

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

☐ Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
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1. Name and Address of Reporting Person* <u>RAUENHORST MARK H</u> (Last) (First) (Middle) <u>88 11TH AVENUE NE</u> (Street) <u>MINNEAPOLIS MN</u> <u>55413</u> (City) (State) (Zip)	2. Issuer Name and Ticker or Trading Symbol <u>GRACO INC</u> [<u>GGG</u>] 3. Date of Earliest Transaction (Month/Day/Year) <u>10/01/2006</u> 4. If Amendment, Date of Original Filed (Month/Day/Year)	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input checked="" type="checkbox"/> Director 10% Owner Officer (give title below) Other (specify below)
		6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	10/01/2006		A ⁽¹⁾		314	A	\$39.06	5,351.34	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Non-Qualified Stock Option (right to buy)	\$9.33							(2)	09/28/2010	Common Stock	10,125		10,125	D	
Non-Qualified Stock Option (right to buy)	\$12.18							(2)	05/01/2011	Common Stock	5,625		5,625	D	
Non-Qualified Stock Option (right to buy)	\$19.13							(3)	05/07/2012	Common Stock	5,625		5,625	D	
Non-Qualified Stock Option (right to buy)	\$20.27							(3)	05/06/2013	Common Stock	3,750		3,750	D	
Non-Qualified Stock Option (right to buy)	\$29.48							(3)	04/23/2014	Common Stock	3,000		3,000	D	
Non-Qualified Stock Option (right to buy)	\$37.13 ⁽³⁾							(3)	04/22/2015	Common Stock	3,600		3,600	D	
Non-Qualified Stock Option (right to buy)	\$48.95 ⁽⁴⁾							(4)	04/21/2016	Common Stock	3,600		3,600	D	
Phantom Stock Units	\$0 ⁽⁵⁾							(5)	(5)	Common Stock	7,994.766		7,994.766	D	

Explanation of Responses:

- 1. Shares of Graco common stock received in lieu of retainer and meeting fees, issued under the Amended and Restated Graco Inc. Stock Incentive Plan (2006).
- 2. Nonemployee director stock option granted pursuant to the Graco Inc. Stock Incentive Plan in transaction exempt under Rule 16b-3. The stock option becomes exercisable in four equal annual installments, commencing one year after the date of the grant.
- 3. Nonemployee director stock option granted pursuant to the Graco Inc. Stock Incentive Plan in a transaction exempt under Rule 16b-3. The stock option becomes exercisable in four equal annual installments, commencing one year after the date of the grant.
- 4. Nonemployee director stock option granted pursuant to the Amended and Restated Graco Inc. Stock Incentive Plan (2006) in a transaction exempt under Rule 16b-3. The stock option becomes exercisable in four equal annual installments, commencing one year after the date of the grant.
- 5. Dividends on the accrued phantom stock units were credited under the Amended and Restated Graco Inc. Stock Incentive Plan (2006) and are to be settled 100% in Graco common stock in a lump sum or installments upon reporting person's termination of service on the Board.

By: Kristen C. Nelson,
attorney-in-fact For: Mark H. Rauenhorst 10/03/2006

** Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

* If the form is filed by more than one reporting person, see Instruction 4 (b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.

POWER OF ATTORNEY

Know all by these presents that the undersigned hereby constitutes and appoints each of Karen Park Gallivan, Charles A. Jacob and Kristen C. Nelson signing singly, the undersigned's true and lawful attorney-in-fact to: (1) execute for and on behalf of the undersigned, in the undersigned's capacity as an officer and/or director of Graco Inc. (the "Company"), Forms 3, 4 and 5 in accordance with Section 16(a) of the Securities Exchange Act of 1934 and the rules there under; (2) do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such Form 3, 4 or 5 and timely file such form with the United States Securities and Exchange Commission and any stock exchange or similar authority; and (3) take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney in fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to each such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this power of attorney and the rights and powers herein granted. The undersigned acknowledges that the foregoing attorneys-in-fact, in serving in such capacity at the request of the undersigned, are not assuming, nor is the Company assuming, any of the undersigned's responsibilities to comply with Section 16 of the Securities Exchange Act of 1934.

This Power of Attorney shall remain in full force and effect until the undersigned is no longer required to file Forms 3, 4, and 5 with respect to the undersigned's holdings of and transactions in securities issued by the Company, unless earlier revoked by the undersigned in a signed writing delivered to the foregoing attorneys-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 21st day of April, 2006.

/s/Mark H. Rauenhorst_____
Signature

Mark H. Rauenhorst_____
Print Name