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 27, 2002

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)

88 - 11th Avenue N.E. Minneapolis, Minnesota	55413
(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

47,611,000 common shares were outstanding as of October 25, 2002.

GRACO INC. AND SUBSIDIARIES

INDEX

PART I

GRACO INC. AND SUBSIDIARIES

Item 1. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28, 2001
Net Sales	$125,832	$118,651	$366,485	$359,338
Cost of products sold	60,418	59,495	178,767	180,791
Gross Profit	65,414	59,156	187,718	178,547
Product development	4,813	4,666	13,501	16,664
Selling, marketing and distribution	21,426	20,285	63,314	61,398
General and administrative	8,438	8,813	24,940	26,106
Operating Earnings	30,737	25,392	85,963	74,379
Interest expense	122	261	382	1,066
Other expense	321	171	525	985
Earnings Before Income Taxes	30,294	24,960	85,056	72,328
Income taxes	9,800	8,200	27,500	24,200
Net Earnings	$ 20,494	$ 16,760	$ 57,556	$ 48,128
Basic Net Earnings Per Common Share	$ .43	$ .36	$ 1.21	$ 1.04
Diluted Net Earnings Per Common Share	$ .42	$ .35	$ 1.19	$ 1.02
Cash Dividends Declared Per Common Share	$ .07	$ .07	$ .22	$ .20

See notes to consolidated financial statements.

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

	Sept 27, 2002	Dec 28, 2001
ASSETS		
Current Assets		
Cash and cash equivalents	$ 93,803	$ 26,531
Accounts receivable, less allowances of $5,700 and $4,500	93,010	85,440
Inventories	28,376	30,333
Deferred income taxes	11,768	11,710
Prepaid expenses	1,716	1,483
Total current assets	228,673	155,497
Property, Plant and Equipment:		
Cost	215,938	211,523
Accumulated depreciation	(122,264)	(112,579)
	93,674	98,944
Intangible Assets, net	12,411	14,274
Other Assets	8,380	7,398
	$343,138	$276,113
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 12,626	$ 9,512
Current portion of long-term debt	500	550
Trade accounts payable	13,078	10,676
Salaries, wages and commissions	12,634	10,620
Accrued insurance liabilities	10,112	10,380
Accrued warranty and service liabilities	6,287	6,091
Income taxes payable	6,834	6,014
Other current liabilities	17,284	19,410
Total current liabilities	79,355	73,253
Retirement Benefits and Deferred Compensation	28,260	27,359
Deferred Income Taxes	2,096	1,761
Shareholders' Equity		
Common stock	47,599	31,113
Additional paid-in capital	69,931	54,269
Retained earnings	117,517	89,155
Other, net	(1,620)	(797)
Total shareholders' equity	233,427	173,740
	$343,138	$276,113

See notes to consolidated financial statements.

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

	Thirty-nine Weeks	
	Sept 27, 2002	Sept 28, 2001
Cash Flows from Operating Activities		
Net Earnings	$57,556	$ 48,128
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	13,876	13,573
Deferred income taxes	344	766
Tax benefit related to stock options exercised	3,400	-
Change in:		
Accounts receivable	(5,615)	1,745
Inventories	2,248	(1,506)
Trade accounts payable	2,299	(2,380)
Salaries, wages and commissions	1,830	(4,643)
Retirement benefits and deferred compensation	(348)	(1,871)
Other accrued liabilities	(2,055)	5,227
Other	153	526
	73,688	59,565
Cash Flows from Investing Activities		
Property, plant and equipment additions	(7,255)	(23,033)
Proceeds from sale of property, plant and equipment	284	103
Acquisition of business, net of cash acquired	-	(15,949)
	(6,971)	(38,879)
Cash Flows from Financing Activities		
Borrowings on notes payable and lines of credit	16,418	148,255
Payments on notes payable and lines of credit	(13,771)	(151,365)
Borrowings on long-term debt	-	21,000
Payments on long-term debt	(50)	(38,810)
Common stock issued	12,114	11,381
Common stock retired	(3,162)	(3,600)
Cash dividends paid	(10,398)	(9,232)
	1,151	(22,371)
Effect of exchange rate changes on cash	(596)	1,045
Net increase (decrease) in cash and cash equivalents	67,272	(640)
Cash and cash equivalents		
Beginning of year	26,531	11,071
End of period	$93,803	$ 10,431

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 27, 2002, and the related statements of earnings for the thirteen and thirty-nine weeks ended September 27, 2002 and September 28, 2001, and cash flows for the thirty-nine weeks ended September 27, 2002 and September 28, 2001 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 27, 2002, 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 2001 Form 10-K.

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

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

	Sept 27, 2002	Dec 28, 2001
Finished products and components	$26,025	$23,863
Products and components in various stages of completion	16,614	18,827
Raw materials and purchased components	16,519	18,899
	59,158	61,589
Reduction to LIFO cost	(30,782)	(31,256)
	$28,376	$30,333

3. 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 27, 2002 and September 28, 2001 were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28, 2001
Net Sales				
Industrial/Automotive	$ 52,624	$ 48,583	$149,486	$147,681
Contractor	62,990	58,918	182,718	175,595
Lubrication	10,218	11,150	34,281	36,062
Consolidated	$125,832	$118,651	$366,485	$359,338
Operating Earnings				
Industrial/Automotive	$ 14,438	$ 2,500	$ 39,398	$ 34,007
Contractor	15,412	12,695	43,520	36,852
Lubrication	1,869	2,807	7,390	8,835
Unallocated corporate expenses	(982)	(2,610)	(4,345)	(5,315)
Consolidated Operating Earnings	$ 30,737	$ 25,392	$ 85,963	$ 74,379

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4. Total comprehensive income in 2002 was $20.5 million in the third quarter and $57.6 million year-to-date. In 2001, comprehensive income was $17.8 million for the third quarter and $47.8 million for the nine-month period. There have been no significant changes to the components of comprehensive income from those noted on the 2001 Form 10-K except as described in note 6 below, with respect to translation gains and losses.

5. Effective at the beginning of fiscal year 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Upon adoption of SFAS No. 142, amortization of goodwill ceased, and results of initial goodwill impairment testing indicated no impairment. Had SFAS No. 142 been effective at the beginning of 2001, the non-amortization provisions would have increased net earnings by $140,000 for the third quarter and by $280,000 for the nine months ended September 28, 2001.

   Components of intangible assets were (in thousands):

	Sept 27, 2002	Dec 28, 2001
Goodwill	$ 7,939	$ 7,939
Other identifiable intangibles, net of accumulated amortization of $8,300 and $6,400	4,472	6,335
	$12,411	$14,274

   Amortization of intangibles was $598,000 in the third quarter of 2002 and $1,864,000 year-to-date. Estimated annual amortization is as follows: $2,400,000 in 2002, $1,600,000 in 2003, $800,000 in 2004, $400,000 in 2005 and $300,000 in 2006.

6. During the third quarter of 2001, the Company announced plans to relocate the operations of its German subsidiary, Graco Verfahrenstechnik (GV) to other Company facilities in Belgium and the U.S. This included termination of approximately 50 employees, termination of leases and consolidation of product lines.

   General and administrative expense in the third quarter of 2001 included a $1.4 million charge to establish a restructuring accrual for certain costs associated with relocating GV operations. Most of the amounts accrued were paid during the third quarter of 2002. As of September 27, 2002 the balance of $100,000 remaining in the restructuring accrual relates to termination of leases, which will be paid by the end of 2002.

   The economic facts and circumstances considered in determining the functional currency of GV changed as a result of relocating GV operations. Consequently, the Company determined that the functional currency of GV changed from the euro to the U.S. dollar. Effective at the beginning of 2002, adjustments resulting from the translation of GV financial statements into U.S. dollars are no longer charged or credited to shareholders' equity, but are now included in other expense (income).

7. Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was effective for the Company at the beginning of fiscal year 2002. This standard provides for a single accounting model to be used for long-lived assets to be disposed of, and broadens the presentation of discontinued operations to include more disposal transactions. The adoption of SFAS No. 144 had no effect on the Company's 2002 financial position or operating results.

8. On May 7, 2002, the Board of Directors declared a three-for-two split of the Company's common stock, distributed on June 6, 2002 to shareholders of record on May 21, 2002. Share and per share amounts for all periods presented reflect the stock split.

   Also on May 7, 2002, the Company issued 36,750 shares of restricted common stock to key employees under the Stock Incentive Plan. Compensation cost totaling $1,069,000 related to the restricted shares will be charged to operations over the three-year vesting period.

Item 2.

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

Results of Operations

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Increased sales and improved gross profit rate resulted in higher net earnings for the third quarter. Year-to-date, sales and gross profit rate are up and expenses are down. Resulting net earnings increased by 20% over last year.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28, 2001
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	48.0	50.1	48.8	50.3
Product development	3.8	4.0	3.7	4.6
Selling, marketing and distribution	17.1	17.1	17.2	17.1
General and administrative	6.7	7.4	6.8	7.3
Operating Earnings	24.4	21.4	23.5	20.7
Interest expense	0.1	0.2	0.1	0.3
Other expense	0.2	0.2	0.2	0.3
Earnings Before Income Taxes	24.1	21.0	23.2	20.1
Income taxes	7.8	6.9	7.5	6.7
Net Earnings	16.3%	14.1%	15.7%	13.4%

Net Sales

Sales by segment were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28, 2001
Industrial/Automotive	$ 52,624	$ 48,583	$149,486	$147,681
Contractor	62,990	58,918	182,718	175,595
Lubrication	10,218	11,150	34,281	36,062
Consolidated	$125,832	$118,651	$366,485	$359,338

Sales for the quarter in the Industrial/Automotive segment were higher than the prior year for the first time since the second quarter of 2000. Much of the sales growth in that segment came from the Asia Pacific region, mostly from China. Sales in the home center channel of the Contractor segment continued to show strong increases over the prior year, accounting for most of the year-to-date sales increase in the Contractor segment. Sales in the Lubrication segment continued to trail last year's sales, which included large sales to key customers.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28,2001
Americas	$ 89,654	$ 86,513	$265,452	$262,601
Europe	21,793	20,851	64,537	62,430
Asia Pacific	14,385	11,287	36,496	34,307
Consolidated	$125,832	$118,651	$366,485	$359,338

For the third quarter, the strengthening of the euro versus the dollar had a favorable effect - sales in Europe increased 5 percent but would have been 5 percent lower than last year if translated at consistent exchange rates. Year-to-date, sales in Europe increased 3 percent but would have been flat if translated at consistent exchange rates. The year-to-date increase in Asia Pacific sales would not be significantly different if translated at consistent exchange rates.

Gross Profit

Price increases, changes in exchange rates and manufacturing cost improvement activities all contributed to higher gross profit rates compared to the same periods last year. Changes in exchange rates have less impact on the cost of products sold than on sales because most product costs are incurred in U.S. dollars, which had the effect of increasing gross profit rate in 2002.

Operating Expenses

Product development expenses for the quarter were up slightly from last year, but year-to-date expenses decreased due to actions taken during 2001. Selling, marketing and distribution expenses were higher compared to last year due in part to increased sales incentives and marketing programs. General and administrative expenses included a $1.4 million restructuring charge in the third quarter of 2001. Excluding the restructuring charge, general and administrative expenses increased compared to last year due in large part to higher sales and earnings-based incentive accruals.

Year-to-date operations include a $.8 million pension credit related to the Company's U.S. defined benefit pension plan, compared to a $2.5 million credit in the same period last year. These credits resulted from recognition of investment gains attributable to pension plan assets, and are included in cost of products sold and operating expenses based on salaries and wages. Other payroll related expenses including medical and workers' compensation costs have increased in 2002 and are also included in cost of products sold and operating expenses based on salaries and wages.

Interest Expense and Other Expense

Interest expense decreased due to reduced debt levels and interest income (included in Other Expense) increased due to higher interest-bearing cash balances.

Liquidity and Capital Resources
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Cash generated from operations in the first nine months of 2002 resulted in a $67 million increase in cash and cash equivalents. Accounts receivable increased in 2002 due to extended terms on selected accounts and higher sales. In 2001, significant uses of cash included the construction of expanded manufacturing, warehouse and office facilities in Minneapolis, Minnesota and Sioux Falls, South Dakota, the acquisition of ASM, and reduction of debt.

The Company had unused lines of credit available at September 27, 2002 totaling $19 million. During the third quarter, the Company terminated its revolving credit facility with U.S. Bank National Association as the lead bank. Cash balances of $94 million at September 27, 2002, internally generated funds and available credit lines provide the Company with the financial flexibility to meet liquidity needs.

Outlook

Management expects modest growth in its served markets for the remainder of 2002 and into 2003. The Contractor Equipment segment continues to benefit from a strong housing market in North America and the Industrial / Automotive segment is well positioned to post higher sales and profits with a recovery in North American capital equipment spending. While the Company continues to obtain cost and expense savings through process improvements, year-over-year cost pressures in areas such as insurance and pension expenses are expected to continue for the rest of 2002 and into 2003. With all of these factors in mind, management is planning for higher sales and improved profitability for the remainder of 2002 and in 2003. The Company continues to make substantial investments in its strategies including introducing new products, entering new markets, expanding distribution coverage and other initiatives that support the objective of delivering sustained long-term profitable growth.

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 2001 for a more comprehensive discussion of these and other risk factors.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. 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

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

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

10 Separation and Release Agreement between Stephen L. Bauman and the Company dated July 25, 2002

11 Computation of Net Earnings per Common Share

99 Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Certification of Vice President and Controller pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Vice President and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

SIGNATURES

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

GRACO INC.

Date: October 31, 2002

By: /s/David A. Roberts

David A. Roberts
President and Chief Executive Officer

Date: October 31, 2002

By: /s/James A. Graner

James A. Graner
Vice President and Controller

Date: October 31, 2002

By: /s/Mark W. Sheahan

Mark W. Sheahan
Vice President and Treasurer

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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared.

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 31, 2002

/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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared.

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   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 31, 2002

/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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared.

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 31, 2002

/s/Mark W. Sheahan

Mark W. Sheahan
Vice President and Treasurer

SEPARATION AND RELEASE AGREEMENT

THIS AGREEMENT is effective the 25th day of July 2002, by and between Graco Inc., a Minnesota corporation ("Graco"), with its principal offices at 88 11th Ave. N.E., Minneapolis, Minnesota, 55413, and Stephen L. Bauman, an individual, with a residence at 16817 Blenheim Way, Minnetonka, MN. 55345 ("Mr. Bauman").

WHEREAS, Mr. Bauman was employed by Graco; and

WHEREAS, the parties have agreed that Mr. Bauman has ceased to be an officer and employee of Graco effective July 8, 2002, (the "Separation Date"), and will complete and terminate his employment relationship with Graco in accordance with the terms of this Agreement.

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

1. Severance Payment

   Beginning on August 15, 2002 (but no sooner than the expiration of the 15 day waiting period specified in Section 7 below, whichever is later) on the 15th day of each of the next twelve months Graco will pay to Mr. Bauman, in monthly installments of $13,433.33 each, the aggregate amount of $161,200, which is equal to one year of his annual base salary immediately prior to the Separation Date. Such payment shall be subject to tax withholding and deductions required by law. At any time before the last installment is paid Mr. Bauman may request that Graco pay the entire remaining amount owed, which Graco will do on the next regular payment date.

2. Stock Options and Restricted Stock Grant

   All stock options and restricted stock granted to Mr. Bauman under the Graco Long Term Incentive Plan or Graco Stock Incentive Plan shall be governed by the provisions of said plans and the agreements executed between Graco and Mr. Bauman pursuant to said plans.

3. Insurance Premiums

   For a period not to exceed 12 months following the Separation Date, Graco shall, if Mr. Bauman so chooses, continue to cover Mr. Bauman under its standard medical and dental insurance coverages for employees to the same extent as Mr. Bauman was covered immediately prior to the Separation Date, and Mr. Bauman shall pay to Graco, monthly by check, an amount equal to the employee paid portion of the premium for such insurance. In the event that Mr. Bauman has or acquires comparable insurance coverage through a new employer or spouse coverage, Mr. Bauman shall so notify Graco and the coverage under the Graco plans provided herein shall cease.

4. Outplacement Assistance

   Graco shall provide an outplacement agency that may be used by Mr. Bauman to seek other employment, for a period not to exceed one (1) year or upon Mr. Bauman securing other employment, whichever first occurs. Said agency shall be mutually agreed upon by Graco and Mr. Bauman, and the services provided shall be customary for seeking employment at the level of the position Mr. Bauman held at Graco.

5. Cooperation

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

6. Confidentiality

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

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

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

7. Release

a. Except with respect to the provisions of this Agreement, Mr. Bauman hereby releases and forever discharges Graco and its officers, employees, agents, successors, and assigns from any and all claims, causes of action, demands, damages, liability and responsibility whatsoever, arising prior to the Separation Date, including without limitation, any rights or claims for further compensation, including without limitation any bonus payment for the year 2002, or any rights to participate in any Company-sponsored program relating to the purchase or acquisition of any Graco common stock, preferred stock, or other equity in Graco or any subsidiary thereof, except as specifically provided in this Agreement, or any right or claim Mr. Bauman may have or assert under the common law or any state, municipal, federal, or other statute or regulation regarding the rights of employees generally or based on discrimination on the basis of race, creed, gender, age, or other protected status. This Section 7 shall not affect Mr. Bauman's rights to indemnification as an officer and employee of Graco under Graco's by-laws and applicable Minnesota law nor any rights which he has accrued by participating in any Graco benefit plan, subject to the provisions of this Agreement and the terms and conditions set forth in such plan as of the Separation Date.

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

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

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

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

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

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

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

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

(viii) if he decides to revoke this Agreement within said fifteen (15) day period, he must provide written notice to the Vice

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

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

8. Applicable Law

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

9. Entire Agreement

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

10. Headings

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement

GRACO INC.

By: /s/David A. Roberts

DAVID A. ROBERTS
President and Chief Executive Officer
July 25, 2002

By: /s/Stephen L. Bauman

STEPHEN L. BAUMAN

Date: July 25, 2002

EXHIBIT 11

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

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept 27, 2002	Sept 28, 2001	Sept 27, 2002	Sept 28, 2001
	(in thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	$20,494	$16,760	$57,556	$48,128
Weighted average shares outstanding for basic earnings per share	47,604	46,662	47,376	46,262
Dilutive effect of stock options computed using the treasury stock method and the average market price	682	861	804	867
Weighted average shares outstanding for diluted earnings per share	48,286	47,523	48,180	47,129
Basic earnings per share	$ 0.43	$ 0.36	$ 1.21	$ 1.04
Diluted earnings per share	$ 0.42	$ 0.35	$ 1.19	$ 1.02

Exhibit 99

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graco Inc. (the "Company") on Form 10-Q for the period ending September 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Roberts, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/David A. Roberts
- -------------------
David A. Roberts
President and Chief Executive Officer
October 31, 2002

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graco Inc. (the "Company") on Form 10-Q for the period ending September 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Graner, Vice President and Controller of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/James A Graner
- ----------------------
James A. Graner
Vice President and Controller
October 31, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graco Inc. (the "Company") on Form 10-Q for the period ending September 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Sheahan, Vice President and Treasurer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Mark W. Sheahan
- -----------------------
Mark W. Sheahan
Vice President and Treasurer
October 31, 2002