

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 31, 1995.

Commission File Number: 1-9249

GRACO INC.

(Exact name of Registrant as specified in its charter)

Minnesota

(State of incorporation)

41-0285640

(I.R.S. Employer Identification Number)

4050 Olson Memorial Highway

Golden Valley, Minnesota

(Address of principal executive offices)

55422

(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

11,489,516 common shares were outstanding as of March 31, 1995.

GRACO INC. AND SUBSIDIARIES

INDEX

Page Number

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings	3
Consolidated Balance Sheets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	7
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PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K	8
--	---

SIGNATURES	9
------------	---

Stock Option Agreement (Non-ISO)
Computation of Net Earnings per Common Share
Financial Data Schedule

Exhibit 10
Exhibit 11
Exhibit 27

PART I

GRACO INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF EARNINGS
 (Unaudited)

Item 1.

Thirteen Weeks Ended
 March 31, 1995 April 1, 1994
 (In thousands except per share amounts)

Net sales	\$95,527	\$80,930
Cost of products sold	49,000	42,494
Gross profit	46,527	38,436
Product development	3,921	3,556
Selling	21,690	22,299
General and administrative	11,100	9,488
Operating profit	9,816	3,093
Interest expense	684	368
Other expense, net	396	39
Earnings before income taxes	8,736	2,686
Income taxes	3,300	850
Net earnings	\$5,436	\$1,836
Net earnings per common share	\$0.47	\$0.16
Cash dividend per common share	\$0.16	\$0.14

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	March 31, 1995	December 31, 1994
ASSETS		
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$809	\$2,444
Accounts receivable, less allowances of \$5,167 and \$4,700	80,097	75,589
Inventories	54,589	50,529
Deferred income taxes	12,086	11,755
Other current assets	2,799	3,628
Total current assets	150,380	143,945
Property, plant and equipment:		
Cost	151,774	145,164
Less accumulated depreciation	(77,767)	(75,124)
	74,007	70,040
Other assets	14,590	14,400
	\$238,977	\$228,385
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$21,706	\$11,675
Current portion of long-term debt	5,916	5,685
Trade accounts payable	17,588	19,764
Dividends payable	1,820	1,857
Income taxes payable	7,943	5,761
Other current liabilities	40,426	44,798
Total current liabilities	95,399	89,540
Long-term debt, less current portion above	24,460	26,798
Retirement benefits and deferred compensation	31,233	30,196
Shareholders' equity:		
Preferred stock	1,474	1,485
Common stock	11,495	11,366
Additional paid-in capital	20,242	18,289
Retained earnings	54,270	50,702
Other, net	404	9
	87,885	81,851
	\$238,977	\$228,385

See notes to consolidated financial statements.

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

Thirteen Weeks Ended
March 31, 1995 April 1, 1994

CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net earnings	\$5,436	\$1,836
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,282	2,600
Deferred income taxes	(292)	(340)
Change in:		
Accounts receivable	(3,044)	(5,213)
Inventories	(3,848)	(6,231)
Trade accounts payable	(2,405)	(1,216)
Accrued salaries	(3,770)	(2,154)
Retirement benefits and deferred compensation	1,342	938
Other accrued liabilities	671	(1,747)
Other	1,297	(852)
	(1,331)	(12,379)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(7,526)	(2,711)
Proceeds from sale of property, plant, and equipment	322	123
Purchases of marketable securities	0	(5,464)
Proceeds from marketable securities	0	31,450
	(7,204)	23,398
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	33,557	10,155
Payments on notes payable	(23,739)	(1,053)
Payments on long-term debt	(2,210)	0
Common stock issued	2,071	2,663
Cash dividends paid	(1,905)	(32,829)
	7,774	(21,064)
Effect of exchange rate changes on cash	(874)	66
Net decrease in cash and cash equivalents	(1,635)	(9,979)
Cash and cash equivalents:		
Beginning of year	2,444	11,095
End of period	\$809	\$1,116

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet as of March 31, 1995, the consolidated statements of earnings for the thirteen weeks ended March 31, 1995, and April 1, 1994, and the consolidated statements of 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 necessary to present fairly the financial position of Graco Inc. at March 31, 1995, and April 1, 1994, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1994 Form 10-K.

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

2. Major components of inventories were as follows:

	Mar. 31, 1995	DEC. 30, 1994
Finished products and components	\$50,406	\$46,694
Products and components in various stages of completion	28,086	24,826
Raw materials	11,169	13,918
Reduction to LIFO cost	(35,072)	(34,909)
	\$54,589	\$50,529

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 first quarter of \$5,436,000 increased \$3,600,000 from the same period a year ago as the Company continues to have strong sales in the Americas and growth in Europe and in most of the Pacific, despite the economic downturn in Japan. In addition to increased sales, gross margin levels have improved from 1994 and operating expenses as a percent of sales have declined due primarily to cost reduction efforts taken in 1994.

Sales in the first quarter of \$95,527,000 increased \$14,597,000, or 18 percent, from the same period in 1994. Sales in the Americas increased 11 percent to \$65,115,000, and European sales were up 35 percent to \$16,242,000 (a 23 percent volume increase, and a 12 percent gain due to exchange rates). In the Pacific (excluding Japan), sales increased 79 percent to \$8,542,000 (a 78 percent volume increase, and a gain of 1 percent on exchange rates). In Japan, sales increased 4 percent to \$ 5,628,000 (a 7 percent volume decrease offset by a gain of 11 percent on exchange rates).

Operating expenses of \$36,711,000 increased \$1,368,000, or 4 percent, from the first quarter of 1994. Product development expense increased 10 percent over 1994, as previously announced initiatives continue. Selling expenses were 3 percent lower than the same period last year, largely due to lower headcount levels associated with the Company's cost reduction efforts taken in 1994. General and administrative costs were up by 17 percent, due primarily to expense items related to increased profitability and special charges.

The income tax rate for the quarter was 38 percent compared to 32 percent for the same period in 1994. The increase was due primarily to foreign results effectively taxed at higher rates.

For the quarter, consolidated bookings were up 4%. Bookings were up modestly in all regions, with the most significant improvement in Europe. Backlog at March 31, 1995 was \$28,000,000, approximately 11 percent higher than it was on December 30, 1994 and 14 percent lower than the first quarter of 1994.

The Company expects continued strong performance in the Americas and improved performance in Europe as the economies there continue to strengthen. Performance in Japan remains weak. The Company 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

Cash was used for operating activities and fixed asset additions. Accounts receivable increased \$4,508,000 from the prior year-end due to the increased sales volume, and inventories increased \$4,060,000 primarily in production. Property, plant and equipment totaling \$7,526,000 was purchased during the first quarter.

The Company has unused lines of credit available at March 31, 1995, totaling \$15 million.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Stock Option Agreement Form of Agreement used for award of non-incentive stock options to executive officers, dated March 1, 1995.	Exhibit 10
Statement on Computation of Per Share Earnings	Exhibit 11
Financial Data Schedule	Exhibit 27

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

SIGNATURES

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

GRACO INC.

Date: May 11, 1995

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

Date: May 11, 1995

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

STOCK OPTION AGREEMENT
(NON-ISO)

THIS AGREEMENT, made this day of , 199 , by and between Graco Inc., a Minnesota corporation (the "Company") and (the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to its 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 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), 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, 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 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

Thirteen Weeks Ended
 March 31, 1994 April 1, 1994
 (In thousands except per share amounts)

Net earnings applicable to common stock:

Net earnings	\$5,436	\$1,836
Less dividends on preferred stock	19	19
	\$5,417	\$1,817

Average number of common and common equivalent shares outstanding:

Average number of common shares outstanding	11,416	11,515
Dilutive effect of stock options computed on the treasury stock method	83	65
	11,499	11,580

Net earnings per common share and common equivalent share	\$0.47	\$0.16
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Primary and fully diluted earnings per share are substantially the same.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS AND CONSOLIDATED BALANCE SHEETS FOR THE QUARTERLY PERIOD ENDING MARCH 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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GRACO INC.
1,000

3-MOS		
	DEC-29-1995	
	MAR-31-1995	809
		0
		85,264
		5,167
		54,589
	150,380	151,774
		77,767
	238,977	
95,399		30,376
		11,495
1,474		0
		74,916
238,997		95,527
	95,527	49,000
		49,000
	37,791	
	544	
	684	
	8,736	
	3,300	
5,436		0
	0	0
		0
	5,436	
	.47	
	.47	