

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 29, 1995

Commission File Number: 1-9249

GRACO INC.

(Exact name of Registrant as specified in its charter)

Minnesota

41-0285640

(State of incorporation)

(I.R.S. Employer Identification Number)

4050 Olson Memorial Highway
Golden Valley, Minnesota

55422

(Address of principal executive offices)

(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

11,503,308 common shares were outstanding as of September 29, 1995.

GRACO INC. AND SUBSIDIARIES

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PART I

GRACO INC. AND SUBSIDIARIES

Item I.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 1995	Sept. 30, 1994	Sept. 29, 1995	Sept. 30, 1994
(In thousands except per share amounts)				
Net sales	\$94,797	\$89,048	\$293,726	\$264,157
Cost of products sold	48,510	45,779	149,497	138,225
Gross profit	46,287	43,269	144,229	125,932
Product development	3,557	3,699	11,419	10,821
Selling	21,982	22,920	65,740	68,008
General and administrative	10,263	9,341	32,345	29,488
Operating profit	10,485	7,309	34,725	17,615
Interest expense	596	545	2,025	1,393
Other expense, net	220	116	563	293
Earnings before income taxes	9,669	6,648	32,137	15,929
Income taxes	3,100	2,400	11,600	5,650
Net earnings	\$6,569	\$4,248	\$20,537	\$10,279
Net earnings per common and common equivalent share	\$.56	\$.37	\$1.76	\$.88
Cash dividend per common share	\$.16	\$.14	\$.48	\$.42

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 29, 1995	December 30, 1994
	-----	-----
ASSETS	(Unaudited)	
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$649	\$2,444
Accounts receivable, less allowances of \$5,400 and \$4,700	74,539	75,589
Inventories	50,349	50,529
Deferred income taxes	11,256	11,755
Other current assets	2,324	3,628
	-----	-----
Total current assets	139,117	143,945
Property, plant and equipment:		
Cost	158,189	145,164
Less Accumulated Depreciation	(80,925)	(75,124)
	-----	-----
	77,264	70,040
Other assets	13,525	14,400
	-----	-----
	\$229,906	\$228,385
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$15,639	\$11,675
Current portion of long-term debt	5,905	5,685
Trade accounts payable	15,118	19,764
Dividends payable	1,841	1,857
Income taxes payable	2,632	5,761
Other current liabilities	43,964	44,798
	-----	-----
Total current liabilities	85,099	89,540
Long-term debt, less current portion above	12,565	26,798
Retirement benefits and deferred compensation	32,835	30,196
Shareholders' equity:		
Preferred stock	1,474	1,474
Common stock	11,503	11,377
Additional paid-in capital	20,227	18,289
Retained earnings	65,630	50,702
Other, net	573	9
	-----	-----
	99,407	81,851
	-----	-----
	\$229,906	\$228,385
	=====	=====

See notes to consolidated financial statements.

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

	Thirty-Nine Weeks	
	Sept. 29, 1995	Sept. 30, 1994
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net Earnings	\$20,537	\$10,279
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,251	7,450
Deferred income taxes	1,186	(1,007)
Change in:		
Accounts receivable	2,733	(2,464)
Inventories	1,241	(20,836)
Trade accounts payable	(4,954)	1,983
Accrued salaries	(1,232)	574
Retirement benefits and deferred compensation	2,659	1,699
Other accrued liabilities	(3,191)	2,268
Other	2,053	(1,173)
	-----	-----
	30,283	(1,227)
	=====	=====
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(16,546)	(15,151)
Proceeds from sale of property, plant, and equipment	151	287
Purchases of marketable securities	0	(5,464)
Proceeds from marketable securities	0	31,809
	-----	-----
	(16,395)	11,481
	=====	=====
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing on notes payable and lines of credit	111,279	64,397
Payments on notes payable and lines of credit	(120,794)	(46,003)
Payments on long-term debt	(613)	(663)
Common stock issued	2,234	2,775
Retirement of common and preferred stock	0	(2,224)
Cash dividends paid	(5,625)	(36,122)
	-----	-----
	(13,519)	(17,840)
	-----	-----
Effect of exchange rate changes on cash	(2,164)	(1,737)
	=====	=====
Net decrease in cash and cash equivalents	(1,795)	(9,323)
Cash and cash equivalents:		
Beginning of year	2,444	11,095
	-----	-----
End of period	\$649	\$1,772
	=====	=====

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 29, 1995 and the related statements of earnings and cash flows for the thirty-nine weeks ended September 29, 1995, and September 30, 1994, 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 September 29, 1995, 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 1994 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):

	September 29, 1995	Dec. 30, 1994
	-----	-----
Finished products and components	\$48,220	\$46,694
Products and components in various stages of completion	25,764	24,826
Raw materials	11,721	13,918
Reduction to LIFO cost	(35,356)	(34,909)
	-----	-----
	\$50,349	\$50,529
	=====	=====

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

Results of Operations

Net earnings in the third quarter of \$6,569,000 increased \$2,321,000 from the same period a year ago as the Company's sales continue to improve in Europe and the Pacific offset by the recent softening of sales in the North American markets. In addition, gross margin levels have improved from 1994 and operating expenses as a percent of sales have declined due primarily to cost reduction efforts initiated in 1994.

Sales in the third quarter of \$94,797,000 increased \$5,749,000, or 6 percent, from the same period in 1994. Third quarter sales in the Americas decreased 1 percent to \$57,357,000, and European sales were up 34 percent to \$21,643,000 (a 23 percent volume increase, and an 11 percent gain due to exchange rates). In the Pacific (excluding Japan), sales increased 2 percent to \$8,640,000 (volume was flat compared to a strong quarter a year ago and a gain of 2 percent on exchange rates). In Japan, sales increased 9 percent to \$7,157,000 (a 4 percent volume decrease and a gain of 13 percent on exchange rates).

Sales for the nine months were \$293,726,000, an 11 percent increase over the same period last year. In the Americas, sales increased 2 percent to \$186,319,000. European sales were up 36 percent to \$58,970,000 (a volume increase of 23 percent and a 13 percent gain due to exchange rates). Sales in the Pacific (excluding Japan) increased 34 percent to \$25,801,000 (a 32 percent volume increase and a 2 percent gain due to exchange rates). In Japan, sales increased 21 percent to \$22,636,000 (a 5 percent volume increase and a 16 percent gain on exchange rates).

Operating expenses in the third quarter of \$35,802,000 are at approximately the same level as the third quarter of 1994. Product development expense decreased 4 percent over 1994, although previously announced new product initiatives continue. Selling expenses were 4 percent lower than the same period last year, largely due to lower headcount. General and administrative costs were up 10 percent, due primarily to expense items related to increased profitability.

The effective income tax rate for the quarter was 32 percent compared to 36 percent for the same period in 1994. The decrease was due primarily to foreign results effectively taxed at lower rates on a year-to-date basis. The year-to-date tax rate for the nine months ended September 29, 1995 was 36 percent compared to 35 percent for the same period in 1994.

The Company expects favorable sales and order trends in Europe and the Pacific region as these economies strengthen. The slowing of the U.S. economy continues to impact domestic bookings and backlog during the last quarter of 1995. The Company will make further investments in improvements to manufacturing efficiency and new product development, while closely controlling expenses throughout the organization.

In October 1995, the Company announced the construction of a \$17 million manufacturing and distribution facility in Rogers, Minnesota. The Company expects to finance the project through operating cash flows and existing lines of credit.

Financial Condition

Cash was used for operating activities and fixed asset additions. Accounts receivable decreased \$1,050,000 from the prior year-end due primarily to collection efforts in Europe, and property, plant and equipment purchases total \$16,546,000 year-to-date.

The Company has unused lines of credit available at September 29, 1995 totaling \$57 million.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Statement on Computation
of Per Share Earnings

Exhibit 11

Financial Data Schedule

Exhibit 27

(b) No reports on Form 8-K have been filed during the
quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date: 11/09/95

By: /s/ David A. Koch
David A. Koch
Chairman and Chief Executive Officer

Date: 11/09/95

By: /s/ David M. Lowe
David M. Lowe
Treasurer
(Principal Financial Officer)

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 1995	Sept. 30, 1994	Sept. 29, 1995	Sept. 30, 1994
(In thousands except per share amounts)				
Net earnings applicable to common stock:				
Net earnings	\$6,569	\$4,248	\$20,537	\$10,279
Less dividends on preferred stock	19	19	56	56
	<u>\$6,550</u>	<u>\$4,229</u>	<u>\$20,481</u>	<u>\$10,223</u>
	=====	=====	=====	=====
Average number of common and common equivalent shares outstanding:				
Average number of common shares outstanding	11,497	11,554	11,454	11,554
Dilutive effect of stock options computed on the treasury stock method	186	25	152	58
	<u>11,683</u>	<u>11,579</u>	<u>11,606</u>	<u>11,612</u>
	=====	=====	=====	=====
Net earnings per common and common equivalent share	<u>\$.56</u>	<u>\$.37</u>	<u>\$1.76</u>	<u>\$.88</u>
	=====	=====	=====	=====

Primary and fully diluted earnings per share are substantially the same.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS AND CONSOLIDATED BALANCE SHEETS FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 29, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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GRACO INC.
1,000

9-MOS		
	DEC-29-1995	
	SEP-29-1995	649
		0
	79,939	
	5,400	
	50,349	
	139,117	158,189
	80,925	
	229,906	
	85,099	
		18,470
		11,503
	1,474	
		0
		86,430
229,906		
		293,726
	293,726	
		149,497
	149,497	
	112,092	
	1,299	
	2,025	
	32,137	
	11,600	
	20,537	
		0
		0
		0
	20,537	
	1.76	
	1.76	