



Graco Inc.
Russell J. Gray Technical Center
88 – 11th Avenue Northeast
Minneapolis, Minnesota 55413, USA

**EMPLOYEE STOCK PURCHASE PLAN (the “Plan”)
2,000,000 Shares of Common Stock
(\$1.00 par value)**

**Prospectus for the employees of the European Economic Area (“EEA”)
subsidiaries of Graco Inc.**

Pursuant to Article 23 of the Belgian Act of June 16, 2006 on the public offerings of securities and the admission to trading of securities on a regulated market, the Belgian Banking, Finance and Insurance Commission has approved this prospectus on February 1, 2011. This prospectus was established by the issuer (Graco Inc.) and the issuer is responsible for this prospectus. The prospectus has been approved by the Belgian Banking, Finance and Insurance Commission in connection with the operations proposed to the investors. This approval represents neither an assessment of the transaction’s opportunity or quality nor the authentication of the financial and accounting information presented or more generally the issuer’s position, by the Belgian Banking, Finance and Insurance Commission.

This prospectus will be made available to the employees of the EEA subsidiaries of Graco Inc. if the offerings under the Plan are considered public offerings in their respective jurisdiction. Free paper copies of this prospectus will be made available to the employees.

When participating in the Plan, certain risk factors must be taken into account. Participation in the Plan is subject to the same risks as inherent to any investment in shares (such as a change in the stock exchange price of the shares). With respect to these and other risk factors, reference is made to page 27 and following of this prospectus.

NOTE TO THE PROSPECTUS

This prospectus (the "**Prospectus**") was established in accordance with the principles laid down in (i) the Belgian Act of June 16, 2006 on the public offerings of securities and the admission to trading of securities on a regulated market, (ii) Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and (iii) Commission Regulation 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

This Prospectus contains, among other things, a summary conveying the essential characteristics of, and risks associated with, the issuer and the offered securities. More detailed information concerning the issuer and the securities to be offered is reflected in the exhibits attached to this Prospectus. The documents referred to in the relevant chapters are attached as annexes to this Prospectus.

PERSONS RESPONSIBLE

Graco Inc., a company incorporated under the laws of Minnesota, having its principal place of business at Russell J. Gray Technical Center, 88 – 11th Avenue Northeast, Minneapolis, Minnesota 55413, USA (the "**Company**" or "**Graco**", or also referred to herein as "**we**", "**us**" and "**our**"), represented by its Board of Directors, is responsible for the information given in this Prospectus. Graco confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

AVAILABLE INFORMATION

Graco is subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "**SEC**"). Such reports and other information can be inspected on the internet site of the SEC (which contains reports, proxy and information statements, and other information about issuers that file reports electronically with the SEC). The web address of the SEC is <http://www.sec.gov>. The web address for consulting public documents is <http://www.sec.gov/answers/publicdocs.htm>. On this web page there is a section entitled 'How to Access or Request Filings and Other Records'.

The following documents have been filed by Graco with the SEC and can be consulted as mentioned above with the SEC:

- (a) the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009, as amended (attached hereto as Exhibit II);
- (b) all other reports of Graco filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the Annual Report on Form 10-K, as amended, referred to in subsection (a) above (i.e. the Current reports on Form 8-K dated December 2, 2010, April 23, 2010, February 12, 2010 and January 25, 2010 and the Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010 which are attached hereto as respectively Exhibit III and Exhibit IV); and
- (c) the description of Graco's Common Stock, par value \$1.00 per share (the "**Common Stock**"), contained in any Registration Statement or report filed under the Exchange Act including any amendment or report filed for the purpose of updating such description.

Graco Inc. also refers to all documents filed by it pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, after the date of this Prospectus and prior to the filing of a post-effective amendment which indicates that all securities offered here have been sold, or which de-registers all securities remaining unsold.

Upon written or oral request, Graco will provide, without charge, a copy of any or all of the following:

- (a) the documents referred to above (not including exhibits, unless such exhibits are specifically incorporated by reference into the documents);
- (b) Graco's annual report to its shareholders for Graco's latest fiscal year; and
- (c) any report, proxy statement or other communication distributed by Graco to its shareholders generally.

Requests for such copies should be directed to the Human Resources Department, Graco Inc., P.O. Box 1441, Minneapolis MN 55440-1441, telephone number +1 (612) 623-6616 or fax +1 (612) 623-6640.

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List of Exhibits

- Exhibit I Graco Inc. 2006 Employee Stock Purchase Plan
- Exhibit II Annual report on Form 10-K for fiscal year ended December 25, 2009, as amended
- Exhibit III Current reports on Form 8-K dated December 2, 2010, April 23, 2010, February 12, 2010 and January 25, 2010
- Exhibit IV Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010
- Exhibit V Proxy statement for 2010 Annual Meeting of Shareholders

I Summary

Preliminary remark

Graco Inc. warns the reader that:

- this summary should be read as an introduction to the Prospectus;
- any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor;
- where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and
- civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Risk factors

The risk factors to be taken into consideration when participating in the Plan consist, on the one hand, of risks related to participation in the Plan itself, and, on the other hand, risks related to the Company's business.

The risks related to the participation in the Plan itself can be summarized as follows:

- (i) participation in the Plan is subject to the same risks as inherent to any investment in shares (such as a change in the stock exchange price of the shares);
- (ii) participation in the Plan is subject to a currency risk (e.g. USD/EUR) that could adversely affect the foreseen profit resulting from participation in the Plan; and
- (iii) the possible tax and / or social security consequences of participation in the Plan could adversely affect the foreseen profit resulting from participation in the Plan.

Information concerning the risk factors related to the Company's business, that may affect future results of the Company, is reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Quarterly Report on Form 10-Q for the third quarter ended on September 24, 2010 (Exhibit IV).

A Information concerning the offer

A.1 DESCRIPTION OF THE OFFER

A.1.1 General information

The information in this Prospectus relates to the Graco Employee Stock Purchase Plan. The Plan was adopted by the Board of Directors (the "**Board**") of the Company in February 2006 and was approved by the Company's shareholders in April 2006. The Company's shares of Common Stock are listed on the New York Stock Exchange, symbol "GGG".

A.1.2 Purpose

The Plan is designed to give our employees an opportunity to acquire shares of Common Stock of the Company and, thus, to develop a stronger incentive to work for our continued success.

A.1.3 Administration

The Management Organization and Compensation Committee (the "**Committee**") administers the Plan.

The Committee is appointed by our Board of Directors and consists of three or more persons who may, but need not be, directors of the Company. The Board determines the size of the Committee from time to time and has the power to remove and replace members. The Committee may delegate all or part of its authority to a committee of management for purposes of determinations under the Plan. The Committee delegated all of its authority to the Benefit Plans Committee.

Subject to the terms of the Plan, the Committee determines the term of each Purchase Period (as defined in section A.1.4 hereafter) and the manner for determining the purchase price of the shares to be sold at the end of the Purchase Period. The Committee is also authorized to determine any questions arising in the administration, interpretation and application of the Plan, and all such determinations are conclusive and binding on all parties.

A.1.4 Eligibility

Participation in the Plan is completely voluntary. You decide whether to participate or not. The Plan is open to employees of the Company and certain participating affiliates who generally work at least 16 hours per week and are customarily employed for at least 5 months each calendar year.

The Plan consists of one purchase period per year, starting on March 1 and ending on the last day of February in the following calendar year (each, a "**Purchase Period**").

To be eligible to participate in the Plan for a given Purchase Period, an employee must be a regular full-time or part-time employee on the 25th of February preceding the commencement of the applicable Purchase Period. Participation can begin only on March 1 of each year.

You may not participate in the Plan if you would be deemed to own stock, immediately after a right to purchase is granted, equal to 5% or more of the total combined voting power or value of all classes of stock of the Company.

A.1.5 Plan documents

This Prospectus outlines the main features of the Plan and the procedures for buying the Company's Common Stock under the Plan. The description of the Plan contained in this Prospectus does not claim to be complete. A copy of the Plan is attached to this Prospectus as Exhibit I. If you have any questions after you have read this Prospectus, please contact the Human Resources Department of the Company. You may obtain from them copies of any of the administrative forms used under the Plan (including the enrollment form, the enrollment, change and withdrawal authorization form and the final election form).

A.1.6 Participation

An eligible employee may elect to participate in the Plan by submitting an enrollment form to the Human Resources Department of the Company before the commencement of the applicable Purchase Period that authorizes regular payroll deductions from Current Compensation (as defined in section A.1.8 hereafter) beginning with the first payday in such Purchase Period and continuing until the eligible employee withdraws from the Plan, modifies his or her authorization or ceases to be an eligible employee.

If you do not make a timely election to participate in the Plan prior to the commencement of the Purchase Period, you will be deemed to have made an irrevocable election not to participate for any part of that Purchase Period.

If you are already a participant in the Plan at the end of a Purchase Period and wish to continue your participation during the next Purchase Period, you need not re-enroll. Your participation will continue during the next Purchase Period at the same Payroll Deduction Rate (as defined in section A.1.8 hereafter).

A.1.7 Offering and Purchase Periods

The Plan consists of one Purchase Period per year, starting on March 1 and ending on the last day of February in the following calendar year.

A.1.8 Payroll Deductions

The enrollment form submitted by you to the Human Resources Department of the Company will authorize regular payroll deductions from your Current Compensation (as defined below), beginning with the first payday in the Purchase Period, and continuing until you withdraw from the Plan, modify your authorization, or cease to be eligible to participate in the Plan. These deductions will be credited to an account in your name on the Company's books (the "**Stock Purchase Account**"). In respect of the employees in Belgium such Stock Purchase Account will not be on the Company's books but will be an account opened with ING België NV. The enrollment form will allow you to select any whole percentage between 3% and 15% of your Current Compensation for deduction (the "**Payroll Deduction Rate**"). You may not make cash payments to your Stock Purchase Account.

"**Current Compensation**" under the Plan means your gross cash compensation, including wages, salary, overtime earnings, shift premium, sales incentive, bonus, vacation pay and year end premium (to the extent that these apply in your country) paid by the Company or by a participating affiliate of the Company. Current Compensation excludes all commissions, expense allowances or reimbursements, relocation allowances, tuition reimbursements, adoption assistance benefits, earnings related to stock options or other equity incentives, post-employment payments that may be computed from eligible compensation, such as severance benefits, salary continuation after termination of employment, redundancy pay, termination indemnities, and compensation payable in a form other than cash. Current Compensation will be determined without regard to any earnings reduction agreements made pursuant to qualified cash or deferred arrangement, or cafeteria plans.

A.1.9 Changing your Payroll Deduction Rate

If your Current Compensation changes during a Purchase Period, your Payroll Deduction Rate will remain the same, but the amount of money deducted will change.

You may change your Payroll Deduction Rate by submitting a completed Enrollment, Change and Withdrawal Authorization form (the "**Change Form**") to the Human Resources Department of the Company.

- You may reduce your Payroll Deduction Rate at any time by submitting a Change Form. The reduction will take effect as soon as administratively practical. You may not reduce your Payroll Deduction Rate below 3% and it must always be a whole percent.
- You may not increase your Payroll Deduction Rate during a Purchase Period. You may only increase your Payroll Deduction Rate to be effective at the commencement of a new Purchase Period by submitting a Change Form in accordance with the instructions in your enrollment packet.
- You may withdraw from the Plan at any time by completing a Change Form. Within 60 days following our receipt of your notice to withdraw from the Plan, the cumulative balance reflected in your Stock Purchase Account (in respect of participants in Belgium including interest) will be paid to you in cash. In respect of participants in Belgium such repayment will take place by wiring the balance (including interest) from your Stock Purchase Account to an individual account indicated by you. In respect of participants in EEA Member States other than Belgium, such repayment will take place through your payroll. If you have withdrawn from the Plan during a Purchase Period, you may not rejoin the Plan until the next Purchase Period.

The Committee may terminate your payroll deductions during a Purchase Period when the entire credit balance in your Stock Purchase Account (in respect of participants in Belgium, excluding any interest accrued) exceeds the maximum fair market value of shares that may be purchased (currently USD 25,000).

A.1.10 Participant Stock Purchase Account

Your Stock Purchase Account will reflect the cumulative amount deducted from your Current Compensation during the Purchase Period. Payroll deductions will be credited to your Stock Purchase Account on each payday.

In respect of participants in EEA Member States other than Belgium, the amounts in the Stock Purchase Accounts will not accrue interest.

However, in respect of participants in Belgium, contrary to the preceding paragraph, interest will accrue on the amounts in the Stock Purchase Accounts (at the rate generally applied by ING België NV in respect of such accounts) in accordance with ING België NV's terms and conditions. These terms and conditions can be obtained from ING België NV.

A.1.11 Account records

During each Purchase Period, a record will be maintained of the amounts deducted from your Current Compensation and the total amount accumulated in your Stock Purchase Account since the beginning of the Purchase Period. Prior to the end of each Purchase Period, you will receive a preliminary statement packet which will include an individual preliminary account statement. This statement will identify the purchase price of the Common Stock of the Company anticipated to be applicable to the current Purchase Period and indicate the approximate number of shares of Common Stock that can be purchased with the amount accumulated to date in your Stock Purchase Account. If you do not wish the entire balance in your Stock Purchase Account on the last day of the Purchase Period to be used to purchase Common Stock, you must submit a Final Election Form (as defined in section A.1.13 hereafter) to the Human Resources Department of the Company, prior to the date specified in your preliminary statement packet. In the Final Election Form, you must indicate the portion of the Stock Purchase Account, if any, to be used to purchase Common Stock; the remainder will be paid to you in cash within 60 days after the conclusion of the Purchase Period.

All reports, proxy statements and other materials periodically sent to the shareholders of the Company will be sent to you as long as you remain a shareholder of the Company.

A.1.12 Purchase of shares and purchase price

As of the last day of the Purchase Period, the entire balance in your Stock Purchase Account (in respect of participants in Belgium, excluding interest, which will be paid to you in cash), will be used to purchase the number of whole shares of Common Stock that can be purchased with such amount. The purchase price of the Common Stock will be established by the Committee from time to time, but will be no less than 85% of the fair market value of the shares on the first day or the last day of the Purchase Period, whichever is lower. For the Purchase Period commencing March 1, 2011, the Committee has set the purchase price at 85% of the fair market value of the shares on the first day or the last day of the Purchase Period, whichever is lower. The fair market value on any date will be the closing price of the Company's Common Stock on the New York Stock Exchange (NYSE) on that date or if no reported sale took place on that date, the closing price on the last preceding day on which any sale was made.

If the Current Compensation is paid in another currency than USD, the amount in your Stock Purchase Account will be converted into USD. In respect of participants in Belgium, such conversion will take place at the end of each Purchase Period and will be based on the exchange rate published in the Wall Street Journal of February 28 of each relevant year. In respect of participants in EEA Member States other than Belgium, the conversion

will take place at the end of each month during the Purchase Period and will be the month-end spot rate.

For example, assume that the fair market value of the Common Stock is USD 35 a share on the first day of a Purchase Period and USD 40 a share on the last day. As the fair market value is lower on the first day of the Purchase Period, your purchase price would be 85% of USD 35.00 per share, or USD 29.75, even though the actual fair market value of the stock at the time of purchase is USD 40. If the fair market value had been USD 40 per share on the first day and USD 35 per share on the last day, your purchase price would still be USD 29.75 per share.

To determine the number of shares you will receive at the end of each Purchase Period, the entire balance in your Stock Purchase Account (in respect of participants in Belgium, excluding interest, which will be paid to you in cash) will be divided by the purchase price of a share of Common Stock as determined above. Only whole shares may be purchased. Any amount remaining in your Stock Purchase Account at the end of each Purchase Period will be paid to you in cash within 60 days after the end of the Purchase Period.

A.1.13 Alternatives to the purchase of shares of Common Stock at the end of a Purchase Period

The Plan's purpose is to provide you with an opportunity to buy shares of the Company's Common Stock. Prior to the end of each Purchase Period, you may elect instead to have all or a portion of the amount (in respect of participants in Belgium, including interest) in your Stock Purchase Account paid to you in cash, which will reduce or eliminate entirely the number of shares of Common Stock that you are able to purchase. You must submit a Notice of Final Election form ("**Final Election Form**") to the Human Resources Department of the Company if you wish to have all or a portion of the amount in your Stock Purchase Account paid to you in cash at the end of a Purchase Period. The Final Election Form must be submitted by the date indicated in your preliminary statement packet described in section A.1.11 above.

For example, assume that you elect a 5% Payroll Deduction Rate and that your eligible Current Compensation for the Purchase Period is USD 30,000. The total amount in your Stock Purchase Account at the end of the Purchase Period would be equal to USD 1,500 (0.05 x USD 30,000). In respect of participants in Belgium, the interest on this amount will be repaid to you in cash.

If the fair market value of our Common Stock is USD 40 on the first day of the Purchase Period and USD 35 on the last day, your purchase price would be 85% of the lower of these two amounts, or $0.85 \times \text{USD } 35 = \text{USD } 29.75$ per share.

You would have three alternatives prior to the end of the Purchase Period:

1. You may use the amount of USD 1,500 to purchase fifty (50) shares of our Common Stock at a price of USD 29.75 a share; USD 12.50 will remain. The fractional amount (USD 12.50) will be paid to you in cash. If you continue to own the Common Stock, the value of your investment will vary as the market price of the Common Stock fluctuates.
2. You may request that the entire amount in your Stock Purchase Account be paid to you in cash.
3. You may use a portion of the amount of USD 1,500 to purchase shares of Common Stock and request that the remainder be paid to you in cash.

A.1.14 Limitations

If the number of shares of Common Stock which may be purchased with the aggregate amount in all of the Stock Purchase Accounts of all of the participants at the end of any Purchase Period is greater than the number of shares available under the Plan, the number of shares available will be divided among the participants in proportion to their Stock Purchase Account balances. Any amount remaining in your Stock Purchase Account after this allocation will be paid to you in cash.

You may not be granted the right to purchase more than USD 25,000 in fair market value of shares of Common Stock (as determined on the first day of the Purchase Period) in any calendar year under the Plan and any other employee stock purchase plan sponsored by us.

In no event will you have the right to purchase more than 5,000 shares of Common Stock under the Plan for a given Purchase Period.

The shares issued under the Plan may be acquired by us through purchases on the open market or in privately negotiated transactions or directly issued by us, or any combination thereof.

A.1.15 Delivery of shares and shareholder's rights

As soon as practical after each Purchase Period ended, an entry reflecting the shares of Common Stock purchased by you will be posted to your Direct Registration account. Direct Registration allows shares to be held in your name and tracked electronically in our records. The Direct Registration account holder retains full ownership of the shares posted to the account, without having to hold a paper stock certificate. Paper stock certificates will no longer be issued. Shares purchased by a non-U.S. participant will be

recorded directly in the participant's Automatic Dividend Reinvestment Program ("DRIP") account. A Direct Registration Account Statement, or a DRIP Account Statement, confirming your share purchase will be mailed to you after the shares have been posted to your account. You will not have any rights as a shareholder until you have paid for the shares and an entry reflecting the purchase of the shares has been posted on our books (or the books of our transfer agent, Wells Fargo Bank). As a shareholder of the Company you have the right to either request that the dividends are paid to you in cash or you can participate in the DRIP. If you participate in the DRIP, the dividends due to you as a shareholder of the Company are deposited directly with Wells Fargo Bank which, as purchasing agent, will automatically reinvest such dividends in additional shares of Common Stock of the Company.

You may elect to have the shares registered in your own name, or jointly in your name and the name of another person. Since the registration of shares in joint names may have tax implications, you may want to consult with your legal and/or tax advisors before giving such instruction.

A.1.16 Transferability

Your rights under the Plan are exercisable only by you during your lifetime. Your interests under the Plan may not be sold, pledged, assigned or transferred, other than by will or the laws of descent and distribution. Any attempted transfer will be null and void and without effect.

There are no restrictions on the resale by employees of shares purchased under the Plan, except restrictions that may apply to the Company's officers under U.S. federal or state securities laws.

This Prospectus may not be used for resales by officers of the Company, but resales may be made under Rule 144 of the U.S. Securities Act of 1933 without a one-year holding period. Participants who are executive officers of the Company must comply with the trading restrictions and reporting requirements of the Exchange Act. Any transactions in the Company's Common Stock under the Plan must be conducted in accordance with our insider trading policy (see 'Conduct of Business Guidelines'). If you have any questions about these matters, please contact the General Counsel of the Company.

A.1.17 Effect of restructuring events

In the event of a stock split, stock dividend, spin-off, split up, corporate separation, recapitalization, merger, consolidation, combination, exchange of shares or any similar events during a Purchase Period, appropriate adjustments in the purchase price and the number of shares available under the Plan will be made by the Committee.

A.1.18 Termination of, and amendments to, the Plan

The Board may at any time terminate or amend the Plan, except that no amendment may be made without the prior approval of the shareholders of the Company when the amendment would (a) authorize an increase in the number of shares which may be purchased under the Plan, except in connection with an equity restructuring event as described above; (b) permit the issuance of shares before payment in full; (c) increase the rate of Payroll Deduction above 15% of Current Compensation; (d) reduce the minimum price per share at which shares may be purchased; or (e) change the definition of employees eligible to participate in the Plan.

The Committee has the power to make amendments to the Plan that do not materially increase the cost of the Plan or significantly alter the scope, nature or degree of benefits available to participants or beneficiaries under the Plan.

All rights of participants under the Plan will terminate at the earlier of: (a) the day that participants become entitled to purchase a number of shares of Common Stock equal to or greater than the number of shares of Common Stock remaining available for purchase; or (b) at any time, at the discretion of the Board, upon at least 30 days notice to the participants. Upon termination or suspension of the Plan, we will pay to each participant cash in an amount equal to the balance in the participant's Stock Purchase Account not used to purchase shares of Common Stock.

A.1.19 Termination of Employment Other Than Death, Disability or Retirement

You will cease to be a participant in the Plan upon the date that you cease to be a regular full-time or part-time employee of the Company or a participating affiliate of the Company for a reason other than death, disability or retirement. The entire balance in your Stock Purchase Account (in respect of participants in Belgium, including any interest accrued) will be paid to you in cash within 60 days of your date of termination. You will not be permitted to purchase shares of Common Stock for the Purchase Period during which your employment terminates.

A.1.20 Death

You will cease to be a participant in the Plan when you die. The entire balance in your Stock Purchase Account (in respect of participants in Belgium, including any interest accrued) will be paid to your estate in cash within 60 days of our receipt of a certified copy of your death certificate. You may designate one or more beneficiaries who will receive the balance in your Stock Purchase Account that would otherwise have been paid to your estate and you may change or withdraw your beneficiary designation at any time up to the

date of your death. The designation of a beneficiary must be made on an appropriate form and filed with the Committee before your death.

Your beneficiary designation will become fixed on the date of your death, unless you have indicated otherwise in your beneficiary designation. If the beneficiary designation becomes fixed, the estate of the beneficiary will receive the amount in your Stock Purchase Account if the beneficiary dies before payment is made, but after you have died.

Neither your estate nor your beneficiary(ies), if any, will be able to purchase Common Stock under the Plan.

A.1.21 Disability

If you become disabled, you may continue to participate in the Plan until three (3) months following your termination of employment. If the last day of the Purchase Period occurs prior to, or concurrent with, the expiration of the three (3) month period, you may purchase shares of Common Stock pursuant to the Plan. If the last day of the Purchase Period occurs after the expiration of the three (3) month period, you may not purchase shares of Common Stock and the entire balance in your Stock Purchase Account (in respect of participants in Belgium, including any interest accrued) will be paid to you in cash within 60 days of the termination of your employment. Payroll deductions will terminate when you are no longer receiving disability pay or after six months of continuous disability, whichever occurs first. You may withdraw from the Plan at any time by submitting a Change Form.

You will be considered to be disabled if an injury or illness makes you unable to perform the essential functions of your regular position. The disability must be determined in writing by the administrator of the disability plan sponsored by the Company or the disability plan of our participating affiliates which use a similar definition of disability, or, if you are not covered by such a plan, an official written determination made by a medical doctor approved by the Committee.

A.1.22 Retirement

If you retire and are (i) age 55 and have 10 or more years of service with the Company or a participating affiliate of the Company or (ii) age 65, you will remain a participant of the Plan for three (3) months following your termination date. If the last day of the Purchase Period occurs prior to, or concurrent with, the expiration of the three (3) month period, you may purchase shares pursuant to the Plan. If the last day of the Purchase Period occurs after the expiration of the three (3) month period, you may not purchase shares of

Common Stock and the entire balance in your Stock Purchase Account (in respect of participants in Belgium, including any interest accrued) will be paid to you in cash.

A.1.23 Plan costs

Costs for the administration of the Plan will be paid by the Company.

A.2 USE OF PROCEEDS

Amounts we receive from payroll deductions under the Plan will be credited to your Stock Purchase Account and commingled with our other funds. All funds received or held by us are treated as part of our general assets and may be added to our working capital and used for general corporate purposes. Therefore, in the event of our insolvency or bankruptcy, the payroll deductions held by us will be subject to the claims of our creditors with no special preferences for Plan participants.

In respect of participants in Belgium, however, the amounts we receive from payroll deductions under the Plan will be transferred to your Stock Purchase Account with ING België NV and will not be commingled with our other funds.

A.3 COSTS RELATED TO THE SALE OF SHARES

If you purchase shares of Common Stock under the Plan, you will incur certain costs upon a subsequent sale of these shares. The Company will not bear any of these costs, which will need to be borne by you. As an indication, the costs you could incur are a USD 10 flat fee per transaction to be increased with USD 0.10 per share sold (share commission) and USD 50 as fee for the distribution of proceeds (through international wire transfer). In addition, you may incur bank fees invoiced by your bank in respect of the payment received.

B. General Information concerning Graco

B.1 COMPANY HISTORY AND ACTIVITIES

Our Company was originally incorporated in the state of South Dakota in 1926 as Gray Company, Inc. and reincorporated in the state of Minnesota in 1947. It began business as a Minneapolis, Minnesota-based manufacturer of grease guns and lubricating pumps primarily for servicing vehicles. Our Company changed its name to Graco Inc. and first offered its Common Stock to the public in 1969. Today we provide fluid handling solutions to organizations involved in manufacturing, processing, construction and maintenance throughout the world.

Graco Inc. and its subsidiaries sell a full line of products in each of the following geographic markets: the Americas (North and South America), Europe (including the Middle East and Africa), and Asia Pacific. As of the end of the 2009 fiscal year, sales in the Americas represent approximately 57 percent of our Company's total sales, sales in Europe approximately 25 percent and sales in Asia Pacific approximately 18 percent. Our Company provides marketing, product design and application assistance to, and employs sales personnel in, each of these geographic markets. Subsidiaries located in Belgium, the People's Republic of China ("P.R.C."), Australia, Japan, and Korea distribute our Company's products in their local geographies. The majority of our manufacturing occurs in the United States, but limited lines of products are assembled in the P.R.C. and Belgium.

Our Company classifies its business into three reportable segments, each with a world-wide focus: Industrial, Contractor and Lubrication.

Our Company's headquarters are located in a 142,000 sq. ft. facility in Minneapolis, Minnesota. The facility is also occupied by the management, marketing and product development personnel for the Industrial segment. Information systems, accounting services and purchasing for our Company are housed in a 42,000 sq. ft. office building nearby.

As of December 31, 2010, we employed approximately 2,317 persons. Of this total, 496 were employees based outside the United States, and 787 were hourly factory workers in the United States. None of our Company's U.S. employees are covered by a collective bargaining agreement. Various national industry-wide labor agreements apply to certain employees in various countries outside the United States. Compliance with such agreements has no material effect on our Company or its operations.

B.2 RESEARCH AND DEVELOPMENT; PATENTS AND TRADEMARKS

We own a number of patents and have patent applications pending both in the United States and in other countries. We license our patents to others and are a licensee of patents owned by others. In our opinion, our business is not materially dependent upon any one or more of these patents or licenses. Our Company also owns a number of trademarks in the United States and other countries, including registered trademarks for 'GRACO,' several forms of a capital 'G,' 'Airlessco,' 'ASM,' and various product trademarks which are material to our business, inasmuch as they identify Graco and our products to our customers.

B.3 PARTICULAR PROVISIONS OF THE BYLAWS

The Company's annual meeting of shareholders is held for the purpose of electing directors and conducting other business as may properly come before the meeting and is held each year. The last shareholders' meeting was held on April 23, 2010.

B.4 BOARD OF DIRECTORS (AS OF DECEMBER 2, 2010)

The members of our board of directors are:

- (i) William J. Carroll
Chief Executive Officer, Limo-Reid Technologies, Inc.
- (ii) Jack W. Eugster
Retired Chairman and Chief Executive Officer, Musicland Stores Corporation
- (iii) J. Kevin Gilligan
Chief Executive Officer, Capella Education Company
- (iv) Patrick J. McHale
President and Chief Executive Officer, Graco Inc.
- (v) Lee R. Mitau - Chairman of the Board
Executive Vice President and General Counsel, U.S. Bancorp
- (vi) Marti Morfitt
President and Chief Executive Officer, River Rock Partners, Inc.
- (vii) William G. Van Dyke
Retired Chairman, Donaldson Company, Inc.
- (viii) R. William Van Sant
Operating Partner, Stone Arch Capital, LLC

- (ix) Eric P. Etchart
President of the Manitowoc Crane Group of The Manitowoc Company, Inc. and Senior Vice
President of The Manitowoc Company, Inc., Manitowoc, Wisconsin

B.5 EXECUTIVE OFFICERS (AS OF APRIL 23, 2010)

- (i) Patrick J. McHale
President and Chief Executive Officer
- (ii) David M. Ahlers
Vice President, Human Resources and Corporate Communications
- (iii) Caroline M. Chambers
Vice President and Controller
- (iv) Karen Park Gallivan
Vice President, General Counsel and Secretary
- (v) James A. Graner
Chief Financial Officer and Treasurer
- (vi) Dale D. Johnson
Vice President and General Manager, Contractor Equipment Division
- (vii) Jeffrey P. Johnson
Vice President and General Manager, Asia Pacific
- (viii) David M. Lowe
Vice President and General Manager, Industrial Products Division
- (ix) Simon J. W. Paulis
Vice President and General Manager, Europe
- (x) Charles L. Rescorla
Vice President of Manufacturing and Distribution Operations
- (xi) Mark W. Sheahan
Vice President and General Manager, Applied Fluid Technologies Division
- (xii) Brian J. Zumbolo
Vice President and General Manager, Lubrication Equipment Division

To the extent that such activity is required to be disclosed in Exhibits II or III, for at least the previous five years, none of the directors or executive officers of the Company has:

- (i) been convicted in relation to fraudulent offences;

- (ii) been associated with any bankruptcies, receiverships or liquidations when acting in their capacity as directors or executive officers of the Company (apart from Mr. J. Kevin Gilligan who has been associated with a bankruptcy while acting in his capacity as a director of the Company); or
- (iii) been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between any of the directors and the executive officers listed above.

Our Company has adopted Corporate Governance Guidelines and Charters for the Audit, Governance, and Management Organization and Compensation Committees of the Board of Directors (the "**Committee Charters**"). We have also issued a Code of Ethics and Business Conduct (the "**Code of Ethics**") that applies to our principal executive officer, principal financial officer, principal accounting officer, all officers, directors, and employees of Graco Inc. and all of its subsidiaries and branches worldwide. The Corporate Governance Guidelines, the Committee Charters and the Code of Ethics, with any amendments or waivers thereto, may be accessed free of charge by visiting the Graco website at www.graco.com.

Our Company intends to post on the Graco website any amendment to, or waiver from, a provision of the Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller and other persons performing similar functions within four business days following the date of such amendment or waiver.

C. Financial Information concerning Graco

C.1 STATUTORY AUDITOR

The statutory auditor of Graco over the fiscal years ended on December 25, 2009, December 26, 2008, December 28, 2007, December 29, 2006, December 30, 2005 and December 31, 2004 was Deloitte & Touche LLP. The accounts for those years, prepared in accordance with US GAAP, were audited, and the audit reports contained no qualification. The consolidated interim accounts (consisting of the consolidated statement of earnings, the consolidated balance sheet, the consolidated statement of cash flows and the notes to consolidated financial statements) of the Company and its subsidiaries as of March 26, 2010, June 25, 2010 and September 24, 2010 have not been audited.

C.2 SHARE CAPITAL

Graco's Common Stock is traded on the New York Stock Exchange under the ticker symbol "GGG."

As of December 31, 2010, the share price was USD 39.45 and there were 60,047,955 shares outstanding and 2,706 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 44,000 beneficial owners.

The following table identifies each person or group known to our Company to beneficially own as of December 31, 2009 (these are the last known data on the date of this Prospectus), more than 5 percent of the outstanding Common Stock of the Company, the only class of security entitled to vote at the Annual Meeting.

| Name and address of Shareholder | Amount and Nature of Beneficial Ownership | Percent of Class |
|--|---|------------------|
| Mairs and Power, Inc. ⁽¹⁾ 332 Minnesota Street W-1520 First National Bank Building St. Paul, MN 55101 | 3,237,177 ⁽²⁾ | 5.4% |
| Capital World Investors ⁽¹⁾ A Division of Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071 | 3,100,000 | 5.2% |

(1) Based on information of beneficial ownership as of December 31, 2009 included in a Schedule 13G filed by each shareholder on or before February 16, 2010.

(2) Mairs and Power, Inc. has sole voting power of 2,368,000 shares, shared voting power over 0 shares and sole dispositive power over all 3,237,177 shares.

For the fiscal years ended on December 25, 2009, December 26, 2008 and December 28, 2007, no third parties have attempted a public takeover of the Company, by purchase or exchange of shares of Common Stock of the Company.

C.3 KEY FINANCIAL DATA

The key financial data (in US GAAP) as per the fiscal years ended on December 25, 2009, December 26, 2008 and December 28, 2007 are set forth hereafter.

CONSOLIDATED STATEMENTS OF EARNINGS Graco Inc. and subsidiaries

| (In thousands, except per share amounts) | Years Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 25, 2009 | December 26, 2008 | December 28, 2007 |
| Net Sales | \$ 579,212 | \$ 817,270 | \$ 841,339 |
| Cost of products sold | 286,396 | 385,093 | 393,913 |
| Gross Profit | 292,816 | 432,177 | 447,426 |
| Product development | 37,538 | 36,558 | 30,277 |
| Selling, marketing and distribution | 115,550 | 138,665 | 124,508 |
| General and administrative | 65,261 | 69,589 | 60,161 |
| Operating Earnings | 74,467 | 187,365 | 232,480 |
| Interest expense | 4,854 | 7,633 | 3,433 |
| Other expense, net | 946 | 1,153 | 211 |
| Earnings before Income Taxes | 68,667 | 178,579 | 228,836 |
| Income taxes | 19,700 | 57,700 | 76,000 |
| Net Earnings | \$ 48,967 | \$ 120,879 | \$ 152,836 |
| Basic Net Earnings per Common Share | \$.82 | \$ 2.01 | \$ 2.35 |
| Diluted Net Earnings per Common Share | \$.81 | \$ 1.99 | \$ 2.32 |
| Dividends Declared per Common Share | \$.77 | \$.75 | \$.68 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME Graco Inc. and subsidiaries

| (In thousands) | Years Ended | | |
|---|----------------------|----------------------|----------------------|
| | December 25, 2009 | December 26, 2008 | December 28, 2007 |
| Net Earnings | \$ 48,967 | \$ 120,879 | \$ 152,836 |
| Other comprehensive income (loss) | | | |
| Cumulative translation adjustment | 234 | (1,105) | 108 |
| Pension and postretirement medical liability adjustment | 34,576 | (102,741) | (875) |
| Gain (loss) on interest rate hedge contracts | 1,214 | (3,236) | (1,700) |
| Income taxes | (13,263) | 39,290 | 895 |
| Other comprehensive income (loss) | 22,761 | (67,792) | (1,572) |
| Comprehensive Income | \$ 71,728 | \$ 53,087 | \$ 151,264 |

CONSOLIDATED BALANCE SHEETS
Graco Inc. and subsidiaries

| (In thousands, except share and per share amounts) | December 25, 2009 | December 26, 2008 | December 28, 2007 |
|--|----------------------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 5,412 | \$ 12,119 | \$ 4,922 |
| Accounts receivable, less allowances of \$6,600 and \$6,500 | 100,824 | 127,505 | 140,489 |
| Inventories | 58,658 | 91,604 | 74,737 |
| Deferred income taxes | 20,380 | 23,007 | 21,650 |
| Other current assets | 3,719 | 6,360 | 7,034 |
| Total current assets | 188,993 | 260,595 | 248,832 |
| Property, Plant and Equipment, net | 139,053 | 149,754 | 140,594 |
| Goodwill | 91,740 | 91,740 | 67,204 |
| Other Intangible Assets, net | 40,170 | 52,231 | 41,889 |
| Deferred Income Taxes | 8,372 | 18,919 | — |
| Other Assets | 8,106 | 6,611 | 6,382 |
| Total Assets | \$ 476,434 | \$ 579,850 | \$ 536,724 |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities | | | |
| Notes payable to banks | \$ 12,028 | \$ 18,311 | \$ 18,991 |
| Trade accounts payable | 17,983 | 18,834 | 27,379 |
| Salaries and incentives | 14,428 | 17,179 | 20,470 |
| Dividends payable | 12,003 | 11,312 | 11,476 |
| Other current liabilities | 47,373 | 55,524 | 47,561 |
| Total current liabilities | 103,815 | 121,160 | 125,877 |
| Long-Term Debt | 86,260 | 180,000 | 107,060 |
| Retirement Benefits and Deferred Compensation | 73,705 | 108,656 | 40,639 |
| Uncertain Tax Positions | 3,000 | 2,400 | 5,400 |
| Commitments and Contingencies (Note K) | | | |
| Shareholders' Equity | | | |
| Common stock, \$1 par value; 97,000,000 shares authorized; 59,999,158 and 59,516,201 shares outstanding in 2009, 2008 and 2007 | 59,999 | 59,516 | 61,964 |
| Additional paid-in capital | 190,261 | 174,161 | 156,420 |
| Retained earnings | 11,121 | 8,445 | 32,986 |
| Accumulated other comprehensive income (loss) | (51,727) | (74,488) | (6,696) |
| Total shareholders' equity | 209,654 | 167,634 | 244,674 |
| Total Liabilities and Shareholders' Equity | \$ 476,434 | \$ 579,850 | \$ 536,724 |

CONSOLIDATED STATEMENTS OF CASH FLOWS
Graco Inc. and subsidiaries

| (In thousands) | Years Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 25, 2009 | December 26, 2008 | December 28, 2007 |
| Cash Flows from Operating Activities | | | |
| Net earnings | \$ 48,967 | \$ 120,879 | \$ 152,836 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | | |
| Depreciation, amortization and impairment | 35,140 | 35,495 | 28,665 |
| Deferred income taxes | (69) | (160) | (1,590) |
| Share-based compensation | 9,369 | 9,051 | 8,583 |
| Excess tax benefit related to share-based payment arrangements | (375) | (2,873) | (4,508) |
| Change in | | | |
| Accounts receivable | 28,420 | 14,965 | (1,844) |
| Inventories | 32,663 | (9,937) | 2,045 |
| Trade accounts payable | (701) | (6,806) | (2,314) |
| Salaries, wages and commissions | (2,893) | (3,169) | (6,527) |
| Retirement benefits and deferred compensation | (848) | (2,672) | (2,290) |
| Other accrued liabilities | (2,838) | 5,658 | 4,666 |
| Other | (303) | 2,047 | (625) |
| Net cash provided by operating activities | 146,532 | 162,478 | 177,097 |
| Cash Flows from Investing Activities | | | |
| Property, plant and equipment additions | (11,463) | (29,102) | (36,869) |
| Proceeds from sale of property, plant and equipment | 770 | 1,768 | 296 |
| Investment in life insurance | (1,499) | (1,499) | (1,499) |
| Capitalized software and other intangible asset additions | (602) | (1,327) | (85) |
| Acquisitions of businesses, net of cash acquired | - | (55,186) | - |
| Net cash used in investing activities | (12,794) | (85,346) | (38,157) |
| Cash Flows from Financing Activities | | | |
| Net borrowings (payments) on short-term lines of credit | (6,385) | (1,329) | (312) |
| Borrowings on long-term line of credit | 77,996 | 242,849 | 158,351 |
| Payments on long-term line of credit | (171,736) | (169,909) | (51,295) |
| Excess tax benefit related to share-based payment arrangements | 375 | 2,873 | 4,508 |
| Common stock issued | 6,571 | 13,701 | 24,055 |
| Common stock retired | (187) | (114,836) | (230,412) |
| Cash dividends paid | (45,444) | (44,702) | (43,188) |
| Net cash used in financing activities | (138,810) | (71,353) | (138,293) |
| Effect of exchange rate changes on cash | (1,635) | 1,418 | (1,596) |
| Net increase (decrease) in cash and cash equivalents | (6,707) | 7,197 | (949) |
| Cash and cash equivalents | | | |
| Beginning of year | 12,119 | 4,922 | 5,871 |
| End of year | \$ 5,412 | \$ 12,119 | \$ 4,922 |

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Graco Inc. and subsidiaries

| (In thousands) | Years Ended | | |
|--|----------------------|----------------------|----------------------|
| | December 25, 2009 | December 26, 2008 | December 28, 2007 |
| Common Stock | | | |
| Balance, beginning of year | \$ 59,516 | \$ 61,964 | \$ 66,805 |
| Shares issued | 491 | 645 | 1,077 |
| Shares retired | (8) | (3,093) | (5,918) |
| Balance, end of year | 59,999 | 59,516 | 61,964 |
| Additional Paid-In Capital | | | |
| Balance, beginning of year | 174,161 | 156,420 | 130,621 |
| Shares issued | 6,080 | 13,056 | 24,093 |
| Stock compensation cost | 9,369 | 9,051 | 8,583 |
| Tax benefit related to stock options exercised | 674 | 3,473 | 5,808 |
| Restricted stock cancelled (issued) | - | 254 | (1,115) |
| Shares retired | (23) | (8,093) | (11,570) |
| Balance, end of year | 190,261 | 174,161 | 156,420 |
| Retained Earnings | | | |
| Balance, beginning of year | 8,445 | 32,986 | 138,702 |
| Net income | 48,967 | 120,879 | 152,836 |
| Dividends declared | (46,135) | (44,539) | (43,609) |
| Shares repurchased | (156) | (100,881) | (214,943) |
| Balance, end of year | 11,121 | 8,445 | 32,986 |
| Accumulated Other Comprehensive Income (Loss) | | | |
| Balance, beginning of year | (74,488) | (6,696) | (5,124) |
| Other comprehensive income (loss) | 22,761 | (67,792) | (1,572) |
| Balance, end of year | (51,727) | (74,488) | (6,696) |
| Total Shareholders' Equity | \$ 209,654 | \$ 167,634 | \$ 244,674 |

Quarterly results (such as the results of the first three quarters of the current financial year) are and will be published on the Company's Quarterly Reports on Form 10-Q, which are available on the Company's website (www.graco.com, under the "Investor Relations – SEC filings" caption).

The Company's dividend history can be found in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II).

The cost of the stock-based compensation for U.S. GAAP accounting purposes is elaborated upon in the Company's Annual Report on Form 10-K for fiscal year ended December 25, 2009 (Exhibit II). In addition, the Company has incurred filing costs and legal costs of approximately EUR 20,000 in connection with the approval and implementation of this Prospectus in order to offer shares under the Plan to eligible employees of its subsidiaries in the EEA.

II Risk Factors

The risk factors to be taken into consideration when participating in the Plan consist, on the one hand, of risks related to participation in the Plan itself and, on the other hand, risks related to the Company's business.

The risks related to the participation in the Plan itself can be summarized as follows:

- (i) participation in the Plan is subject to the same risks as inherent to any investment in shares (such as a change in the stock exchange price of the shares);
- (ii) participation in the Plan is subject to a currency risk (e.g. USD/EUR) that could adversely affect the foreseen profit resulting from participation in the Plan; and
- (iii) the possible tax and / or social security consequences of participation in the Plan could adversely affect the foreseen profit resulting from participation in the Plan.

Information concerning the risk factors related to the Company's business, that may affect future results of the Company, is reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Quarterly Report on Form 10-Q for the third quarter ended on September 24, 2010 (Exhibit IV) and can be summarized as follows:

Economic Environment - Demand for our products depends on the level of commercial and industrial activity worldwide.

The current economic downturn and financial market turmoil has depressed demand for our equipment in all major geographies and in all major markets. If our distributors and Original Equipment Manufacturers ("OEM's") remain unable to purchase our products because of unavailable credit or unfavorable credit terms or are simply unwilling to purchase our products, our net sales and earnings will be adversely affected.

Major Customers - Our contractor segment depends on a few large customers for a significant portion of its sales. Significant declines in the level of purchases by these customers could reduce our sales.

Our contractor segment derives a significant amount of revenue from a few large customers. Substantial decreases in purchases by these customers, difficulty in collecting amounts due or the loss of their business would adversely affect the profitability of this segment. The business of these customers is dependent upon the economic vitality of the construction and home maintenance markets. If these markets decline, the business of

our customers could be adversely affected and their purchases of our equipment could decrease.

Acquisitions - Our growth strategy includes acquisitions. Suitable acquisitions must be located, completed and integrated into our existing businesses in order for this strategy to be successful.

We have identified acquisitions as one of the strategies by which we intend to grow our business. If we are unable to obtain financing at a reasonable cost, are unsuccessful in acquiring and integrating businesses into our current business model, or do not realize projected efficiencies and cost-savings from the businesses we acquire, we may be unable to meet our growth or profit objectives.

Foreign Operations - Conditions in foreign countries and changes in foreign exchange rates may impact our sales volume, rate of growth or profitability.

In 2009, approximately 52 percent of our sales was generated by customers located outside the United States. Sales to customers located outside the United States expose us to special risks, including the risk of terrorist activities, civil disturbances, environmental catastrophes, supply chain disruptions, and special taxes, regulations and restrictions. We are increasing our presence in Asia Pacific, South America, Eastern Europe and the Middle East and our revenues and net income may be adversely affected by the more volatile economic and political conditions prevalent in these regions. We assemble limited lines of products at our factory in Suzhou, P.R.C. and source an increasing number of the components and materials used in the assembly process from the local market. Changes in exchange rates between the U.S. dollar and other currencies will impact our reported sales and earnings and may make it difficult for some of our distributors to purchase products.

Foreign Suppliers - Our Company has increased its sourcing of raw materials and components from vendors located outside the United States. Interruption or delays in delivery may adversely affect our profitability.

We are sourcing an increasing percentage of our materials and components from suppliers outside the United States. Long lead times may reduce our flexibility and make it more difficult to respond promptly to fluctuations in demand. Changes in exchange rates between the U.S. dollar and other currencies and fluctuations in the price of oil may impact the manufacturing costs of our products and affect our profitability.

Natural Disasters - Our operations are at risk of damage or destruction by natural disasters, such as earthquakes, tornadoes or unusually heavy precipitation.

The loss of, or substantial damage to, one of our facilities could make it difficult to supply our customers with products and provide our employees with work. Our manufacturing and distribution facility in Minneapolis is on the banks of the Mississippi River where it is exposed to flooding. Flooding could also damage our European headquarters and warehouse in Maasmechelen, Belgium or our factory in Suzhou, P.R.C. Tornadoes could damage or destroy our facilities in Sioux Falls, Rogers, Minneapolis or Anoka and a typhoon could do the same to our facility in Suzhou. An earthquake may adversely impact our operations in Suzhou.

Competition – Demand for our products may be affected by new entrants who copy our products and infringe on our intellectual property

From time to time, our Company has been faced with instances where competitors have intentionally infringed our intellectual property and/or taken advantage of our design and development efforts. In some instances, these competitors have launched broad marketing campaigns. The inability of our Company to effectively meet these challenges could adversely affect our revenues and profits and hamper our ability to grow.

III Information on the offer

Information concerning the offer is set forth in the Graco Inc. 2006 Employee Stock Purchase Plan (Exhibit I), in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Quarterly Report on Form 10-Q for the third quarter ended on September 24, 2010 (Exhibit IV).

IV Key information on the Company's financial condition, capitalization and risk factors

Information concerning the Company's financial condition, including selected financial data, information on capitalization and indebtedness and a description of the risk factors is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II), in the Proxy Statement for 2010 Annual Meeting of Shareholders (Exhibit V), in the Company's Current Reports on Form 8-K (Exhibit III), and in the Company's Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010 (Exhibit IV).

The reasons for the offer and the use of proceeds are described in section I.A above.

V Information on the Company

Information on the Company, including its history and development, a business overview, its organizational structure and information concerning its property, plants and equipment is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010 (Exhibit IV).

VI Operating and financial review

Information concerning the Company's operating results, its liquidity and capital resources, research and development, patents and licenses, etc. is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II), in the Company's Current Reports on Form 8-K (Exhibit III) and in the Company's Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010 (Exhibit IV).

VII Directors, senior managers and employees

Information concerning the Company's directors and senior management, their remuneration, Board practices and the Company's employees and concerning share ownership is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Proxy Statement for 2010 Annual Meeting of Shareholders (Exhibit V).

VIII Major shareholders and related-party transactions

Information concerning major shareholders of the Company, related-party transactions and information concerning interests of experts and advisers is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2009 (Exhibit II) and in the Company's Proxy Statement for 2010 Annual Meeting of Shareholders (Exhibit V).

IX Additional information

More detailed information about the Company's businesses, as well as contact information for the different subsidiaries of the Company is available on the Company's website (www.graco.com).

The Annual Report on Form 10-K for fiscal years ending December 25, 2009, December 26, 2008 and December 28, 2007 as well as Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are also made available on the Company's website (www.graco.com, under the "Investor Relations - SEC filings" caption) after the Company electronically files such materials with, or furnishes them to, the SEC.

Required filings by the Company's officers and directors and certain third parties with respect to transactions or holdings in the Company's shares are also made available on the Company's website, as are proxy statements for the Company's shareholder meetings. These filings may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Room 1580 Washington, D.C. 20549. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Information about the Company's Board and Board Committees, including the Committee charters, is available on the Company's website (www.graco.com, under the "Investor Relations – Corporate Governance" captions).

X Tax consequences of participation in the Plan

The following information summarizes the tax consequences of participation in the Plan. It is not intended to be complete and may change over time. You should seek advice from your own tax advisor for current information relating to your own tax situation.

The difference between the fair market value of the shares of Common Stock at the time of purchase and the actual purchase price of the shares under the Plan will be taxable income to you at your applicable marginal rate. The purchase price under the Plan is 85% of the fair market value on the first day or the last day of the Purchase Period, whichever is lower. You must report taxable income derived from the Plan on your annual income tax form filed with the relevant tax authorities. The taxable income must be reported on the tax return relating to the year in which you purchase the shares.

Example:

- Total amount in your Stock Purchase Account at the end of a Purchase Period: USD 1,500.
- Purchase price: USD 29.75.
- Number of shares of Common Stock purchased: 50.

- Fair market value on the purchase date: USD 35.

In this example, you will be taxed on the difference between USD 35 and USD 29.75 (*i.e.* USD 5.25) times the number of shares of Common Stock purchased (*i.e.* 50) or $50 \times \text{USD } 5.25 = \text{USD } 262.50$ or EUR 186.38 (at an assumed exchange rate of USD1 = EUR 0.71). The taxable amount, *i.e.* USD 262.50 or EUR 186.38 in the example, will be taxed at your applicable marginal rate. If your marginal tax rate would, for instance, be equal to 50%, the tax due will amount to USD 131.25 or EUR 93.19.

Graco's stock transfer agent will be obligated to withhold U.S. taxes on any dividends paid to you on shares of Graco stock. The normal U.S. statutory withholding rate is 30%. For Belgian residents, this rate is reduced to 15% by the provisions of the U.S.-Belgium income tax treaty. You will be liable for Belgian income tax on any dividends received from Graco, but you may be entitled to a tax credit for any U.S. taxes withheld on those dividends. In order to take advantage of the lower rate under the U.S.-Belgium income tax treaty, you must have a U.S. Form W-8BEN, "Certificate of Foreign Status of Beneficial Owner for U.S. Tax Withholding" (the "**W-8BEN Form**") on file with the stock transfer agent. You may request this W-8BEN Form from the stock transfer agent or download this form from the website of the U.S. Internal Revenue Service, www.irs.gov. The W-8BEN Form must be completed, signed and returned to the stock transfer agent. The W-8BEN Form will remain in effect for a period starting on the date you sign the W-8BEN Form and ending on the last day of the third succeeding calendar year. You must file a new W-8BEN Form if a change in circumstances makes any of the information on the W-8BEN Form incorrect or incomplete.

The Belgian tax rules applicable to dividends are dependent upon the manner in which the dividends are paid. If the dividends are paid through a financial intermediary established in Belgium, this intermediary will withhold 25% from the net dividend amount (that is, the gross dividend amount less the U.S. taxes withheld). If the dividends are not paid through an intermediary established in Belgium, but are paid directly by the Company or its transfer agent in the U.S., the dividends must be reported in your annual tax return as foreign source income. The taxable amount will be the net dividend amount. The net dividends are taxable at a rate of 25% plus municipal surcharges, or at your marginal tax rate, if lower.

Capital gains are generally not taxable in Belgium. As a result, you will not be subject to taxation in Belgium when you sell your Graco shares. However, under Belgian tax laws capital gains may be taxable at a rate of 33% if the sale of shares is conducted through active speculation in the market rather than in the normal course of personal asset management. A W-8BEN Form must be on file with your U.S. broker before income from the sale of the shares is paid or credited to you. Failure to provide a properly completed

and signed W-8BEN Form to your broker may lead to withholding of U.S. income tax at a 30% rate (or at the backup withholding rate) on the proceeds of the sale.

Graco NV is not required to withhold income tax from your salary on income derived under the Plan. You must report the taxable income derived from the purchase of shares under the Plan, including dividends, on your annual income tax form filed with the relevant tax authorities and pay any taxes due.

Exhibits

Exhibit 1 – Employee Stock Purchase Plan

1. Employee Stock Purchase Plan

Exhibit 2 – Annual reports

1. Annual report for fiscal year ended 25 December 2009
2. Annual report (amended)

Exhibit 3 – Current reports

1. Report of 25 January 2010
2. Report of 12 February 2010
3. Report of 23 April 2010
4. Report of 2 December 2010

Exhibit 4 – Quarterly reports

1. Quarterly report of 26 March 2010
2. Quarterly report of 25 June 2010
3. Quarterly report of 24 September 2010

Exhibit 5 – Proxy Statement for 2010 Annual meeting of shareholders

1. Proxy Statement for 2010 Annual meeting of shareholders