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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
(State of incorporation)

41-0285640
(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 X

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

GRACO INC. AND SUBSIDIARIES

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PART I

Item 1.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 25, 2009	Sep 26, 2008	Sep 25, 2009	Sep 26, 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

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	Sep 25, 2009	Dec 26, 2008
ASSETS		
Current Assets		
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	4,532	6,360
Total current assets	197,049	260,595
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	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)	(69,354)	(74,488)
Total shareholders' equity	184,357	167,634
Total Liabilities and Shareholders' Equity	\$497,072	\$579,850

See notes to consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	Sep 25, 2009	Sep 26, 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	