UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended **September 26, 2008**

Commission File Number: 001-09249

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 ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	X	Accelerated Filer	
Non-accelerated Filer		Smaller reporting company	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No X

59,513,000 shares of the Registrant's Common Stock, $1.00 par value were outstanding as of October 16, 2008.

GRACO INC. AND SUBSIDIARIES

INDEX

PART II OTHER INFORMATION

PART I

Item 1.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)
(In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net Sales	$ 207,231	$ 207,270	$ 650,581	$ 636,149
Cost of products sold	97,071	96,624	299,805	298,409
Gross Profit	110,160	110,646	350,776	337,740
Product development	9,626	7,087	26,605	22,903
Selling, marketing and distribution	32,420	30,382	102,083	91,562
General and administrative	15,585	14,641	50,142	44,938
Operating Earnings	52,529	58,536	171,946	178,337
Interest expense	1,934	1,034	5,443	1,934
Other expense, net	623	39	606	25
Earnings Before Income Taxes	49,972	57,463	165,897	176,378
Income taxes	17,200	18,200	55,100	59,200
Net Earnings	$ 32,772	$ 39,263	$ 110,797	$ 117,178
Basic Net Earnings per Common Share	$ 0.55	$ 0.61	$ 1.83	$ 1.78
Diluted Net Earnings per Common Share	$ 0.54	$ 0.60	$ 1.81	$ 1.75
Cash Dividends Declared				

per Common Share	$	0.19	$	.17	$	0.55	$	0.50

See notes to consolidated financial statements.

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

	Sep 26, 2008	Dec 28, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,250	$ 4,922
Accounts receivable, less allowances of $6,600 and $6,500	146,820	140,489
Inventories	95,313	74,737
Deferred income taxes	25,609	21,650
Other current assets	5,624	7,034
Total current assets	278,616	248,832
Property, Plant and Equipment		
Cost	322,933	306,073
Accumulated depreciation	(176,030)	(165,479)
Property, plant and equipment, net	146,903	140,594
Prepaid Pension	34,264	31,823
Goodwill	87,224	67,204
Other Intangible Assets, net	53,505	41,889
Other Assets	6,884	6,382
Total Assets	$ 607,396	$ 536,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 16,519	$ 18,991
Trade accounts payable	24,559	27,379
Salaries, wages and commissions	19,408	20,470
Dividends payable	11,016	11,476
Other current liabilities	48,063	47,561
Total current liabilities	119,565	125,877
Long-term Debt	191,855	107,060
Retirement Benefits and Deferred Compensation	40,428	40,639
Uncertain Tax Positions	1,800	5,400
Deferred Income Taxes	19,257	13,074
Shareholders' Equity		
Common stock	59,522	61,964
Additional paid-in-capital	172,107	156,420
Retained earnings	10,111	32,986
Accumulated other comprehensive income (loss)	(7,249)	(6,696)
Total shareholders' equity	234,491	244,674
Total Liabilities and Shareholders' Equity	$ 607,396	$ 536,724

See notes to consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007
Cash Flows From Operating Activities		
Net Earnings	$ 110,797	$ 117,178
Adjustments to reconcile net earnings to		
net cash provided by operating activities		
Depreciation and amortization	23,310	20,770
Deferred income taxes	(3,850)	(3,059)
Share-based compensation	7,072	6,297
Excess tax benefit related to share-based		
payment arrangements	(2,923)	(4,154)
Change in		
Accounts receivable	(4,989)	(7,383)
Inventories	(16,466)	(907)
Trade accounts payable	(775)	(1,477)
Salaries, wages and commissions	(1,236)	(7,697)
Retirement benefits and deferred compensation	(2,141)	(1,848)
Other accrued liabilities	788	6,150
Other	1,114	(1,589)
Net cash provided by operating activities	110,701	122,281
Cash Flows From Investing Activities		
Property, plant and equipment additions	(20,778)	(28,207)
Proceeds from sale of property, plant and equipment	1,633	207
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(1,130)	(43)
Acquisitions of businesses, net of cash acquired	(39,780)	--
Net cash used in investing activities	(61,554)	(29,542)
Cash Flows From Financing Activities		
Net borrowings (payments) on short-term lines of credit	(2,779)	(1,704)
Borrowings on long-term line of credit	188,869	85,680
Payments on long-term line of credit	(104,074)	--
Excess tax benefit related to share-based		
payment arrangements	2,923	4,154
Common stock issued	13,528	22,545
Common stock retired	(114,341)	(164,910)
Cash dividends paid	(33,693)	(32,800)
Net cash provided by (used in) financing activities	(49,567)	(87,035)
Effect of exchange rate changes on cash	748	(1,804)
Net increase (decrease) in cash and cash equivalents	328	3,900
Cash and cash equivalents		
Beginning of year	4,922	5,871
End of period	$ 5,250	$ 9,771

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of September 26, 2008 and the related statements of earnings for the thirteen and thirty-nine weeks ended September 26, 2008 and September 28, 2007, and cash flows for the thirty-nine weeks ended September 26, 2008 and September 28, 2007 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of September 26, 2008, 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 2007 Annual Report on 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. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net earnings available to common shareholders	$ 32,772	$ 39,263	$ 110,797	$ 117,178
Weighted average shares outstanding for basic earnings per share	59,769	64,797	60,521	65,836
Dilutive effect of stock options computed using the treasury stock method and the average market price	596	921	647	998
Weighted average shares outstanding for diluted earnings per share	60,365	65,718	61,168	66,834
Basic earnings per share	$ 0.55	$ 0.61	$ 1.83	$ 1.78
Diluted earnings per share	$ 0.54	$ 0.60	$ 1.81	$ 1.75

Stock options to purchase 2,114,000 and 1,043,000 shares were not included in the 2008 and 2007 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

3. Information on option shares outstanding and option activity for the thirty-nine weeks ended September 26, 2008 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 28, 2007	3,779	$ 28.63	2,228	$ 21.41
Granted	779	36.23		
Exercised	(412)	16.66		
Canceled	(210)	38.94		
Outstanding, September 26, 2008	3,936	$ 30.85	2,193	$ 24.94

The aggregate intrinsic value of exercisable option shares was $25.4 million as of September 26, 2008, with a weighted average contractual term of 4.5 years. There were approximately 3.9 million vested share options and share options expected to vest as of September 26, 2008, with an aggregate intrinsic value of $25.4 million, a weighted average exercise price of $30.76 and a weighted average contractual term of 6.4 years.

Information related to options exercised in the first nine months of 2008 and 2007 follows (in thousands):

	Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007
Cash received	$ 6,864	$ 15,290
Aggregate intrinsic value	8,645	16,625
Tax benefit realized	3,100	6,200

The Company recognized year-to-date share-based compensation of $7.1 million in 2008 and $6.3 million in 2007. As of September 26, 2008, there was $9.8 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.3 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007
Expected life in years	6.0	6.0
Interest rate	3.2%	4.7%
Volatility	25.0%	26.1%
Dividend yield	2.1%	1.6%
Weighted average fair value per share	$ 8.43	$ 12.01

Under the Company's Employee Stock Purchase Plan, the Company issued 216,000 shares in 2008 and 202,000 shares in 2007. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007
Expected life in years	1.0	1.0
Interest rate	1.5%	4.9%
Volatility	27.1%	24.4%
Dividend yield	2.1%	1.6%
Weighted average fair value per share	$ 8.14	$ 9.79

---

4. The components of net periodic benefit cost (credit) for retirement benefit plans were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Pension Benefits				
Service cost	$ 920	$ 1,231	$ 3,724	$ 4,211
Interest cost	2,896	2,855	9,186	8,622
Expected return on assets	(4,536)	(4,496)	(14,236)	(14,096)
Amortization and other	233	204	528	749
Net periodic benefit cost (credit)	$ (487)	$ (206)	$ (798)	$ (514)
Postretirement Medical				
Service cost	$ 168	$ 75	$ 418	$ 375
Interest cost	286	360	1,036	975
Amortization	(13)	(518)	(13)	55
Net periodic benefit cost (credit)	$ 441	$ (83)	$ 1,441	$ 1,405

The Company paid $1.5 million in June 2008 and $1.5 million in June 2007 for contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans. These insurance contracts will be used to fund the non-qualified pension and deferred compensation arrangements. The insurance contracts are held in a trust and are available to general creditors in the event of the Company's insolvency. Cash surrender value of $2.7 million and $1.5 million is included in other assets in the consolidated balance sheet as of September 26, 2008 and December 28, 2007, respectively.

5. Total comprehensive income was as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net earnings	$ 32,772	$ 39,263	$ 110,797	$ 117,178
Cumulative translation adjustment	(346)	88	(377)	202
Pension and postretirement medical liability adjustment	164	64	353	194
Gain (loss) on interest rate hedge contracts	(211)	(89)	(634)	(89)
Income taxes	23	9	107	(40)
Comprehensive income	$ 32,402	$ 39,335	$ 110,246	$ 117,445

Components of accumulated other comprehensive income (loss) were (in thousands):

	Sep 26, 2008	Dec 28, 2007
Pension and postretirement medical liability adjustment	$ (5,449)	$ (5,672)
Gain (loss) on interest rate hedge contracts	(1,471)	(1,072)
Cumulative translation adjustment	(329)	48
Total	$ (7,249)	$ (6,696)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. The Company does not track assets by segment. Sales and operating earnings by segment for the thirteen and thirty-nine weeks ended September 26, 2008 and September 28, 2007 were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net Sales				
Industrial	$ 117,685	$ 107,791	$ 365,028	$ 327,137
Contractor	67,751	76,649	215,992	240,631
Lubrication	21,795	22,830	69,561	68,381
Consolidated	$ 207,231	$ 207,270	$ 650,581	$ 636,149
Operating Earnings				
Industrial	$ 35,874	$ 37,597	$ 117,847	$ 111,570
Contractor	15,226	21,016	49,663	66,662
Lubrication	3,409	2,584	12,333	7,844
Unallocated corporate (expense)	(1,980)	(2,661)	(7,897)	(7,739)
Consolidated	$ 52,529	$ 58,536	$ 171,946	$ 178,337

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

	Sep 26, 2008	Dec 28, 2007
Finished products and components	$ 53,954	$ 46,677
Products and components in various		

stages of completion	31,068	24,805
Raw materials and purchased components	43,977	37,311
	128,999	108,793
Reduction to LIFO cost	(33,686)	(34,056)
Total	$ 95,313	$ 74,737

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
September 26, 2008					
Customer relationships	3 - 8	$ 37,820	$ (11,852)	$ (40)	$ 25,928
Patents, proprietary technology and product documentation	3 - 15	23,858	(10,373)	(17)	13,468
Trademarks, trade names and other	3 - 10	4,714	(3,524)	9	1,199
		66,392	(25,749)	(48)	40,595
Not Subject to Amortization:					
Brand names		12,910	-	--	12,910
Total		$ 79,302	$ (25,749)	$ (48)	$ 53,505
December 28, 2007					
Customer relationships and distribution network	4 - 8	$ 26,102	$ (11,092)	$ 29	$ 15,039
Patents, proprietary technology and product documentation	5 - 15	22,243	(7,720)	16	14,539
Trademarks, trade names and other	3 - 10	4,684	(2,555)	22	2,151
		53,029	(21,367)	67	31,729
Not Subject to Amortization:					
Brand names		10,160	-	--	10,160
Total		$ 63,189	$ (21,367)	$ 67	$ 41,889

Amortization of intangibles was $2.7 million in the third quarter of 2008 and $7.6 million year-to-date. Estimated annual amortization expense is as follows: $10.1 million in 2008, $9.7 million in 2009, $8.7 million in 2010, $7.7 million in 2011, $7.0 million in 2012 and $5.0 million thereafter.

9. Components of other current liabilities were (in thousands):

	Sep 26, 2008	Dec 28, 2007
Accrued self-insurance retentions	$ 8,098	$ 7,842
Accrued warranty and service liabilities	7,591	7,084
Accrued trade promotions	5,727	6,480
Payable for employee stock purchases	4,107	5,829
Income taxes payable	3,132	678
Other	19,408	19,648
Total	$ 48,063	$ 47,561

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

	Thirty-nine Weeks Ended Sep 26, 2008	Year Ended Dec 28, 2007
Balance, beginning of year	$ 7,084	$ 6,675
Charged to expense	4,931	6,053
Margin on parts sales reversed	3,014	3,186
Reductions for claims settled	(7,438)	(8,830)
Balance, end of period	$ 7,591	$ 7,084

10. The examination of the Company's U.S. income tax returns for 2004 and 2005 was completed in the first quarter of 2008. Completion of the examination resulted in a payment of approximately $1 million and reductions of uncertain tax positions totaling approximately $4 million. The settlement of the examination decreased the Company's effective tax rate for the year-to-date to 33 percent.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years prior to 2002.

11. In February 2008, the Company acquired GlasCraft Inc. for approximately $35 million cash. GlasCraft has an office and manufacturing facility in Indianapolis, Indiana and had sales of approximately $18 million in 2007. It designs, manufactures and sells spray systems for the composites manufacturing industry and high performance dispense systems for the polyurethane foam and polyurea coatings industries. The products, brands, distribution channels and engineering capabilities of GlasCraft expand and complement the Company's Industrial Equipment business.

The purchase price was allocated based on estimated fair values as follows (in thousands):

Accounts receivable and prepaid expenses	$ 2,200
Inventories	3,700
Deferred income taxes	700
Property, plant and equipment	700
Identifiable intangible assets	18,200
Goodwill	17,700
Total purchase price	43,200
Current liabilities assumed	(1,000)
Deferred income taxes	(6,900)
Net assets acquired	$ 35,300

Identifiable intangible assets and weighted average estimated useful life are as follows (dollars in thousands):

Product documentation (5 years)	$ 900
Customer relationships (6 years)	14,100
Proprietary technology (3 years)	500
Total (6 years)	15,500
Brand name (indefinite useful life)	2,700
Total identifiable intangible assets	$18,200

None of the goodwill or identifiable intangible assets is expected to be deductible for tax purposes.

In fiscal September, the Company acquired the assets of Lubrication Scientifics, Inc. (LubeSci) for approximately $5 million cash. LubeSci designed and manufactured automated lubrication equipment used in industrial markets and had sales of approximately $3 million in 2007.

The purchase price has not been finalized and is subject to final determination of acquired asset and liability balances. The preliminary purchase price was allocated based on estimated fair values as follows (in thousands):

Inventories and other current assets	$	500
Property, plant and equipment		600
Identifiable intangible assets		900
Goodwill		2,500
Net assets acquired	$	4,500

Identifiable intangible assets and weighted average estimated useful life are as follows (dollars in thousands):

Customer relationships (5 years)	$ 600
Proprietary technology (5 years)	300
Total (5 years)	$ 900

Goodwill and identifiable intangible assets are expected to be deductible for tax purposes.

12. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements." This statement establishes a consistent framework for measuring fair value and expands disclosures on fair value measurements. SFAS No. 157 was effective for the Company starting in fiscal 2008 with respect to financial assets and liabilities. The impact of the initial adoption of SFAS No. 157 in 2008 had no impact on the consolidated financial statements.

    The Company uses significant other observable inputs to value the derivative instruments used to hedge interest rate volatility and net monetary positions. The fair market value of such instruments follows (in thousands):

	Sep 26, 2008		Dec 28, 2007	
Gain (loss) on interest rate hedge contracts	$	(2,334)	$	(1,700)
Gain (loss) on foreign currency forward contracts		324		(282)
Total	$	(2,010)	$	(1,982)

    With respect to non-financial assets and liabilities, SFAS No. 157 is effective for the Company starting in fiscal 2009. The Company has not determined the impact, if any, the adoption of this statement as it pertains to non-financial assets and liabilities will have on its consolidated financial statements.

    In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This statement expands disclosures but does not change accounting for derivative instruments and hedging activities. The statement is effective for the Company starting in fiscal 2009.

13. In October, the Company acquired the Airlessco® assets of Durotech Co. for approximately $15 million cash. Airlessco® is a line of spray-painting equipment that complements the Company's Contractor Equipment business.

Item 2. **GRACO INC. AND SUBSIDIARIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. Management classifies the Company's business into three reportable segments: Industrial, Contractor and Lubrication. Key strategies include development of new products, expansion of distribution, new market penetration and completion of acquisitions.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts and percentages):

	Thirteen Weeks Ended			Thirty-nine Weeks Ended		
	Sep 26, 2008	Sep 28, 2007	% Change	Sep 26, 2008	Sep 28, 2007	% Change
Net Sales	$ 207.2	$ 207.3	(0)%	$ 650.6	$ 636.1	2 %
Net Earnings	$ 32.8	$ 39.3	(17)%	$ 110.8	$ 117.2	(5)%
Diluted Net Earnings per Common Share	$ 0.54	$ 0.60	(10)%	$ 1.81	$ 1.75	3 %

Foreign currency translation rates had a favorable impact on sales and net earnings. Translated at consistent exchange rates, sales for the quarter and year-to-date were 2 percent and 1 percent lower than last year, respectively, and net earnings decreased 20 percent for the quarter and 12 percent year-to-date.

Sales include $9 million from GlasCraft operations since the date of acquisition, with $3.5 million in the third quarter.

Deteriorating economic conditions in the U.S. and other parts of the world affected sales growth. Strategic investments in product and market development, along with rising costs of doing business, continued to apply pressure on earnings.

Purchases and retirement of approximately 3.1 million shares of Company common stock, including approximately 0.9 million shares in the third quarter, had a positive impact on earnings per share.

Consolidated Results

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Americas [1]	$ 112.8	$ 124.4	$ 360.5	$ 386.4
Europe [2]	57.8	53.1	189.4	161.1
Asia Pacific	36.6	29.8	100.7	88.6
Consolidated	$ 207.2	$ 207.3	$ 650.6	$ 636.1

[1] North and South America, including the U.S.
[2] Europe, Africa and Middle East

Growth in Europe and Asia Pacific offset decreases in contractor and lubrication sales in the Americas. In Europe, sales for the quarter and year-to-date were 9 percent and 18 percent higher than last year, respectively. Translated at consistent exchange rates, sales in Europe increased 2 percent for the quarter and 7 percent year-to-date. Sales in Asia Pacific increased by 23 percent for the quarter and 14 percent year-to-date.

Gross profit margin, expressed as a percentage of sales, was 53.2 percent for the quarter, close to last year’s percentage of 53.4 percent. Changes in geographic and product sales mix in Europe affected the margin rate for the quarter. Year-to-date gross profit margin percentage was 53.9 percent, up from 53.1 percent last year. Favorable currency translation rates added 1.1 percentage points to the year-do-date gross profit margin rate. The effects of higher material and other costs on gross margin rate have been offset by the impact of pricing and manufacturing efficiencies.

Operating expenses are up 11 percent for the quarter and 12 percent for the year-to-date. The effects of currency translation contributed approximately 2 percentage points of the increase for the quarter and 3 percentage points year-to-date. Operating expenses in 2008 include $1.5 million for the quarter from acquired GlasCraft operations and $4 million year-to-date. Continued strategic investments in product and market development also contributed to the increase in operating expenses, including expenses related to the introduction of new product lines in the home center channel, new product development teams and additional sales and marketing personnel in developing countries. Compared to last year, product development expense was up $2.5 million for the quarter and $3.7 million year-to-date.

Year-to-date interest expense is $3.5 million higher than last year due to borrowings used for the purchase and retirement of Company shares and for business acquisitions. Graco repurchased approximately 3.1 million shares of its common stock for $114 million in the first nine months of 2008.

The Company's effective tax rate for the third quarter was 34 percent, up from 32 percent last year. The lower rate in 2007 resulted from expiring statutes of limitations and a higher than expected benefit upon filing of prior year tax returns. The completion of the examination of the Company's income tax returns in the first quarter of 2008 resulted in a lower year-to-date effective tax rate compared to last year.

Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net sales (in millions)				
Americas	$ 54.1	$ 51.6	$ 169.0	$ 156.7
Europe	36.4	34.7	122.2	104.0
Asia Pacific	27.2	21.5	73.8	66.4
Total	$ 117.7	$ 107.8	$ 365.0	$ 327.1
Operating earnings as a percentage of net sales	30%	35%	32%	34%

Strong sales in Asia Pacific (up 27 percent) drove the increase in Industrial segment sales for the quarter. Sales in this segment were 5 percent higher in the Americas and in Europe, although the increase in Europe came from currency translation. Year-to-date sales in this segment are up 18 percent in Europe (approximately 11 percentage points from currency translation), 11 percent in Asia Pacific and 8 percent in the Americas. Most of the sales growth in this segment came from high performance coatings and foam products.

Operating earnings in this segment were affected by selling and product development initiatives and costs and expenses resulting from acquisition and integration related activities. The move of GlasCraft operations from Indiana to the Company's facilities in Ohio, South Dakota and Minnesota will be completed in the fourth quarter.

Contractor

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007
Net sales (in millions)				
Americas	$ 41.7	$ 53.5	$ 135.5	$ 171.2
Europe	19.4	16.6	61.3	52.1
Asia Pacific	6.7	6.6	19.2	17.3
Total	$ 67.8	$ 76.7	$ 216.0	$ 240.6
Operating earnings as a percentage of net sales	22%	27%	23%	28%

In the Contractor segment, sales growth in Europe lessened the impact of continued softness in both the North American paint store and home center channels. Sales for the quarter in this segment were up 16 percent in Europe (including 6 percentage points from currency translation), flat in Asia Pacific and down 22 percent in the Americas. Year-to-date increases in Europe (18 percent increase, including 11 percentage points from currency translation) and in

Asia Pacific (11 percent increase, including 2 percentage points from currency translation) were not enough to offset the 21 percent decrease in the Americas.

The decrease in sales without a corresponding decrease in expenses had a large impact on the operating earnings of this segment. Strategic spending in this segment was for developing products for new markets and the launch and production of new paint sprayer units in the home center channel.

Lubrication

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 26, 2008	Sep 28, 2007	Sep 26, 2008	Sep 28, 2007

Net sales (in millions)				
Americas	$ 17.0	$ 19.3	$ 56.1	$ 58.4
Europe	2.1	1.8	5.8	5.1
Asia Pacific	2.7	1.7	7.7	4.9
Total	$ 21.8	$ 22.8	$ 69.6	$ 68.4
Operating earnings as a percentage of net sales	16%	11%	18%	11%

In the Lubrication segment, third quarter sales increases in Europe and Asia Pacific were not enough to offset a decrease in the Americas. Year-to-date, the increases in Europe and Asia Pacific offset the decrease in the Americas.

Improvement in year-to-date operating profitability is related to the integration and consolidation of Lubrication operations completed in 2007, although segment profitability has also been affected by a sales decline in the higher-margin vehicle services products.

Management intends to integrate all LubeSci operations (acquired in fiscal September) into the Company's facility in Anoka, MN.

Liquidity and Capital Resources

In the first nine months of 2008, the Company used cash and borrowings under its long-term line of credit to purchase and retire $114 million of Company shares. Other significant uses of cash included $40 million for business acquisitions, $34 million for payment of dividends and $21 million for capital additions. Significant uses of cash in the first nine months of 2007 included $165 million for purchases and retirement of Company common stock, $33 million for payment of dividends and $28 million for capital additions.

The increase in inventories since the end of 2007 reflects the acquisition of GlasCraft operations, the higher level of business activity in Europe and Asia Pacific, and a buildup to improve service levels and facilitate integration activities.

At September 26, 2008, the Company had various lines of credit totaling $303 million, of which $98 million was unused. Internally generated funds and unused financing sources provide the Company with the financial flexibility to meet liquidity needs.

Outlook

The renewal of R&D tax credits will have a favorable impact, estimated at approximately $1.5 million, on the Company's provision for income taxes and effective tax rate for the fourth quarter.

While economic conditions have made it difficult to see progress, management continues to implement strategies for business growth. The addition of the Airlessco® product line in October complements the Company's contractor business and the LubeSci acquisition in late August expands its presence in the industrial lubrication business. The strength of the Company's Industrial and international business thus far has softened the effect on financial results. As difficult economic conditions spread to other parts of the world, management will monitor and manage the business accordingly. The Company's strong financial condition and cash flow enable management to continue making long-term investments in key growth strategies including new product development, expanding distribution, entering new markets and pursuing strategic acquisitions.

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, or 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 Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2007 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Item 1A and Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes related to market risk from the disclosures made in the Company's 2007 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, the Vice President and Controller, and the Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2007 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 28, 2007, the Board of Directors authorized the Company to purchase up to 7,000,000 shares of its outstanding common stock, primarily through open-market transactions. This authorization expires on September 30, 2009.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Jun 28, 2008 – Jul 25, 2008	408,566	$ 37.95	408,566	3,542,234
Jul 26, 2008 – Aug 22, 2008	399,000	$ 37.40	399,000	3,143,234
Aug 23, 2008 – Sep 26, 2008	60,000		60,000	3,083,234

$ 37.24

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

None.

Item 6. **Exhibits**

31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a).
32	Certification of the President and Chief Executive Officer and the Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.

SIGNATURES

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

GRACO INC.

Date:	October 22, 2008	By:	/s/Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*
Date:	October 22, 2008	By:	/s/James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*
Date:	October 22, 2008	By:	/s/Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*

Exhibit 31.1

CERTIFICATION

I, Patrick J. McHale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2008

/s/Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James A. Graner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2008

/s/James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 32

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: October 22, 2008

/s/Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Date: October 22, 2008

/s/James A. Graner
James A. Graner
Chief Financial Officer and Treasurer