# GRACO INC.

## Moderator: Caroline M. Chambers
## October 22, 2015
## 10:00 am CT

Operator: Good morning, and welcome to the Third Quarter 2015 Conference Call for Graco Inc. If you wish to access the replay for this call, you may do so by dialing 1-888-203-1112 within the United States or Canada. The dial-in number for international callers is 719-457-0820; the conference ID number is 263158. The replay will be available through October 26, 2015. Graco has additional information available in a PowerPoint slide presentation which is available as part of the webcast player. At the request of the Company, we will open the conference up for questions and answers after the opening remarks from Management.

During this call, various remarks may be made by Management about their expectations, plans, and prospects for the future. These remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item 1(a) of the Company's 2014 Annual Report on Form 10-K and in Item 1(a) of the Company's most recent Quarterly Report on Form 10-Q. These reports are available on the Company's website at www.graco.com and the SEC's website at www.sec.gov. Forward-looking statements reflect Management's current views and speak only as of the time they are made. The Company undertakes no obligation to update these statements in light of new information or future events.

I will now turn the conference over to Caroline Chambers, Vice President, Corporate Controller and Information Systems. Please go ahead.

Caroline M. Chambers: Good morning, everyone. I'm here this morning with Pat McHale and Christian Rothe. Our conference call slides and our third quarter Form 10-Q have been posted on our website.

Last evening, Graco reported third quarter sales of $319 million, net earnings of $51 million, and diluted earnings per share of 86 cents. I'll take a moment to identify individual items that impacted our reported figures so that we can get to organic numbers on a constant currency basis.

Foreign exchange continues to be a significant headwind again this quarter and the effect of foreign translation rates reduced sales by $16 million and reduced net income by $6 million or 10 cents per diluted share. As identified in earlier quarters, we believe the full-year effect of 2015 average currency translation rates as compared to last year will be a headwind on sales of approximately 4% to 5% and 10% to 11% on net earnings as compared to 2014 sales and earnings.

Acquisitions completed in the last 12 months increased sales in the third quarter by about $19 million and contributed $2 million to pretax operating earnings or 2 cents per diluted share. A reconciliation of our operating earnings is included on Page 10 of our slide deck. Year-to-date, the effect of foreign exchange has been largely offset with favorable volume, price, and lower factory costs. The effect of acquired businesses reduced operating margins by one percentage point, and increases in unallocated corporate expenses and spending for regional and product expansion initiatives have also decreased operating margins by another percentage point.

Results for the third quarter also include $2 million from post-closing price adjustments or 2 cents per diluted share related to the sale in April of this year of the Liquid Finishing businesses that were held separate.

Our year-to-date results include after-tax gain on sale and dividend income from the investment of $141 million or $2.36 per diluted share. The effective tax rate for the quarter was 31%, up from

28% last year due to the post-tax dividends received in 2014 from the held separate Liquid Finishing investment. The tax rate for the fourth quarter is expected to be approximately 32% to 33%, and for the full-year to be approximately 28%.

Cash provided by operating activities is $135 million year-to-date. This is net of $54 million of divestiture-related expenses, including taxes, transaction costs, and a contribution to the Company's charitable foundations.

Regarding working capital, the increases in accounts receivable and inventory balances this year reflect acquisitions and organic growth. We continued to do share purchases during the third quarter, and our outstanding share count is now below 56 million shares. Capital expenditures year-to-date were $29 million and our current forecast is for approximately $40 million in cap ex for the full year. Third quarter unallocated corporate expenses are $3 million above last year and are $6 million above 2014 year-to-date primarily due to increased pension, stock compensation, and incremental costs related to the new central warehouse. We expect the full-year 2015 unallocated corporate expenses to be in the range of $7 million to $8 million above last year.

I'll turn the call over to Pat now for further segment and regional discussions.

Patrick J. McHale: Thanks, Carol, and good morning, everyone. I'm going to keep my comments brief this morning as I think the quarter was pretty straightforward. In addition to Caroline's commentary, please refer to our slide deck for additional details.

While our 4% organic growth rate on a constant currency basis for the quarter and year-to-date is at the low end of our expected full-year performance of mid-single-digit growth, we do continue to see opportunities and we're pressing forward with our long-term growth initiatives and our growth investments.

A few notable data points on the quarter: Excluding acquisitions and on a constant currency basis we grew in every region and every reportable segment this quarter with the exception of our Process segment which was down 3% year-over-year. This segment posted declines in both the Americas and EMEA. This segment has some exposure to oil and gas end markets and was also up against difficult comps from a year ago when Lube was its own reportable segment and grew 13% in the Americas and 27% in EMEA in the third quarter. Process will face similar challenges in Q4.

Contractor Americas grew at 8% in the quarter. This was somewhat below the outlook that I gave last quarter of double-digit growth for the second half, but we have one more quarter to go and we believe our second half outlook is still achievable.

Home Center sales were up strong double-digits in the quarter while sales to the Paint Store channel were flat. If you recall, Home Center was flat in Q2 so we did see nice bounce back in Q3. We believe this will also be the case with our Paint Store business as we enter the fourth quarter. Out-the-door sales for both channels were good in the third quarter and we anticipate continued favorable conditions in U.S. construction markets going forward.

In our EMEA region we continue to experience good growth in developed economies of the West and in Central East Europe, offset by a continued large decline in Russia. We expect the large declines in Russia to ease as we move through Q1 of 2016.

In our Asia-Pacific region we continue to see strength in Japan and Korea. The growth in Korea was primarily related to project activity that wrapped up in the third quarter. China grew for us in both bookings and billings in the third quarter, although at a lower single-digit pace. We continue to view China as a market where project activity will be spotty. Australia, India, and Southeast Asia remain challenging.

Moving on to our outlook, please note that we put some additional commentary in our slide deck. We continue to expect mid-single-digit organic growth on a constant currency basis for Graco worldwide for the full-year 2015. The macro is tough. We're up against a difficult Q4 comp from last year where organic growth was up 11%, and we're at the low end of the mid-single-digit range currently, so we have some work to do yet to finish the year. Additionally, in order to achieve our goal of growth in every region and every reportable segment in 2015, Asia also has some ground to make up in Q4 but we believe it's achievable.

Lastly, regarding share repurchases, you may have noted from our 10-Q that we were a little more aggressive on buybacks in Q3. Consistent with what we highlighted on last quarter's call, we're going to be opportunistic and buy shares back during market pullbacks. We have deployed a little bit more than $200 million year-to-date and more than $370 million since the first of last year to buy Graco shares, net of shares issued. In that same timeframe, we spent a similar amount on acquisitions.

With that, Operator, we're ready for questions.

Operator: Thank you. If you do have a question at this time, you may press star, 1 on your touchtone phone. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Your question will be taken in the order that it is received. Once again, that is star, 1 if you do have a question. Please standby for our first question.

We'll go first to Joe Ritchie with Goldman Sachs.

Joe Ritchie: Thanks. Good morning, guys.

Patrick J. McHale: Morning.

Joe Ritchie: So, the growth in North America, specifically in industrial North America was really strong, Pat, especially relative to everything else we're seeing across our coverage. If you could just provide a little bit more color on what you're seeing there and what the trends are in industrial North America, that'd be helpful.

Patrick J. McHale: Yes. You know, you're saying it's strong relative and we don't get that excited about relative performance. But, in general, we still see opportunities. We're launching our new products across our business segments, The Automotive business has stayed reasonably strong. We're seeing activity in Aerospace. You know, I'd say it's not a great demand environment, but it's certainly not terrible and we continue to think that if we do things right, we've got an opportunity to grow here in North America industrial.

Joe Ritchie: Are there any specific end markets right now that are better than others? Are you seeing some strength in Auto or what specifically is driving the strength?

Patrick J. McHale: Yes. I mentioned Auto and Aerospace are a couple of markets that have been reasonably good for us.

Joe Ritchie: Okay. I guess as you kind of head into next quarter, you mentioned that the tough process comp - clearly it's a really tough comp versus 4Q of last year. Given organic growth starting to turn negative in 3Q, and it looks like trends maybe getting a little bit worse; how are you guys thinking about organic growth there just based just on the fact that comps are really, really difficult?

Patrick J. McHale: You know it's hard because we have a short cycle business, but based upon all the work that we've done and the data that we look at, we're viewing the go-forward year over the next quarter as being kind of similar to how we've been running.

Joe Ritchie: Okay. Then maybe one last question. It looks like things are still going well in your Contractor segment, good mid-single-digit type growth this quarter. Just talk us through whether you've started to see any benefit from selling into the non-res markets, some higher margin sprayers, or where we are in that progress.

Christian E. Rothe: Hey, Joe. It's Christian. Yes, we are continuing to see in our Paint Store channel continued improvement in our margins that are related to the product that we're selling into what would be more on the pro side. Obviously as we've talked about throughout the course of this year and as we exited last year, we have a change in the mix that's happening overall for our Contractor business where Home Center has had a really strong growth rate. The result of that is that when you look at our overall margin profile for the Contractor business, it continues to not necessarily look like there's a real recovery that's happening, but we are continuing to see that on the Paint Store side with regard to the high-performance units.

Joe Ritchie: Okay. That's helpful, Christian. I'll get back in queue. Thanks, guys.

Operator: We'll go next to Mike Halloran with Robert Baird.

Michael Halloran: Good morning, guys. So when you think about the core business as it stands today, it sounds like the message you're pushing is tough trends out there but there's some stability within your portfolio. Is that the message as you work into next quarter? Are there any end markets where you're actually seeing core deterioration as you work through the quarter into the fourth quarter or is the environment for you guys tough (sledding) but pretty stable overall?

Patrick J. McHale: Well, we've got a little bit of pressure from oil and gas and that hits the new initiative that we've got and, of course, some of our other business segments have exposure there as well. But we've been pretty consistent all year in terms of our growth outlooks and - although maybe we're at a little bit slower - excuse me, we're a little bit towards the low end of the range. We hung in the range and we're expecting that's going to here continue through the end of the year, so no real surprises out there. It's not a great environment but we don't see the wheels falling off the wagon quite yet.

Michael Halloran: How has the environment impacted the pipeline from a capital point and perspective? Any change in the available properties out there or your ability to go after them?

Patrick J. McHale: Yes. From an M&A perspective I would say we haven't seen any significant change over what we've seen in the last couple of quarters. You know, we don't see a lot of companies looking to sell during the tough times, so it hasn't been, I'd say, a target-rich environment for us.

Michael Halloran: Appreciate it.

Operator: We'll go next to Matt McConnell with RBC Capital Markets.

Matthew McConnell: Thanks. Good morning, guys.

Patrick J. McHale: Good morning.

Matthew McConnell: So just a quick follow-up on that last comment, people not looking to sell here; does that mean that buybacks could remain more aggressive over the coming quarters or should we not read into it that way?

Christian E. Rothe: Yes, this is Christian. I'm not sure I'd read into it that way. As Pat said in his comments and consistent with what we've said, frankly, for a long time, we're in the opportunistic mode. So as the market pulls back from time to time, we use those opportunities to buy back shares. There's no specific objective today right now around how much we want to deploy and exactly what timeframe that will be in.

Matthew McConnell: Okay. Okay. Thanks. Then following up on the comment about Contractor, sticking with that goal for double-digit growth in the second half of the year, is that based on factors you're seeing in the market for resi or non-resi construction activity or is that more specific to Graco?

Patrick J. McHale: No. It's a combination of both. We think the current environment is a good environment for us to operate in. It's the kind of environment where our shows are effective, contractors are willing to buy, our new products are interesting, and people are willing to invest. So we generally think the end market is favorable and then our own performance, of course, across the board will drive that kind of a number for us if we do what we say we're going to do.

Matthew McConnell: Okay. Great. Then following up on Joe's question earlier, just that 5% organic growth in industrial, you know, it's certainly stronger than we would've expected based on the tone we've heard through earnings season from a lot of others so far. Any way you can give us a sense of how much of that is coming from market outgrowth or maybe just equipment upgrades to your products that aren't necessarily related to big capacity additions or some of the backlog you carried into the quarter? Anything else that's contributing to that pretty strong number?

Christian E. Rothe: Hey, Matt. It's Christian. You know, as Pat said, and we've called out a number of times, there's project activity that's going to move things around from quarter-to-quarter, so I wouldn't necessarily read a ton into any individual quarter for us. So, look at it again over the longer-term.

Matthew McConnell: Okay. Thank you.

Operator: We'll go next to Joe Radigan with KeyBanc.

Joe Radigan: Good morning, guys. First in Contractor, the growth you saw in the Home Center channel in the quarter, was there any benefit from stock in there or was that more of a reflection of what you're seeing in terms of sell-through?

Patrick J. McHale: No. There's a combination of sell-through and some stocking initiatives. You know, with the end markets being strong, the retailers are looking at making sure they have product on the shelf to serve demand and that's been favorable for us as well.

Joe Radigan: Okay. Then you typically see some margin compression in Contractor in the fourth quarter. I think it's driven by just ramp costs of new product, you know, introductions. Do you expect that to be the case similarly this year, and how does the new product lineup compare kind of year-over-year?

Christian E. Rothe: Yes. So, Joe, it's Christian. Yes. Absolutely. Q4 is always going to be the low point for the Contractor business and operating margins and we expect that that's going to be the same this Q4 as well. Pat's going to talk about the new products.

Patrick J. McHale: Yes. The Contractor division's very active in terms of their new product development and launch schedule, and we think that we've got a nice healthy launch coming for 2016.

Joe Radigan: Okay. Then, if I could ask one more; can you, Pat, update the progress at Alco and have you - are the new machine tools in place there? I think the original acquisition accretion estimate was 13 cents to 15 cents. How is that - you know, how are you tracking compared to that range? I'm assuming revenues have come in a little lighter, but have you been able to offset that with some additional cost take out?

Patrick J. McHale: Yes. Revenue has come in later. I think we're looking at probably about 11 cents is where we'll end up versus that original estimate that we had. We've approved quite a bit of equipment and some other operational things that we're investing in. Those things haven't really come online yet and started to provide any significant benefits, but I would expect that we should start to see that probably coming into the second half of next year.

Joe Radigan: Okay. Great. Thanks, guys.

Operator: We'll go next to Kevin Maczka with BB&T Capital Markets.

Kevin Maczka: Thanks. Good morning.

Patrick J. McHale: Morning.

Kevin Maczka: So, Pat, on the new energy exposure you have, can you give a little bit of an update there organically, how those businesses are doing on the top line, because those are not in your mid-single-digit organic forecasts for this year but they will next year.

Patrick J. McHale: Yes. That's correct and I think we lapped Alco here in the fourth quarter. But we're looking at teens kind of reduction in the top line in those businesses.

Kevin Maczka: That's what you've seen so far and that looks like the trend that you would expect to continue?

Patrick J. McHale: Yes. I'm not - again, we're going through our first cycle here, so I'm not going to pretend I'm an expert. You're probably going to get a lot better information from the people that are - been in these businesses for a long time, but that's sort of what - that's what we're seeing and that's sort of what I'm expecting going forward. Some of the information coming out from other companies recently has showed some deceleration, so I'm not sure if we're going to get wrapped up in that or not. But on the flipside of that, we're - now we've launched our organic products, our first batch of organic products here, and we've got some more things coming out. So there's some potential for us, I think, to do better than just what the market's going to give us as we move into 2016.

Kevin Maczka: Got it. Shifting back to Industrial, I think Auto and general Industrial are the bigger pieces of that. It doesn't sound like you saw a lot of slowing necessarily in September/October like we've been hearing about. In Auto you called out as very strong in the quarter. What kind of visibility do you have there? Do you expect those two pieces of Industrial, the bigger pieces to kind of continue their recent better trend?

Patrick J. McHale: Yes. I think you're aware we don't have much visibility in our business. You know, we get our bookings report on a weekly basis. I'm always interested on Monday to look and see where we're at. That's a pretty quick book to (shift) kind of a business that we've got and that's part of the reason why we don't want to give too much detail for things that are out there very far.

Kevin Maczka: Got it. Just finally from me, on Asia-Pac and China, I think you had some new leadership there not too long ago. Can give an update on what you're seeing there and maybe how that might help you kind of outperform what the market's doing there?

Patrick J. McHale: Yes. We've done a few things over the course of this year. We've got new country leadership in Japan and India and we think that we've got some strong leaders in those positions and that they're going to help us drive business in those areas. Then more recently here, we've added a couple new commercial directors, one for our Lube business and one for our Contractor business that are headquartered in Shanghai. So, just like anybody, you come into a job, they're going to need some time to get their feet on the ground, but we have made some changes and we think that as we move through next year that those folks are going to add value.

Kevin Maczka: Okay. Got it. Thank you.

Operator: We'll go next to Liam Burke with Wunderlich.

Liam Burke: Thank you. Pat, the dollar continues to be strong vis-à-vis overseas currencies. Are you seeing any stepped up local competition in any of your overseas markets with a stronger dollar?

Patrick J. McHale: No. It hasn't really been a significant issue for us. We were concerned, obviously, coming into this year that that could be the case in some of the markets, but I would say in general we haven't spent a lot of time talking about that or dealing with that around the world.

Liam Burke: Okay. You talked about new product introductions in the Contractor segment. What does the new product pipeline look like outside of Contractor?

Patrick J. McHale: You know, it looks really healthy across the board. Of course, where we're trying to build a good new product pipeline is in the acquired businesses and so we're taking that regular Graco new product development process and the five-year product plan and we're starting to implement those in the acquisitions. So I'm very pleased with where we're at and where we'll be next year in terms of new technologies and new products that we're bringing to the market.

Liam Burke: Great. Thank you, Pat.

Operator: We'll go next to Charley Brady with SunTrust Robinson Humphrey.

Charley Brady: Good morning, guys. How are you?

Patrick J. McHale: How are you?

Charley Brady: Good. Thanks. Pat, just quickly on Contractor, can you talk about the mix, you know, sort of the low, medium, high mix? Has that started yet to start skewing towards the higher margin product? Are we still kind of where we've been for the past 12, 15 months or so?

Patrick J. McHale: So, as Christian tried to communicate, apparently ineffectively - now he's giving me a bad look. Anyway, what you're seeing in Contractor is a masking of the sales of the larger units within the Pro Paint side. So the Pro Paint business on a non-res side really started to get better for us a while ago, and the mix within the Pro Paint channel has been looking better for us. But the Home Center growth has been really strong and so the Home Center margins, when you take a look at the segment in total, the Home Center margins are skewing that down. We've also had some new product launches over the course of the last 12 to 24 months in the small end of our product line on the Pro side that have also been pretty successful.

So it's harder for you to look at the overall number and see it, but, yes, the large units have been increasing nicely as new res has come back.

Charley Brady: Thanks. That's helpful. Just in terms, I guess, kind of (follow-on) the new products, if you look at - I mean, are there more of the higher-margin products coming out from the new product pipeline in Contractor or lower end still?

Christian E. Rothe: So the new products that are coming out in the Contractor business in the last, let's call it 24 months, it's actually been across the range and they've developed a marketing program that's kind of a good, better, best. And it's really focused on trying to get people into that better and best category and it actually looks like it's being quite effective. So I'm pretty happy with that performance thus far. So it's not really on low end or high end, it's actually across the board.

Charley Brady: Got it. Okay. Then just switching back to Industrial again, and I know you talked about the end markets, but specifically on Europe, I mean, if you back up the currency, it's a plus 8%, which aside from the fact that everyone's talking down Industrials, Europe in itself is kind of soft. Can you focus just on Europe and where you're seeing the strength in there?

Patrick J. McHale: Yes. Strength - well, are you talking geographically or by product mix?

Charley Brady: Well, I guess - I mean, I'm looking at 8% growth in Industrials in Europe, which is surprisingly strong. I'm just kind of just trying to understand - wrap my head around where you're seeing that and how that's happening.

Christian E. Rothe: Yes, Charley, it's Christian again. So similar to what we were talking about with the - in general, when you're looking at individual quarters, there are projects that can move from quarter-to-quarter and so right now year-to-date in EMEA we're 2% up organically in the Industrial segment. So although this is an 8%, that number is outside of what we've had for a trend thus far this year. So, again, we're happy with the 8% that there's no doubt about it, but as you look at the year-to-date number, that's probably a better indicator.

Charley Brady: Okay. Great. Thanks.

Operator: We'll take our next question from Matt Summerville with Alembic Global Advisors.

Matt Summerville: Hey, morning. A couple questions; you've been talking a quarter or two or three about the challenges you've had in conversion, specifically speaking about the Contractor segment, away from brush and roller to spray. What was sort of the genesis of that? I know you've made some Management changes. What are your expectations that will come out of the changes you've made and when will we be able to see some tangible evidence that you've made the right changes?

Patrick J. McHale: So, let's talk a little bit about conversion in general. Conversion in general really is a positive dynamic for us when labor rates are increasing. So that's one positive for us. So we talked about conversion. We talked about emerging markets. Where labor rates get to be $5 and $6 an hour, comes pretty easy math to go to spray equipment. Our challenge, of course, is always where the labor markets are much lower than that with painters maybe making $1 or $2 an hour.

The second thing that'll drive in those kinds of situations is when they have a good book of business. So when the economy is strong and they're trying to get jobs done, and it could be driven by the construction markets or it could be event driven in terms of World Cups or things like that, but when they've got to get jobs done in a hurry even when labor rates are low, that provides a good example for - a good opportunity for us on the conversion front.

So, the challenge we've had, of course, southern Europe's starting to come back now but that's been very soft from a construction perspective that's (been made) the conversion work by our Team over there more difficult. You may be referring more specifically to some of the problems that we've seen in China. China has had a blooming construction market, and although the labor rates are low for painters there, we feel like there's a better opportunity to convert than we've been doing and that's really where we've had our Leadership challenge and we've made a Leadership change.

I'm going to say give them 12 months. You know, this time next year hopefully we're seeing that some of the changes that the new leader put in place are starting to actually show up in our results. I'd really hate to say that it's going to be sooner than that just based upon my experience and how long it takes to get tactics implemented at the field level.

Matt Summerville: Got it. Then just a couple more; can you comment on over the last even three to six months - even going back into the second quarter - if you've seen any difference - and maybe you can even just describe the linearity or lack thereof you've seen in weekly order rates in both your Industrial and Process reportable segments?

Christian E. Rothe: So, we typically don't break out the order rates by segments. I'll tell you, though, specifically your linearity comment, it's probably been a nine-month period where we've had spottiness in orders from week-to-week. You know, the months always seem to turn out fine. You know, the general trends are okay, but any individual week is probably not a great indicator for us and that's just the environment we're in.

Matt Summerville: Then lastly, just with respect to pricing year-to-date and what you expect to realize for the full-year 2015 in terms of pricing and if any expectation should be reset otherwise for 2016 across the Company.

Christian E. Rothe: No. I think our pricing model is still well intact. We're getting pricing this year in that kind of 1-1/2% to 2% range next year - that's a realized pricing number - and next year we're looking at the same type of number.

Matt Summerville: Great. Thanks, Pat. Thanks, Christian.

Operator: As a reminder, that is star, 1 if you do have a question at this time. We'll take our next question from Walter Liptak with Seaport Global.

Walter Liptak: Thanks. Good morning, guys. Wanted to ask about Process and some of those new businesses, realizing it's on a tough comp. But some of those end markets I think of as being kind of end markets that are growing: Auto's still been pretty strong, Service garages, Wastewater, etc. You know, I wonder if you could give us a little bit more color on what's happening there. You know, my understanding is that Oil and Gas is still pretty small for you, as well as Mining. Is there some dynamic going on in those - what should be strong, like auto-related?

Patrick J. McHale: No. We are seeing opportunities within Process. Sanitary has been a nice opportunity for us as well and that's in our Process segment. But on the Process side, we also are going to have, in addition to our Oil and Gas exposure with the acquired businesses, which is, yes, frankly small, we have Oil and Gas exposure in our core product lines as well, of course, and then Mining is a significant drag on the Process segment as well and has been for some time.

So they've got a couple end markets that aren't so good. They've got some end market opportunities that are pretty good and it's rolling up to what it's rolling up to right now.

Walter Liptak: Okay. My understanding is in O&G you've got a lot of - or some new products that you're commercializing. They've made some investments, so I wonder how that commercialization process is going with this really tough kind of upstream spending environment.

Patrick J. McHale: So we have been able to get distributors signed up for our new product line, which is a positive. We had a target for distribution to get set up here this year on our organic effort on Oil and Gas and we're going to hit that target. It's probably too early to say whether the revenue target's going to get met or not, but there's nothing here in the first couple of months after launch that would indicate to us that we're not going to have an opportunity to be successful.

Walter Liptak: Okay. All right. Great. Then if I can ask a follow-up just on expenses; the two expenses that I think about are - that were incremental this year were the centralized distribution center and the new products, just stepping things up there. I wonder if - are we tailing off on cost or are they still going to be higher in the fourth quarter? Is the D.C. complete now?

Caroline M. Chambers: No. There's still some activity going on with new central warehouse and basically what we're seeing for the full year will be $7 million to $8 million above last year's expense. Again, a part of that is driven by our pension and stock comp as well. The products initiative, some of them are starting to lap and not be incremental, but we might see another $1 million or so next quarter.

Walter Liptak: Okay. Great. Then are you seeing benefits yet that you can quantify from the new products?

Patrick J. McHale: Well, so they - if you're calling out the incremental spend on new products, most of those are coming out of our new initiatives and I'd say it's too early to say that we're seeing a benefit, but we still expect that we will. If you're talking about our standard $50 million spend on new product, we track this very carefully and we ((inaudible)) that with each division every six months and we're very happy with the performance in general of our $50 million spend on new products.

Walter Liptak: Okay. All right. Fair enough. Thank you.

Operator: There are no further questions at this time. I would now like to turn the conference back over to Pat McHale.

Patrick J. McHale: All right. Well, thank you for joining us this morning and have a good rest of your day.

Operator: Thank you. This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.

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