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 July 1, 1994

Commission File Number: 1-9249

GRACO INC
(Exact name of Registrant as specified in its charter)

Minnesota	41-0285640
(State of incorporation)	(I.R.S. Employer Identification Number)

4050 Olson Memorial Highway	
Golden Valley, Minnesota	55422
(Address of principal executive offices)	Zip Code)

(612) 623-6000
(Registrant's telephone number, including area code)

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

Yes X No

11,629,204 common shares were outstanding as of July 1, 1994.

GRACO INC. AND SUBSIDIARIES

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PART I

GRACO INC. AND SUBSIDIARIES

Item 1 CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 1994	June 25, 1993	July 1, 1994	June 25, 1993
	(In thousands except per share amounts)			
Net sales	$94,179	$79,415	$175,109	$157,226
Cost of products sold	49,952	40,094	92,446	81,696
Gross profit	44,227	39,321	82,663	75,530
Product development	3,566	2,865	7,122	5,642
Selling	22,789	20,791	45,088	40,231
General and administrative	10,659	9,306	20,147	18,456
Operating profit	7,213	6,359	10,306	11,201
Interest expense	480	537	848	1,143
Other expense, net	138	158	177	272
Earnings before income taxes	6,595	5,664	9,281	9,786
Income taxes	2,400	1,550	3,250	3,100
Net earnings	$4,195	$4,114	$6,031	$6,686
Net earnings per common share	$0.36	$0.36	$0.52	$0.59
Cash dividend per common share	$0.14	$0.13	$0.28	$0.25

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	July 1, 1994 (Unaudited)	December 31, 1993
	(In thousands)	
Current Assets:		
Cash and cash equivalents	$2,577	$11,095
Marketable securities	0	26,345
Accounts receivable, less allowancces of $4,700 and $4,100	74,833	62,178
Inventories	48,874	35,719
Deferred income taxes	9,542	8,843
Other current assets	4,037	3,079
Total current assets	139,863	147,259
Property, plant and equipment:		
Cost	135,915	129,876
Less accumulated depreciation	(75,475)	(72,132)
	60,440	57,744
Other assets	10,986	11,362

	$211,289	$216,365

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Notes payable to banks	$20,066	$3,234
Current portion of long-term debt	5,606	5,543
Trade accounts payable	18,860	16,737
Dividends payable	1,628	32,535
Income taxes payable	4,481	5,658
Other current liabilities	37,503	35,904
Total current liabilities	88,144	99,611
Long-term debt, less current portion above	13,544	13,937
Retirement benefits and deferred compensation	29,312	28,132
Shareholders' equity:		
Preferred stock	1,474	1,485
Common stock	11,629	11,449
Additional paid-in capital	22,268	19,813
Retained earnings	44,875	42,430
Other, net	43	(492)
	80,289	74,685
	$211,289	$216,365

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Twenty-Six Weeks Ended July 1, 1994	June 26, 1993
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net earnings	$6,031	$6,686
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,157	4,860
Deferred income taxes	(549)	257
Change in:		
Accounts receivable	(11,644)	3,552
Inventories	(12,868)	3,989
Trade accounts payable	1,895	(5,066)
Accrued salaries	(872)	(1,211)
Retirement benefits and deferred compensation	1,025	2,028
Other accrued liabilities	1,097	(7,829)
Other	(831)	(3,327)
	(11,559)	3,939
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(7,659)	(6,023)
Proceeds from sale of property, plant, and equipment	169	626
Purchases of marketable securities	(5,464)	(7,512)
Proceeds from marketable securities	31,809	5,806
	18,855	(7,103)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes payable, net change	16,643	(2,807)
Payments on long-term debt	(332)	(192)
Common stock issued	2,774	2,378
Retirement of common and preferred stock	(5)	(1,750)
Cash dividends paid	(34,493)	(2,919)
	(15,413)	(5,290)
Effect of exchange rate changes on cash	(401)	170
Net decrease in cash and cash equivalents	(8,518)	(8,284)

Cash and cash equivalents:		
Beginning of year	11,095	18,869
End of period	$2,577	$10,585

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet as of July 1, 1994, the consolidated statements of earnings for the twenty-six weeks ended July 1, 1994, and June 25, 1993, and the consolidated statements of cash flows for the twenty-six weeks then ended have been prepared by the Company without being audited.

   In the opinion of management, these consolidated statements reflect all adjustments necessary to present fairly the financial position of Graco Inc. at July 1, 1994, and June 25, 1993, 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 1993 Form 10-K.

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

2. Major components of inventories were as follows:

	July 1, 1994	Dec. 31,1993
	(In thousands)	
Finished products and components	$47,017	$42,010
Products and components in various stages of completion	28,455	21,410
Raw Materials	10,195	8,642
Reduction to LIFO cost	(36,793)	(36,343)
	$48,874	$35,719

Item 2. GRACO INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Net earnings in the second quarter of $4,195,000 increased $81,000 from the same period a year ago as higher operating earnings were nearly offset by a higher tax rate. Net earnings of $6,031,000 for the first half of 1994 were $655,000 below 1993 as increased sales, up 11 percent over 1993, were more than offset by a lower gross margin rate and higher expenses.

Sales in the second quarter of $94,179,000 increased $14,764,000, or 19 percent, from the same period in 1993. Second quarter sales in the Americas increased 27 percent overall to $66,424,000. Contractor Equipment sales increased 33 percent, Lubrication Equipment sales were up 24 percent and Industrial/Automotive Equipment rose 21 percent, with new product sales and an expanding economy driving the increases. Sales in Europe were up 7 percent to $15,072,000 (a 12 percent volume increase, offset 5 percent due to exchange rates). In the Pacific, sales were down 4 percent to $12,683,000 (a 9 percent volume decline, and a gain of 5 percent on exchange rates).

Sales for the six months were $175,109,000, an 11 percent increase over the same period last year. In the Americas, sales increased 20 percent to $125,108,000. European sales were down 1 percent to $27,125,000 (a volume increase of 4 percent, offset by a 5 percent exchange rate loss). Sales in the Pacific decreased 9 percent to $22,876,000 (a 14 percent volume decline and a 5 percent exchange rate gain.)

Gross profit margins decreased during the second quarter 1994 to 47 percent of sales from 50 percent for the same period in 1993, primarily due to an increased volume of lower-margin, large engineered systems.

Operating expenses in the second quarter of $37,014,000 increased $4,052,000, or 12 percent, from the second quarter of 1993. Product development expense increased 24 percent over 1993, as previously announced spending increases continued. Selling expenses were up 10 percent, while general and administrative expenses were up 15 percent. Approximately half of the increase in selling and general and administrative expense is attributable to costs associated with the Company's ongoing cost reduction efforts. Operating expenses for the six months increased $8,028,000, or 12 percent.

Because of operating losses at certain of its foreign subsidiaries for which no tax benefit has been recorded, Graco has increased its expected annual tax rate for 1994 to 35 percent, resulting in a 36 percent tax rate for the second quarter.

For the second quarter, overall bookings were up 17 percent. Bookings were very strong in the Americas, up modestly in Europe, and down in the Pacific. Backlog at July 1, 1994 was $30 million, down $3 million from the beginning of the quarter, but an increase of $7 million from $23 million on June 25, 1993.

The Company expects continued strong performance in the Americas and improved performance in Europe as the economies there continue to strengthen. The Pacific, and Japan in particular, remain weak. The Company is encouraged by the increase in its bookings. It intends to continue making investments in manufacturing efficiency and new product development, and is striving for a more efficient global sales and marketing organization to improve its financial performance.

Financial Condition

Accounts receivable increased $11,644,000 from the prior year-end due to the increased sales volume, and inventories increased $12,868,000 primarily in the Minneapolis production areas and in Europe. Property, plant and equipment totaling $7,659,000 was purchased year-to-date. Marketable securities were sold to fund the special one-time dividend of $31,200,000 which was paid in March of this year.

The Company has unused lines of credit available at July 1, 1994, totaling $28 million.

PART II

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on May 3, 1994, George Aristides, Ronald O. Baukol, Joe R. Lee and Gerard C. Planchon were elected to the Office of Director with the following votes:

	For	Withheld
George Aristides	9,673,251	64,396
Ronald O. Baukol	9,674,586	63,061
Joe R. Lee	9,675,011	62,635
Gerard C. Planchon	9,671,077	66,570

At the same meeting, the Graco Inc. Nonemployee Director Stock Plan was presented for approval. The plan allows nonemployee members of the Board of Directors to receive, in lieu of cash, part or all of their annual cash retainer in Graco Common Stock. The plan was approved, with the following votes:

For	Against	Abstentions	Broker Non-Vote
9,594,427	110,380	32,840	0

At the same meeting, the selection of Deloitte & Touche as independent auditors for the current year was approved and ratified, with the following votes:

For	Against	Abstentions	Broker Non-Vote
9,706,530	17,371	13,746	0

No other matters were voted on at the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Nonemployee Director Stock Plan	Exhibit 10.1
1994 Corporate and Business Unit Annual Bonus Plan	Exhibit 10.2
Stock Option Agreement. Form of Agreement used for award of non-incentive stock options to executive officers	Exhibit 10.3
Statement on Computation of Per Share Earnings	Exhibit 11

(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: August 8, 1994

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

Date: August 5, 1994

By: /s/ Robert A. Wagner
Robert A. Wagner
Vice President and Treasurer
(Principal Financial Officer)

Exhibit 10.1

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

1. Purpose of the Plan. The purpose of the Graco Inc. Nonemployee Director Stock Plan (the "Plan") is to provide an opportunity for nonemployee members of the Board of Directors (the "Board") of Graco Inc. ("Graco" or the "Company") to increase their ownership of Graco Common Stock ("Common Stock") and thereby align their interest in the long-term success of the Company with that of the other shareholders.

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

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

4. Election to Receive Stock and Stock Issuance.

4.1. Election to Receive Stock in Lieu of Cash. On forms provided by the Company, each Eligible Director may irrevocably elect ("Stock Election") to receive, in lieu of cash, shares of Common Stock having a Fair Market Value, as defined in Section 4.3, equal to 25%, 50%, 75% or 100% of the annual cash retainer (the 'Retainer") payable to that director for services rendered as a director ("Participating Director"). A Stock Election shall apply only to the Retainer and not to any fees payable for attendance at Board or Committee meetings. Eligible Directors are customarily paid the Retainer in quarterly installments in arrears at the end of each fiscal quarter. Any Stock Election must be received by the Company at least six months in advance of the commencement of the first fiscal quarter with respect to which such election is made. Any Stock Election may only be amended or revoked ("Amended Stock Election") in accordance with the procedure set forth in Section 4.4.

4.2. Issuance of Stock in Lieu of Cash. Shares of Graco Common Stock having a Fair Market Value equal to the amount of the Retainer so elected shall be issued to each Participating Director when each quarterly installment of the Retainer is customarily paid. The Company shall not issue fractional shares. Whenever, under the terms of this Plan, a fractional share would be required to be issued, an amount in lieu thereof shall be paid in cash for such fractional share based upon the same Fair Market Value as was utilized to determine the number of Shares to be issued on the relevant issue date. In the event that a Participating Director elects to receive less than 100% of each quarterly installment of the Retainer in shares of Common Stock, he shall receive the balance of the quarterly installment in cash.

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

4.4. Change in Election. Each Participating Director may irrevocably elect in writing to change an earlier Stock Election, either to receive a different percentage of that director's Retainer in shares of Common Stock or to receive the entire Retainer in cash (an "Amended Stock Election"). Such Amended Stock Election shall not become effective until the first fiscal quarter commencing at least six months after the date of receipt of such Amended Stock Election by the Company.

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

5. Shares Available for Issuance.

5.1. Maximum Number of Shares Available. The maximum number of shares of the Company's Common Stock, par value $1.00 per share, that will be available for issuance under this Plan will be 100,000 shares, subject to any adjustments made in accordance with the provisions of Section 5.2. At the election of the

Administrator, the shares of Common Stock available for issuance under this Plan may be either authorized but unissued shares or treasury shares. If treasury shares are used, all references in the Plan to the issuance of shares will be deemed to mean the transfer of shares from treasury.

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

6. Limitation on Rights of Eligible and Participating Directors.

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

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

7. Plan Amendment, Modification and Termination. The Board may suspend or terminate this Plan at any time. The Board may amend this Plan from time to time in such respects as the Board may deem advisable in order that this Plan will conform to any change in applicable laws or regulations or in any other respect that the Board may deem to be in the Company's best interests; provided, however, that no amendments to this Plan will be effective without approval of the Company's shareholders, if shareholder approval of the amendment is then required pursuant to Rule 16b-3 (or any successor rule) under the Securities Exchange Act of 1934, as amended, or the rules of the New York Stock Exchange. In addition, the Plan may not be amended more than once every six months other than to conform it with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, or the rules thereunder.

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

9. Miscellaneous.

9.1 Securities Law and Other Restrictions. Notwithstanding any other provision of this Plan or any Stock Election or Amended Stock Election delivered pursuant to this Plan, the Company will not be required to issue any shares of Common Stock under this Plan and a Participating Director may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to this Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body that the Administrator, in his or her sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company, in order to comply with such securities law or other restriction.

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

Exhibit 10.2

GRACO INC.

1994 CORPORATE

&

BUSINESS UNIT

ANNUAL BONUS PLAN

Effective January 1, 1994
Human Resources

GRACO INC.

CORPORATE & BUSINESS UNIT

ANNUAL 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 earnings

- Business Units
  Profitability objective

Eligibility Requirements

Only those positions which carry clear managerial responsibility for directly contributing to Graco's Corporate earnings objective and Business Unit profitability and sales 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 earnings objective and Business Unit profitability and sales objectives.

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

Based on these criteria, bonus maximums ranging from 10% to 80% 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 earnings performance (expressed in percent) to the bonus results attained for any applicable Business Unit's contribution or margin 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 insure 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 President, 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 participa tion 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 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. The pro-rated award will be paid as described in Administrative Rule #11.

7. 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 performance or otherwise for cause will be ineligible for a bonus payment even though the participant is still employed at year-end.

8. Corporate earnings calculations will include such effects as those created by foreign exchange gain/loss translation and income tax rate changes.

9. Corporate earnings calculations will be based on actual exchange rates, not plan rates.

10. Acquisitions and divestitures not included in the annual business plan for the Plan Year will be excluded from the corporate earnings calculations.

11. 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.

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

Exhibit 10.3

STOCK OPTION AGREEMENT
(NON-ISO)

THIS AGREEMENT, made this 2nd day of May, 1994, by and between Graco Inc., a Minnesota corporation (the "Company") and _____________________________ (the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to it's Long-Term Incentive Stock 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 ____________ Common Shares, 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 two (2) years from the date of grant, and this option shall in all events terminate ten (10) years after the date of grant. During the first two years 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
Two Years after Date of Grant	25%
Three Years after Date of Grant	50%
Four Years after Date of Grant	75%
Five 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 exerciseable 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), all remaining shares shall become immediately exerciseable and the option may be exercised by the Employee at any time within three years of the employee's retirement, or 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.

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 Common Shares of the Company with a fair market value equal to the option price. For these purposes, the fair market value of the Company's Common Shares shall be the closing price of the Common Shares on the date of exercise on the New York Stock Exchange (the "NYSE") or on the principal national securities exchange on which the 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 Shares as reported by the National Association of Securities Dealers Automated Quotation System. If the Common Shares are 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.

6. Adjustments

If Employee exercises all or any portion of the option subsequent to any change in the number or character of the Common Shares of the Company (through merger, consolidation, reorganization, recapitalization, stock dividend, or otherwise), Employee shall then receive for the aggregate price paid by him/her on such exercise of the option, the number and type of securities or other consideration which he/she would have received if such option had been exercised prior to the event changing the number or character of outstanding shares.

7. Miscellaneous

(a) This option is issued pursuant to the Company's Long-Term Incentive Stock 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 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: Chairman and Chief Executive Officer

____

Employee

EXHIBIT NO. 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 1994	June 25, 1993	July 1, 1994	June 25, 1993
	(In thousands except per share amounts)			
Net earnings applicable to common stock:				
Net earnings	$4,195	$4,114	$6,031	$6,686
Less dividends on preferred stock	19	19	37	37
	$4,176	$4,095	$5,994	$6,649
Average number of common and common equivalent shares outstanding:				
Average number of common shares outstanding	11,514	11,392	11,514	11,372
Dilutive effect of stock options computed on the treasury stock	49	86	57	71
	11,563	11,478	11,571	11,443
Net earnings per common share and common equivalent share	$0.36	$0.36	$0.52	$0.58

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