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GRACO INC Form 10-Q October 21, 2009

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 25, 2009

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
(Address of principal executive offices)

55413 (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes 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 2

59,972,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of October 15, 2009.

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GRACO INC. AND SUBSIDIARIES

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Item 1.

GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS

PART I

(Unaudited)

(In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ende	
	Sep 25,	Sep 26,	Sep 25,	Sep 26,
	2009	2008	2009	2008
Net Sales	\$147,308	\$207,231	\$432,900	\$650,581
Cost of products sold	69,167	97,071	217,423	299,805
Gross Profit	78,141	110,160	215,477	350,776
Product development	8,752	9,626	28,584	26,605
Selling, marketing and distribution	26,589	32,420	86,814	102,083
General and administrative	16,613	15,585	49,317	50,142
Operating Earnings	26,187	52,529	50,762	171,946
Interest expense	1,148	1,934	3,735	5,443
Other expense, net	203	623	889	606
Earnings Before Income Taxes	24,836	49,972	46,138	165,897
Income taxes	7,500	17,200	14,400	55,100
Net Earnings	\$17,336	\$32,772	\$31,738	\$110,797
Basic Net Earnings				
per Common Share	\$0.29	\$0.55	\$0.53	\$1.83
Diluted Net Earnings				
per Common Share	\$0.29	\$0.54	\$0.53	\$1.81
Cash Dividends Declared				
per Common Share	\$0.19	\$0.19	\$0.57	\$0.55
1	•	•	•	•

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

ASSETS		Sep 25, 2009	Dec 26, 2008
Cash and cash equivalents \$5,064 \$12,119 Accounts receivable, less allowances of \$6,400 and \$6,600 106,890 127,505 Inventories 60,581 91,604 Deferred income taxes 19,982 23,007 Other current assets 4532 6,60 Total current assets 197,049 260,595 Property, Plant and Equipment 333,792 326,729 Accumulated depreciation (191,167) (176,975)) Property, plant and equipment, net 142,625 149,754 Goodwill 91,740 91,740 91,740 Other Intangible Assets, net 43,010 52,231 14,425 18,919 \$14,425 18,919 \$14,425 18,919 \$14,425 18,919 \$14,425 18,919 \$1,411 \$1,425 18,919 \$1,411 \$1,4	ASSETS		
Accounts receivable, less allowances of S6,400 and \$6,600 106,890 127,505 108,640 106,891 191,604 108,640 108,810 191,604 108,640 108,810 191,604 108,650 108,810 191,604 108,655 108,650 108,	Current Assets		
\$6,400 and \$6,600 106,890 127,505 Inventories 60,581 91,604 Deferred income taxes 19,982 23,007 Other current assets 4,532 6,60 Total current assets 197,049 260,595 Property, Plant and Equipment 333,792 326,729 Accumulated depreciation (191,167) (176,975) Property, plant and equipment, net 142,625 149,754 Goodwill 91,740 91,740 Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets 8,13,866 \$18,311 Trade accounts payable 16,63 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 10,434	Cash and cash equivalents	\$5,064	\$12,119
Diventories 19,864 23,007 19,604 19,604 19,604 19,604 19,802 23,007 19,604 19,604 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 260,595 10,604 197,049 197,	Accounts receivable, less allowances of		
Deferred income taxes	\$6,400 and \$6,600	106,890	·
Other current assets 4,532 (5,66) 6,360 (197,049 (260,595) 197,049 (260,595) 260,595 197,049 (260,595) 260,595 197,049 (260,595) 260,595 197,049 (260,595) 260,595 260,595 197,049 (260,595) 333,792 (326,729 (32		·	,
Property, Plant and Equipment Cost 333,792 326,729 Accumulated depreciation (191,167) (176,975) Property, plant and equipment, net 142,625 149,754 Total current liabilities 13,386 13,377 17,179 108,656 105,474 121,160 16,435		·	,
Property, Plant and Equipment		•	
Cost 333,792 326,729 Accumulated depreciation (191,167) (176,975) Property, plant and equipment, net 142,625 149,754 Goodwill 91,740 91,740 Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 50,070 55,524 Total current Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 <td>Total current assets</td> <td>197,049</td> <td>260,595</td>	Total current assets	197,049	260,595
Accumulated depreciation (191,167) (176,975) Property, plant and equipment, net 142,625 149,754 Goodwill 91,740 91,740 Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY *** Current Liabilities \$13,866 \$18,311 Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 50,070 55,524 Total current Poebt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings	Property, Plant and Equipment		
Property, plant and equipment, net 142,625 149,754 Goodwill 91,740 91,740 Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY \$13,866 \$18,311 Trade accounts payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 50,070 55,524 Total current lenefits and Deferred Compensation 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings <td></td> <td>·</td> <td>·</td>		·	·
Goodwill 91,740 91,740 Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities \$13,866 \$18,311 Notes payable to banks \$13,477 17,179 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) 669,354) (74,488) <td>•</td> <td>*</td> <td>, , , ,</td>	•	*	, , , ,
Other Intangible Assets, net 43,010 52,231 Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities Notes payable to banks \$13,866 \$18,311 Tade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss)	Property, plant and equipment, net	142,625	149,754
Deferred Income Taxes 14,425 18,919 Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities \$13,866 \$18,311 Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357	Goodwill	91,740	91,740
Other Assets 8,223 6,611 Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY \$579,850 Current Liabilities \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634)	Other Intangible Assets, net	43,010	52,231
Total Assets \$497,072 \$579,850 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634)	Deferred Income Taxes	14,425	18,919
LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities \$13,866 \$18,311 Notes payable to banks \$16,663 18,834 Salaries, wages and commissions \$13,477 17,179 Dividends payable \$11,398 \$11,312 Other current liabilities \$0,070 \$55,524 Total current liabilities \$105,474 \$121,160 Long-term Debt \$107,364 \$180,000 Retirement Benefits and Deferred Compensation \$97,077 \$108,656 Uncertain Tax Positions \$2,800 \$2,400 Shareholders' Equity \$59,965 \$59,516 Additional paid-in-capital \$187,846 \$174,161 Retained earnings \$5,900 \$4,45 Accumulated other comprehensive income (loss) \$(69,354) \$(74,488) Total shareholders' equity \$184,357 \$167,634	Other Assets	8,223	6,611
Current Liabilities Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Total Assets	\$497,072	\$579,850
Notes payable to banks \$13,866 \$18,311 Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable 16,663 18,834 Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Current Liabilities		
Salaries, wages and commissions 13,477 17,179 Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Notes payable to banks	\$13,866	\$18,311
Dividends payable 11,398 11,312 Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Trade accounts payable	16,663	18,834
Other current liabilities 50,070 55,524 Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Salaries, wages and commissions	13,477	
Total current liabilities 105,474 121,160 Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	* *	11,398	11,312
Long-term Debt 107,364 180,000 Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634		·	55,524
Retirement Benefits and Deferred Compensation 97,077 108,656 Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Total current liabilities	105,474	121,160
Uncertain Tax Positions 2,800 2,400 Shareholders' Equity 59,965 59,516 Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Long-term Debt	107,364	180,000
Shareholders' Equity Common stock Additional paid-in-capital Retained earnings Accumulated other comprehensive income (loss) Total shareholders' equity Sp.,965 Sp.,516 187,846 174,161 Sp.,900 Sp.,445 (69,354) (74,488) 184,357 167,634	Retirement Benefits and Deferred Compensation	97,077	108,656
Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Uncertain Tax Positions	2,800	2,400
Common stock 59,965 59,516 Additional paid-in-capital 187,846 174,161 Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Shareholders' Equity		
Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	* *	59,965	59,516
Retained earnings 5,900 8,445 Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Additional paid-in-capital	·	•
Accumulated other comprehensive income (loss) (69,354) (74,488) Total shareholders' equity 184,357 167,634	Retained earnings	5,900	
Total shareholders' equity 184,357 167,634	-	(69,354	
Total Liabilities and Shareholders' Equity \$497,072 \$579,850	Total shareholders' equity	184,357	167,634
	Total Liabilities and Shareholders' Equity	\$497,072	\$579,850

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See notes to consolidated financial statements.

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

	Thirty-nine Weeks Ended Sep 25, Sep 26,			
				Sep 26,
	2009		2008	
Cash Flows From Operating Activities				
Net Earnings	\$31,738		\$110,797	
Adjustments to reconcile net earnings to				
net cash provided by operating activities				
Depreciation, amortization and impairment	26,200		23,310	
Deferred income taxes	4,671		(3,850)
Share-based compensation	7,441		7,072	
Excess tax benefit related to share-based				
payment arrangements	(300)	(2,923)
Change in				
Accounts receivable	22,434		(4,989)
Inventories	30,745		(16,466)
Trade accounts payable	(2,050)	(775)
Salaries, wages and commissions	(3,853)	(1,236)
Retirement benefits and deferred compensation	(4,741)	(2,141))
Other accrued liabilities	(2,437)	788	
Other	313		1,114	
Net cash provided by operating activities	110,161		110,701	
Cash Flows From Investing Activities				
Property, plant and equipment additions	(9,375)	(20,778)
Proceeds from sale of property, plant and equipment	615	•		•