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 March 29, 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 ___

31,657,000 common shares were outstanding as of April 26, 2002.

GRACO INC. AND SUBSIDIARIES

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PART I

Item I.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share amounts)

	Thirteen Weeks Ended March 29, 2002	Thirteen Weeks Ended March 30, 2001
Net Sales	$107,857	$109,814
Cost of products sold	52,694	54,676
Gross Profit	55,163	55,138
Product development	4,161	6,287
Selling, marketing and distribution	19,792	20,672
General and administrative	7,717	7,696
Operating Earnings	23,493	20,483
Interest expense	150	450
Other expense (income), net	(3)	213
Earnings before Income Taxes	23,346	19,820
Income taxes	7,800	6,700
Net Earnings	$ 15,546	$ 13,120
Basic Net Earnings Per Common Share	$ .50	$ .43
Diluted Net Earnings Per Common Share	$ .49	$ .42

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands)

	March 29, 2002	Dec. 28, 2001
ASSETS		
Current Assets		
Cash and cash equivalents	$ 44,226	$ 26,531
Accounts receivable, less allowances of $5,200 and $4,500	91,129	85,440
Inventories	31,653	30,333
Deferred income taxes	12,115	11,710
Prepaid expenses	1,454	1,483
Total current assets	180,577	155,497
Property, Plant and Equipment:		
Cost	212,838	211,523
Accumulated depreciation	(116,223)	(112,579)
	96,615	98,944
Intangible Assets, net	13,633	14,274
Other Assets	7,508	7,398
	$298,333	$276,113

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 11,296	$ 9,512
Current portion of long-term debt	500	550
Trade accounts payable	10,638	10,676
Salaries, wages and commissions	7,571	10,620
Accrued insurance liabilities	10,936	10,380
Accrued warranty and service liabilities	6,258	6,091
Income taxes payable	10,485	6,014
Other current liabilities	14,546	19,410
Total current liabilities	72,230	73,253
Retirement Benefits and Deferred Compensation	27,388	27,359
Deferred Income Taxes	1,873	1,761
Shareholders' Equity		
Common stock	31,629	31,113
Additional paid-in capital	65,359	54,269
Retained earnings	100,625	89,155
Other, net	(771)	(797)
Total shareholders' equity	196,842	173,740
	$298,333	$276,113

See notes to consolidated financial statements.

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

	Thirteen Weeks	
	March 29, 2002	March 30, 2001
Cash Flows from Operating Activities		
Net Earnings	$ 15,546	$ 13,120
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	4,592	4,240
Deferred income taxes	(332)	(182)
Tax benefit related to stock options exercised	2,500	-
Change in:		
Accounts receivable	(6,015)	4,065
Inventories	(1,319)	(5,510)
Trade accounts payable	(19)	(358)
Salaries, wages and commissions	(3,029)	(6,569)
Retirement benefits and deferred compensation	(9)	272
Other accrued liabilities	403	2,832
Other	40	(789)
	12,358	11,121
Cash Flows from Investing Activities		
Property, plant and equipment additions	(1,639)	(6,203)
Proceeds from sale of property, plant and equipment	13	45
Acquisition of business, net of cash acquired	-	(15,949)
	(1,626)	(22,107)
Cash Flows from (for) Financing Activities		
Borrowings on notes payable and lines of credit	8,512	41,274
Payments on notes payable and lines of credit	(6,632)	(42,307)
Borrowings on long-term debt	-	18,000
Payments on long-term debt	(50)	(15,810)
Common stock issued	9,151	6,320
Common stock retired	(686)	(177)
Cash dividends paid	(3,424)	(3,044)

	6,871	4,256
Effect of exchange rate changes on cash	92	341
Net increase (decrease) in cash and cash equivalents	17,695	(6,389)
Cash and cash equivalents		
Beginning of year	26,531	11,071
End of period	$ 44,226	$ 4,682

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 March 29, 2002 and the related statements of earnings and cash flows for the thirteen weeks then ended 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 March 29, 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):

	March 29, 2002	Dec. 28, 2001
Finished products and components	$26,583	$23,863
Products and components in various stages of completion	18,250	18,827
Raw materials and purchased components	18,154	18,899
	62,987	61,589
Reduction to LIFO cost	(31,334)	(31,256)
	$31,653	$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 weeks ended March 29, 2002 and March 30, 2001 were as follows (in thousands):

	Thirteen Weeks Ended	
	March 29, 2002	March 30, 2001
Net Sales		
Industrial/Automotive	$ 46,103	$ 47,649
Contractor	51,135	49,901
Lubrication	10,619	12,264
Total	$107,857	$109,814
Operating Earnings		
Industrial/Automotive	$ 11,737	$ 9,394

Contractor	10,865	8,620
Lubrication	2,392	2,956
Unallocated corporate expenses	(1,501)	(487)
Total	$ 23,493	$ 20,483

4. Total comprehensive income for the quarter was $15.6 million in 2002 and $12.4 million in 2001. 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 had no effect on first quarter results.

Components of intangible assets were (in thousands):

	March 29, 2002	Dec. 28, 2001
Goodwill	$ 7,939	$ 7,939
Other identifiable intangibles, net of accumulated amortization of $7,000 and $6,400	5,694	6,335
	$13,633	$14,274

Amortization of intangibles during the first quarter of 2002 was $642,000. 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 incremental costs associated with relocating GV operations. Through the end of the first quarter of 2002, there were no significant payments charged against the accrual, but the Company expects that all amounts accrued 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 first quarter financial position or operating results.

Item 2. GRACO INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Sales are down compared to the prior year, but net earnings are up due to an improved gross margin rate and lower expenses.

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

	Thirteen Weeks Ended	
	March 29, 2002	March 30, 2001
Net Sales	100.0%	100.0%
Cost of products sold	48.9	49.8
Product development	3.9	5.7
Selling, marketing and distribution	18.3	18.8
General and administrative	7.1	7.0
Operating Earnings	21.8	18.7
Interest expense	0.2	0.4
Other (income) expense, net	0.0	0.2
Earnings Before Income Taxes	21.6	18.1
Income taxes	7.2	6.1
Net Earnings	14.4%	12.0%

Net Sales

Sales in the Industrial / Automotive segment were down 3 percent compared to last year, and continue to be affected by weak economic conditions in North America, Europe and Japan. Contractor segment sales are up 2 percent, mostly from home center channel and ASM products. The Company acquired ASM at the end of the first quarter of 2001. Lubrication segment sales were down, as large orders received in 2001 were not repeated in 2002.

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

	Thirteen Weeks Ended	
	March 29, 2002	March 30, 2001
Americas	$ 78,578	$ 78,993
Europe	19,802	20,722
Asia Pacific	9,477	10,099
Consolidated	$107,857	$109,814

Sales in Europe declined 4 percent, but would have been flat if translated at consistent exchange rates. Sales in the Asia Pacific region were down 6 percent, but were down only 2 percent when translated at consistent exchange rates.

Gross Profit

Gross profit percentage of sales increased to 51.1 percent from 50.2 percent due to manufacturing efficiencies, cost reduction initiatives, price increases and product mix.

Operating Expenses

Total operating expenses decreased by 9 percent compared to last year. The largest part of the decrease came from reduced product development expenses, which dropped by 34 percent due to actions taken during 2001. Actions to contain spending were also successful in reducing selling and general and administrative expenses from the prior year. General and administrative expenses included a $700,000 contribution to the Graco Foundation. No similar contribution was made in the first quarter of 2001.

Liquidity and Capital Resources

Cash generated from operations and from issuance of common stock in the first quarter of 2002 increased cash and cash equivalent balances by $18 million, after cash dividend payments of $3 million. In the first quarter of 2001, the primary uses of cash included the acquisition of ASM Company and fixed asset additions. Accounts receivable increased during the first quarter due to extended terms on selected accounts.

The Company had unused lines of credit available at March 29, 2002 totaling $41 million. The available credit facilities and internally generated funds provide the Company with the financial flexibility to meet liquidity needs.

Outlook

Predictions of a general economic recovery have not yet translated into incremental sales in the Industrial / Automotive segment, but management believes that a broad-based economic recovery would have a positive effect on its business. While internal sales growth may be challenged by continued difficult economic conditions, management remains committed to high profitability while funding the Company's long-term growth strategies of introducing new products, entering new markets, expanding distribution coverage and pursuing strategic acquisitions. Management is cautiously optimistic that 2002 will be a year of higher net earnings for the Company.

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.

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 2002 Corporate & SBU Bonus Plan

10.1 2002 Executive Officer Annual Incentive Bonus Plan

10.2 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. Stock Incentive Plan with schedule of awards current as of March 29, 2002

11 Computation of Net Earnings per Common Share

(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: April 30, 2002 By: /s/David A. Roberts

David A. Roberts
President & Chief Executive Officer

Date: April 30, 2002 By: /s/James A. Graner

James A. Graner
Vice President & Controller
Chief Accounting Officer

Date: April 30, 2002 By: /s/Mark W. Sheahan

Mark W. Sheahan
Vice President & Treasurer
Principal Financial Officer

Exhibit 10

2002 CORPORATE & SBU BONUS PLAN

Objectives

- To create shareholder value through achievement of annual financial objectives.

- To motivate and retain those key executives and managers who work in positions where they can impact the Company's annual financial objectives.

Plan Design

The Plan links the size of each individual's award to specific financial objectives. These objectives are tailored for the Corporation and for each Business Unit. These objectives are:

- Corporation
  - Corporate Sales and/or Net Earnings objectives

- Business Units
  - Sales and/or Contribution Growth objectives

Eligibility Requirements

Only those positions which carry clear managerial responsibility for directly contributing to Graco's Corporate Sales and/or Net Earnings objective and Business Unit Sales and/or Contribution Growth objectives are eligible to be included in this Plan.

Only those individuals in eligible positions who have demonstrated and are maintaining a performance level that meets the supervisor's normal expectations for that position are eligible for annual participation in this Plan as well as the receipt of any annual Bonus Payments.

Participation

The top executive in each organizational unit may nominate managers for participation in this Plan when the established position and individual eligibility requirements have been met.

The Management Organization and Compensation Committee of the Graco Inc. Board of Directors has sole authority to approve the participation of the Chief Executive Officer in the Plan.

The Chief Executive Officer of Graco Inc. has sole authority to select and approve all other Plan participants.

Bonus Maximum

Taken in conjunction with base salary market comparisons, bonus maximum for all positions will be:

- Commensurate with the position's ability to impact the annual Corporate Sales and/or Net Earnings objective and Business Unit Sales and/or Contribution Growth objectives.
- Consistent with total compensation levels prevalent for similar positions in the market place.

Based on these criteria, bonus maximums ranging from 10% to 90% have been established for each individual.

Bonus Payment

The determination of a participant's annual Bonus Payment will be calculated by adding the bonus results attained for Corporate Sales and/or Net Earnings performance (expressed in percent) to the bonus results attained for any applicable Business Unit's Sales and/or Contribution Growth performance (expressed in percent). These bonus results are then multiplied by the participant's Maximum Bonus Percentage and then multiplied by the participant's

Base Salary for the Plan Year, to determine the total Bonus Payment.

Example:

Annual Corporate Performance Results	+	Annual Business Unit Performance Results (if applicable)	x	Participant's Maximum Bonus Salary	x	Participant's Annual Base Salary	=	Bonus
%		%		$		$		$

Administration

The following rules have been established to ensure equitable administration of Graco's Annual Bonus Plan (the Plan):

1. The Plan will be administered by the Management Organization and Compensation Committee of the Board of Directors. The Committee may cancel the Plan and interpret the Plan.

2. The Management Organization and Compensation Committee shall establish the Annual Corporate Bonus Plan financial objectives. Within the basic framework of the Plan, the Chief Executive Officer may establish the annual bonus plan financial objectives for individual Business Units. The CEO may also establish deadlines for filing administrative forms and adopt other administrative rules.

   The CEO has established the Bonus Administrative Committee consisting of the CEO, the Vice President, Human Resources, and the Compensation Manager. This Committee is responsible for making approval recommendations on all Annual Bonus Program administrative matters, such as participation award payments, performance measures, and performance results. All requests for adjustments or exceptions are to be formally submitted to this Committee for review through the Compensation Manager.

3. Key executives and managers selected to participate in the Plan after its annual effective date (January 1st) may be included on a pro-rata basis.

4. Participation in the Plan one year does not necessarily assure participation in subsequent years. Eligibility requirements for both the position and individual performance must be met continually.

5. Participation continues during any paid time off such as short-term disability (up to six months). Participation ceases with retirement, death, or long-term disability (over six months). In the event participation ceases due to retirement, death, or long term disability, the Participant will be eligible for a Bonus Payment, calculated using the Maximum Bonus Percent and Base Salary up to the time of retirement, death, or long-term disability and the annual performance results for the year in which retirement, death, or long-term disability occurs.

6. A participant who transfers to a position (e.g. through job posting or job elimination) that is not eligible for inclusion in the Plan will be eligible for a pro-rata award based on the actual time employed in the eligible position during the year.

   If, due to unique skills possessed by a participant, the company requests that the participant accept a transfer to a non-bonus eligible position, the participant will remain on the Plan. The participant's eligibility will be reviewed annually as noted in Administrative Rule #4.

7. A participant must be an employee in good standing on 12/31 of the Plan Year in order to receive a bonus. A participant who resigns or is terminated effective during the Plan Year is ineligible for a bonus.

   Participants must maintain satisfactory performance throughout the Plan year in order to be eligible to receive a bonus award payment.

   In addition, a participant whose employment termination has been requested due to job elimination, performance or otherwise for cause will be ineligible for a bonus payment even though the participant is still employed at year-end.

8. Targets and actual performance for Corporate and Division measures will be at actual exchange rates. Targets and actual performance for international

measures where business is conducted in foreign currency will be at prior year's actual rates.

9. Acquisitions and divestitures not included in the annual business plan for the Plan Year will be excluded from the Corporate Sales and/or Net Earnings calculations.

10. Significant changes in historical FASB accounting practices or income tax rates will be included in corporate earnings calculations at the discretion of the Management Organization and Compensation Committee of the Board of Directors.

11. Payments will be made by March 15th of the year following each successive Corporate and Business Unit performance year.

These Administrative Rules indicate Graco's intent. Situations may arise which are not specifically covered by these rules and will require the use of judgment and discretion. Final responsibility for interpretation of these Administrative Rules rests solely with the Vice President, Human Resources.

Exhibit 10.1

2002 EXECUTIVE OFFICER ANNUAL INCENTIVE BONUS PLAN

Objectives

- To create shareholder value through achievement of annual financial objectives.
- To motivate and retain those key executives and managers who work in positions where they can impact the Company's annual financial objectives.

Plan Design

The Plan links the size of each individual's award to specific financial objectives. These objectives are tailored for the Corporation and for each Business Unit. These objectives are:

- Corporation
  - Corporate Sales and/or Net Earnings objectives
- Business Units
  - Sales and/or Contribution Growth objectives

Eligibility Requirements

Only those positions which carry clear managerial responsibility for directly contributing to Graco's Corporate Sales and/or Net Earnings objective and Business Unit Sales and/or Contribution Growth objectives are eligible to be included in this Plan.

Only those individuals in eligible positions who have demonstrated and are maintaining a performance level that meets the supervisor's normal expectations for that position are eligible for annual participation in this Plan as well as the receipt of any annual Bonus Payments.

Participation

The top executive in each organizational unit may nominate managers for participation in this Plan when the established position and individual eligibility requirements have been met.

The Management Organization and Compensation Committee of the Graco Inc. Board of Directors has sole authority to approve the participation of the Chief Executive Officer in the Plan.

The Chief Executive Officer of Graco Inc. has sole authority to select and approve all other Plan participants.

Bonus Maximum

Taken in conjunction with base salary market comparisons, bonus maximum for all positions will be:

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- Consistent with total compensation levels prevalent for similar positions in the market place.

Based on these criteria, bonus maximums ranging from 10% to 90% have been established for each individual.

Bonus Payment

The determination of a participant's annual Bonus Payment will be calculated by adding the bonus results attained for Corporate Sales and/or Net Earnings performance (expressed in percent) to the bonus results attained for any applicable Business Unit's Sales and/or Contribution Growth performance (expressed in percent). These bonus results are then multiplied by the participant's Maximum Bonus Percentage and then multiplied by the participant's

Base Salary for the Plan Year, to determine the total Bonus Payment.

Example:

Annual Corporate Performance Results	+	Annual Business Unit Performance Results (if applicable)	x	Participant's Maximum Bonus Salary	x	Participant's Annual Base Salary	=	Bonus
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2. The Management Organization and Compensation Committee shall establish the Annual Corporate Bonus Plan financial objectives. Within the basic framework of the Plan, the Chief Executive Officer may establish the annual bonus plan financial objectives for individual Business Units. The CEO may also establish deadlines for filing administrative forms and adopt other administrative rules.

   The CEO has established the Bonus Administrative Committee consisting of the CEO, the Vice President, Human Resources, and the Compensation Manager. This Committee is responsible for making approval recommendations on all Annual Bonus Program administrative matters, such as participation award payments, performance measures, and performance results. All requests for adjustments or exceptions are to be formally submitted to this Committee for review through the Compensation Manager.

3. Key executives and managers selected to participate in the Plan after its annual effective date (January 1st) may be included on a pro-rata basis.

4. Participation in the Plan one year does not necessarily assure participation in subsequent years. Eligibility requirements for both the position and individual performance must be met continually.

5. Participation continues during any paid time off such as short-term disability (up to six months). Participation ceases with retirement, death, or long-term disability (over six months). In the event participation ceases due to retirement, death, or long term disability, the Participant will be eligible for a Bonus Payment, calculated using the Maximum Bonus Percent and Base Salary up to the time of retirement, death, or long-term disability and the annual performance results for the year in which retirement, death, or long-term disability occurs.

6. A participant who transfers to a position (e.g. through job posting or job elimination) that is not eligible for inclusion in the Plan will be eligible for a pro-rata award based on the actual time employed in the eligible position during the year.

   If, due to unique skills possessed by a participant, the company requests that the participant accept a transfer to a non-bonus eligible position, the participant will remain on the Plan. The participant's eligibility will be reviewed annually as noted in Administrative Rule #4.

7. A participant must be an employee in good standing on 12/31 of the Plan Year in order to receive a bonus. A participant who resigns or is terminated effective during the Plan Year is ineligible for a bonus.

   Participants must maintain satisfactory performance throughout the Plan year in order to be eligible to receive a bonus award payment.

   In addition, a participant whose employment termination has been requested due to job elimination, performance or otherwise for cause will be ineligible for a bonus payment even though the participant is still employed at year-end.

8. Targets and actual performance for Corporate and Division measures will be at actual exchange rates. Targets and actual performance for international

measures where business is conducted in foreign currency will be at prior year's actual rates.

9. Acquisitions and divestitures not included in the annual business plan for the Plan Year will be excluded from the Corporate Sales and/or Net Earnings calculations.

10. Significant changes in historical FASB accounting practices or income tax rates will be included in corporate earnings calculations at the discretion of the Management Organization and Compensation Committee of the Board of Directors.

11. Payments will be made by March 15th of the year following each successive Corporate and Business Unit performance year.

These Administrative Rules indicate Graco's intent. Situations may arise which are not specifically covered by these rules and will require the use of judgment and discretion. Final responsibility for interpretation of these Administrative Rules rests solely with the Vice President, Human Resources.

Exhibit 10.2

STOCK OPTION AGREEMENT
(NON-ISO)

THIS AGREEMENT, made this _______ day of __________________, 2___, by and between Graco Inc., a Minnesota corporation (the "Company") and ________________ (the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to the Graco Inc. Stock Incentive Plan (the "Plan") wishes to grant this stock option to Employee;

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Grant of Option

The Company hereby grants to Employee, the right and option (hereinafter called the "option") to purchase all or any part of an aggregate of _______ shares of Common Stock of the Company, par value $1.00 per share, at the price of $_________ per share on the terms and conditions set forth herein.

2. Duration and Exercisability

A. This option may not be exercised by Employee until the expiration of one (1) year from the date of grant, and this option shall in all events terminate ten (10) years after the date of grant. During the first year from the date of grant of this option, no portion of this option may be exercised. Thereafter this option shall become exercisable in four cumulative installments of 25% as follows:

Date	Total Portion of Option Which is Exercisable
One Year after Date of Grant	25%
Two Years after Date of Grant	50%
Three Years after Date of Grant	75%
Four Years after Date of Grant	100%

In the event that Employee does not purchase in any one year the full number of shares of Common Stock of the Company to which he/she is entitled under this option, he/she may, subject to the terms and conditions of Section 3 hereof, purchase such shares of Common Stock in any subsequent year during the term of this option.

B. During the lifetime of the Employee, the option shall be exercisable only by him/her and shall not be assignable or transferable by him/her otherwise than by will or the laws of descent and distribution.

3. Effect of Termination of Employment

A. In the event that Employee shall cease to be employed by the Company or its subsidiaries for any reason other than his/her gross and willful misconduct, death, retirement (as defined in Section 3. D. below), or disability (as defined in Section 3. D. below), Employee shall have the right to exercise the option at any time within one month after such termination of employment to the extent of the full number of shares he/she was entitled to purchase under the option on the date of termination, subject to the condition that no option shall be exercisable after the expiration of the term of the option.

B. In the event that Employee shall cease to be employed by the Company or its subsidiaries by reason of his/her gross and willful misconduct during the course of his/her employment, including but not limited to wrongful appropriation of Company funds or the commission of a felony, the option shall be terminated as of the date of the misconduct.

C. If the Employee shall die while in the employ of the Company or a subsidiary or within one month after termination of employment for any reason other than gross and willful misconduct and shall not have fully exercised the option, all remaining shares shall become immediately exercisable and such option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

D. If the Employee's termination of employment is due to retirement (either after attaining age 55 with 10 years of service, or attaining age 65), or due to disability within the meaning of the provisions of the Graco Long-Term Disability Plan subject to the conditions that no option shall be exercisable after the expiration of the terms of the option, all remaining shares shall become immediately exercisable and the option may be exercised by the Employee at any time within three years of the Employee's retirement, subject to the condition that no option shall be exercisable after the expiration of the term of the option. In the event of the death of the Employee within the three-year period after retirement, the option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of shares he/she was entitled to purchase under the option on the date of death, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

E. Notwithstanding anything to the contrary contained in this Section 3, if the Employee chooses to terminate his/her employment by retirement (as defined in Section 3. D. above) and has not given the Company written notice, by correspondence to his/her immediate supervisor and the Chief Executive Officer, of said intention to retire not less than six (6) months prior to the date of his/her retirement, then in such event for purposes of this Agreement said termination of employment shall be deemed to be not a retirement but a termination subject to the provisions of Section 3. A. above, provided, however, that in the event that the Chief Executive Officer, in his/her sole discretion and judgement, determines that termination of employment by retirement of the Employee without six (6) months prior written notice is in the best interests of the Company, then such retirement shall be subject to Section 3. D. above.

4. Manner of Exercise

A. The option can be exercised only by Employee or other proper party within the option period delivering written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the option is being exercised and, except as provided in Section 4. C., accompanied by payment-in-full of the option price for all shares designated in the notice.

B. The Employee may, at Employee's election, pay the option price either by check (bank check, certified check, or personal check) or by delivering to the Company for cancellation shares of Common Stock of the Company which have been held by the Employee for not less than six (6) months with a fair market value equal to the option price. For these purposes, the fair market value of the Company's Common Stock shall be the closing price of the Common Stock on the date of exercise on the New York Stock Exchange (the "NYSE") or on the principal national securities exchange on which such shares are traded if the shares are not then traded on the NYSE. If there is not a quotation available for such day, then the closing price on the next preceding day for which such a quotation exists shall be determinative of fair market value. If the shares are not then traded on an exchange, the fair market value shall be the average of the closing bid and asked prices of the Common Stock as reported by the National Association of Securities Dealers Automated Quotation System. If the Common Stock is not then traded on NASDAQ or on an exchange, then the fair market value shall be determined in such manner as the Company shall deem reasonable.

C. The Employee may, with the consent of the Company, pay the option price by arranging for the immediate sale of some or all of the shares issued upon exercise of the option by a securities dealer and the payment to the Company by the securities dealer of the option exercise price.

5. Payment of Withholding Taxes

Upon exercise of any portion of this option, Employee shall pay to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements which arise as a result of the exercise of the option or provide the Company with satisfactory indemnification for such payment. Such amount may be paid by the Employee by delivering to the Company for cancellation shares of Common Stock of the Company with a fair market value equal to the minimum amount of such withholding tax requirement by (i) electing to have the Company withhold common shares otherwise to be delivered with a fair market value equal to the minimum statutory amount of such taxes required to be withheld by the Company, or (ii) electing to surrender to the Company previously owned common shares with a fair market value equal to the amount of such minimum tax obligation.

6. Change of Control

A. Notwithstanding Section 2(a) hereof, the entire option shall become immediately and fully exercisable on the day following a "Change of Control" and shall remain fully exercisable until either exercised or expiring by its terms. A "Change of Control" means:

(1) acquisition by any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act of 1934), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 under the 1934 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 an 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 Company common stock or other Company voting securities 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 6, a Trust Person shall not be deemed to have beneficial ownership of the Company common stock or other Company voting securities owned by The Graco Foundation or any employee benefit plan of the Company, including, without limitations, the Graco Employee Retirement Plan and the Graco Employee Stock Ownership Plan,
(v) an acquisition by the Employee or any group that includes the Employee, 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 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 stockholders, 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 stockholders of the Company of a complete liquidation or dissolution of the Company.

B. A Change of Control shall not be deemed to have occurred with respect to an Employee if:

(1) the acquisition of the 25% or greater interest referred to in subparagraph A.(1) of this Section 6 is by a group, acting in concert, that includes the Employee 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 subsections (4) or (5) of this section by a group, acting in concert, that includes that Employee.

7. Adjustments

If there shall be any change in the number or character of the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, dividend in the form of stock (of whatever amount), stock split or other change in the corporate structure of the Company, and all or any portion of the option shall then be unexercised and not yet expired, appropriate adjustments in the outstanding option shall be made by the Company, in order to prevent dilution or enlargement of option rights. Such adjustments shall include, where appropriate, changes in the number of shares of Common Stock and the price per share subject to the outstanding option.

8. Miscellaneous

A. This option is issued pursuant to the Plan and is subject to its terms. A copy of the Plan has been given to the Employee. The terms of the Plan are also available for inspection during business hours at the principal offices of the Company.

B. This Agreement shall not confer on Employee any right with respect to continuance of employment by the Company or any of its subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time. Employee shall have none of the rights of a shareholder with respect to shares subject to this option until such shares shall have been issued to him/her upon exercise of this option.

C. The Company shall at all times during the term of the option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

GRACO INC.

By Its Chief Executive Officer

Employee

Stock Incentive Plan
Schedule Identifying Non-ISO Stock Option Agreements Executed and
Material Details in which Executed Agreements Differ from Agreement Copy Filed
Current as of March 29, 2002

DATE	NAME	SHARES	PRICE
June 25, 2001	David A. Roberts*	50,000	$31.20
February 22, 2002	David M. Lowe	7,500	$41.38
February 22, 2002	David A. Roberts*	40,000	$41.38
February 22, 2002	James A. Graner	5,000	$41.38
February 22, 2002	D. Christian Koch	7,500	$41.38
February 22, 2002	Robert M. Mattison	5,000	$41.38
February 22, 2002	Mark W. Sheahan	5,000	$41.38
February 22, 2002	Steve L. Bauman	5,000	$41.38
February 22, 2002	Patrick J. McHale	7,500	$41.38
February 22, 2002	Fred A. Sutter	7,500	$41.38
February 22, 2002	Charles L. Rescorla	10,000	$41.38
February 22, 2002	Dale D. Johnson	10,000	$41.38

* Option agreement does not contain Section 3.E.

EXHIBIT 11

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

(Unaudited)

	Thirteen Weeks Ended Mar. 29, 2002	Thirteen Weeks Ended Mar. 30, 2001
	(in thousands except per share amounts)	
Net earnings applicable to common shareholders for basic and diluted earnings per share	$15,546	$13,120
Weighted average shares outstanding for basic earnings per share	31,306	30,561
Dilutive effect of stock options computed using the treasury stock method and the average market price	614	568
Weighted average shares outstanding for diluted earnings per share	31,920	31,129
Basic earnings per share	$ 0.50	$ 0.43
Diluted earnings per share	$ 0.49	$ 0.42