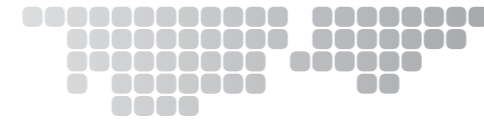




STAYING POWER
Yesterday - Today - Tomorrow



Corporate Mission

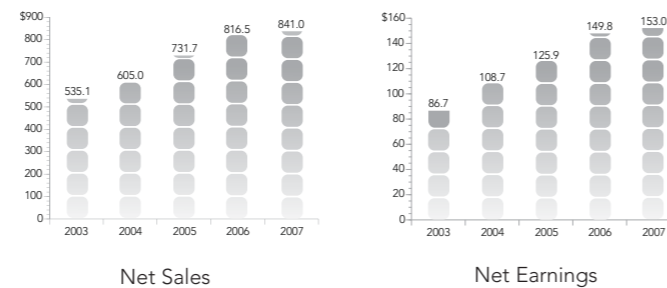
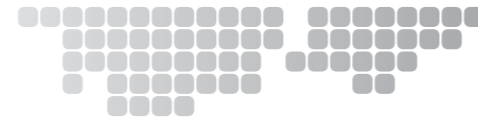
Graco's mission is to generate sustained profitable growth to benefit its customers, employees, shareholders and communities. We will be the world's leading supplier of fluid management products and packages in the markets we target.

Corporate Vision

We will grow revenues by 10 percent and net earnings by 12 percent per year. We will significantly grow sales outside North America by opening new markets, offering new products and improving business processes. Graco's goal is to have at least 30 percent of each year's revenues from products introduced in the last three years and to have at least 5 percent of each year's revenues from sales in markets entered in the last three years. We will actively pursue focused strategic acquisitions where we can add significant value.

Corporate Profile

Founded in 1926, Graco is a world leader in fluid handling systems and components. Graco products move, measure, control, dispense and spray a wide range of fluids in Industrial, Contractor and Lubrication applications. The Company's success is based on its unwavering commitment to technical excellence, world-class manufacturing and superior customer service. Working closely with specialized distributors, Graco offers products that set the quality standard for spray finishing, paint circulation, lubrication, sealants and adhesives, and contractor power equipment. Graco's ongoing investment in fluid management and controls will continue to provide innovative solutions to a diverse global market. The Company has its corporate headquarters in Minneapolis, Minnesota, and employs approximately 2,200 people worldwide. Graco common stock (ticker symbol: GGG) is listed on the New York Stock Exchange.



Letter To Shareholders

Graco's 2007 strong double-digit sales growth in Europe and Asia Pacific helped offset weakness in North American housing related businesses. I am confident that our efforts to grow the global sales of Graco will continue to drive positive results for employees and shareholders in the years to come.

2007 Business Review

Some of this year's highlights include:

- Record sales of \$841 million, up 3 percent from 2006
- Record net earnings of \$153 million, up 2 percent from 2006
- Record earnings per share of \$2.32, up 7 percent from 2006
- Repurchased approximately 5.9 million shares of stock
- Paid dividends to shareholders of \$43 million
- Successful first full year of operation of our new assembly plant in Suzhou, China
- Installed new automated production and warehouse equipment at the David A. Koch facility in Rogers, Minnesota
- Consolidated Lubrication operations in our new 207,000 square foot facility in Anoka, Minnesota
- Completed a building expansion at our North Canton, Ohio and Sioux Falls, South Dakota, manufacturing facilities
- Signed an agreement to acquire the GlasCraft division from Cohesant Technologies, Inc.

Graco is a strong company and our growth will continue. To achieve this, we are focused on expanding distribution, penetrating new markets, developing new products and making strategic acquisitions.

Global Expansion is Key to Stability

In 2007 Graco continued to build its global presence with significant investments in Europe and Asia. We enter developing markets early with products engineered to meet specific customer needs. Our expanding international network of distributors drives incremental growth. Our goal remains the same worldwide — combine Graco's proven quality and leading technology with strong distributor partners to create market leadership in targeted areas.

Our distribution network continued to expand and get stronger in 2007. Superior sales force, customer service, technical assistance, training and marketing programs provide ongoing support for our international distributor network.

We have thousands of authorized distributors promoting and selling Graco products in over 100 countries and we continue to add more qualified distributors to represent our product lines.

- Graco added more than 100 industrial distributors and 90 paint store outlets in targeted growth areas in Europe. Specialized distribution and Graco sales application groups have created room for further focused business opportunities in the region.
- To meet demands in the Asia Pacific region, we opened new offices in India and Vietnam and added 150 new distributors in the last two years.

Product Development Spurs Growth

Our customers demand products that improve their productivity, eliminate waste, or improve throughput. Marketing and engineering work closely with our customers to determine needs and develop superior products that deliver these benefits.

New products drive incremental sales and/or protect our leading market positions and are an important component of our organic growth.

Graco's objective is to generate 30 percent of our annual revenue from products introduced during the past three years. In 2007, we invested \$30 million in product development, which represented 3.6 percent of our net sales. Twenty-one percent of our 2007 revenue came from products that were introduced within the last three years.

- In 2007, we completed the integration of the Gusmer and Graco product lines and emerged with the broadest platform of foam spraying systems for insulation contractors in the world.
- Our Contractor segment launched the first two-in-one FinishPro™ series of fine finish sprayers, which allow users to spray low-viscosity fine finish materials at lower pressures in air-assisted airless mode or paints and other heavier materials in airless mode.
- Graco's Process business in the Industrial segment increased substantially in 2007, spurred by the launch of a new series of FDA-compliant sanitary diaphragm pumps.

New Markets

One of Graco's key business goals is to generate at least five percent of each year's sales from markets that we entered during the past three years. We search for new markets that leverage our strengths, including manufacturing, product development, global distribution, and management discipline. A fact-based, ROI-driven plan manages risk and measures our success.

- Our Industrial segment aggressively pursued several new markets in 2007. The Process group has strong initiatives underway to meet the sanitary market needs in Europe. Targeted industries include food and beverage processors and cosmetic and pharmaceutical manufacturers.
- In our Finishing business we are expanding our share of the custom wood manufacturing segment through specialized, market-focused distributors and new product development.

Acquisitions

Expansion into new markets through acquisitions is one of Graco's key business goals. Acquisition candidates are companies within our sphere of knowledge that increase shareholder value. Ideal businesses are ones where we can leverage our distribution channel, our manufacturing skills and our engineering expertise. In November, we announced an agreement to purchase the GlasCraft division from Cohesant Technologies, Inc. in 2008. GlasCraft manufactures dispense systems for polyurethane foam, polyurea coatings and composites.

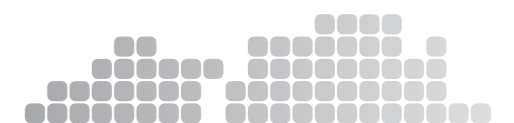
In 2007, we completed the consolidation of Lubriquip, Inc., a business we acquired in 2006, into our Lubrication Equipment operations. With Lubrication operations centralized at our new facility in Anoka, Minnesota, we will experience the benefits of improved operational efficiencies, faster launch times and stronger margins.

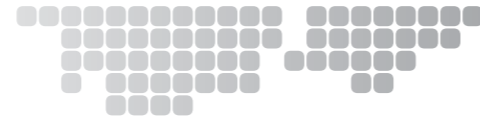
Summary

The downturn in the U.S. housing market affected a portion of Graco's business, causing 2007 results to fall short of our near-term goals. That said, Graco's broad and growing product line and global distribution channel offer a measure of stability and tremendous growth potential. Our geographic diversity, particularly our leading role in expansive Asia Pacific and European markets, provides a steady source of new sales. Finally, our products serve a great diversity of end markets, many of which are providing excellent income streams.

Throughout our more than 80-year history, Graco has weathered adverse regional, national and global events that have affected our business. We have endured each event, and in fact, have become even stronger. Our strategies to develop new products, expand distribution and enter new markets have been successful for over eight decades, and we will continue on this proven path.

Patrick J. McHale,
President and Chief Executive Officer





At-A-Glance

Industrial Segment

The Industrial segment designs and markets products for the liquid finishing, process, sealants, adhesives, protective coatings and foam markets. In 2007, this business segment generated 53 percent of Graco's total sales, or \$445 million, up 7 percent over 2006 sales. The customers for our liquid finishing and process products are primarily manufacturers that transfer fluids such as paints and chemicals. Our pumps move fluids from drums and tanks through our proportioning equipment to our spray guns and dispensers. Customers using our protective coatings equipment apply materials used for protecting surfaces like bridges, water towers and ships from the elements, as well as traditional foam insulation in residential, commercial and industrial buildings. The segment's sealant and adhesive equipment is used by manufacturers to bond and seal assembled parts.



Contractor Segment

The Contractor segment designs and markets sprayers used to apply paint, architectural coatings and texture materials, as well as sprayers for pressure cleaning. Distributors of our products sell to painting, roofing, texture, corrosion control, line striping contractors and trades people. Our equipment is highly regarded for its durability and ease of use, as well as its ability to deliver high-quality finishes at rapid production rates. In addition, the Contractor segment designs and markets a line of sprayers for the non-professional through the home center market. In 2007, the segment generated \$307 million in sales, 36 percent of the Company's total sales, down 4 percent compared to the previous year.



Lubrication Segment

As a leader in the lubrication equipment industry for more than eight decades, Graco continues to expand its presence. The Lubrication segment designs and markets products to lubricate and maintain vehicles and in-plant equipment. It supplies products and systems to oil change facilities, service garages, fleet service centers, automobile dealerships, mines and manufacturing companies. This segment continued its push to expand its served market potential with the acquisition of Lubriquip, Inc. in 2006, a company that supplies products to the industrial and mobile lubrication markets. Sales from the segment have grown steadily and, in 2007, the segment generated \$90 million in sales, constituting 11 percent of the company's total sales, up 13 percent over the previous year.



Executive Officers (left to right): Karen Gallivan, Jim Graner, Dale Johnson, Jeff Johnson, David Lowe, Simon Paulis, Chuck Rescorla, Mark Sheahan and Brian Zumbolo.

Products

Pumps and Sprayers

- Air, electric, gas and hydraulic
- Transfer fluids to dispense and spray

Controls

- Electronic and mechanical fluid control
- Manage flow, pressure and mix

Applicators

- Automatic and manual dispense valves and spray guns
- Spray or dispense fluids

Accessories

- Fittings, regulators, hoses
- Auxiliary components for complete product solutions

Key Markets Served

Industrial Equipment

- Aerospace
- Automotive/truck/bus assembly
- Automobile repair shops
- Process industries
- Farm and construction equipment
- General industrial assembly
- Medical/electrical
- Fabrication and molding
- Foam insulation contractors
- Industrial coating contractors
- Marine and rail
- Furniture
- Food

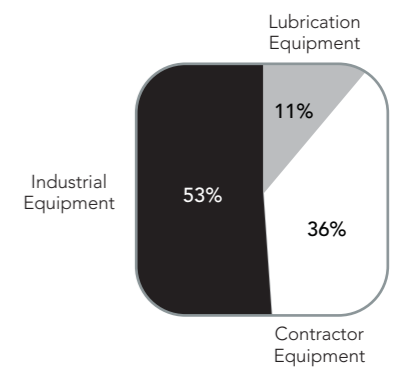
Contractor Equipment

- Painting and specialty contractors
- Ceiling and wall texture
- Remodeling
- Line striping

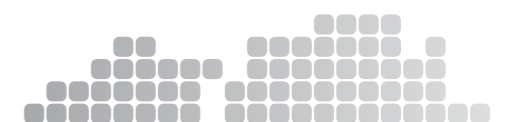
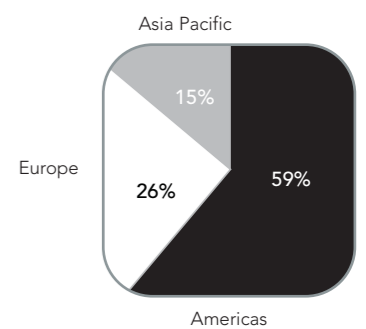
Lubrication Equipment

- Automotive machine tool
- General machine tool
- Natural gas transmission
- Automotive/truck/bus assembly
- General industrial assembly
- Food/beverage
- Pulp/paper
- On-road/off-road mobile
- Primary metals

Segment Sales



Global Sales



AMERICAS



In 2007, the weak U.S. housing market was the single largest challenge to sales of construction-related Graco products. Other markets, however, were strong including aerospace, foam insulation and infrastructure.

Because many solid long-term growth opportunities exist in the Americas, Graco continues to invest in new product development, expand distribution networks and penetrate new markets to strengthen its leadership position.

Integrating Businesses

- We transferred Lubriquip operations from Cleveland, Ohio, and Madison, Wisconsin, to our new Lubrication Equipment Division facility in Anoka, Minnesota. The new facility houses Graco's entire lubrication infrastructure, including manufacturing, marketing, sales, engineering and training.
- We moved our mobile installation spray rig manufacturing and customer service functions from Mississauga, Ontario, to our North Canton, Ohio factory.

Product Highlights

- Diaphragm pump sales in the Americas grew in 2007. Gains were seen in sales of air-operated double diaphragm pumps and packages in the food processing, cosmetic, pharmaceutical, printing, and oil production sectors. Sales were spurred by new products targeting these expanding sectors.
- The aerospace industry used Graco sealant and adhesive equipment to seal windows, seams and rivets. We look forward to continued growth in this sector in 2008.
- In 2007, Graco introduced technology to automatically measure and mark parking lots and road lines using the new Auto-Layout LineLazer™ IV.

- Sales of PRO™ electrostatic spray guns increased throughout the Americas as the result of end users searching for technologies to reduce finishing costs, improve quality and reduce volatile organic compounds (VOC) emissions.
- Graco hosted its first North American Industrial Road Show, a mobile display in a customized tractor-trailer that made scheduled stops at 42 locations. The Road Show generated market awareness, increased sales, and gave nearly 2,000 industrial end users hands-on experience with Graco's industrial products.

Growth Opportunities

- We completed the integration of Gusmer and Graco product lines and emerged with the broadest platform of foam spraying equipment for insulation contractors in the world. Sales of Reactor® proportioners experienced double-digit growth in the Americas during 2007.
- We consolidated and standardized the number of electrical modules that monitor and control our products. Our new Graco control architecture allows us to decrease product development time and use electronics that have proven successful on other products. The modular design also creates a uniform operating system, which provides customers worldwide with a common interface.

From our modest beginnings in 1926 to our established position as a leader in the fluid handling market, Graco is proud to have its headquarters and build most of its products right in the heart of the U.S.A. Our ability to design, manufacture, warehouse, and support customers in the United States remains the bedrock on which our successful and growing worldwide enterprise stands.



Foam insulation being applied with a Graco Reactor proportioner and Fusion® gun



ASIA
PACIFIC



Asia Pacific is experiencing an economic expansion, due to favorable labor rates, construction of new factories, local consumer demand, and an overall boom in infrastructure. These macro drivers are the foundation for long-term growth for Graco.

An increase of 18 percent in the Contractor and Industrial segments resulted in record Asia Pacific sales in 2007. The region generated \$125 million, which accounts for 15 percent of Graco's total 2007 sales.

Asia's economy was strong in 2007, especially in China and India, prompting high demand for Graco products. Product and market diversity contributed to robust growth and success in these emerging markets. Graco's factory in Suzhou, China, in its first full year of operation, met or surpassed all productivity and efficiency goals, and maintained all planned service levels.

Product Highlights

- Goods such as cameras, computers, cell phones and car electronics are some of the fastest-growing industries in the Asia Pacific region. Efforts in 2007 to position Graco's electronic proportioners and supply pumps as the systems of choice for these consumer manufacturers have paid off with double-digit growth.
- Contractors are using Graco airless sprayers throughout Beijing, China, to prepare for the 2008 Olympic Games.
- One of the world's largest producers of wind turbines for the fast-growing wind energy industry purchased Graco equipment for plants in India and China. The equipment dispenses plural component resins for making composite blades.
- The launch of Xtreme® Sprayers with NXT® Technology in China resulted in double-digit growth over previous sprayers, spurred by high sales to shipyards throughout the region.

- Our sales of precision adhesive dispensing systems doubled in Japan, Korea and China, meeting the demand generated by automotive manufacturers building new facilities.
- The launch of the Dyna-Star® 10:1 pump module for the mobile off-road automotive lubrication market resulted in triple-digit growth of this product family in Europe and Asia Pacific.

Growth Opportunities

Teaching contractors to transition from brush and roller application techniques to Graco sprayers is a key target for current and future sales growth.

- Graco opened its first Professional Spray Experience Center in Shanghai's largest construction material district. Featuring a Graco sprayer on a revolving display in the window, our storefront is an eye-catching standout on a street of paint suppliers. Contractors can see product demonstrations, as well as learn and practice spray techniques. This hands-on experience is paying off in sales of our contractor equipment.
- New apartment communities with 1,000 to 2,000 units are popular in China. Graco, working with contractors, has established model apartments in these communities that were painted with Graco sprayers. Other contractors are motivated to purchase spray equipment when customers see these models and give their business to contractors who offer the value and quality of spray application.

Building on our success in 2007, we will continue to grow our infrastructure and capabilities in the Asia Pacific region and will continue our strategy to expand our global presence.



New Professional Spray Experience Center in Shanghai, China



EUROPE



Graco operations in Europe prospered in 2007 with double-digit growth in all segments. European sales grew to \$216 million, a 23 percent increase over the region's 2006 sales, representing 26 percent of Graco's 2007 total sales.

A positive business environment in Europe, coupled with new product introductions and marketing strategies, strengthened sales throughout the region in 2007.

Product Highlights

- A new series of NXT pumps and sprayers generated strong sales in industrial and protective coatings markets especially in the Middle East, where end users need equipment that can pump and spray higher solids coatings and withstand harsh environments.
- Graco launched the PR70 Dispensing System, our first global two-component metering/mixing/dispensing platform. With this product, Graco grew its business in automotive and consumer electronics.
- The 2007 launch of E-Flo® electric pumps targeted manufacturers in need of high-volume paint circulating systems. This new technology helps manufacturers significantly reduce energy costs.
- Xtreme Mix™ plural component sprayers with Viscon® heaters were used to apply a protective coating on an oil pipeline in Abu Dhabi, United Arab Emirates. This product pairing lets contractors apply a uniform coating that cures rapidly, allowing exposed pipes to be backfilled within an hour.

Sales That Exceeded Expectations

- Graco Reactor foam sprayers set a fast sales pace with contractors as consumers became more familiar with the energy savings achieved by foam insulation.
- Sales of proportioners, spray guns and our new Xtreme Pumps with NXT Technology increased more than 20 percent over 2006 sales.
- The European sales for texture sprayers and line strippers grew respectively by 19 and 30 percent.

Growth Opportunities

- Our focus on service and training has been rewarded with a growing image of Graco's brand in Europe, resulting in new partnerships with major material manufacturers and retail organizations.
- Graco Europe established an electronic information system to communicate product and promotional information to distributors, and to send prospective end-users personalized information about Graco products and programs.
- Graco Europe also developed Road Shows with specially equipped trucks designed to introduce end users to Graco products. The Contractor and Industrial segments had four show trucks on the road simultaneously, logging nearly 2,600 product demonstrations.

With more new product introductions and launch activities on the horizon, we are confident that our strong presence in Europe and our growing business in the Middle East and Africa will ensure continued positive results for our shareholders – in 2008 and beyond.



Board of Directors

Lee R. Mitau
Chairman of the Board
Executive Vice President
and General Counsel,
U. S. Bancorp

William J. Carroll
Retired President,
Dana Corporation

Jack W. Eugster
Retired Chairman and
Chief Executive Officer,
Musicland Stores Inc.

J. Kevin Gilligan
Chief Executive Officer,
United Subcontractors, Inc.

Patrick J. McHale
President and
Chief Executive Officer
Graco Inc.

Marti Morfitt
Former President and
Chief Executive Officer,
CNS, Inc.

Mark H. Rauenhorst
Chairman and
Chief Executive Officer,
Opus Corporation

William G. Van Dyke
Retired Chairman,
Donaldson Company, Inc.

R. William Van Sant
Operating Partner,
Stone Arch Capital

Annual Meeting

Shareholders are cordially invited to attend the Annual Meeting, which will be held at 1:00 p.m., April 25, 2008, at Graco's headquarters:

George Aristides Riverside Center

1150 Sibley Street Northeast
Minneapolis, Minnesota 55413
USA

Management

Patrick J. McHale
President and
Chief Executive Officer

Karen Park Gallivan
Vice President, General
Counsel and Secretary

James A. Graner
Chief Financial Officer
and Treasurer

Dale D. Johnson
Vice President and
General Manager,
Contractor Equipment Division

Jeffrey P. Johnson
Vice President and
General Manager,
Asia Pacific

David M. Lowe
Vice President and
General Manager,
Industrial Products Division

Simon J. W. Paulis
Vice President and
General Manager,
Europe

Charles L. Rescorla
Vice President,
Manufacturing and
Distribution Operations

Mark W. Sheahan
Vice President and
General Manager,
Applied Fluid Technologies Division

Brian J. Zumbolo
Vice President and
General Manager,
Lubrication Equipment Division

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Anyang-City, Kyoungki-Province, 431-060
KOREA



Graco Inc. & Subsidiaries 10 Year Financial Summary

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<i>(In thousands, except per share amounts and other statistics)</i>										
Operations:										
Net Sales	\$841,339	\$816,468	\$731,702	\$605,032	\$535,098	\$487,048	\$472,819	\$ 494,373	\$450,474	\$440,585
Gross Profit	447,426	433,957	379,350	328,410	282,802	250,158	234,762	250,852	231,135	219,401
Percent of Sales	53.2%	53.2%	51.8%	54.3%	52.9%	51.4%	49.7%	50.7%	51.3%	49.8%
Operating Earnings	232,480	225,999	191,070	161,531	128,833	112,846	100,182	111,242	93,191	76,873
Percent of Sales	27.6%	27.7%	26.1%	26.7%	24.1%	23.2%	21.2%	22.5%	20.7%	17.4%
Net Earnings	152,836	149,766	125,854	108,681	86,713	75,625	65,266	70,108	59,341	47,263
Percent of Sales	18.2%	18.3%	17.2%	18.0%	16.2%	15.5%	13.8%	14.2%	13.2%	10.7%
Financial Position:										
Current Assets	\$248,832	\$238,983	\$213,898	\$227,226	\$256,106	\$240,524	\$155,497	\$143,742	\$137,989	\$131,320
Current Liabilities	125,877	128,929	111,581	96,773	187,947	80,214	73,253	81,841	78,263	82,966
Working Capital	122,955	110,054	102,317	130,453	68,159	160,310	82,244	61,901	59,726	48,354
Property, Plant & Equipment, Net	140,594	124,524	106,498	94,510	94,317	94,953	98,944	83,989	86,493	96,366
Total Assets	536,724	511,603	445,630	371,714	397,390	355,850	276,113	238,544	236,033	233,702
Long-term Debt (including current portion)	107,060	-	-	-	-	-	550	19,360	66,910	115,739
Shareholders' Equity	244,674	331,004	287,684	230,837	169,810	245,406	173,740	110,855	62,940	9,313
Capital (long-term debt plus shareholders' equity)	351,734	331,004	287,684	230,837	169,810	245,406	174,290	130,215	129,850	125,052
Cash Provided (used) By:										
Operations	\$177,097	\$155,629	\$153,224	\$122,908	\$109,807	\$95,673	\$89,181	\$82,209	\$76,148	\$77,109
Investing, excluding marketable securities	(38,157)	(64,402)	(131,472)	(19,164)	(28,772)	(11,958)	(45,885)	(9,678)	(17,833)	(9,761)
Financing	(138,293)	(102,541)	(65,123)	(153,833)	(69,843)	(5,660)	(28,641)	(68,558)	(56,255)	(77,519)
Other Data:										
Depreciation and Amortization	28,665	\$26,046	\$23,496	\$17,808	\$18,747	\$18,080	\$18,494	\$15,452	\$14,701	\$13,736
Property, Plant and Equipment Additions	36,869	33,652	19,904	16,893	15,515	12,253	30,203	14,523	9,140	11,962
Per Common Share:⁽¹⁾										
Basic Net Earnings	\$2.35	\$2.21	\$1.83	\$1.57	\$1.25	\$1.06	\$0.94	\$1.03	\$0.87	\$0.61
Diluted Net Earnings	2.32	2.17	1.80	1.55	1.23	1.05	0.92	1.01	0.84	0.60
Dividends Paid	0.66	0.58	0.52	1.87 ⁽²⁾	0.22	0.19	0.18	0.17	0.13	0.13
Shareholders' Equity	3.95	4.95	4.21	3.35	2.46	3.44	2.48	1.62	0.91	0.14
Other Statistics:										
Sales Growth	3.0%	11.6%	20.9%	13.1%	9.9%	3.0%	-4.4%	9.7%	2.2%	3.9%
Return on Average Shareholders' Equity	53.1%	48.4%	48.5%	54.3%	41.8%	36.1%	45.9%	80.7%	164.3%	56.7%
Return on Average Capital	44.8%	48.4%	48.5%	54.3%	41.8%	36.0%	42.9%	53.9%	46.6%	32.5%
Long-term Debt/Capital	30.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	14.9%	51.5%	92.6%
Current Ratio	2.0	1.9	1.9	2.3	1.4	3.0	2.1	1.8	1.8	1.6

(1) All per share data has been restated for the three-for-two stock splits.

(2) Includes the special one-time dividend of \$1.50 per share declared December 12, 2003.