UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 27, 1998

Commission File Number: 1-9249

GRACO INC.

(Exact name of Registrant as specified in its charter)

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

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

(612-623-6000)

(Registrant's telephone number, including area code)

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

Yes X No

25,814,967 common shares were outstanding as of April 30, 1998.

GRACO INC. AND SUBSIDIARIES

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PART II OTHER INFORMATION

PART I

GRACO INC. AND SUBSIDIARIES

Item 1. CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Thirteen Weeks Ended	
	March 27, 1998	March 28, 1997
	(In thousands except per share amounts)	
Net Sales	$ 105,717	$ 92,099
Cost of products sold	53,772	47,566
Gross Profit	51,945	44,533
Product development	4,782	4,825
Selling	22,647	21,633
General and administrative	10,165	8,555
Operating Profit	14,351	9,520
Interest expense	225	207
Other expense, net	279	(368)
Earnings Before Income Taxes	13,847	9,681
Income taxes	4,900	3,500
Net Earnings	$ 8,947	$ 6,181
Basic Net Earnings Per Common Share*	$ .35	$ .24
Diluted Net Earnings Per Common*	$ .34	$ .24
Basic Weighted Average Number of Common Shares*	25,635	25,659
Diluted Weighted Average Number of Common Shares*	26,239	26,248

*All 1997 per share data has been restated for the three-for-two stock split paid February 4, 1998.

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 27, 1998	December 26, 1997
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,383	$ 13,523
Accounts receivable, less allowances of $4,600 and $4,100	83,699	86,148
Inventories	46,170	43,942
Deferred income taxes	10,949	11,140
Prepaid expenses	1,282	1,539
Total current assets	170,483	156,292
Property, Plant and Equipment:		
Cost	197,284	196,940
Accumulated depreciation	(98,176)	(96,760)
	99,108	100,180
Other Assets	7,586	8,060
	$ 277,177	$ 264,532
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 4,996	$ 2,911
Current portion of long-term debt	1,796	1,796
Trade accounts payable	14,562	12,542
Salaries, wages & commissions	10,753	14,903
Accrued insurance liabilities	10,571	10,227
Income taxes payable	7,399	5,546
Other current liabilities	21,853	21,055
Total current liabilities	71,930	68,980
Long-term debt, less current portion	5,809	6,163
Retirement benefits and deferred compensation	31,594	31,880
Shareholders' equity:		
Common stock	25,792	25,553
Additional paid-in capital	29,670	26,085
Retained earnings	112,382	105,030
Other, net	0	841
Total Shareholders' Equity	167,844	157,509
	$ 277,177	$ 264,532

See notes to consolidated financial statements.

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

	Thirteen Weeks	
	March 27, 1998	March 28, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net Earnings	$ 8,947	$ 6,181
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	3,994	3,548
Deferred income taxes	158	(481)
Change in:		
Accounts receivable	952	(61)
Inventories	(2,531)	(6,688)
Trade accounts payable	1,999	(419)
Retirement benefits and deferred compensation	(200)	571
Other accrued liabilities	(1,125)	(7,029)
Other	839	(1,453)
	13,033	(5,831)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(2,995)	(6,340)
Proceeds from sale of property, plant, and equipment	170	1,578
	(2,825)	(4,762)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing on notes payable and lines of credit	5,037	5,335
Payments on notes payable and lines of credit	(2,772)	(1,528)
Payments on long-term debt	(310)	(326)
Common stock issued	3,822	2,790
Repurchase of common stock	(12)	--
Cash dividends paid	(2,811)	(2,420)
	2,954	3,851
Effect of exchange rate changes on cash	1,698	1,585
Net increase (decrease) in cash and cash equivalents	14,860	(5,157)
Cash and cash equivalents:		
Beginning of year	13,523	6,535
End of period	$ 28,383	$ 1,378

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 March 27, 1998 and the related statements of earnings for the thirteen weeks ended March 27, 1998 and March 28, 1997 and cash flows for the thirteen weeks ended March 27, 1998, and March 28, 1997, have been prepared by the Company without being audited.

   In the opinion of management, these consolidated statements reflect all adjustments necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of March 27, 1998, 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 1997 Form 10-K.

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

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

	March 27, 1998	December 26, 1997
Finished products and components	$ 39,170	$ 38,290
Products and components in various stages of completion	24,375	25,320
Raw materials	19,171	16,715
	82,716	80,325
Reduction to LIFO cost	(36,546)	(36,383)
	$ 46,170	$ 43,942

3. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information", which will be effective for the Company at the end of the 1998 fiscal year. SFAS No. 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company has not yet determined the nature of its segments, nor has it determined how adoption of SFAS No. 131 will impact its future disclosures.

4. Europe's December 1997 operating results were recorded as an adjustment to equity. Those results included sales of $3,836,000 and net earnings of $300,000. The results of operations for Graco Inc., (the Company) for the quarter ended March 27, 1998 include Europe's operations for the months of January, February and March. First quarter 1997 results included the months of December, 1996 and January and February, 1997. Had the company included the months of January, February and March in its operating results for Europe in the first quarter of 1997, net sales would have been $94,099,000, net earnings would have been $6,854,000 and diluted earnings per share would have been $0.26.

Item 2. GRACO INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net earnings of $8.9 million for the quarter ended March 27, 1998 increased 45 percent over the first quarter of 1997 earnings of $6.2 million. The quarterly earnings improvement was driven by higher sales and improved gross margin rates. First quarter operating earnings include charges related to restructuring Graco's Automotive operation in Plymouth, Michigan. Many of the functions that were performed in Plymouth will be relocated to Graco's Minneapolis facilities. Most of the restructuring charges have been recognized, and it is expected that the transition will be completed by the end of the second quarter of 1998. First quarter operating results also include charges for restructuring operations in Asia Pacific.

The following table sets forth items from the Company's Consolidated Statements of Earnings as percentages of net sales:

	First Quarter (13 weeks) Ended	
	March 27, 1998	March 28, 1997
Net Sales	100.0%	100.0%
Cost of Products Sold	50.9	51.6
Product Development	4.5	5.2
Selling	21.4	23.6
General and Administrative	9.6	9.3
Operating Profit	13.6	10.3
Interest Expense	(.2)	(.2)
Other Income(Expense), Net	(.3)	.4
Earnings Before Income Taxes	13.1	10.5
Income Taxes	4.6	3.8
Net Earnings	8.5%	6.7%

(Continued)

Net Sales

Net sales in the first quarter of $105.7 million were 15 percent higher than the same period last year. The improved sales level was achieved despite a negative currency impact, which had a 3 percent impact on sales for the quarter.

The Contractor Equipment Division sales of $37.4 million increased from last year's first quarter due to new product introductions and stronger demand for existing products. Industrial Equipment Division sales of $40.5 million improved 10 percent, driven by strong demand for industrial products in Europe and the Americas. Automotive sales of $17.0 million increased 26 percent due to strong sales in North America, improved system sales in Europe and the change in calendar months reported in Europe. Lubrication Equipment Division quarterly sales increased 2 percent to $10.9 million.

Geographically, sales in the Americas (North, South and Central) increased 15 percent to $71.9 million for the quarter primarily due to strong Contractor and Industrial activity. European sales, on a comparable basis, of $20.4 million were 21 percent higher than last year, and would have been 29% higher with constant exchange rates The growth in Europe was attributable primarily to strong Industrial and Automotive sales. Asia Pacific sales of $10.5 million were 17 percent lower than last year's first quarter (including an 11 percent decline due to exchange rates) due to the instability in the economies of Japan, Korea and Southeast Asia.

Gross Profit

Gross profit as a percentage of net sales increased to 49.1 percent in the first quarter, compared to 48.4 percent for the same period last year. The increases were primarily due to manufacturing efficiencies and price increases.

Operating Expenses

Operating expenses in the first quarter of $37.6 million increased 7 percent from the first quarter of 1997, but decreased from 38.1% to 35.5% of net sales. General and administrative expenses were 19 percent higher than the same quarter last year, largely due to restructuring charges related to operations in Plymouth, Michigan and South East Asia. Selling expenses increased 5 percent compared to the first quarter last year due to increased sales levels and increased warranty costs. Product development costs remained relatively flat in comparison to the first quarter of 1997.

(Continued)

Other Income (Expense)

Other expense was $0.3 million in the first quarter, compared to $0.4 million of income for the same period last year. The first quarter of 1998 was affected more unfavorably by foreign exchange rate changes, while 1997 was favorably impacted by a gain on the sale of the Company's Franklin Park, Illinois facility.

Income Taxes

The effective tax rate decreased to 35 percent in the quarter compared to 36 percent last year.

Liquidity and Capital Resources

The Company generated $13.0 million of cash flow from operating activities in the first three months of 1998 compared to using cash of $5.8 million for the same period last year. Significant uses of operating cash flow in 1998 resulted from a planned increase in inventory levels primarily in Europe. Available cash and borrowing on lines of credit of $5.0 million were used to fund short-term operating needs, finance capital expenditures of $3.0 million and pay dividends of $2.8 million. The Company had unused lines of credit available at March 27, 1998 totaling $70.1 million. The available credit facilities and internally-generated funds provide the Company with the financial flexibility to meet liquidity needs.

Outlook

The Company is cautiously optimistic about the outlook for 1998 based on the level of activity during the first quarter. Overall we expect improved financial results in 1998. We anticipate higher sales, driven by continued new product introductions, an improved and expanding worldwide distribution network and good economic conditions in North America and Europe, despite weakness in Asia Pacific, including Japan, South Korea and Southeast Asia.

Graco has undertaken a number of restructuring efforts recently to improve its effectiveness in the markets it serves, and have increased the Company's operating margins and net profits. These efforts will continue to favorably impact margins and profits in 1998. We are implementing additional measures to improve operating efficiency.

We anticipate that the strength of the U.S. dollar relative to other major currency will negatively impact operating margins in 1998. We also anticipate a higher tax rate in 1998.

SAFE HARBOR CAUTIONARY STATEMENT

The information in this 10Q contains "forward-looking statements" about the Company's expectations of the future, which are subject to certain risk factors that could cause actual results to differ materially from those expectations. These factors include economic conditions in the United States and other major world economies, currency exchange fluctuations, and additional factors identified in Exhibit 99 to the Company's Report on Form 10-K for fiscal year 1997.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1998 Corporate and Business Unit Annual Bonus Plan	Exhibit 10
Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers, dated February 28, 1998.	Exhibit 10.1
Statement on Computation of Per Share Earnings	Exhibit 11
Financial Data Schedule (EDGAR filing only)	Exhibit 27

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

SIGNATURES

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

GRACO INC.

Date: May 8, 1998

By:/s/George Aristides
George Aristides
Chief Executive Officer

Date: May 8, 1998

By:/s/Mark W. Sheahan
Mark W. Sheahan
Treasurer
(Principal Financial Officer)

GRACO INC.

1998 CORPORATE

&

BUSINESS UNIT

ANNUAL BONUS PLAN

Effective January 1, 1998
Human Resources

1998 EXECUTIVE CORPORATE & SBU BONUS PLAN

Objectives

- To create shareholder value through achievement of annual financial objectives.

- To motivate and retain those key executives and managers who work in positions where they can impact the Company's annual financial objectives.

Plan Design

The Plan links the size of each individual's award to specific financial objectives. These objectives are tailored for the Corporation and for each Business Unit. These objectives are:

- Corporation
  - Corporate Sales and/or Net Earnings objectives

- Business Units
  - Sales and/or Contribution Growth objectives

Eligibility Requirements

Only those positions which carry clear managerial responsibility for directly contributing to Graco's Corporate Sales and/or Net Earnings objective and Business Unit Sales and/or Contribution Growth objectives are eligible to be included in this Plan.

Only those individuals in eligible positions who have demonstrated and are maintaining a performance level that meets the supervisor's normal expectations for that position are eligible for annual participation in this Plan as well as the receipt of any annual Bonus Payments.

Participation

The top executive in each organizational unit may nominate managers for participation in this Plan when the established position and individual eligibility requirements have been met.

The Management Organization and Compensation Committee of the Graco Inc. Board of Directors has sole authority to approve the participation of the Chief Executive Officer in the Plan.

The Chief Executive Officer of Graco Inc. has sole authority to select and approve all other Plan participants.

Bonus Maximum

Taken in conjunction with base salary market comparisons, bonus maximum for all positions will be:

- Commensurate with the position's ability to impact the annual Corporate Sales and/or Net Earnings objective and Business Unit Sales and/or Contribution Growth objectives.
- Consistent with total compensation levels prevalent for similar positions in the market place.

Based on these criteria, bonus maximums ranging from 10% to 80% have been established for each individual.

Bonus Payment

The determination of a participant's annual Bonus Payment will be calculated by adding the bonus results attained for Corporate Sales and/or Net Earnings performance (expressed in percent) to the bonus results attained for any applicable Business Unit's Sales and/or Contribution Growth performance (expressed in percent). These bonus results are then multiplied by the participant's Maximum Bonus Percentage and then multiplied by the participant's Base Salary for the Plan Year, to determine the total Bonus Payment.

Example:

Annual Corporate Performance Results	+	Annual Business Unit Performance Results (if applicable)	x	Participant's Maximum Bonus Salary	x	Participant's Annual Base Salary	=	Bonus
%		%		$		$		$

1998 EXECUTIVE CORPORATE & SBU BONUS PLAN

Administration

The following rules have been established to insure equitable administration of Graco's Annual Bonus Plan (the Plan):

1. The Plan will be administered by the Management Organization and Compensation Committee of the Board of Directors. The Committee may cancel the Plan and interpret the Plan.

2. The Management Organization and Compensation Committee shall establish the Annual Corporate Bonus Plan financial objectives. Within the basic framework of the Plan, the Chief Executive Officer may establish the annual bonus plan financial objectives for individual Business Units. The CEO may also establish deadlines for filing administrative forms and adopt other administrative rules.

   The CEO has established the Bonus Administrative Committee consisting of the President, the Vice President, Human Resources, and the Compensation Manager. This Committee is responsible for making approval recommendations on all Annual Bonus Program administrative matters, such as participation award payments, performance measures, and performance results. All requests for adjustments or exceptions are to be formally submitted to this Committee for review through the Compensation Manager.

3. Key executives and managers selected to participate in the Plan after its annual effective date (January 1st) may be included on a pro-rata basis.

4. Participation in the Plan one year does not necessarily assure participation in subsequent years. Eligibility requirements for both the position and individual performance must be met continually.

5. Participation continues during any paid time off such as short-term disability (up to six months). Participation ceases with retirement, death, or long-term disability (over six months). In the event participation ceases due to retirement, death, or long term disability, the Participant will be eligible for a Bonus Payment, calculated using the Maximum Bonus Percent and Base Salary up to the time of retirement, death, or long-term disability and the annual performance results for the year in which retirement, death, or long-term disability occurs.

6. A participant who transfers to a position not eligible for inclusion in the Plan will be eligible for a pro-rata award based on the actual time employed in the eligible position during the year. The pro-rated award will be paid as described in Administrative Rule #11.

Administration (continued)

7. A participant who resigns or is terminated effective during the Plan Year is ineligible for a bonus.

   Participants must maintain satisfactory performance throughout the Plan year in order to be eligible to receive a bonus award payment.

   In addition, a participant whose employment termination has been requested due to performance or otherwise for cause will be ineligible for a bonus payment even though the participant is still employed at year-end.

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

9. All matrix calculations will be based on actual exchange rates, not plan rates.

10. Acquisitions and divestitures not included in the annual business plan for the Plan Year will be excluded from the Corporate Sales and/or Net Earnings calculations.

11. Significant changes in historical FASB accounting practices or income tax rates will be included in corporate earnings calculations at the discretion of the Management Organization and Compensation Committee of the Board of Directors.

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

1998

Corporate Performance Results and Awards

for 100% Corporate Participants

1998 Corporate Net Earnings Results	Percent of Maximum Bonus Award Earned
$40,000	0.00%
$43,000	18.75%
$46,000	37.50%
$49,000	56.25%
$52,000	75.00%

1998 Corporate Sales Results	Percent of Maximum Bonus Award Earned
$414,000	0.00%
$426,000	6.25%
$438,000	12.50%
$450,500	18.75%
$463,000	25.00%

Note: Calculations exclude acquisitions and divestitures which were not included in the 1998 Annual Business Plan.

STOCK OPTION AGREEMENT
(NON-ISO)

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

WITNESSETH THAT:

WHEREAS, the Company pursuant to it's Long-Term Incentive Stock Plan wishes to grant this stock option to Employee;

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Grant of Option

The Company hereby grants to Employee, the right and option (hereinafter called the "option") to purchase all or any part of an aggregate of _______________ Common Shares, par value $1.00 per share, at the price of $___________ per share on the terms and conditions set forth herein.

2. Duration and Exercisability

A. This option may not be exercised by Employee until the expiration of two (2) years from the date of grant, and this option shall in all events terminate ten (10) years after the date of grant. During the first two years from the date of grant of this option, no portion of this option may be exercised. Thereafter this option shall become exercisable in four cumulative installments of 25% as follows:

Date	Total Portion of Option Which is Exercisable
Two Years after Date of Grant	25%
Three Years after Date of Grant	50%
Four Years after Date of Grant	75%
Five Years after Date of Grant	100%

In the event that Employee does not purchase in any one year the full number of shares of Common Stock of the Company to which he/she is entitled under this option, he/she may, subject to the terms and conditions of Section 3 hereof, purchase such shares of Common Stock in any subsequent year during the term of this option.

B. During the lifetime of the Employee, the option shall be exercisable only by him/her and shall not be assignable or transferable by him/her otherwise than by will or the laws of descent and distribution.

3. Effect of Termination of Employment

A. In the event that Employee shall cease to be employed by the Company or its subsidiaries for any reason other than his/her gross and willful misconduct, death, retirement (as defined in Section 3(d) below), or disability (as defined in Section 3(d) below), Employee shall have the right to exercise the option at any time within one month after such termination of employment to the extent of the full number of shares he/she was entitled to purchase under the option on the date of termination, subject to the condition that no option shall be exercisable after the expiration of the term of the option.

B. In the event that Employee shall cease to be employed by the Company or its subsidiaries by reason of his/her gross and willful misconduct during the course of his/her employment, including but not limited to wrongful appropriation of Company funds or the commission of a felony, the option shall be terminated as of the date of the misconduct.

C. If the Employee shall die while in the employ of the Company or a subsidiary or within one month after termination of employment for any reason other than gross and willful misconduct and shall not have fully exercised the option, all remaining shares shall become immediately exercisable and such option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

D. If the Employee's termination of employment is due to retirement (either after attaining age 55 with 10 years of service, or attaining age 65, or due to disability within the meaning of the provisions of the Graco Long-Term Disability Plan), all remaining shares shall become immediately exercisable and the option may be exercised by the Employee at any time within three years of the employee's retirement, or in the event of the death of the Employee within the three-year period after retirement, the option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of shares he/she was entitled to purchase under the option on the date of death, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

4. Manner of Exercise

A. The option can be exercised only by Employee or other proper party within the option period delivering written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the option is being exercised and, except as provided in Section 4(c), accompanied by payment-in-full of the option price for all shares designated in the notice.

B. The Employee may, at Employee's election, pay the option price either by check (bank check, certified check, or personal check) or by delivering to the Company for cancellation Common Shares of the Company with a fair market value equal to the option price. For these purposes, the fair market value of the Company's Common Shares shall be the closing price of the Common Shares on the date of exercise on the New York Stock Exchange (the "NYSE") or on the principal national securities exchange on which the shares are traded if the shares are not then traded on the NYSE. If there is not a quotation available for such day, then the closing price on the next preceding day for which such a quotation exists shall be determinative of fair market value. If the shares are not then traded on an exchange, the fair market value shall be the average of the closing bid and asked prices of the Common Shares as reported by the National Association of Securities Dealers Automated Quotation System. If the Common Shares are not then traded on NASDAQ or on an exchange, then the fair market value shall be determined in such manner as the Company shall deem reasonable.

C. The Employee may, with the consent of the Company, pay the option price by arranging for the immediate sale of some or all of the shares issued upon exercise of the option by a securities dealer and the payment to the Company by the securities dealer of the option exercise price.

5. Payment of Withholding Taxes

Upon exercise of any portion of this option, Employee shall pay to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements which arise as a result of the exercise of the option or provide the Company with satisfactory indemnification for such payment.

6. Change of Control

A. Notwithstanding Section 2(a) hereof, the entire option shall become immediately and fully exercisable on the day following a "Change of Control" and shall remain fully exercisable until either exercised or expiring by its terms. A "Change of Control" means:

(1) acquisition by any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act of 1934), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 under the 1934 Act) which results in the beneficial ownership by such Person of 25% or more of either

(a) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or

(b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities");

provided, however, that the following acquisitions will not result in a Change of Control:

(i) an acquisition directly from the Company,
(ii) an acquisition by the Company,
(iii) an acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company,
(iv) an acquisition by any Person who is deemed to have beneficial ownership of the Company common stock or other Company voting securities owned by the Trust Under the Will of Clarissa L. Gray ("Trust Person"), provided that such acquisition does not result in the beneficial ownership by such Person of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities, and provided further that for purposes of this Section 6, a Trust Person shall not be deemed to have beneficial ownership of the Company common stock or other Company voting securities owned by The Graco Foundation or any employee benefit plan of the Company, including, without limitations, the Graco Employee Retirement Plan and the Graco Employee Stock Ownership Plan,
(v) an acquisition by the Employee or any group that includes the Employee, or
(vi) an acquisition by any corporation pursuant to a transaction that complies with clauses (a), (b), and (c) of subsection (4) below; and

provided, further, that if any Person's beneficial ownership of the Outstanding Company Common Stock or Outstanding Company Voting Securities is 25% or more as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional Outstanding Company Common Stock or Outstanding Company Voting Securities as a result of a transaction other than that described in clause (i) or (ii) above, such subsequent acquisition will be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities and be deemed a Change of Control; and provided further, that in the event any acquisition or other transaction occurs which results in the beneficial ownership of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities by any Trust Person, the Incumbent Board may by majority vote increase the threshold beneficial ownership percentage to a percentage above 32% for any Trust Person; or

(2) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of said Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial membership on the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on

behalf of a Person other than the Board; or

(3) The commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a Person of 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities; or

(4) The approval by the shareholders of the Company of a reorganization, merger, consolidation, or statutory exchange of Outstanding Company Common Stock or Outstanding Company Voting Securities or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination") or, if consummation of such Business Combination is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation) excluding, however, such a Business combination pursuant to which

(a) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock or Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock or Outstanding Company Voting Securities,

(b) no Person [excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination] beneficially owns, directly or indirectly, 25% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and

(c) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(5) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

B. A Change of Control shall not be deemed to have occurred with respect to an Employee if:

(1) the acquisition of the 25% or greater interest referred to in subparagraph A.(1) of this Section 6 is by a group, acting in concert, that includes the Employee or

(2) if at least 25% of the then outstanding common stock or combined voting power of the then outstanding company voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, statutory share exchange, disposition of assets, liquidation or dissolution referred to in subsections (4) or (5) of this section by a group, acting in concert, that includes that Employee.

7. Adjustments

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

8. Miscellaneous

A. This option is issued pursuant to the Company's Long-Term Incentive Stock Plan and is subject to its terms. A copy of the Plan has been given to the Employee. The terms of the Plan are also available for inspection during business hours at the principal offices of the company.

B. This Agreement shall not confer on Employee any right with respect to continuance of employment by the Company or any of its subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time. Employee shall have none of the rights of a shareholder with respect to shares subject to this option until such shares shall have been issued to him upon exercise of this option.

C. The Company shall at all times during the term of the option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

GRACO INC.

By Its Chief Executive Officer

Employee

EXHIBIT 11

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended	
	Mar 27, 1998	Mar 28, 1997
Net earnings applicable to common shareholders for basic and diluted earnings per share	$ 8,947	$ 6,181
Weighted average shares outstanding for basic earnings per share	25,635	25,659
Dilutive effect of stock options computed using the treasury stock method and the average market price	604	589
Weighted average shares outstanding for diluted earnings per share	26,239	26,248
Basic earnings per share	$ 0.35	$ 0.24
Diluted earnings per share	$ 0.34	$ 0.24

This schedule contains summary financial information extracted from Graco Inc. and subsidiaries consolidated statements of earnings and consolidated balance sheets for the quarterly period ending March 27, 1998 and is qualified in its entirety by reference to such financial statements.

0000042888
GRACO INC.
1,000
U.S. DOLLARS

3-MOS
DEC-25-1998
DEC-27-1997
MAR-27-1998
1
28,383
0
83,699
4,628
46,170
170,483
197,284
98,177
277,176
71,930
7,605
0
0
25,798
142,045
277,176
105,717
105,717
53,772
53,772
38,098
278
225
13,847
4,900
8,947
0
0
0
8,947
0.35
0.34