115,147	$ 217,944	$ 220,870
Operating Profit				
Industrial/Automotive	$ 12,942	$ 9,399	$ 22,687	$ 16,624
Contractor	13,144	10,841	22,044	17,880
Lubrication	2,676	2,378	4,964	4,128
Unallocated Corporate expenses	(2,455)	(3,053)	(4,114)	(4,714)
Consolidated Operating Profit	$ 26,307	$ 19,565	$ 45,581	$ 33,918

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. On June 1, 1999 the Company purchased certain assets and assumed certain liabilities of Bollhoff Verfahrenstechnik (BV), located in Bielefeld, Germany. BV designs, manufactures and sells 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 $18.0 million for the quarter ended June 25, 1999 increased 41 percent from second quarter 1998 earnings of $12.8 million. Diluted earnings per share of $0.86 for the quarter were up 79 percent over diluted earnings per share of $0.48 in the second quarter of 1998. Net earnings included 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 quarterly performance was driven by reduced expenses and improved gross margins. For the six months ended June 25, 1999, net earnings of $29.2 million were 35 percent higher than the $21.7 million earned during the same period a year ago.

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

	Second Quarter (13 weeks) Ended		Six Months (26 weeks) Ended	
	June 25, 1999	June 26, 1998	June 25, 1999	June 26, 1998
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	48.0	49.6	48.4	50.2
Product development	4.2	4.1	4.4	4.3
Selling, marketing and distribution	16.5	18.7	17.5	20.0
General and administrative	8.4	10.6	8.8	10.2
Operating Profit	22.9	17.0	20.9	15.4
Interest expense	1.6	.2	1.7	.2
Other (income) expense, net	(2.4)	(.2)	(1.1)	.1
Earnings Before Income Taxes	23.7	17.0	20.3	15.1
Income taxes	8.0	5.9	6.9	5.3
Net Earnings	15.7%	11.1%	13.4%	9.8%

Net Sales

Net sales in the second quarter of $114.7 million were flat compared to net sales in the second quarter of 1998. Year-to-date sales of $217.9 million were down 1 percent and would have been 2 percent lower than last year with consistent exchange rates.

Increased sales in the Contractor Equipment segment for the quarter and year-to-date reflect the strong housing market in North America and acceptance of new products. Industrial/Automotive Equipment segment sales for the quarter and first six months of 1999 decreased, due primarily to the Company's exit from the custom designed systems business.

Geographically, sales in the Americas increased 2 percent to $79.9 million for the quarter primarily due to strong Contractor sales. Year-to-date sales were up 4 percent compared to the same period last year. European quarterly sales of $20.9 million declined 14 percent from last year, impacted by the exit from the custom designed systems business, and would have been 12 percent lower with consistent exchange rates. Year-to-date sales in Europe were down 16 percent to $40.1 million. Asia Pacific sales of $12.5 million were 31 percent higher than last year's second quarter and 25 percent higher after the positive impact of exchange rates as business is improving throughout the region, except in Japan. Sales in Asia Pacific for the first six months are up 9 percent from the same period last year and up 2 percent after the positive impact of exchange rates.

Gross Profit

Gross profit as a percentage of quarterly and year-to-date net sales has risen to 52.0 and 51.6 percent respectively, up 1.6 and 1.8 percentage points from the same periods in 1998. The increase was due primarily to the change in approach to serving the automotive industry by providing pre-engineered packages rather than custom designed systems, pricing and production cost containment.

Operating Expenses

Second quarter operating expenses of $33.3 million decreased 14 percent from the second quarter of 1998. Selling, marketing and distribution expenses were down 12 percent due primarily to restructuring of the Company's industrial and automotive businesses in 1998. General and administrative expenses were down 22 percent, due in part to the results of the restructuring of the Company's Asia Pacific operations in 1998. Product development costs were $4.8 million in the first quarter of 1999 and $4.7 million for the same period in 1998. Year-to-date operating expenses of $66.9 were 12 percent lower than 1998.

Interest Expense

Interest expense was $1.9 million and $3.8 million for the quarter and first six months of 1999 compared to $0.2 million and $0.4 million for the same periods in 1998. The increase is due to debt related to the repurchase of 5.8 million shares of the Company's common stock for $190.9 million in the third quarter of 1998.

Other Income (Expense)

Other income was $2.7 million in the second quarter of 1999, compared to $0.2 million in 1998. The second quarter of 1999 included gains on the sale of real estate totaling $3.2 million partially offset by $0.4 million net exchange loss. Other income for the six months ended June 25, 1999 was $2.4 million compared to other expense of $0.1 million in the same period of 1998.

Income Taxes

The second quarter and year-to-date tax rate was 34 percent in 1999 versus 35 percent for the same periods in 1998.

Liquidity and Capital Resources
- -------------------------------

The Company generated $32.1 million of cash from operating activities in the first six months of 1999, compared to $25.8 million for the same period last year. Available cash, including $9.5 million received from the sale of real estate, was used to pay $18.4 million for a business acquisition. In addition, cash flow from operating activities allowed the Company to make net payments on borrowings (short and long-term debt) of $18.6 million in the first six months of 1999. The Company had unused lines of credit available at June 25, 1999 totaling $60.3 million. The available credit facilities and internally generated funds provide the Company with the financial flexibility to meet its liquidity needs.

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 is continuing 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 has been completed. It was 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 is scheduled to be completed by September 1999.

The Company has incurred costs totaling $6.0 million, including $1.2 million in 1999, and estimates a total of an additional $0.5 million to 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. Incremental costs associated with Year 2000 compliance are not anticipated to result in significant increases in future operating expenses and are not expected to have a material adverse effect on the results of operations, liquidity and capital resources. Existing resources are being redeployed and other projects are being 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 are being 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 288 non-IT applications were identified at the Company with approximately 76 percent being Year 2000-compliant as of June 1999. Non-IT applications are primarily microprocessors and other electronic controls embedded in non-computer equipment used by the Company. Teams have been assembled to ensure the successful conversion of the remaining systems. These conversions 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 is having discussions with, and has sent questionnaires to, its suppliers to assess their Year 2000 readiness. Information will continue to be gathered from key suppliers. The Company will identify alternative suppliers for those key suppliers, if any, unable to supply materials due to Year 2000 issues.

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 will be converted in a timely fashion 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 encouraged by a pick-up in recent order trends in Europe and Asia Pacific (except in Japan). While remaining cautious about the volatility of economies outside of North America, management expects improved earnings performance for the remainder of the year when compared to last year.

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

Non-employee Director Stock Plan, as amended June 18, 1999	Exhibit 10
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: July 27, 1999 By: /s/James A. Earnshaw

James A. Earnshaw
President & Chief Executive Officer

Date: July 27, 1999 By: /s/James A. Graner

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

June 18, 1999

GRACO INC.
NONEMPLOYEE DIRECTOR STOCK PLAN
("PLAN")

1. Purpose of the Plan. The purpose of the Graco Inc. Nonemployee Director Stock Plan (the "Plan") is to provide an opportunity for nonemployee members of the Board of Directors (the "Board") of Graco Inc. ("Graco" or the "Company") to increase their ownership of Graco Common Stock ("Common Stock") and thereby align their interest in the long-term success of the Company with that of the other shareholders. Each nonemployee director may elect to receive all or a portion of his or her retainer and/or any fees payable for attendance at Board or Committee meetings in the form of shares of Common Stock or defer the receipt of such shares until a later date pursuant to an election made under the Plan.

2. Eligibility. Directors of the Company who are not also officers or other employees of the Company or its subsidiaries are eligible to participate in the Plan ("Eligible Directors").

3. Administration. The Plan will be administered by the Secretary of the Company (the "Administrator"). Since the issuance or crediting of shares of Common Stock pursuant to the Plan is based on elections made by Eligible Directors, the Administrator's duties under the Plan will be limited to matters of interpretation and administrative oversight. All questions of interpretation of the Plan will be determined by the Administrator, and each determination, interpretation or other action that the Administrator makes or takes pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons. The Administrator will not be liable for any action or determination made in good faith with respect to the Plan.

4. Election to Receive Stock and Stock Issuance.

4.1. Election to Receive Stock/Credit in Lieu of Cash. On forms provided by the Company, each Eligible Director may irrevocably elect ("Stock Election") in lieu of cash, (i) to be issued shares of Common Stock or (ii) to have credited to an account ("Deferred Stock Account") the number of shares of Common Stock having a Fair Market Value, as defined in Section 4.3, equal to 25%, 50%, 75% or 100% of the annual cash retainer (the "Retainer") and/or 25%, 50%, 75% or 100% of any fees payable for attendance at Board or Committee meetings (the "Meeting Fees") payable to that director for services rendered as a director ("Participating Director"). Eligible Directors are customarily paid the Retainer and the Meeting Fees in quarterly installments in arrears at the end of each calendar quarter. Any Stock Election must be received by the Company before the commencement of the calendar quarter with respect to which such election is made. Any Stock Election may only be amended or revoked ("Amended Stock Election") in accordance with the procedure set forth in Section 4.4.

4.2. Issuance of Stock/Application of Credit in Lieu of Cash. If the Stock Election is for the issuance of shares of Common Stock, shares of Common Stock having a Fair Market Value equal to the amount of the Retainer and/or Meeting Fees so elected shall be issued to each Participating Director when each quarterly installment of the Retainer and the Meeting Fees is customarily paid. The Company shall not issue fractional shares, but in lieu thereof shall pay cash of equivalent value using the same Fair Market Value used to determine the number of Shares to be issued on the relevant issue date. If the Stock Election is for a credit to a Deferred Stock Account, the number of shares of Common Stock (rounded to the nearest hundredth of a share) having a Fair Market Value equal to the amount of the Retainer and/or the Meeting Fees so elected shall be credited to the Participating Director's Deferred Stock Account when each quarterly installment of the Retainer and Meeting Fees is customarily paid. In the event that a Participating Director elects to receive less than 100% of each quarterly installment of the Retainer and/or Meeting Fees in shares of Common Stock, either issued or credited, he or she shall receive the balance of the quarterly installment in cash.

4.3 Fair Market Value. For purposes of converting dollar amounts into shares of Common Stock, the Fair Market Value of each share of Common Stock shall be equal to the closing price of one share of the Company's Common Stock on the New York Stock Exchange-Composite Transactions on the last business day of the calendar quarter for which such shares are issued or credited.

4.4. Change in Election. Each Participating Director may irrevocably elect in writing to change an earlier Stock Election, either to elect to be issued shares of Common Stock or to have credited to the Participating Director's Deferred Stock Account, a number of shares of Common Stock having a Fair Market Value equal to a percentage of the Participating Director's Retainer and/or Meeting Fees different from the percentages previously elected or to receive the entire Retainer and/or Meeting Fees in cash (an "Amended Stock Election"). An Amended Stock Election shall not become effective until the commencement of the first full calendar quarter after the date of receipt of such Amended Stock Election by the Company.

4.5 Termination of Service as a Director. If a Participating Director leaves the Board before the conclusion of any calendar quarter, he or she will be paid the quarterly installment of the Retainer and Meeting Fees entirely in cash, notwithstanding that a Stock Election or Amended Stock Election is on file with the Company. The date of termination of a Participating Director's service as a director of the Company will be deemed to be the date of termination recorded on the personnel or other records of the Company.

4.6 Dividend Credit. Each time a dividend is paid on the Common Stock, each Participating Director who has a Deferred Stock Account shall receive a credit to his or her Deferred Stock Account equal to that number of shares of Common Stock (rounded to the nearest one-hundredth of a share) having a Fair Market Value on the dividend payment date equal to the amount of the dividend payable on the number of shares of Common Stock credited to the Participating Director's Deferred Stock Account on the dividend record date.

5. Shares Available for Issuance.

5.1. Maximum Number of Shares Available. The maximum number of shares of the Company's Common Stock, par value $1.00 per share, that will be available for issuance under the Plan will be 225,000 shares, subject to any adjustments made in accordance with the provisions of Section 5.2. At the election of the Administrator, the shares of Common Stock available for issuance under the Plan may be either authorized but unissued shares or treasury shares. If treasury shares are used, all references in the Plan to the issuance of shares will be deemed to mean the transfer of shares from treasury.

5.2. Adjustments to Shares. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend, an appropriate adjustment will be made in the number and/or kind of securities available for issuance under the Plan to prevent either the dilution or the enlargement of the rights of the Eligible and Participating Directors.

6. Deferral Payment

6.1 Deferral Payment Election. At the time of making the Stock Election in which the Participating Director elects to have a Deferred Stock Account credited in accordance with the provisions of Section 4.1, the Participating Director will also elect the manner and timing for payment of the amounts credited to his or her Deferred Stock Account ("Deferral Payment Election") from the alternatives described in Section 6.2. The Participating Director may change the manner and timing for payment of amounts to be credited to his or her Deferred Stock Account by executing another Deferral Payment Election; provided, however, that the previously made Deferral Payment Election will be irrevocable as to all amounts credited to the Participating Director's Deferred Stock Account prior to receipt by the Company of a new Deferral Payment Election.

6.2 Payment from Deferred Stock Accounts. A Participating Director may elect to receive payment from his or her Deferred Stock Account in a lump sum or installments. Payments, whether in a lump sum or by installments, shall be made in shares of Common Stock plus cash in lieu of any fractional share. Unless the Participating Director elects to receive payment in installments, credits to a Participating Director's Deferred Stock Account shall be payable in full on January 10 of the year following the Participating Director's termination of service on the Board, or the first business day thereafter, or such other date as elected by the Participating Director pursuant to Section 6.1. If the Participating Director elects to receive payment from his or her Deferred Stock Account in installments, each installment payment will be made annually on January 10 of each year, or the first business day thereafter, and the amount of each payment will be computed by multiplying the number of shares credited to the Deferred Stock Account as of January 10 of each year by a fraction, the numerator of which is one and the denominator of which is the total number of installments elected (not to exceed fifteen) minus the number of installments previously paid. Amounts paid prior to the final installment payment will be rounded to the nearest whole number of shares; the final installment payment shall be for the whole number of shares remaining credited to the Deferred Stock Account, plus cash in lieu of any fractional share.

6.3 Change of Control. Notwithstanding the foregoing, in the event of a Change of Control (as defined in Section 11), the number of shares credited to the Deferred Stock Account of a Participating Director as of the business day immediately prior to the effective date of the transaction constituting the Change of Control, shall be paid in full to the Participating Director or the Participating Director's beneficiary or estate, as the case may be, in whole shares of Common Stock plus cash in lieu of any fractional share on the tenth business day following the effective date of the transaction constituting the Change of Control.

7. Beneficiary. A Participating Director may designate a beneficiary or beneficiaries who, upon his or her death, shall immediately receive the full distribution of all unpaid credits to said Participating Director's Deferred Stock Account, including distributions for which the Participating Director has elected installment payments. All designations shall be in writing and shall be effective only if and when delivered to the Company during the lifetime of the Participating Director. Unless otherwise indicated by the Participating Director, no amounts shall be paid to the estate or heirs of beneficiaries who die before the Participating Director.

A Participating Director may from time to time during his or her lifetime change his or her beneficiary or beneficiaries by a written instrument delivered to the Company. In the event a Participating Director shall not designate a beneficiary or beneficiaries pursuant to this Section, or if for any reason such designation shall be ineffective, in whole or in part, the distribution that otherwise would have been paid to such Participating Director shall be paid to his or her estate and in such event, the term "beneficiary" shall include his or her estate.

8. Limitation on Rights of Eligible and Participating Directors.

8.1. Service as a Director. Nothing in the Plan will interfere with or limit in any way the right of the Company's Board or its shareholders to remove an Eligible or Participating Director from the Board. Neither the Plan nor any action taken pursuant to it will constitute or be evidence of any agreement or understanding, express or implied, that the Company's Board or its shareholders have retained or will retain an Eligible or Participating Director for any period of time or at any particular rate of compensation.

8.2. Nonexclusivity of the Plan. Nothing contained in the Plan is intended to effect, modify or rescind any of the Company's existing compensation plans or programs or to create any limitations on the Board's power or authority to modify or adopt compensation arrangements as the Board may from time to time deem necessary or desirable.

9. Plan Amendment, Modification and Termination. The Board may suspend or terminate the Plan at any time. The Board may amend the Plan from time to time in such respects as the Board may deem advisable in order that the Plan will conform to any change in applicable laws or regulations or in any other respect that the Board may deem to be in the Company's best interests; provided, however, that no amendments to the Plan will be effective without approval of the Company's shareholders, if shareholder approval of the amendment is then required pursuant to Rule 16b-3 (or any successor rule) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") or the rules of the New York Stock Exchange.

10. Effective Date and Duration of the Plan. The Plan shall become effective as of the date the Company's shareholders approve it and will terminate on December 31, 2003, unless earlier terminated by the Company's Board.

11. Participants are General Creditors of the Company. The Participating Directors and beneficiaries thereof shall be general, unsecured creditors of the Company with respect to any payments to be made pursuant to the Plan and shall not have any preferred interest by way of trust, escrow, lien or otherwise in any specific assets of the Company. If the Company shall, in fact, elect to set aside monies or other assets to meet its obligations hereunder (there being no obligation to do so), whether in a grantor's trust or otherwise, the same shall, nevertheless, be regarded as part of the general assets of the Company subject to the claims of its general creditors, and neither any Participating Director nor any beneficiary thereof shall have a legal, beneficial or security interest therein.

12. Change of Control

12.1 A "Change of Control" means any one of the following events:

(1) acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) which results in the beneficial ownership by such Person of 25% or more of either

(a) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or

(b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities");

provided, however, that the following acquisitions will not result in a Change of Control:

(i) an acquisition directly from the Company,
(ii) an acquisition by the Company,
(iii) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company,
(iv) an acquisition by any Person who is deemed to have beneficial ownership of the Common Stock or other voting securities of the Company owned by the Trust Under the Will of Clarissa L. Gray ("Trust Person"), provided that such acquisition does not result in the beneficial ownership by such Person of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities, and provided further that for purposes of this Section 11, a Trust Person shall not be deemed to have beneficial ownership of the Common Stock or other voting securities of the Company owned by The Graco Foundation or any employee benefit plan of the Company, including the Graco Employee Retirement Plan and the Graco Employee Stock Ownership Plan,
(v) an acquisition by the Participating Director or any group that includes the Participating Director, or
(vi) an acquisition by any corporation pursuant to a transaction that complies with clauses (a), (b) and (c) of subsection (4) below; and

provided, further, that if any Person's beneficial ownership of the Outstanding Company Common Stock or Outstanding Company Voting Securities is 25% or more as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional Outstanding Company Common Stock or Outstanding Company Voting Securities as a result of a transaction other than that described in clause (i) or (ii) above, such subsequent acquisition will be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities and be deemed a Change of Control; and provided further, that in the event any acquisition or other transaction occurs which results in the beneficial ownership of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities by any Trust Person, the Incumbent Board, as defined below, may by majority vote increase the threshold beneficial ownership percentage to a percentage above 32% for any Trust Person; or

(2) individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of said Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial membership on the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, or

(3) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a Person of 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities; or

(4) the approval by the shareholders of the Company of a reorganization, merger, consolidation or statutory exchange of Outstanding Company Common Stock or Outstanding Company Voting Securities or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination") or, if consummation of such Business Combination is subject, at the time of such approval by shareholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Business Combination pursuant to which

(a) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock or Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock or Outstanding Company Voting Securities,

(b) no Person (excluding any employee benefit plan, or related trust, of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and

(c) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(5) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

12.2 A Change of Control shall not be deemed to have occurred with respect to a Participating Director if:

(1) the acquisition of the 25% or greater interest referred to in subparagraph 11.1(1) of this Section 11 is by a group, acting in concert, that includes the Participating Director or

(2) if at least 25% of the then outstanding common stock or combined voting power of the then outstanding company voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, statutory share exchange, disposition of assets, liquidation or dissolution referred to in subparagraph 11.1(4) or (5) of this Section by a group, acting in concert, that includes that Participating Director.

13. Miscellaneous.

13.1 Securities Law and Other Restrictions. Notwithstanding any other provision of the Plan or any Stock Election or Amended Stock Election delivered pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under the Plan and a Participating Director may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to the Plan, unless:

(a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and

(b) there has been obtained any other consent, approval or permit from any other regulatory body that the Administrator, in his or her sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company, in order to comply with such securities law or other restriction.

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

EXHIBIT 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 1999	June 26, 1998	June 26, 1998	June 27, 1997
	(In thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	$ 17,961	$ 12,765	$ 29,162	$ 21,712
Weighted average shares outstanding for basic earnings per share	20,139	25,817	20,122	25,644
Dilutive effect of stock options computed using the treasury stock method and the average market price	708	937	605	853
Weighted average shares outstanding for diluted earnings per share	20,847	26,755	20,727	26,497
Basic earnings per share	$ .89	$ .49	$ 1.45	$ .84
Diluted earnings per share	$ .86	$ .48	$ 1.41	$ .82

5

This schedule contains summary financial information estracted from Graco Inc. and subsidiaries consolidated balance sheets for the quarterly period ending June 25, 1999 and is qualified in its entirety by reference to such statements.

0000042888
GRACO INC.
1
U.S. DOLLARS

3-MOS
DEC-31-1999
MAR-27-1999
JUN-25-1999
1
5,575
0
85,714
4,716
37,409
137,964
192,062
104,201
240,341
67,130
105,747
0
0
20,332
1,548
240,341
114,703
114,703
55,084
55,084
30,600
151
1,858
27,161
9,200
17,961
0
0
0
17,961
.89
.86