

PART I

GRACO INC. AND SUBSIDIARIES

Item 1

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

Thirteen Weeks Ended
April 1, 1994 March 26, 1993
(In thousands except per share amounts)

Net sales	\$80,930	\$77,811
Cost of products sold	42,494	41,602
Gross profit	38,436	36,209
Product development	3,556	2,777
Selling	22,299	19,440
General and administrative	9,488	9,150
Operating profit	3,093	4,842
Interest expense	368	606
Other expense, net	39	114
Earnings before income taxes	2,686	4,122
Income taxes	850	1,550
Net earnings	\$1,836	\$2,572
Net earnings per common share	\$0.16	\$0.23
Cash dividend per common share	\$0.14	\$0.13

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	April 1, 1994 (Unaudited)	December 31, 1993
	(in thousands)	
Current Assets:		
Cash and cash equivalents	\$1,116	\$11,095
Marketable securities	359	26,345
Accounts receivable, less allowances of \$4,400 and \$4,100	67,678	62,178
Inventories	42,223	35,719
Deferred income taxes	9,210	8,843
Other current assets	3,845	3,079
Total current assets	124,431	147,259
Property, plant and equipment:		
Cost	132,029	129,876
Less accumulated depreciation	(74,120)	(72,132)
	57,909	57,744
Other assets	11,241	11,362
	\$193,581	\$216,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$12,525	\$3,234
Current portion of long-term debt	5,540	5,543
Trade accounts payable	15,682	16,737
Dividends payable	1,605	32,535
Income taxes payable	6,609	5,658
Other current liabilities	31,039	35,904
Total current liabilities	73,000	99,611
Long-term debt, less current portion above	13,929	13,937
Retirement benefits and deferred compensation	29,212	28,132
Shareholders' equity:		
Preferred stock	1,484	1,485
Common stock	11,629	11,449
Additional paid-in capital	22,197	19,813
Retained earnings	42,367	42,430
Other, net	(237)	(492)
	77,440	74,685
	\$193,581	\$216,365

See notes to consolidated financial statements.

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

Thirteen Weeks Ended
April 1, 1994 March 26, 1993
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings	\$1,836	\$2,572
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,600	2,458
Deferred income taxes	(340)	247
Change in:		
Accounts receivable	(5,213)	(1,360)
Inventories	(6,231)	4,533
Trade accounts payable	(1,216)	(4,000)
Accrued salaries	(2,154)	(4,490)
Retirement benefits and deferred compensaion	938	724
Other accrued liabilities	(1,747)	(6,237)
Other	(852)	(2,920)
	(12,379)	(8,473)

CASH FLOWS FROM INVESTING ACTIVITIES:

Property, plant and equipment additions	(2,711)	(2,047)
Proceeds from sale of property, plant, and	123	
Purchases of marketable securities	(5,464)	(3,891)
Proceeds from marketable securities	31,450	3,617
	23,398	(2,321)

CASH FLOWS FROM FINANCING ACTIVITIES:

Notes payable, net change	9,102	1,885
Common stock issued	2,663	1,947
Cash dividends paid	(32,829)	(1,471)
	(21,064)	2,361

Effect of exchange rate changes on cash	66	256
Net decrease in cash and cash equivalents	(9,979)	(8,177)

Cash and cash equivalents:

Beginning of year	11,095	18,869
End of period	\$1,116	\$10,692

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet as of April 1, 1994, the consolidated statements of earnings for the thirteen weeks ended April 1, 1994, and March 26, 1993, and the consolidated statements of cash flows for the thirteen weeks then ended have been prepared by the Company without being audited.

In the opinion of management, these consolidated statements reflect all adjustments necessary to present fairly the financial position of Graco Inc. at April 1, 1994, and March 26, 1993, 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 1993 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:

	April 1, 1994	Dec.31,1993
	(In thousands)	
Finished products and components	\$45,829	\$42,010
Products and components in various stages of completion	24,580	21,410
Raw materials	8,382	8,642
Reduction to LIFO cost	(36,568)	(36,343)
	\$42,223	\$35,719

3. On February 25, 1994, the Board of Directors authorized a plan to purchase up to a total of 400,000 shares of its outstanding common stock. These common shares will be acquired through open-market purchases to be made through February 28, 1996. The shares to be acquired will be available for issuance to satisfy stock options and for other corporate purposes. No shares have been repurchased under this plan as of April 1, 1994.

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

Results of Operations

Net earnings of \$1,836,000 for the first quarter ended April 1, 1994 were \$736,000 below 1993 earnings due to higher expenses.

Sales of \$80,930,000 for the first quarter increased 4 percent compared to 1993. Sales in the Americas increased 12 percent to \$58,684,000. In the Pacific, sales were down 15 percent to \$10,193,000 (a 20 percent volume decline, offset by a 5 percent exchange rate gain). Sales in Europe were down 11 percent to \$12,053,000 (a 5 percent volume decline, and 6 percent due to exchange rates).

Gross profit margins increased during the first quarter 1994 to 47.5 percent of sales from 46.5 percent for the same period in 1993, due to improved manufacturing efficiencies and higher production levels.

Operating expenses increased \$3,976,000 or 13 percent compared to the same period in 1993. Product development expense increased 28 percent over 1993, as the Company continues to substantially expand its investment in new products. Selling expenses were up 15 percent, and general and administrative expenses were up 4 percent.

At the end of the first quarter, bookings were very strong in the Americas, flat in Europe, and down in the Pacific. For the Company, bookings were up 13 percent. Backlog at April 1, 1994, was \$33 million, an increase of \$10 million from \$23 million on March 26, 1993, and an increase of \$13 million from \$20 million on December 31, 1993. Graco expects to ship most of this increase during the second quarter.

The Company expects strong demand in the Americas to continue to drive its sales growth and profitability. The sharp sales decline experienced in Europe last year appears to be leveling off, based on recent booking trends. The Japanese market remains very depressed, and is expected to remain so in the foreseeable future. Graco expects some sales growth in the other Asia/Pacific-countries, but not at the extraordinary rate of last year. Overall, the Company expects continued sales growth and improved margins throughout 1994, as investments already underway begin to take effect and help improve performance.

Financial Condition

Cash uses were for operating activities. The Company has unused lines of credit available at April 1, 1994, totaling \$43 million.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Statement on Computation
of Per Share Earnings

Exhibit 11

(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 12, 1994

By: \David A. Koch
David A. Koch
Chairman and Chief Executive Officer

Date: May 12, 1994

By: \Robert A. Wagner
Robert A. Wagner
Vice President and Treasurer
(Principal Financial Officer)

GRACO INC. AND SUBSIDIARIES
 COMPUTATION OF NET EARNINGS PER COMMON SHARE
 (Unaudited)

Thirteen Weeks Ended
 April 1, 1994 March 26, 1993
 (In thousands except per share amounts)

Net earnings applicable to common stock:

Net earnings	\$1,836	\$2,572
Less dividends on preferred stock	19	19
	\$1,817	\$2,553

Average number of common and common equivalent shares outstanding:

Average number of common shares outstanding	11,515	11,350
Dilutive effect of stock options computed on the treasury stock	65	56
	11,580	11,406

Net earnings per common share and common equivalent share	\$0.16	\$0.23
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Primary and fully diluted earnings per share are substantially the same.