Exhibit I

Graco Inc. 2006 Employee Stock Purchase Plan

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Graco Inc. 2006 Employee Stock Purchase Plan

GRACO INC.
2006 EMPLOYEE STOCK PURCHASE PLAN
(as amended)

1. *Purpose and Scope of Plan.* The purpose of this employee stock purchase plan (the "Plan") is to provide the employees of Graco Inc. (the "Company") and its subsidiaries with an opportunity to acquire a proprietary interest in the Company through the purchase of its common stock and, thus, to develop a stronger incentive to work for the continued success of the Company. The Plan is intended to be an "employee stock purchase plan" within the meaning of Section 423(b) of the Internal Revenue Code of 1986, as amended, and shall be interpreted and administered in a manner consistent with such intent.

2. *Definitions.*

2.1. The terms defined in this section are used and capitalized elsewhere in the Plan:n

(a) "*Affiliate*" means any corporation that is a "parent corporation" or "subsidiary corporation" of the Company, as defined in Sections 424(e) and 424(f) of the Code or any successor provisions, and whose participation in the Plan has been approved by the Board of Directors or a committee selected in accordance with the provisions of the Plan.

(b) "*Agent*" means a registered securities broker/dealer that may be selected by the Company to assist the Company in administering the Plan.

(c) "*Board of Directors*" means the Board of Directors of the Company.

(d) "*Code*" means the Internal Revenue Code of 1986, as amended from time to time.

(e) "*Committee*" means the committee appointed under Section 13 of the Plan or its delegatee.

(f) "*Company*" means Graco Inc., a Minnesota corporation.

(g) "*Compensation*" means the gross cash compensation, including wages, overtime earnings, shift premium, salary, sales incentive and bonus paid by the Company or a Participating Affiliate to a Participant in accordance with the terms of employment, but excluding 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. Compensation shall be determined without regard to any earnings reduction agreements made pursuant to a qualified cash or deferred arrangement under section 401(k) of the Code, or a cafeteria plan established under section 125 of the Code.

(h) *"Effective Date"* shall mean the first day of the first Purchase Period commencing after the approval of the Plan by the shareholders of the Company, providing, however, that the effective date with respect to one or more Participating Affiliates may be a date as determined by the Committee, that may be later than the first day of the first Purchase Period comencing after the approval of the Plan by the shareholders of the Company.

(i) "*Eligible Employee*" means an individual who is classified as a regular full or part-time employee by the Company or a Participating Affiiliate on their payroll records on the twenty-fifth (25th) day of February prior to the commencement of any Purchase Period and throughout the applicable Purchase Period, except (i) an employee whose customary employment is less than 16 hours per week, (ii) an employee whose customary employment is for not more than 5 months in any calendar year, or (iii) an employee who, immediately after a right to purchase is granted, owns (or is deemed to own under sections 423(b)(3) and 424(d) of the Code) shares of the Company's stock with a total combined voting power or value of all classes of stock of the Company of five percent (5%) or more. No other individual shall be considered to be an Eligible Employee, including any temporary employee, independent contractor, non-employee consultant, an employee of any entity other than the Company or a Participating Affiliate, or an employee of any service provider, even if such classification is determined to be erroneous, or is retroactively revised by a governmental agency, by court order or as a result of litigation, or otherwise. In the event the classification of a person who was excluded from the definition of Eligible Employee under the provisions of this subparagraph is determined to be erroneous or is retroactively revised, the person shall nonetheless continue to be excluded from treatment as an Eligible Employee for all periods prior to the date the

Company or Participating Affiliate specifically determines, for the purposes of eligibility under the Plan, that its classification of the individual should be revised.

(j) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended from time to time.

(k) "*Fair Market Value*" of a share of Common Stock as of any date means, if the Company's Common Stock is listed on a national securities exchange or traded in the national market system, the closing price for such Common Stock on such exchange or market on said date, or, if no sale has been made on such exchange or market on said date, on the last preceding day on which any sale shall have been made. If such determination of Fair Market Value is not consistent with the then current regulations applicable to a plan intended to qualify as an "employee stock purchase plan" within the meaning of Section 423(b) of the Code, however, Fair Market Value shall be determined in accordance with such regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Section 14.

(l) *"Month"* for purposes of interpreting Section 9 of the Plan means the period between a certain day in one calendar month and the same day in the following calendar month. For example, if an event takes place on January 1, a month shall have elapsed on February 1. If the subsequent month does not have the same day as the preceding month, a month will have elapsed on the day preceding that day or at the end of the month in the case of February. For example if an event takes place on January 31, a month will have elapsed on February 28 (or 29 in a leap year).

(m) *"Participating Affiliate"* means an Affiliate that has been designated by the Committee in advance of the commencement of the applicable Purchase Period as a corporation whose eligible employees may participate in the Plan.

(n) "*Participant*" means an Eligible Employee who has elected to participate in the Plan in the manner set forth in Section 4.

(o) "*Plan*" means this Graco Inc. 2006 Employee Stock Purchase Plan, as amended from time to time.

(p) "*Purchase Period*" means, except as otherwise determined by the Committee, an annual period commencing March 1 and ending the last day of February of the following calendar year.

(q) *"Shares"* means the Common stock of the Company, $1.00 par value.

(r) "*Stock Purchase Account*" means the account maintained in the books and records of the Company recording the amount withheld from each Participant through payroll deductions made under the Plan.

3. *Scope of the Plan.* Shares may be sold to Eligible Employees pursuant to the Plan as hereinafter provided, but not more than Two Million (2,000,000) Shares, subject to adjustment as provided in Section 14, shall be sold to Eligible Employees pursuant to the Plan. All sales of Shares pursuant to the Plan shall be subject to the same terms, conditions, rights and privileges. The Shares sold to Eligible Employees pursuant to the Plan may be shares acquired by purchase on the open market or in privately negotiated transactions, by direct issuance from the Company or by any combination thereof.

4. *Eligibility and Participation.* To be eligible to participate in the Plan for a given Purchase Period, an employee must be an Eligible Employee. An Eligible Employee may elect to participate in the Plan by submitting an enrollment form to the Company before the commencement of the applicable Purchase Period that authorizes regular payroll deductions from Compensation 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, as hereinafter provided.

5. *Number of Shares Each Eligible Employee May Purchase.*

5.1. Subject to the provisions of the Plan, each Eligible Employee shall be offered the right to purchase on the last day of the Purchase Period the number of Shares that can be purchased at the price specified in Section 5.2 with the entire credit balance, including interest, if any, in the Participant's Stock Purchase Account; provided, however, that no Eligible Employee shall be granted a right to acquire Shares under the Plan that permits the Eligible Employee's rights to purchase Shares under the Plan and all other "employee stock purchase plans" within the meaning of Section 423(b) of the Code maintained by the Company and the Participating Affiliates to accrue at a rate that exceeds $25,000 of Fair Market Value (determined at the time such option is granted) for each calendar year in which such right is outstanding at any time. In no event may any Eligible Employee purchase more than 5,000 shares under the Plan for a given Purchase Period. If the purchases by all Participants would otherwise cause the aggregate number of Shares to be sold under the Plan to exceed the number specified in Section 3, however, each Participant shall be allocated a ratable portion of the maximum number of Shares that may be sold.

5.2. The purchase price of each Share sold pursuant to the Plan shall be established from time to time by the Committee, but shall be no less than the lesser of (a) or (b) below:

(a) 85% of the Fair Market Value of such Share on the first day of the Purchase Period; or

(b) 85% of the Fair Market Value of such Share on the last day of the Purchase Period.

6. *Method of Participation.*

6.1. The Company shall give notice to each Eligible Employee of the opportunity to purchase Shares pursuant to the Plan and the terms and conditions for such offering. Such notice is subject to revision by the Company at any time prior to the date of purchase of such Shares. The Company contemplates that for tax purposes the first day of a Purchase Period will be the date of the offering of such Shares.

6.2. Each Eligible Employee who desires to participate in the Plan for the applicable Purchase Period shall signify his or her election to do so by delivering an executed election on a form designated by the Company prior to the commencement of the Purchase Period. An Eligible Employee may elect to have any whole percent of Compensation withheld, but not less than 3% nor more than 15% per pay period, subject to the provisions of Section 8.6 of the Plan. An election to participate in the Plan and to authorize payroll deductions as described herein must be made before the first day of the Purchase Period to which it relates and shall remain in effect unless and until such Participant withdraws from the Plan, modifies his or her authorization, or ceases to be an Eligible Employee, as hereinafter provided.

6.3. Any Eligible Employee who does not make a timely election, as provided in Section 6.2, shall be deemed to have elected not to participate in the Plan. Such election shall be irrevocable for such Purchase Period.

7. *Stock Purchase Account.*

7.1. The Company shall maintain a Stock Purchase Account for each Participant. Payroll deductions pursuant to Section 6 shall be credited to such Stock Purchase Accounts on each payday.

7.2. Interest shall accrue on the balances in the Stock Purchase Accounts in accordance with the provisions of this Section 7.2, provided that the amount in such Stock Purchase Account is held in the general assets of the Company or the applicable Participating Affiliate. Interest shall accrue from the first day of the Purchase Period until the earlier of (i) the last business day of the

Purchase Period, (ii) the last business day of the calendar month preceding the calendar month in which the Participant withdraws from the Plan, or (iii) the last business day of the calendar month preceding the calendar month in which a distribution is to be made under Section 10 ("Accrual Period"). The interest accrued shall be credited to a Participant's Stock Purchase Account on the last day of the applicable Accrual Period. The amount of interest to be accrued shall be determined by averaging the balances in the Participant's Stock Puchase Account on the last business day of each calendar month in the applicable Accrual Period and multiplying that amount by a simple interest rate selected annually by the Committee.

7.3. The Stock Purchase Account is established solely for accounting purposes. Amounts in the Stock Purchase Account shall be part of the general assets of the Company or credited to an account maintained in the Participant's name at an appropriate financial institution, as the Committee may from time to time determine.

7.4 A Participant may designate one or more beneficiaries to receive the balance in the Participant's Stock Purchase Account upon the Participant's death by submitting a properly completed form to the Company. Such designation may be changed or revoked by the Participant from time to time, provided, however, no designation, change or revocation shall be effective unless made by the Participant on an appropriate form and filed with the Company during the Participant's lifetime. Unless the Participant has otherwise specified in the beneficiary designation, payment shall be made to the beneficiary's estate if a beneficiary survives the Participant, but dies before receipt of the payment due.

7.5. A Participant may not make any separate cash payment into the Stock Purchase Account.

8. *Right to Adjust Participation or to Withdraw.*

8.1 A Participant may increase future payroll deductions only at the commencement of a Purchase Period by submitting the appropriate form to the Company prior to the commencement of the Purchase Period.

8.2. A Participant may, at any time during a Purchase Period, direct the Company to reduce the amount withheld from his or her future Compensation, subject to the limitation in Section 6.2. Upon any such action, future payroll deductions with respect to such Participant shall be reduced in accordance with the Participant's direction.

8.3. At any time before the end of a Purchase Period, a Participant may withdraw from the Plan by filing an appropriate form with the Company. In such event, all future payroll deductions shall cease and the entire credit balance in the Participant's Stock Purchase Account will be paid to the Participant, including interest, in cash within sixty (60) days of the date the Company receives notice of the Participant's withdrawal. A Participant who withdraws from the Plan will not be eligible to reenter the Plan until the next succeeding Purchase Period.

8.4. A Participant shall notify the Company of the Participant's election to decrease payroll deductions by filing an appropriate form with the Company. A Participant's election to decrease deductions will take effect as soon as administratively feasible following receipt by the Company of notification of such election.

8.5 The Committee may, by administrative rule, direct that a Participant's payroll deductions cease when the entire credit balance in a Participant's Stock Purchase Account, excluding interest, exceeds the maximum Fair Market Value of Shares that may be purchased pursuant to Section 5.1, at the applicable purchase price per Share established pursuant to Section 5.2

9. *Termination of Employment.* If the employment of a Participant terminates for a reason other than death, disability, or retirement, Participant's participation in the Plan shall cease as of the date of termination and the Company will pay to the Participant within sixty (60) days of the date of termination, the entire balance in the Participant's Stock Purchase Account, including accrued interest, in cash.

9.1 *Death.* Participation in the Plan shall cease upon the death of the Participant. The entire credit balance of the Participant's Stock Purchase Account, including accrued interest, shall be paid to the Participant's estate or, in the event the Participant has so designated, to one or more beneficiaries in cash within sixty (60) sixty days of the Company's receipt of a certified copy of the Participant's death certificate.

9.2 *Disability.* A Participant who becomes disabled as defined below during a Purchase Period may continue to participate in the Plan for three (3) Months following the Participant's employment termination date, subject to the following provisions:

(a) If the last business day of the Purchase Period occurs prior to or coincident with the expiration of the three (3) Month period, the Participant may purchase Shares pursuant to the Plan. If the last business day of the Purchase Period occurs after the expiration of the three (3) Month period, the Participant may not purchase Shares and the entire credit balance in the Participant's Stock Purchase Account on the date of termination of the Participant's employment, including accrued interest, will be paid to the Participant in cash within sixty (60) days of the termination of the Participant's employment.

(b) Payroll deductions shall cease at the point when the Participant is no longer receiving disability pay from the Company or a

Participanting Affiliate or after six (6) continuous Months of disability, whichever occurs first.

(c) The Participant may voluntarily withdraw from the Plan at any time during the Purchase Period, in accordance with the provisions of Section 8.

(d) A Participant shall be deemed disabled if because of an injury or illness, the Participant is unable to perform the essential functions of his/her regular position and the following determinations have been made.

(i) A written determination of disability by the administrator of the disability benefit plan sponsored by the Company or a Participating Affiliate using a definition of disability similar to that set forth in Section 9.2(d) or

(ii) A written determination of disability made by a doctor of medicine approved by the Committee using a definition of disability similar to that set forth in Section 9.2(d) when the Particiipant is not covered by a Company or Participating Affiliate disability plan. Situations contemplated by this Section 9.2(d)(ii) include fully insured disability plans.

9.3 *Retirement*. A Participant who terminates employment with the Company or a Participating Affiliate and is age 55 and has ten (10) or more years of service with the Company and/or the Participating Affiliate or is age 65, may continue to participate in the Plan for three (3) Months following the Participant's employment termination date. If the last business day of the Purchase Period occurs prior to or coincident with the expiration of the three (3) Month period, the Participant may purchase Shares pursuant to the Plan. If the last business day of the Purchase Period occurs after the expiration of the three (3) Month period, the Participant may not purchase Shares and the entire credit balance in the Participant's Stock Purchase Account on the date of termination of the Participant's employment, including accrued interest, will be paid to the Participant in cash within sixty (60) days of the termination of the Participant's employment, provided that:

(a) Payroll deductions shall cease upon the termination of employment; and

(b) The Participant may voluntarily withdraw from the Plan at any time prior to the expiration of the three (3) Month period, in accordance with the provisions of Section 8.

10. *Purchase of Shares.*

10.1. As of the last business day of each Purchase Period, the entire credit balance in each Participant's Stock Purchase Account, including the interest accrued, shall be used to purchase the largest number of whole Shares that may be purchased with such amount, subject to the limitations of Sections 3 and 5, unless the Participant has filed an appropriate form with the Company in advance of that date, that either elects to purchase a specified number of whole Shares that is less than the number that may be purchased with the entire credit balance, including interest, or elects to receive the entire credit balance, including interest, in cash.

10.2. In the event that the amount in the Stock Purchase Account is part of the general assets of the Company in accordance with the provisions of Section 7.3 of the Plan and the entire credit balance, including interest, is used to purchase the largest number of whole Shares that may be purchased with such amount, subject to the limitations of Sections 3 and 5, and there is an amount left in the Participant's account which is less than the value of one whole Share ("Cash Value of Fractional Share") and the Participant has elected to continue the Participant's participation in the Plan during the subsequent Purchase Period, the Cash Value of the Fractional Share shall be retained in that Participant's Stock Purchase Account and aggregated with payroll deductions made during the subsequent Purchase Period. If a Participant purchases less than the maximum number of Shares that may be purchased with the entire credit balance, including interest, if applicable, the amount remaining in the Participant's Stock Purchase Account after such purchase, or the entire credit balance, including interest, if any, if the Participant elects not purchase any Shares, will be paid to the Participant in cash within sixty (60) days after the end of the applicable Purchase Period.

10.3. Shares acquired by each Participant shall be held in a direct registration account maintained for the benefit of each Participant by the Company's transfer agent.

10.4 The Committee, in the exercise of its discretion, may retain an Agent to assist the Company in managing the Plan.

11. *Rights as a Shareholder.* A Participant shall not be entitled to any of the rights or privileges of a shareholder of the Company with respect to Shares purchased under the Plan, including the right to receive any dividends that may be declared by the Company, until (i) the Participant has actually paid the purchase price for such Shares and (ii) either an entry reflecting the issuance of the Shares has been made on the books of the Company (or of its transfer agent) or a certificate or certificates representing the Shares has been delivered to the Participant.

12. *Rights Not Transferable.* A Participant's right to purchase Shares under the Plan is exercisable only by the Participant during his or her lifetime, and may not be

sold, pledged, assigned or transferred in any way. Any attempt to sell, pledge, assign or transfer the same shall be null and void and without effect. The amounts credited to a Stock Purchase Account may not be assigned, transferred, pledged or hypothecated in any way other than by will or the laws of descent and distribution, and any attempted assignment, transfer, pledge, hypothecation or other disposition of such amounts other than by will or the laws of descent and distribution will be null and void and without effect.

13. *Administration of the Plan.* The Board of Directors of the Company shall appoint a committee to administer the Plan consisting of three or more persons who may but need not be directors of the Company. The Board shall determine the size of the Committee from time to time and shall have the power to remove and replace members thereof. The Committee is authorized to make such uniform rules as may be necessary to carry out its provisions. Subject to the terms of the Plan, the Committee shall determine the term of each Purchase Period and the manner of determining the purchase price of the Shares to be sold during such Purchase Period. The Committee shall also determine any other questions arising in the administration, interpretation and application of the Plan, and all such determinations shall be conclusive and binding on all parties. The Committee may delegate all or part of its authority under the Plan to a committee of management for purposes of determinations under the Plan.

14. *Adjustment upon Changes in Capitalization.* In the event of any change in the Shares by reason of any stock dividend, stock split, spin-off, split up, corporate separation, recapitalization, merger, consolidation, combination, exchange of shares and any similar corporate event, the Share amount in Section 3 and the Purchase Price in Section 5 shall be appropriately adjusted by the Committee.

15. *Registration of Shares.* Shares shall be issued and registered in the direct registration system in the name of the Participant, or jointly, as joint tenants with the right of survivorship, in the name of the Participant and another person, as the Participant or his or her representative may direct on an appropriate form filed with the Company.

16. *Amendment of Plan.* The Company reserves the power to amend the Plan prospectively or retroactively or both or to terminate the Plan in any respect by action of the Board of Directors. In addition and independent of action by the Board of Directors, the Committee may amend the Plan in any respect that does not materially increase the cost of the Plan or significantly alter the scope, nature or degree of benefits accruing to Participants in the Plan, including the setting of the interest rate for any Purchase Period pursuant to Section 7. Notwithstanding the foregoing, no amendment shall be made without the prior approval of the shareholders that would (i) authorize an increase in the number of Shares that may be reserved under the Plan, except as provided in Section 14, (ii) permit the issuance of Shares before payment therefor in full, (iii) increase the maximum rate of payroll deductions above 15% of Compensation, (iv) reduce the minimum price per share at which the Shares may be purchased, or (v) change the definition of employees eligible to partcipate in the Plan.

17. *Effective Date of Plan.* The Plan shall be effective on first day of the first Purchase Period commencing after the Plan has been approved by the shareholders of the Company on or before April 22, 2006. All rights of Participants in any offering hereunder shall terminate at the earlier of (i) the day that Participants become entitled to purchase a number of Shares equal to or greater than the number of shares remaining available for purchase or (ii) at any time, at the discretion of the Board of Directors, after thirty (30) days' notice has been given to all Participants. Upon termination or suspension of the Plan, Shares shall be purchased for Participants in accordance with Section 10.1, and cash, if any, remaining in the Participants' Stock Purchase Accounts shall be refunded to them, as if the Plan were terminated at the end of a Purchase Period.

18. *Governmental Regulations and Listing.* All rights granted or to be granted to Eligible Employees under the Plan are expressly subject to all applicable laws and regulations and to the approval of all governmental authorities required in connection with the authorization, issuance, sale or transfer of the Shares reserved for the Plan, including, without limitation, the requirement of a current registration statement of the Company under the Securities Act of 1933, as amended, covering the Shares purchasable on the last day of the Purchase Period applicable to such Shares, and if such a registration statement shall not then be effective, the term of such Purchase Period shall be extended until the first business day after the effective date of such a registration statement, or post-effective amendment thereto. If applicable, all such rights hereunder are also similarly subject to the effectiveness of an appropriate listing application to a national securities exchange or a national market system, covering the Shares under the Plan upon official notice of issuance.

19. *Rules for Foreign Jurisdictions.* The Committee may adopt rules or procedures relating to the operation and administration of the Plan to the extent necessary to achieve desired tax or other objectives in particular locations outside the United States or to comply with local laws applicable to offerings in such foreign jurisidictions, including, without limitation: (i) authorizing alternative payment methods in the case of foreign jurisdictions where payroll deductions are not allowed; and (ii) imposing lower limitations on the shares available for option grants during any Purchase Period in the case of foreign jurisdictions where lower limitations are required. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules and procedures regarding the handling of payroll deductions or other forms of employee contributions, payment of interest, conversion of local currency, withholding procedures, handling of stock certificates and death benefit and beneficiary matters which vary with local requirements.

20. *Miscellaneous.*

20.1. The Plan shall not be deemed to constitute a contract of employment between the Company or a Participating Affiliate and any Participant, nor shall the Plan interfere with the right of the Company or a Participating Affiliate to terminate any Participant and treat the Participant without regard to the effect that such treatment might have upon the Participant under the Plan.

20.2. Wherever appropriate as used herein, the masculine gender may be read as the feminine gender, the feminine gender may be read as the masculine gender, the singular may be read as the plural and the plural may be read as the singular.

20.3. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Minnesota.

20.4. Delivery of Shares or of cash pursuant to the Plan shall be subject to any required withholding taxes. A person entitled to receive Shares may, as a condition precedent to receiving such Shares, be required to pay the Company a cash amount equal to the amount of any required withholdings.

20.5 Notices to the Committee should be addressed to:

Graco Inc.
Attention: Human Resources Department
P.O. Box 1441
Minneapolis, Minnesota 55440

Exhibit II

Annual report on Form 10-K for fiscal year ended December 25, 2009, as amended

GRACO INC (GGG)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/16/2010
Filed Period 12/25/2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the fiscal year ended December 25, 2009, or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from __________ to __________.

Commission File No. 001-09249

Graco Inc.

(Exact name of Registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	41-0285640 (I.R.S. Employer Identification No.)

88
—11th Avenue Northeast
Minneapolis, MN 55413 (Address of principal executive offices) (Zip Code)

(612) 623-6000 (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $1.00 per share Preferred Share Purchase Rights Shares registered on the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ 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 for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☑

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" and "accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of approximately 60,000,000 shares of common stock held by non-affiliates of the registrant was approximately $1.3 billion as of June 26, 2009.

60,080,211 shares of common stock were outstanding as of February 8, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2010, are incorporated by reference into Part III, as specifically set forth in said Part III.

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ON FORM 10-K

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ACCESS TO REPORTS

Investors may obtain access free of charge to the Graco Inc. annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports and amendments to those reports by visiting the Graco website at www.graco.com. These reports will be available as soon as reasonably practicable following electronic filing with, or furnishing to, the Securities and Exchange Commission.

PART I

ITEM 1 — BUSINESS

Our Company began business as a Minneapolis, Minnesota-based manufacturer of grease guns and lubricating pumps primarily for servicing vehicles. It was originally incorporated in the state of South Dakota in 1926 as Gray Company, Inc. and reincorporated in the state of Minnesota in 1947. 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 customers in the manufacturing, processing, construction and maintenance industries throughout the world.

Graco Inc. and its subsidiaries (which we refer to in this Form 10-K as "us," "we," "our Company" or the "Company") 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. 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. Part II, Item 7, *Results of Operations* and Note B to the Consolidated Financial Statements of this Form 10-K contain financial information about these geographic areas. 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.

For more information about our Company and its products, services and solutions, visit our website at www.graco.com. The information on the website is not part of this report nor any other report filed or furnished to the Securities and Exchange Commission ("SEC").

Business Segments

Our Company classifies its business into three reportable segments, each with a world-wide focus: Industrial, Contractor and Lubrication. Financial information concerning these segments is set forth in Part II, Item 7, *Results of Operations* and Note B to the Consolidated Financial Statements of this Form 10-K.

The equipment developed, manufactured and distributed by our Company's segments is broadly described as fluid handling equipment. It is used to pump, meter, mix, dispense, and spray a wide variety of fluids and semi-solids in a wide variety of applications in the manufacturing, processing, construction and maintenance industries. Our Company's products enable customers to reduce their use of labor, material and energy, improve quality and achieve environmental compliance. Our equipment is sold primarily through third-party distributors with approximately 30,000 outlets worldwide.

The development of technologically superior, multi-featured, high-quality products is a key strategy of our Company. All segments have been charged with expanding our product offerings through organic growth and targeted acquisitions. We are continually on the lookout for new applications of our core technologies in adjacent markets. Our Company strives to generate 30 percent of its annual sales from products introduced in the prior three years. In 2009, we generated 26 percent of our sales from new products. In 2008, the percentage of sales represented by new products was 26 percent and in 2007 it was 21 percent. Major product development efforts are carried out in facilities located in Minneapolis, Anoka and Rogers, Minnesota, and North Canton, Ohio. Design and development of several limited lines of equipment occur in Suzhou, P.R.C. The product development and engineering group in each segment focuses on new product design, product improvements, new applications for existing products, and strategic technologies for its specific customer base. Total product development expenditures for all segments were $38 million in 2009, $37 million in 2008 and $30 million in 2007.

Manufacturing is a key competency of Graco. Our Company invests significant resources in maximizing the quality, responsiveness and cost-effectiveness of our production operations by purchasing state-of-the-art equipment and doing most machining, assembly and testing in-house. Principal products are manufactured in focused factories and product cells. Raw materials and purchased components are sourced from suppliers around the world. The segments manage certain operations devoted to the manufacture of their product lines. Oversight and strategic direction of our manufacturing resources are provided by our Vice President of Manufacturing, Information Systems and Distribution Operations. He also manages those factories not fully aligned with a single segment as well as our warehouses, customer service, and other shared corporate manufacturing functions.

Our other primary objectives include the expansion of distribution outlets, the penetration of developing markets and the successful completion of strategic acquisitions. These subjects are discussed below in the context of each segment's business operations.

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.

A large percentage of our Company's facilities are devoted to the manufacturing and distribution of the various products offered for sale by the business segments.

Products marketed by the Industrial segment are manufactured in owned facilities in Minneapolis, Minnesota (405,000 sq. ft. manufacturing/warehouse/office), Sioux Falls, South Dakota (149,000 sq. ft. manufacturing/office), and North Canton, Ohio (132,000 sq. ft. manufacturing/office). Limited lines of products are assembled in owned facilities in Suzhou, P.R.C. (79,000 sq. ft. assembly/warehouse/office), and Maasmechelen, Belgium (175,000 sq. ft. assembly/warehouse/office). The Maasmechelen facility also functions as the site of our European headquarters. During 2009 a new European Training, Testing and Education Center (8,600 sq. ft.) was constructed in the Maasmechelen facility. The Center, which opened in April, includes a classroom, hands-on training area, demonstration spray booth, and lab space for future product testing and development. Liquid Control Ltd. and its Wellingborough facility (12,500 sq. ft. manufacturing/office) were sold to a Graco distributor in February 2009. The assembly of mobile spray rigs was discontinued during the third quarter of 2009.

Products marketed by the Contractor segment are manufactured primarily in owned facilities in Rogers, Minnesota (333,000 sq. ft. manufacturing/warehouse/office). Segment management, marketing, engineering, customer service, warehouse, shipping, sales and training are also located at the Rogers facility. The Company has leased space in Rogers, Minnesota to store inventory and assemble a limited line of small electric sprayers (33,000 sq. ft. warehouse/assembly). Our Sioux Falls, South Dakota plant manufactures spray guns and accessories for the Contractor segment. The Company has announced that it will cease the manufacture and warehousing of Airlessco®-branded sprayers and spray guns at its leased facility in Moorpark, California (32,778 sq. ft. manufacturing/warehouse/office) and vacate the building by the end of first quarter 2010. In the future, Airlessco products will be manufactured in existing facilities in Sioux Falls, South Dakota, Rogers, Minnesota and Suzhou, P.R.C. and warehoused in and distributed from Sioux Falls, South Dakota and Maasmechelen, Belgium.

The Lubrication segment conducts its manufacturing operations in an owned facility located in Anoka, Minnesota (207,000 sq. ft. manufacturing/office). Management, marketing, engineering, customer service, warehouse, sales and training functions for the segment are also housed in this building. A limited line of Lubrication products is being assembled in our owned facility in Suzhou, P.R.C. In October 2009, the Suzhou plant began distributing a hose reel designed and assembled at the facility directly to Graco subsidiaries in Asia and in Maasmechelen, Belgium.

Some Industrial and Contractor products are distributed to the P.R.C. market out of a warehouse located in the Waigaoqiao section of Shanghai, P.R.C. (13,730 sq. ft. warehouse). This facility will be closed during 2010 and distribution to markets in the P.R.C. is expected to be moved to a foreign-invested commercial enterprise located in Suzhou, P.R.C.

Our Australian subsidiary has a third-party logistics arrangement with a global supplier to handle storage and order fulfillment for Graco products sold to Australian and New Zealand distributors. The operations, accounting, customer service and administrative staff of the subsidiary are housed in leased office space in Melbourne, Australia.

Industrial Segment

The Industrial segment is the largest of our Company's businesses and represents approximately 54 percent of our total sales. This segment includes the Industrial Products and the Applied Fluid Technologies divisions. End users of our industrial equipment require solutions to their manufacturing and maintenance challenges and are driven by the return on investment that our products provide. The Industrial Products division markets its equipment and services to customers who manufacture, assemble, maintain, repair and refinish products such as appliances, vehicles, airplanes, electronics, cabinets and furniture, and other articles. In addition to marketing its equipment to customers in similar industries, the Applied Fluid Technology division also sells to contractors who use its plural component systems to apply foam insulation and protective coatings to buildings and other structures such as ships and bridges.

Most Industrial segment equipment is sold worldwide through general and specialized third-party distributors, integrators, design centers and original equipment manufacturers. We also work with material suppliers to develop or adapt our equipment for use with specialized and hard-to-handle materials. Distributors promote and sell the equipment, hold inventory, provide product application expertise and offer on-site service, technical support and integration capabilities. Integrators implement large individual installations in manufacturing plants where products and services from a number of different vendors are aggregated into a single system. Design centers engineer systems for their customers using our products. Original equipment manufacturers incorporate our Company's Industrial segment products into systems and assemblies that they then supply to their customers.

Industrial Products

The Industrial Products division focuses its product development and sales efforts on two main product applications: equipment to apply paint and other coatings to products such as motor vehicles, appliances, furniture and other industrial and consumer products ("Liquid Finishing"); and equipment to move and dispense chemicals and liquid and semi-solid foods ("Process Pumps").

Liquid finishing equipment includes paint circulating and paint supply pumps, plural component coating proportioners, various accessories to filter, transport, agitate and regulate the fluid, spare parts such as spray tips, seals and filter screens. We also offer a variety of applicators that use different methods of atomizing and spraying the paint or other coating depending on the viscosity of the fluid, the type of finish desired, and the need to maximize transfer efficiency, minimize overspray and prevent the release of volatile organic compounds (VOCs) into the air. Liquid finishing equipment is used in the automotive, automotive feeder, truck/bus/recreational vehicle, military and utility vehicle, aerospace, farm and construction, wood and general metals industries. Graco introduced a new family of electronic proportioners in 2009 with modular components that can be configured in many different ways. ProMix®2KS offers precise and reliable electronic proportioning for a broad range of solventborne and waterborne epoxies, polyurethanes and acid catalyzed materials. These versatile machines are available in manual and automatic configurations and provide the highest degree of ratio assurance, multiple sequential dose sizes, process feedback and material tracking and reporting capabilities.

Our process pumps are used in food and beverage, dairy, pharmaceutical, cosmetic, oil and gas, electronics, waste water, mining and ceramics applications. We offer double diaphragm and piston transfer pumps to the chemical, petroleum, general manufacturing and food processing industries, pumps for sanitary applications including FDA-compliant 3-A sanitary pumps for use in dairies, diaphragm pumps, transfer pumps and drum and bin unloaders. The first in a new series of air-operated double diaphragm pumps, the Husky 1050 one-inch pump, is significantly more efficient than competitive product, has diaphragms that last significantly longer and is capable of delivering higher fluid flow. The Husky 1050 is currently available in aluminum, polypropylene and stainless steel and will be available in PVDF, conductive polypropylene and hastelloy shortly, allowing the pump to be used with a wide variety of different fluids and chemicals. The pump has a one-piece ungasketed center section for easier repair and maintenance and a modular air valve for smooth changeover.

Applied Fluid Technologies

The Applied Fluid Technologies division directs its engineering, sales and marketing efforts toward two broad product applications: equipment to apply high performance protective coatings and foam ("Protective Coatings and Foam") and equipment to apply sealants and adhesives and create molded polyurethane parts ("Advanced Fluid Dispense").

Our Company offers a full line of air-operated airless sprayers and plural component proportioning equipment to apply foam and protective coatings to a wide variety of surfaces. The Reactor® line of plural components pumps is used to apply foam to insulate walls, water heaters, refrigeration, and hot tubs, create commercial roofing membranes and for packaging, architectural design and cavity filling. Reactors also apply polyurea to cover tanks, pipes, roofs, truck beds and foundations with protective coatings and linings where accurate temperatures and pressures are required to achieve optimal results. Key distributors install Reactors in mobile spray rigs to provide portability and accessibility to remote job sites. In June 2009 the Company released the XM Series high-solids plural-component sprayers for corrosion-control applications such as tank and pipeline coatings, shipbuilding, marine and railcar maintenance, wind tower coating, bridge and infrastructure projects and coating structural steel. The XM sprayers provide precise ratio control in a highly configurable system. User controls provide a real-time display of ratio and a USB port for downloading data on spray pressures, temperatures, actual ratio and total flow output. To the base unit, customers can add accessories, including material hoppers, hopper heaters, transfer pumps, agitators, hose rack kits and casters, depending on the material used and the application method.

Our Company offers a complete line of pumps, meters, applicators and valves for the metering, mixing and dispensing of precision beads of sealant and adhesive to bond, mold, seal, vacuum encapsulate, pot, laminate and gasket parts and devices in a wide variety of industrial applications, including the electronics and automotive industries. The PR70 and the PR70v, a variable ratio version of the PR70, are the first meter, mix and dispense plural component systems having Graco Control Architecture with built-in diagnostics and multiple levels of user interface for providing more data to the end-user.

The Company has established an application development laboratory in our North Canton, Ohio facility where we work with distributors, materials suppliers and end users to test new materials and reconfigure existing equipment for use in new applications. The lab has data collection and reporting capabilities and can heat, remove air from resins through vacuum degassing, agitate and bulk transfer materials in preparation for testing.

In October 2009, the PCF metering and dispense system for sealants and adhesives was released. The PCF dispenses a precise, continuous flow of a wide variety of single-component sealants and adhesives in automotive and industrial applications. The beads, dots and spray pattern dispensed by this system are smooth and consistent because of a closed-loop technology that allows changes in material temperatures, viscosities, dispense rates or robot speeds to feed back to the control, resulting in decreased material usage and rework.

Graco entered the composites market with the acquisition of GlasCraft Inc. in 2008. In 2009, Graco focused design and marketing effort on the growing demand for high-performance composites which are used in the manufacture of vehicles and aircraft, wind turbines and bridge materials. High-performance composites are light-weight, corrosion-resistant, strong, structurally simple and have an extended life. Graco equipment moves, dispenses, and applies fluids in all phases of composites manufacturing from precision flow control and resin pumping for blending to continuous meter-mix supply, from molding processes and tooling fabrication to assembly processes and manufacturing products with carbon fiber impregnated fabric.

There are a variety of applications for Graco equipment throughout the alternative energy markets. Graco's sealant and adhesive application equipment is widely used by manufacturers and material suppliers serving the solar energy market, through the application of primary and secondary seals to solar panels, potting or encapsulating junction boxes, inverters and charge controllers, gasketing or sealing junction box lids, solar module frames, battery cell plates and battery lids, thermal management of solar cells, inverters and charge controllers and the bonding of solar cells and solar mirrors. In addition, we offer durable reliable fluid-handling systems for the manufacture and maintenance of wind power components from spraying protective foam and other coatings on wind turbine towers to the manufacture of rotor blades, from the automatic lubrication of bearings, gears, and generators to the evacuation and dispensing of oil, grease, anti-freeze and hydraulic fluids. Our equipment is used worldwide by wind turbine manufacturers to supply a catalyzed plastic resin for the formation of the blades used on turbines and to apply an adhesive for cementing parts of the blades together.

Contractor Segment

The Contractor segment generated approximately 36 percent of our Company's 2009 total sales. The Contractor segment directs its product development, sales and marketing efforts toward three broad applications: paint, texture, and pavement marking. This segment markets a complete line of airless paint and texture sprayers (air, gas, hydraulically- and electrically-powered), accessories such as spray guns, hoses and filters and spare parts such as tips and seals, to professional and semi-professional painters in the construction and maintenance industries. The products are distributed primarily through stores whose main products are paint and other coatings. Contractor products are also sold through general equipment distributors. Airlessco® and ASM® products are sold by Graco employees and independent sales representatives to a distribution network that includes paint stores, wholesalers and rental yards. A limited line of sprayers and accessories are distributed globally through the home center channel.

Contractor equipment encompasses a wide variety of sprayers, including sprayers that apply markings on roads, parking lots, fields and floors; texture to walls and ceilings; highly viscous coatings to roofs; and paint to walls and structures. Many of these sprayers and their accessories contain one or more advanced technological features such as micro-processor-based controls for consistent spray and protective shut-down, a pump that may be removed and re-installed without tools, an easy clean feature, gas/electric convertibility, and a durable pump finish. Continual technological innovation and broad product families with multiple offerings are characteristic of our Contractor segment. Painters are encouraged to upgrade their equipment regularly to take advantage of the new and/or more advanced features.

During 2009, the Tradeworks line of small electric sprayers for do-it-yourself home owners, handymen, remodelers and rental property owners was extended with the addition of several new sprayers. The Tradeworks sprayers, spray guns and accessories are offered exclusively through a world leader in the manufacture and sale of coatings and related products to professional, commercial and retail customers. After a successful test program in 2008, we extended our placement of a line of electric paint sprayers in a large number of the stores of a major home center chain in the United States. Our Airlessco line of spray equipment is used by a major home center chain as its primary tool rental offering.

In August 2009, we introduced the ThermoLazer an innovative striper that applies thermoplastic lines to pavement. The ThermoLazer can be connected to a Graco LineDriver for ride-on comfort, ease of handling, improved quality and increased productivity. The unit, an advancement over thermoplastic stripers currently on the market, offers precise material flow control with the pull of a lever, a more efficient method of mixing the material, an electronic ignition system, a quick system for line width changes and a system for protecting the springs.

A new portable sprayer for the application of a wide range of texture materials in addition to paint — from thick concrete-based filler to finish coat — was introduced during 2009. The TexSpray HXT 2030 features an interchangeable displacement pump system that allows users to alternate between a high-output piston pump for the heavy aggregate and a smaller pump for the finer materials, paint and primer.

A large percentage of our Contractor sales come from the North American market, although Contractor products are marketed and sold in all major geographic areas. In recent years, the segment has increased its effort to appeal to customers outside of North America by developing products specifically for these markets, like the TexSpray HXT 2030 texture sprayer designed for applications in countries where the use of concrete in residential construction is more prevalent. Another product with a marketing focus outside of the United States is the Ultra® Max II Platinum sprayer introduced in Europe during 2009. The Platinum has an integrated hose reel, a wireless pressure remote control (E-Control) to adjust pressure at any time without having to approach the unit, and the E-Lock mechanism to deter theft by electronically locking the sprayer.

In Europe and Asia Pacific, we are pursuing a broad strategy of converting contractors accustomed to the manual application of paint and other coatings by brush and roller to spray technology. This requires extensive in-person demonstration of the productivity advantages, cost savings and finish quality of our spray equipment. This also requires the conversion of local paint distributors who may have a different method of selling their product. For example, in the P.R.C. some paint companies include spray application in the price they charge for their paint.

Lubrication Segment

The Lubrication segment represented approximately 10 percent of our Company's sales during 2009. The Lubrication segment focuses its engineering, marketing and sales efforts on two main lubrication markets: vehicle services and industrial. We supply pumps, applicators and accessories, such as meters and hose reels, to the motor vehicle lubrication market where our customers include fast oil change facilities, service garages, fleet service centers, automobile dealerships, and auto parts stores. In the industrial lubrication market, we offer systems for the automatic lubrication of factory machine tools, compressors and pumps used in petrochemical and gas transmissions plants; bearings and gears on equipment in metal, pulp and paper mills; conveyors and material handling equipment; and off-road and over-the-road trucks. We are also developing products for the wind power market, offering automatic lubrication systems for the lubrication of turbines on site and factory-based lubrication dispense equipment to transfer, unload and evacuate bulk oil and grease and meter and dispense various lubricants. Our lubrication products are sold through independent third party distributors, oil jobbers and directly to original equipment manufacturers.

The Company expects that LubeSci automated lubrication systems and components, injectors and metering systems will be fully integrated into our industrial lubrication equipment business by the end of the first half of 2010.

Our Company introduced a new line of hose reels in 2009, ranging from entry-level for standard duty applications to high performance for heavy-duty jobs. These reels can handle a wide variety of fluids including air, water, anti-freeze, windshield washer fluid, petroleum- and synthetic-based oils and grease. The LD Series Enclosed reel was designed by engineers in our Asia Pacific group for light-duty applications and is being manufactured in our factory in Suzhou, P.R.C. The spring tension on this reel is easy to adjust and the reel is compact, lightweight, easy to install and enclosed in a polypropylene enclosure for operator safety and protection from dirty environments. The SD Series Composite reel, which can tolerate moderate indoor and outdoor use, features a composite spool and is designed to fit in small indoor spaces in tire/muffler shops, small fast lubes and maintenance shops.

The GLC 4400, a multi-purpose controller for the pumps used in automatic lubrication systems, was released for sale in June 2009. The GLC 4400 is versatile and works with all major automatic metering systems: single line resistive, single line parallel, series progressive and dual line systems. The lubrication time, pressure, cycle and machine counts of the lubrication cycle can be easily customized.

The segment is responsible for world-wide marketing and sales of our lubrication equipment, although the bulk of its sales come from North America. Products are distributed in each of our Company's major geographic markets, primarily through independent distributors serviced by independent sales representatives, a dedicated sales force in the automatic lubrication systems market and direct sales generalists in foreign markets. Some automatic lubrication systems are marketed to original equipment manufacturers ("OEM"s). Fuel and oil transfer pumps are marketed through OEMs, select home centers, auto parts stores and our traditional distribution channel. Beginning in 2009, a market development specialist was added to the lubrication sales team in Europe to locate new customers and help establish product development and marketing plans for the Company's lubrication equipment in this geography.

Raw Materials

The primary materials and components used in the manufacturing process are steel of various alloys, sizes and hardness; specialty stainless steel and aluminum bar stock, tubing and castings; tungsten carbide; electric motors; injection molded plastics; sheet metal; forgings; powdered metal; hoses; and electronic components. In general, the raw materials and components used are adequately available through multiple sources of supply. In order to manage cost, our Company continues to increase its global sourcing of materials and components, primarily in the Asia Pacific region.

During 2009, our Company was able to take advantage of a downturn in the price of some commodities, like aluminum, nickel, copper, steel and natural gas, that occurred at the end of 2008. Nickel, copper and aluminum experienced significant price increases over the course of 2009. The price of oil is expected to continue putting pressure on the cost of transportation and the price of all commodities was trending upward at the end of the year. In the tough economic conditions existing during much of 2009, a small number of our first and second tier suppliers entered bankruptcy or closed facilities. Our Company endeavors to address fluctuations in the price and availability of various materials and components through adjustable surcharges and credits, close management of current suppliers, agreements and an intensive search for new suppliers. We have performed risk assessments of our key suppliers and are factoring the risks identified into our commodity plans.

Intellectual Property

We own a number of patents and have patent applications pending both in the United States and in other countries, 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 foreign 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.

Competition

We face substantial competition in all of our markets. The nature and extent of this competition varies in different markets due to the depth and breadth of our Company's product lines. Product quality, reliability, design, customer support and service, personal relationships, specialized engineering and pricing are the major competitive factors in our markets. Although no competitor duplicates all of our products, some competitors are larger than our Company, both in terms of sales of directly competing products and in terms of total sales and financial resources. We also face competitors with different cost structures and expectations of profitability and these companies offer competitive products at lower prices. We believe we are one of the world's leading producers of high-quality specialized fluid handling equipment in the markets we serve.

Environmental Protection

Our compliance with federal, state and local environmental laws and regulations did not have a material effect upon our capital expenditures, earnings or competitive position during the fiscal year ended December 25, 2009.

Employees

As of December 25, 2009, we employed approximately 2050 persons. Of this total, approximately 420 were employees based outside the United States, and 730 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. In an effort to adapt to the difficult economic environment during the first half of 2009, we implemented several reductions in force in our US businesses. Many of our factory and warehouse employees affected by these reductions had returned to work by year end.

Item 1A. Risk Factors

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 OEMs 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 effectively 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 or respond quickly to product quality problems. 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. Protective tariffs may make certain foreign-sourced parts no longer competitively priced. Long supply chains may be disrupted by environmental events.

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 product 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The information concerning the location and general character of the physical properties of our Company contained under the heading "BUSINESS-Business Segments" in Part I of this 2009 Annual Report on Form 10-K is incorporated herein by reference.

Sales activities in the country of Japan are conducted out of a leased facility in Yokohama, Japan (18,500 gross sq. ft. office) and warehousing is provided by a third-party logistics supplier. Sales and distribution activities in Korea are provided out of leased facilities in Gwangju-Gun, Korea (15,750 sq. ft. total for two separate facilities-warehouse and office). Our Company also leases space for liaison offices in the P.R.C., Vietnam and India.

Our Company's facilities are in satisfactory condition, suitable for their respective uses and are generally adequate to meet current needs. During 2009, manufacturing capacity met business demand. Production requirements in the immediate future are expected to be met through existing facilities, the installation of new automatic and semi-automatic machine tools, efficiency and productivity improvements, the use of leased space and available subcontract services.

Item 3. Legal Proceedings

Our Company is engaged in routine litigation incident to our business, which management believes will not have a material adverse effect upon our operations or consolidated financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No issues were submitted to a vote of security holders during the fourth quarter of 2009.

Executive Officers of Our Company

The following are all the executive officers of Graco Inc. as of February 15, 2009:

Patrick J. McHale, 48, is President and Chief Executive Officer, a position he has held since June 2007. He served as Vice President and General Manager, Lubrication Equipment Division from June 2003 to June 2007. He was Vice President of Manufacturing and Distribution Operations from April 2001 to June 2003. He served as Vice President, Contractor Equipment Division from February 2000 to March 2001. Prior to becoming Vice President, Lubrication Equipment Division in September 1999, he held various manufacturing management positions in Minneapolis, Minnesota; Plymouth, Michigan; and Sioux Falls, South Dakota. Mr. McHale joined the Company in December 1989.

David M. Ahlers, 51, became Vice President, Human Resources in September 2008. Prior to joining Graco, Mr. Ahlers held various human resources positions, including, most recently, Chief Human Resources Officer and Senior Managing Director of GMAC Residential Capital, from August 2003 to August 2008. He joined the Company in September 2008.

Caroline M. Chambers, 45, became Vice President and Controller in December 2006 and has served as the Company's principal accounting officer since September 2007. She was Corporate Controller from October 2005 to December 2006 and Director of Information Systems from July 2003 through September 2005. Prior to becoming Director of Information Systems, she held various management positions in the internal audit and accounting departments. Prior to joining Graco, Ms. Chambers was an auditor with Deloitte & Touche in Minneapolis, Minnesota and Paris, France. Ms. Chambers joined the Company in 1992.

Karen Park Gallivan, 53, became Vice President, General Counsel and Secretary in September 2005. She was Vice President, Human Resources from January 2003 to September 2005. Prior to joining Graco, she was Vice President of Human Resources and Communications at Syngenta Seeds, Inc., from January 1999 to January 2003. From 1988 through January 1999, she was the general counsel of Novartis Nutrition Corporation. Prior to joining Novartis, Ms. Gallivan was an attorney with the law firm of Rider, Bennett, Egan and Arundel. She joined the Company in January 2003.

James A. Graner, 65, became Chief Financial Officer and Treasurer in September 2005. He was Vice President and Controller from March 1994 to September 2005. He was Treasurer from May 1993 through February 1994. Prior to becoming Treasurer, he held various managerial positions in the treasury, accounting and information systems departments. He joined the Company in 1974.

Dale D. Johnson, 55, became Vice President and General Manager, Contractor Equipment Division in April 2001. From January 2000, through March 2001, he served as President and Chief Operating Officer. From December 1996 to January 2000, he was Vice President, Contractor Equipment Division. Prior to becoming the Director of Marketing, Contractor Equipment Division, in June 1996, he held various marketing and sales positions in the Contractor Equipment Division and the Industrial Equipment Division. He joined the Company in 1976.

Jeffrey P. Johnson, **50**, is Vice President and General Manager, Asia Pacific, a position he has held since February 2008. He served as Director of Sales and Marketing, Applied Fluid Technologies Division, from June 2006 until February 2008. Prior to joining Graco, he held various sales and marketing positions, including, most recently, President of Johnson Krumwiede Roads, a full-service advertising agency, and European sales manager at General Motors Corp. He joined the Company in 2006.

David M. Lowe, 54, became Vice President and General Manager, Industrial Products Division in February 2005. He was Vice President and General Manager, European Operations from September 1999 to February 2005. Prior to becoming Vice President, Lubrication Equipment Division in December 1996, he was Treasurer. Mr. Lowe joined the Company in February 1995.

Simon J. W. Paulis, 62, became Vice President and General Manager, Europe in September 2005. From February 2005 to September 2005, he served as Director and General Manager, Europe. He served as Sales and Marketing Director, Contractor Equipment Europe from January 1999 to September 2005. Prior to joining Graco, he served as business unit manager for Black & Decker N.V., general sales manager for Alberto Culver, and marketing manager for Ralston Purina/Quaker Oats. Mr. Paulis joined the Company in January 1999.

Charles L. Rescorla, 58, became Vice President of Manufacturing, Information Systems and Distribution Operations in April 2009. He served as Vice President, Manufacturing and Distribution Operations from September 2005 to April 2009. From June 2003 to until September 2005, he was Vice President, Manufacturing/Distribution Operations and Information Systems. From April 2001 until June 2003, he was Vice President of the Industrial/Automotive Equipment Division. Prior to June 2003, he held various positions in manufacturing and engineering management. Mr. Rescorla joined the Company in June 1988.

Mark W. Sheahan, **45**, became Vice President and General Manager, Applied Fluid Technologies Division in February 2008. He served as Chief Administrative Officer from September 2005 until February 2008, and was Vice President and Treasurer from December 1998 to September 2005. Prior to becoming Treasurer in December 1996, he was Manager, Treasury Services, where he was responsible for strategic and financial activities. He joined the Company in September 1995.

Brian J. Zumbolo, 40, became Vice President and General Manager, Lubrication Equipment Division in August 2007. He was Director of Sales and Marketing, Lubrication Equipment and Applied Fluid Technologies, Asia Pacific, from November 2006 through July 2007. From February 2005 to November 2006, he was the Director of Sales and Marketing, High Performance Coatings & Foam, Applied Fluid Technologies Division. Mr. Zumbolo was the Director of Sales and Marketing, Finishing Equipment from May 2004 to February 2005. Prior to May 2004, he held various marketing positions in the Industrial Equipment Division. Mr. Zumbolo joined the Company in 1999.

The Board of Directors re-elected each of the above executive officers to their current position on April 24, 2009.

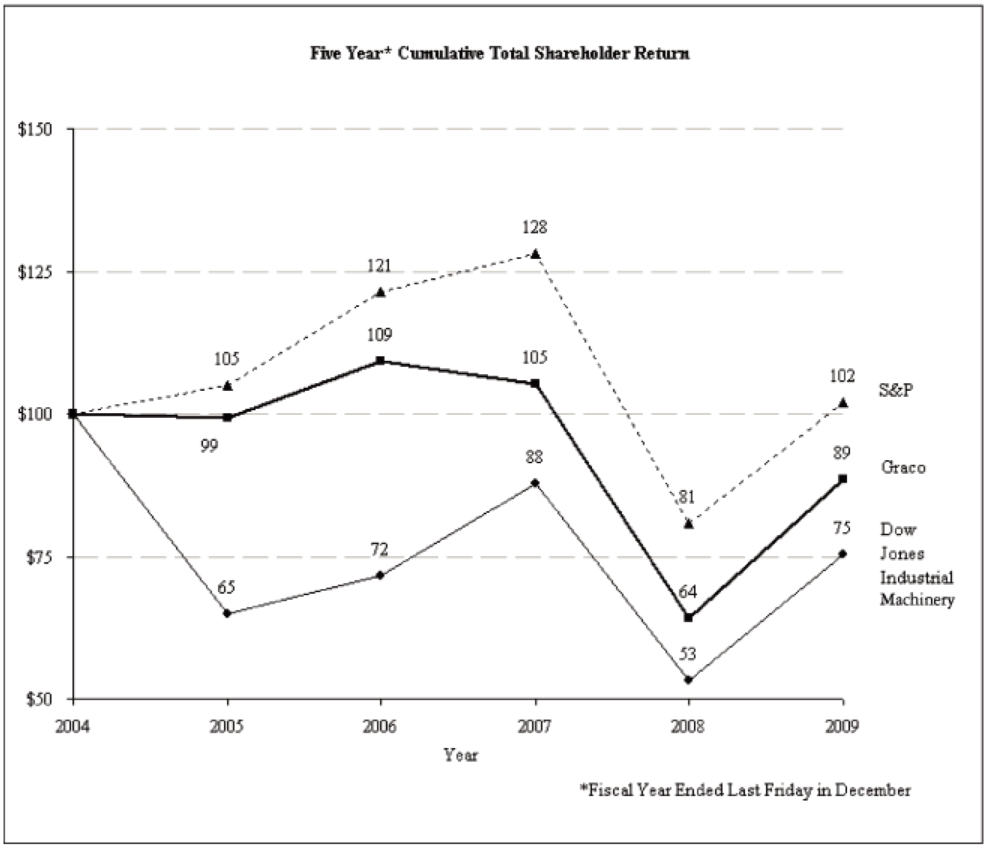
PART II

Item 5. Market for the Company's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Graco Common Stock

Graco common stock is traded on the New York Stock Exchange under the ticker symbol "GGG." As of February 8, 2010, the share price was $26.38 and there were 60,080,211 shares outstanding and 2,845 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 43,000 beneficial owners.

The graph below compares the cumulative total shareholder return on the common stock of the Company for the last five fiscal years with the cumulative total return of the S&P 500 Index and the Dow Jones Industrial Machinery Index over the same period (assuming the value of the investment in Graco common stock and each index was $100 on December 31, 2003, and all dividends were reinvested).



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Quarterly Financial Information (Unaudited) (In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Net sales	$ 137,880	$ 147,712	$ 147,308	$ 146,312
Gross profit	64,328	73,008	78,141	77,339
Net earnings	2,768	11,634	17,336	17,229
Per common share				
Basic net earnings	$ 0.05	$ 0.19	$ 0.29	$ 0.29
Diluted net earnings	0.05	0.19	0.29	0.28
Dividends declared	0.19	0.19	0.19	0.20
Stock price (per share)				
High	$ 25.98	$ 24.82	$ 30.66	$ 30.70
Low	14.48	17.34	20.91	26.41
Close[1]	17.07	22.02	27.87	28.57
Volume (# of shares)	44,750	44,217	29,086	22,551

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Net sales	$ 204,120	$ 239,230	$ 207,231	$ 166,689
Gross profit	111,853	128,763	110,160	81,401
Net earnings	35,566	42,459	32,772	10,082
Per common share				
Basic net earnings	$ 0.58	$ 0.70	$ 0.55	$ 0.17
Diluted net earnings	0.57	0.69	0.54	0.17
Dividends declared	0.19	0.19	0.19	0.19
Stock price (per share)				
High	$ 36.98	$ 41.84	$ 40.45	$ 35.03
Low	32.37	36.88	34.48	17.67
Close[1]	36.26	38.07	35.61	23.73
Volume (# of shares)	33,416	30,260	39,776	52,431

1 As of the last trading day of the calendar quarter.

Issuer Purchases of Equity Securities

On September 28, 2007, the Board of Directors authorized the Company to purchase up to 7,000,000 shares of its outstanding common stock, primarily through open-market transactions. This authorization expired on September 30, 2009.

On September 18, 2009, the Board of Directors authorized the Company to purchase up to an additional 6,000,000 shares. The new authorization expires on September 30, 2012.

In addition to shares purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on stock option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Sep 26, 2009 - Oct 23, 2009	—	$ —	—	6,000,000
Oct 24, 2009 - Nov 20, 2009	—	$ —	—	6,000,000
Nov 21, 2009 - Dec 25, 2009	1,121	$ 28.17	—	6,000,000

Item 6. Selected Financial Data

Graco Inc. and Subsidiaries (in thousands, except per share amounts)

	2009	2008	2007	2006	2005
Net sales	$ 579,212	$ 817,270	$ 841,339	$ 816,468	$ 731,702
Net earnings	48,967	120,879	152,836	149,766	125,854
Per common share					
Basic net earnings	$ 0.82	$ 2.01	$ 2.35	$ 2.21	$ 1.83
Diluted net earnings	0.81	1.99	2.32	2.17	1.80
Cash dividends declared	0.77	0.75	0.68	0.60	0.54
Total assets	$ 476,434	$ 579,850	$ 536,724	$ 511,603	$ 445,630
Long-term debt (including current portion)	86,260	180,000	107,060	—	—

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis reviews significant factors affecting the Company's consolidated results of operations, financial condition and liquidity. This discussion should be read in conjunction with our financial statements and the accompanying notes to the financial statements. The discussion is organized in the following sections:

- Overview
- Results of Operations
- Segment Results
- Financial Condition
- Critical Accounting Estimates
- Outlook

Overview

Graco designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials used in many different applications. Graco's business is classified by management into three reportable segments, each responsible for product development, manufacturing, marketing and sales of their products. The segments are headquartered in North America. They have responsibility for sales and marketing in the Americas and joint responsibility with Europe and Asia Pacific regional management for sales and marketing in those geographic areas.

Graco's key strategies include development and marketing new products, expanding distribution globally, opening new markets with technology and channel expansion and completing strategic acquisitions. Long-term financial growth targets accompany these strategies, including 10 percent revenue growth and 12 percent net earnings growth.

Manufacturing is a key competency of the Company. Our management team in Minneapolis provides strategic manufacturing expertise, and is also responsible for factories not fully aligned with a single division. Our primary manufacturing facilities are in the United States and distribution facilities are located in the United States, Belgium, Japan, Korea, China and Australia.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts):

	2009	2008	2007
Net Sales	$ 579	$ 817	$ 841
Operating Earnings	74	187	232
Net Earnings	49	121	153
Diluted Net Earnings per Common Share	$ 0.81	$ 1.99	$ 2.32

2009 Summary:

- Weak economic conditions worldwide affected the Company's operating results. Although sales strengthened in the second half as compared to the first half of 2009, sales decreased in all segments and regions as compared to last year. By region, the sales decline was 28 percent in the Americas, 39 percent in Europe and 17 percent in Asia Pacific. Sales in the Industrial segment declined by 32 percent; sales in the Contractor segment declined by 22 percent and sales in the Lubrication segment declined by 34 percent.
- Unfavorable currency translation decreased net sales by approximately $10 million and decreased net earnings by approximately $4 million in 2009.
- The Company incurred $5 million of cost related to workforce reductions, mostly in the first quarter. The decrease in cost structure resulting from cost reduction actions contributed to improvements in net earnings in the last three quarters of the year.
- Gross profit margin as a percentage of sales decreased by 2 percentage points from 2008. The favorable effects of pricing, product mix, lower material costs and other cost reduction activities partially offset the effects of low production volumes and increased pension costs.
- Investment in new product development was $38 million or $6^1/2$ percent of sales in 2009.
- Overall, total operating expenses were 11 percent lower than the prior year, due to lower workforce reduction costs and lower volume-related expenses. Expense reductions were partially offset by higher pension costs.

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- The effective tax rate was 29 percent as compared to 32 percent in 2008. The effect of federal business credits and the domestic production deduction was greater in 2009 as a percentage of pre-tax earnings as compared to the prior year.
- Cash flows from operations remained strong at $147 million.

2008 Summary:

- Incoming order rates declined substantially in the fourth quarter of 2008, affecting all segments and regions.
- Sales declined by 3 percent as compared to the prior year as growth in Europe and Asia Pacific of 8 percent and 3 percent, respectively, did not offset declines in the Americas. Sales in the Industrial segment grew 4 percent worldwide, while sales in the Contractor and Lubrication segments declined by 13 percent and 3 percent, respectively, from the prior year.
- Three businesses were acquired in 2008 (Glascraft, Airlessco and LubeSci), increasing net sales by $13 million or 2 percent.
- Favorable currency translation increased net sales by approximately $12 million and increased net earnings by approximately $4 million in 2008.
- Investment in new product development grew to 4^{1}/2 percent of sales in 2008 from 3^{1}/2 percent of sales in 2007.
- Incremental costs associated with the programs to introduce new entry-level sprayers in the Contractor segment to additional paint and home center outlets were approximately $12 million.
- A workforce reduction affecting approximately 150 people or 6 percent of the global employee base was communicated in December 2008. Early retirement and severance costs were approximately $5 million. The number of temporary and contract workers was reduced in earlier months.
- Impairment charges of approximately $4 million were recorded, primarily due to reduced expectations with respect to future sales of certain branded products within the Industrial segment.
- Positive cash flows from operations were $162 million, down 8 percent as compared to the prior year.

The following table presents net sales by geographic region (in millions).

	2009	2008	2007
Americas [1]	$ 329	$ 455	$ 500
Europe [2]	143	232	216
Asia Pacific	107	130	125
Total	$ 579	$ 817	$ 841

1 North and South America, including the United States. Sales in the United States were $280 million in 2009, $384 million in 2008 and $434 million in 2007.

2 Europe, Africa and Middle East

In 2009, sales in the Americas declined by 28 percent overall, with declines of 32 percent in the Industrial segment, 19 percent in the Contractor segment and 34 percent in the Lubrication segment as compared to the prior year. Despite the severity of the global recession, commercial resources were maintained and new distribution outlets were opened in all regions and segments.

In 2008, sales in the Americas declined by 9 percent overall and by 22 percent and 7 percent in the Contractor and Lubrication segments, respectively, as compared to the prior year. Industrial sales increased by 3 percent in the Americas, primarily due to the Glascraft acquisition. Sales grew in Europe and Asia Pacific in all three segments as a result of continued emphasis on expanding sales and marketing resources and focus on new distribution and acquisitions.

The following table presents components of net sales change:

	2009						
	Segment			Region			
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	Consolidated
Volume and Price	(31)%	(23)%	(33)%	(28)%	(36)%	(17)%	(29)%
Acquisitions	—%	3%	—%	1%	1%	—%	1%
Currency	(1)%	(2)%	(1)%	(1)%	(4)%	—%	(1)%
Total	(32)%	(22)%	(34)%	(28)%	(39)%	(17)%	(29)%

	2008						
	Segment			Region			
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	Consolidated
Volume and Price	—%	(15)%	(4)%	(11)%	2%	1%	(6)%
Acquisitions	2%	1%	1%	2%	1%	2%	2%
Currency	2%	1%	—%	—%	5%	—%	1%
Total	4%	(13)%	(3)%	(9)%	8%	3%	(3)%

The following table presents an overview of components of operating earnings as a percentage of net sales:

	2009	2008	2007
Net Sales	100.0%	100.0%	100.0%
Cost of products sold	49.4	47.1	46.8
Gross profit	50.6	52.9	53.2
Product development	6.5	4.5	3.6
Selling, marketing and distribution	19.9	17.0	14.8
General and administrative	11.3	8.5	7.2
Operating earnings	12.9	22.9	27.6
Interest expense	0.8	0.9	0.4
Other expense, net	0.2	0.1	—
Earnings before income taxes	11.9	21.9	27.2
Income taxes	3.4	7.1	9.0
Net Earnings	8.5%	14.8%	18.2%

2009 Compared to 2008

Gross profit margin as a percentage of sales was 51 percent in 2009 as compared to 53 percent in 2008. Lower production volumes accounted for approximately 4 percentage points of the reduction and increased pension costs accounted for an additional 1 percentage point of the reduction. Favorable effects of pricing, product mix, lower material costs and other cost reduction activities partially offset the effects of low production volumes and increased pension costs.

Although operating expenses in 2009 declined to $218 million compared to $245 million in the prior year, the reduction in expense as a percentage of net sales was not as great as the change in sales volume. Product development spending was $38 million as compared to $37 million in the prior year, reflecting the Company's strategic decision to continue investing in new product development. Selling, marketing and distribution costs were $116 million in 2009 as compared to $139 million in 2008. General and administrative costs were $65 million in 2009 as compared to $70 million in the prior year. Included in operating expenses was an increase in pension cost of $11 million as compared to 2008.

Consolidated operating earnings decreased 60 percent to $74 million, or 13 percent of sales in 2009, reflecting the effects of lower sales volumes, unfavorable currency translation and increased pension costs, partially offset by spending reductions and lower volume-related expenses.

Interest expense was $5 million in 2009 as compared to $8 million in 2008. Debt was reduced by $100 million in 2009 from the prior year.

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The Company's effective tax rate was 29 percent in 2009, lower than the effective tax rate of 32 percent in 2008. The rate is lower than the U.S. federal statutory rate of 35 percent due primarily to U.S. business credits and the Domestic Production Deduction (DPD). The effect of the business credits and the DPD was greater in 2009 as a percentage of pre-tax earnings as compared to the prior year.

2008 Compared to 2007

Gross profit margin as a percentage of sales was 53 percent in 2008 and 2007. The gross profit margin in 2008 was affected by lower volume and cost reduction actions taken in the fourth quarter of 2008.

Operating expenses in 2008 were $245 million compared to $215 million in the prior year. The increase includes $8 million related to the rollout of entry-level paint sprayers to additional paint and home center stores, $7 million from acquired operations, $4 million of impairment charges and $3 million related to workforce reductions. During 2008, investment in new product development increased by $6 million as compared to the prior year, to 4 1/2 percent of sales. Total operating expenses as a percentage of sales was 30 percent as compared to 26 percent in the prior year.

Consolidated operating earnings decreased 19 percent to $187 million, or 23 percent of sales in 2008, with a decrease in sales of 3 percent as compared to the prior year and increased expenses. Gross profit margin as a percentage of sales was slightly down from the prior year, as the unfavorable impact of material costs and volume were greater than the impact of favorable currency translation rates and manufacturing productivity improvements.

Interest expense in 2008 was $4 million higher than in 2007 as the Company increased utilization of credit lines for acquisitions and purchases of Company stock.

The Company's effective tax rate was 32 percent in 2008, lower than the effective tax rate of 33 percent in 2007. The rate is lower than the U. S. federal statutory rate of 35 percent due primarily to U.S. business credits and the DPD.

Segment Results

The following table presents net sales and operating earnings by business segment (in millions):

	2009	2008	2007
Sales			
Industrial	$ 313	$ 463	$ 445
Contractor	208	267	306
Lubrication	58	87	90
Total	$ 579	$ 817	$ 841
Operating Earnings			
Industrial	$ 68	$ 138	$ 152
Contractor	29	47	82
Lubrication	(3)	13	9
Unallocated corporate	(20)	(11)	(11)
Total	$ 74	$ 187	$ 232

Management looks at economic and financial indicators relevant to each segment and geography to gauge the business environment, as noted in the discussion below for each segment.

Industrial

The following table presents net sales, components of net sales change and operating earnings for the Industrial segment (dollars in millions).

	2009	2008	2007
Sales			
Americas	$ 149	$ 220	$ 213
Europe	89	148	138
Asia Pacific	75	95	94
Total	$ 313	$ 463	$ 445
Components of Net Sales Change			
Volume and Price	(31)%	—%	4%
Acquisitions	—%	2%	—%
Currency	(1)%	2%	3%
Total	(32)%	4%	7%
Operating Earnings as a Percentage of Sales	22%	30%	34%

In 2009, sales in the Industrial segment decreased by 32 percent, with declines in all regions. Sales declined by 32 percent in the Americas, 40 percent in Europe (36 percent at consistent exchange rates) and 21 percent in Asia Pacific. Although still below the prior year, sales improved in the fourth quarter of 2009 as compared to earlier quarters.

In 2009, operating earnings in the Industrial segment were $68 million, or 22 percent of sales in 2009 as compared to $138 million, or 30 percent the prior year. One percentage point of the change in operating earnings is attributable to unfavorable currency translation and 4 percentage points of the change in operating earnings is attributable to greater unabsorbed manufacturing costs. The favorable effects of reductions in product cost, mix and price partially offset the effects of volume on operating earnings.

In 2008, sales in the Industrial segment increased by 4 percent, with sales growth in all regions. Sales in the Americas increased 3 percent. Sales in Europe grew by 7 percent, including 5 percentage points related to favorable currency translation rates. The sales growth in Asia Pacific was 2 percent and the effect of currency translation was not significant.

In 2008, operating earnings in the Industrial segment declined 9 percent and were affected by impairment charges of $4 million, selling and product development initiatives, costs and expenses resulting from acquisition and integration related activities, workforce reduction costs and unabsorbed manufacturing costs.

In this segment, sales in each geographic region are significant and management looks at economic and financial indicators in each region, including gross domestic product, industrial production, capital investment rates, automobile production, building construction and the level of the U.S. dollar versus the euro, the Canadian dollar and various Asian currencies.

Contractor

The following table presents net sales, components of net sales change and operating earnings for the Contractor segment (dollars in millions).

	2009	2008	2007
Sales			
Americas	$ 133	$ 165	$ 211
Europe	50	77	71
Asia Pacific	25	25	25
Total	$ 208	$ 267	$ 307
Components of Net Sales Change			
Volume and Price	(23)%	(15)%	(6)%
Acquisitions	3%	1%	—%
Currency	(2)%	1%	2%
Total	(22)%	(13)%	(4)%
Operating Earnings as a Percentage of Sales	14%	18%	27%

In 2009, sales in the Contractor segment decreased by 22 percent, with declines of 19 percent and 35 percent (31 percent at consistent exchange rates) in the Americas and Europe, respectively. Sales in Asia Pacific were steady compared to last year. In the Americas, sales declined in both the professional paint store and home center channels.

In 2009, operating earnings in the Contractor segment were $29 million or 14 percent of sales in 2009 as compared to $47 million or 18 percent the prior year. One percentage point of the change in operating earnings is attributable to unfavorable currency translation and 2 percentage points of the change is attributable to greater unabsorbed manufacturing costs in 2009. The favorable effects of reductions in product cost, mix and price partially offset the effects of volume on operating earnings.

In 2008, sales in the Contractor segment decreased by 13 percent. While sales in the Americas decreased by 22 percent, sales in Europe and Asia Pacific grew by 8 percent and 1 percent, respectively. Sales in the Americas reflected sales declines in both the home center and professional paint store channels. Sales growth in both Europe and Asia Pacific is attributed to continued focus on converting professional contractors from manual to spray applications and new distribution.

In 2008, operating earnings in the Contractor segment declined by 42 percent. Approximately $12 million of incremental cost and expense relates to the production and launch of new paint sprayer lines into existing and new paint store and home center outlets. Operating earnings were also affected by increased product development spending, costs of the workforce reduction, costs and lower profit levels of the acquired business and unabsorbed manufacturing costs.

In this segment, sales in the Americas and Europe are significant and management reviews economic and financial indicators in each region, including levels of residential, commercial and institutional construction, remodeling rates and interest rates. Management also reviews gross domestic product for the regions and the level of the U.S. dollar versus the euro.

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Lubrication

The following table presents net sales, components of net sales change and operating earnings for the Lubrication segment (dollars in millions).

	2009	2008	2007
Sales			
Americas	$ 47	$ 71	$ 76
Europe	4	8	7
Asia Pacific	7	9	7
Total	$ 58	$ 88	$ 90
Components of Net Sales Change			
Volume and Price	(33)%	(4)%	(2)%
Acquisitions	—%	1%	14%
Currency	(1)%	—%	1%
Total	(34)%	(3)%	13%
Operating Earnings as a Percentage of Sales	(5)%	14%	10%

In 2009, sales in the Lubrication segment decreased by 34 percent, with declines of 34 percent in the Americas, 45 percent (44 percent at consistent exchange rates) in Europe and 26 percent (27 percent at consistent exchange rates) in Asia Pacific, with declines in both the petroleum management and industrial lubrication channels.

In 2009, the operating loss in the Lubrication segment was $3 million or 5 percent of sales in 2009 as compared to operating earnings of $12 million or 14 percent of sales the prior year. The segment continued to invest in new product development and growth in international commercial capabilities, but was severely affected by low volumes and unabsorbed manufacturing costs.

In 2008, sales in the Lubrication segment decreased by 3 percent. Although sales in the Americas decreased by 7 percent, sales in Europe and Asia Pacific grew by 13 percent and 34 percent, respectively. Sales in the Americas reflected sales declines in the petroleum management product line. Sales growth in Europe and Asia Pacific is attributed to additional sales and marketing resources, new distribution and growth in industrial lubrication products in Asia Pacific.

In 2008, operating earnings in the Lubrication segment increased by 35 percent. Improvement in operating profitability is related to the integration and consolidation of Lubrication activities in Anoka, Minnesota in 2007. The Lubrication segment incurred costs in 2008 related to the workforce reduction, unabsorbed manufacturing costs and higher investment in new product development.

The Americas represent the substantial majority of sales for the Lubrication segment and indicators in that region are the most important. The indicators used by management include levels of capital investment, industrial production and gross domestic product.

Unallocated corporate
(in millions)

	2009	2008	2007
Unallocated corporate (expense)	$ (20)	$ (11)	$ (11)

Unallocated corporate includes items such as stock compensation, bad debt expense, contributions to the Company's charitable foundation and certain other charges or credits driven by corporate decisions. In 2009, unallocated corporate included $9 million related to the non-service cost portion of pension expense and $9 million of stock compensation.

In 2008, unallocated corporate included $9 million of stock compensation and $2 million of contributions to the Company's charitable foundation.

Financial Condition

Working Capital. The following table highlights several key measures of asset performance (dollars in millions).

	2009	2008
Working capital	$ 85	$ 139
Current ratio	1.8	2.2
Days of sales in receivables outstanding	63	57
Inventory turnover (LIFO)	3.9	4.4

The Company's financial condition and cash flows from operations remain strong. Cash flows from operations totaled $147 million in 2009. The primary uses of cash included repayment of debt of $100 million, dividends of $45 million, capital expenditures of $11 million and a contribution of $15 million into the funded pension plan. Accounts receivable decreased by $27 million due mostly to lower sales during the year as compared to the prior year. Inventories decreased by $33 million.

In 2008, the Company used cash for capital expenditures of $29 million, acquisitions of $55 million, dividends of $45 million and share repurchases of $115 million. Accounts receivable decreased by $13 million (9 percent) due mostly to lower sales in the fourth quarter of 2008 compared to the same period in the prior year. Inventories increased $17 million, including $8 million from acquired operations and increases to support new distribution initiatives internationally.

Capital Structure. At December 25, 2009, the Company's capital structure included current debt of $12 million, long-term debt of $86 million and shareholders' equity of $210 million.

Shareholders' equity increased by $42 million in 2009. The key components of changes in shareholders' equity include current year earnings of $49 million and other comprehensive income of $23 million (mostly due to improvements in the funded status of pension obligations); reduced by $46 million of dividends declared.

Liquidity and Capital Resources. At December 25, 2009, the Company had various lines of credit totaling $272 million, including a $250 million, five year credit facility entered into in 2007 and $22 million with foreign banks. At year-end, long-term debt outstanding was $86 million. The unused portion of committed credit lines was $175 million at year-end. In addition, the Company has unused, uncommitted lines of credit totaling $12 million. Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2010, including its capital expenditure plan of approximately $15 million, planned dividends (estimated at $48 million) and acquisitions.

In December 2009, the Company's Board of Directors increased the Company's regular common dividend from an annual rate of $0.76 to $0.80 per share, a 5 percent increase.

Cash Flow

A summary of cash flow follows (in millions):

	2009	2008	2007
Operating Activities	$ 147	$ 162	$ 177
Investing Activities	(13)	(85)	(38)
Financing Activities	(139)	(71)	(138)
Effect of exchange rates on cash	(2)	1	(2)
Net cash provided (used)	(7)	7	(1)
Cash and cash equivalents at year-end	$ 5	$ 12	$ 5

Cash Flows Provided by Operating Activities. During 2009, $147 million was generated from operating cash flows, compared to $162 million in 2008. The effect of lower net earnings on cash flow was partially offset by cash provided by decreases in accounts receivable and inventory of $28 million and $33 million, respectively.

During 2008, $162 million was generated from operating cash flows, compared to $177 million in 2007. Although net earnings decreased by $32 million in 2008 as compared to the prior year, non-cash items such as depreciation and amortization, deferred income taxes and share-based compensation totaled $42 million, an increase of $10 million as compared to the prior year.

Cash Flows Used in Investing Activities. During 2009, cash was used to fund $11 million of additions to property, plant and equipment. During 2008, cash was used to fund $55 million for business acquisitions and $29 million of additions to property, plant and equipment.

Cash Flows Used in Financing Activities. During 2009, $139 million was used in financing activities as compared to $71 million in 2008. Net payments on borrowings totaled $100 million. Cash dividends paid totaled $45 million, consistent with the prior year. During 2008, net borrowings totaled $72 million and cash was used for share repurchases totaling $115 million.

In September 2009, the Board of Directors authorized the Company to purchase up to 6 million shares of its outstanding stock, primarily through open-market transactions. This authorization will expire on September 30, 2012 and the entire 6 million shares remain available under this authorization as of December 25, 2009. Although the Company decided to suspend share repurchases in the fourth quarter of 2008, the Company may make opportunistic share repurchases in the future.

Off-Balance Sheet Arrangements and Contractual Obligations. As of December 25, 2009, the Company is obligated to make cash payments in connection with its long-term debt, operating leases and purchase obligations in the amounts listed below. The Company has no significant off-balance sheet debt or other unrecorded obligations other than the items noted in the following table. In addition to the commitments noted in the following table, the Company could be obligated to perform under standby letters of credit totaling $2 million at December 25, 2009. The Company has also guaranteed the debt of its subsidiaries for up to $30 million. All debt of subsidiaries is reflected in the consolidated balance sheets.

The total liability for uncertain tax positions at December 25, 2009 was approximately $3 million. The Company is not able to reasonably estimate the timing of future payments relating to non-current unrecognized tax benefits.

	Payments due by period (in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$ 86	$ —	$ 86	$ —	$ —
Operating leases	4	2	1	—	1
Purchase obligations[1]	35	35	—	—	—
Interest on long-term debt	2	1	1	—	—
Fixed rate payments on interest swaps	4	4	—	—	—
Unfunded pension and postretirement medical benefits[2]	28	3	5	5	15
Total	$ 159	$ 45	$ 93	$ 5	$ 16

1 The Company is committed to pay suppliers under the terms of open purchase orders issued in the normal course of business. The Company also has commitments with certain suppliers to purchase minimum quantities, and under the terms of certain agreements, the Company is committed for certain portions of the supplier's inventory. The Company does not purchase, or commit to purchase, quantities in excess of normal usage or amounts that cannot be used within one year.

2 The amounts and timing of future Company contributions to the funded qualified defined benefit pension plan are unknown because they are dependent on pension fund asset performance. The Company expects that no contribution to the funded pension plan will be required in 2010.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The Company's most significant accounting policies are disclosed in Note A to the consolidated financial statements. The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual amounts will differ from those estimates. The Company considers the following policies to involve the most judgment in the preparation of the Company's consolidated financial statements.

Sales Returns. An allowance is established for possible returns of products from distributors. The written agreements with distributors typically limit the amount that may be returned. In its arrangements with certain home center customers, the Company may agree to accept returns from the retailer's end-user customers. The amount of the allowance for sales returns is an estimate, which is based on the historical ratios of returns to sales, the historical average length of time between the sale and the return and other factors.

From time to time, the Company may choose to terminate a distributor relationship and may take back inventory or may promote the sale of new products by agreeing to accept returns of superseded products. These are considered period events and are not included in the allowance for returns. Although management considers these balances adequate, changes in customers' behavior versus historical experience or changes in the Company's return policies are among the factors that would result in materially different amounts for this item.

Excess and Discontinued Inventory. The Company's inventories are valued at the lower of cost or market. Reserves for excess and discontinued products are estimated. The amount of the reserve is determined based on projected sales information, plans for discontinued products and other factors. Though management considers these balances adequate, changes in sales volumes due to unanticipated economic or competitive conditions are among the factors that would result in materially different amounts for this item.

Goodwill and Other Intangible Assets. The company performs impairment testing for goodwill and other intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. For goodwill, the Company performs impairment reviews for the Company's reporting units, which have been determined to be the Company's divisions using a fair-value method based on management's judgments and assumptions. The Company estimates the fair value of the reporting units by an allocation of market capitalization value, cross-checked by a present value of future cash flows calculation. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company also performs a separate impairment test for each other intangible asset with indefinite life, based on estimated future use and discounting estimated future cash flows. A considerable amount of management judgment and assumptions are required in performing the impairment tests. Though management considers its judgments and assumptions to be reasonable, changes in product offerings or marketing strategies could change the estimated fair values and result in impairment charges.

Product Warranty. A liability is established for estimated warranty claims to be paid in the future that relate to current and prior period sales. The Company estimates these costs based on historical claim experience, changes in warranty programs and other factors, including evaluating specific product warranty issues. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses relating to warranty issues. Though management considers these balances adequate, changes in the Company's warranty policy or a significant change in product defects versus historical averages are among the factors that would result in materially different amounts for this item.

Self-Insured Retentions. The Company purchases insurance for products liability, workers compensation and employee medical benefits with high deductibles. Third party insurance is carried for what is believed to be the major portion of potential exposures that would exceed the Company's self-insured retentions. The Company has established liabilities for potential uninsured claims, including estimated costs and legal fees. The Company employs actuaries to assist in evaluating its potential uninsured claims and then considers factors such as known outstanding claims, historical experience, sales trends and other relevant factors in setting the liabilities. Though management considers these balances adequate, a substantial change in the number and/or severity of claims would result in materially different amounts for this item.

Income Taxes. In the preparation of the Company's consolidated financial statements, management calculates income taxes. This includes estimating current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and financial statement purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet using statutory rates in effect for the year in which the differences are expected to reverse. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recoverable from future taxable income. A valuation allowance is established to the extent that management believes that recovery is not likely. Liabilities for uncertain tax positions are also established for potential and ongoing audits of federal, state and international issues. The Company routinely monitors the potential impact of such situations and believes that liabilities are properly stated. Valuations related to amounts owed and tax rates could be impacted by changes to tax codes, changes in statutory rates, the Company's future taxable income levels and the results of tax audits.

Retirement Obligations. The measurements of the Company's pension and postretirement medical obligations are dependent on a number of assumptions including estimates of the present value of projected future payments, taking into consideration future events such as salary increase and demographic experience. These assumptions may have an impact on the expense and timing of future contributions.

The assumptions used in developing the required estimates for pension obligations include discount rate, inflation, salary increases, retirement rates, expected return on plan assets and mortality rates. The assumptions used in developing the required estimates for postretirement medical obligations include discount rates, rate of future increase in medical costs and participation rates.

For U.S. plans, the Company establishes its discount rate assumption by reference to the "Citigroup Pension Liability Index", a published index commonly used as a benchmark. For plans outside the U.S., the Company establishes a rate by country by reference to highly rated corporate bonds. These reference points have been determined to adequately match expected plan cash flows. The Company bases its inflation assumption on an evaluation of external market indicators. The salary assumptions are based on actual historical experience, the near-term outlook and assumed inflation. Retirement rates are based on experience. The investment return assumption is based on the expected long-term performance of plan assets. In setting this number, the Company considers the input of actuaries and investment advisors, its long-term historical returns, the allocation of plan assets and projected returns on plan assets. The Company maintained its investment return assumption at 8.5 percent for 2010. Mortality rates are based on a common group mortality table for males and females.

Net pension cost in 2009 was $15 million and was allocated to cost of products sold and operating expenses based on salaries and wages. At December 25, 2009, a one-half percentage point decrease in the indicated assumptions would have the following effects (in millions):

Assumption	Funded Status	Expense
Discount rate	$ (15)	$ 2
Expected return on assets	—	1

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued a new accounting standard that established a consistent framework for measuring fair value and expanded disclosures on fair market value measurements. It was effective for the Company starting in fiscal 2008 for financial assets and liabilities. With respect to non-financial assets and liabilities, it was effective for the Company starting in fiscal 2009. The adoption of this standard as it pertains to non-financial assets and liabilities had no significant impact on the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company sells and purchases products and services in currencies other than the U.S. dollar and pays variable interest rates on borrowings under its primary credit facility. Consequently, the Company is subject to profitability risk arising from exchange and interest rate movements. The Company may use a variety of financial and derivative instruments to manage foreign currency and interest rate risks. The Company does not enter into any of these instruments for trading purposes to generate revenue. Rather, the Company's objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange and interest rates.

The Company may use forward exchange contracts, options and other hedging activities to hedge the U.S. dollar value resulting from anticipated currency transactions and net monetary asset and liability positions. At December 25, 2009, the currencies to which the Company had the most significant balance sheet exchange rate exposure were the euro, Canadian dollar, British pound and various Asian currencies. It is not possible to determine the true impact of currency rate changes; however, the direct translation effect on net sales and net earnings can be estimated. When compared to 2008 results, the stronger U.S. dollar versus other currencies decreased sales and net earnings. For the year ended December 25, 2009, the impact of currency translation resulted in a calculated decrease in net sales and net earnings of approximately $10 million and $4 million, respectively. For the year ended December 26, 2008, the calculated impact of currency translation resulted in an increase in net sales and net earnings of approximately $12 million and $4 million, respectively.

In 2007 the Company entered into interest rate swap contracts that effectively fix the rates paid on a total of $80 million of variable rate borrowings under the Company's primary credit facility. The contracts fix the rates at approximately 4.7 percent through 2010.

2010 Outlook

Management believes that economic conditions will continue to present a challenging operating environment in the coming year. The Company will continue to closely manage working capital, headcount, discretionary spending and capital expenditures.

The Company has continued to invest in new product engineering and in development of global commercial capabilities, and expects to see growth through the launch of new products and expanded distribution coverage around the world in the coming year. The Company expects those investments will allow the Company to grow with the recovery and to deliver strong incremental operating margins. The Company will pursue strategic acquisitions to expand product offerings and to leverage current technologies in new markets and channels.

The Company's backlog is typically small compared to annual sales and is not a good indicator of future business levels. Although the strength of the recovery is uncertain and may be uneven, the Company believes that many key end markets will gradually improve throughout 2010. In addition to economic growth, the sales outlook is dependent on many factors, including the successful launch of new products, expanding distribution coverage, realization of price increases and stable foreign currency exchange rates.

Forward-Looking Statements

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press or earnings releases, analyst briefings, conference calls and the Company's Annual Report to shareholders, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements. The Company undertakes no obligation to update these statements in light of new information or future events.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, this Annual Report on Form 10-K for fiscal year 2009 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Item 1A and Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system was designed to provide reasonable assurance to management and the board of directors regarding the reliability of financial reporting and preparation of financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 25, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on our assessment and those criteria, management believes the Company's internal control over financial reporting is effective as of December 25, 2009.

The Company's independent auditors have issued an attestation report on the Company's internal control over financial reporting. That report appears in this Form 10-K.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Internal Control Over Financial Reporting

To the Shareholders and Board of Directors of Graco Inc. Minneapolis, Minnesota

We have audited the internal control over financial reporting of Graco Inc. and Subsidiaries (the "Company") as of December 25, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 25, 2009, of the Company and our report dated February 15, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota February 15, 2010

Consolidated Financial Statements

To the Shareholders and Board of Directors of Graco Inc. Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Graco Inc. and Subsidiaries (the "Company") as of December 25, 2009 and December 26, 2008, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 25, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Graco Inc. and Subsidiaries as of December 25, 2009 and December 26, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 25, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota February 15, 2010

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except per share amounts)

	Years Ended December 25, 2009	Years Ended December 26, 2008	Years Ended 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	$ 0.82	$ 2.01	$ 2.35
Diluted Net Earnings per Common Share	$ 0.81	$ 1.99	$ 2.32
Cash Dividends Declared per Common Share	$ 0.77	$ 0.75	$ 0.68

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years Ended December 25, 2009	Years Ended December 26, 2008	Years Ended 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

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 25, 2009	December 26, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,412	$ 12,119
Accounts receivable, less allowances of $6,500 and $6,600	100,824	127,505
Inventories	58,658	91,604
Deferred income taxes	20,380	23,007
Other current assets	3,719	6,360
Total current assets	188,993	260,595
Property, Plant and Equipment, net	139,053	149,754
Goodwill	91,740	91,740
Other Intangible Assets, net	40,170	52,231
Deferred Income Taxes	8,372	18,919
Other Assets	8,106	6,611
Total Assets	$ 476,434	$ 579,850
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 12,028	$ 18,311
Trade accounts payable	17,983	18,834
Salaries and incentives	14,428	17,179
Dividends payable	12,003	11,312
Other current liabilities	47,373	55,524
Total current liabilities	103,815	121,160
Long-term Debt	86,260	180,000
Retirement Benefits and Deferred Compensation	73,705	108,656
Uncertain Tax Positions	3,000	2,400
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 and 2008	59,999	59,516
Additional paid-in-capital	190,261	174,161
Retained earnings	11,121	8,445
Accumulated other comprehensive income (loss)	(51,727)	(74,488)
Total shareholders' equity	209,654	167,634
Total Liabilities and Shareholders' Equity	$ 476,434	$ 579,850

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (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 and incentives	(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)
Acquisition 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

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (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 earnings	48,967	120,879	152,836
Dividends declared	(46,135)	(44,539)	(43,609)
Shares retired	(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

See notes to consolidated financial statements.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
Graco Inc. and Subsidiaries Years Ended December 25, 2009, December 26, 2008 and December 28, 2007

A. Summary of Significant Accounting Policies

Fiscal Year. The fiscal year of Graco Inc. and Subsidiaries (the Company) is 52 or 53 weeks, ending on the last Friday in December. The years ended December 25, 2009, December 26, 2008 and December 28, 2007, were 52-week years.

Basis of Statement Presentation. The consolidated financial statements include the accounts of the parent company and its subsidiaries after elimination of all significant intercompany balances and transactions. As of December 25, 2009, all subsidiaries are 100 percent owned.

Foreign Currency Translation. The U.S. dollar is the functional currency for all foreign subsidiaries. Accordingly, gains and losses from the translation of foreign currency balances and transactions of those subsidiaries are included in other expense, net.

Accounting Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents. All highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents.

Inventory Valuation. Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) cost method is used for valuing most U.S. inventories. Inventories of foreign subsidiaries are valued using the first-in, first-out (FIFO) cost method.

Other Current Assets. Amounts included in other current assets were (in thousands):

	2009	2008
Prepaid income taxes	$ 1,928	$ 4,534
Prepaid expenses and other	1,791	1,826
Total	$ 3,719	$ 6,360

Property, Plant and Equipment. For financial reporting purposes, plant and equipment are depreciated over their estimated useful lives, primarily by using the straight-line method as follows:

Buildings and improvements	10 to 30 years
Leasehold improvements	lesser of 5 to 10 years or life of lease
Manufacturing equipment	lesser of 5 to 10 years or life of equipment
Office, warehouse and automotive equipment	3 to 10 years

Intangible Assets. Goodwill has been assigned to reporting units, which are the Company's divisions. The amounts of goodwill for each reportable segment were (in thousands):

	2009	2008
Industrial	$ 59,511	$ 59,511
Contractor	12,732	12,732
Lubrication	19,497	19,497
Total	$ 91,740	$ 91,740

Components of other intangible assets were (dollars in thousands):

	Estimated Life (years)	Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
December 25, 2009					
Customer relationships	3-8	$ 41,075	$ (18,655)	$ (181)	$ 22,239
Patents, proprietary technology and product documentation	3-10	22,862	(13,708)	(87)	9,067
Trademarks, trade names and other	3-10	8,154	(2,470)	—	5,684
		72,091	(34,833)	(268)	36,990
Not Subject to Amortization Brand names		3,180	—	—	3,180
Total		$ 75,271	$ (34,833)	$ (268)	$ 40,170
December 26, 2008					
Customer relationships	3-8	$ 41,075	$ (12,470)	$ (181)	$ 28,424
Patents, proprietary technology and product documentation	3-15	23,780	(11,290)	(87)	12,403
Trademarks, trade names and other	3-10	5,514	(3,908)	(12)	1,594
		70,369	(27,668)	(280)	42,421
Not Subject to Amortization Brand names		9,810	—	—	9,810
Total		$ 80,179	$ (27,668)	$ (280)	$ 52,231

Amortization of intangibles was $12.3 million in 2009 and $10.5 million in 2008. Estimated future annual amortization is as follows: $11.8 million in 2010, $10.7 million in 2011, $8.8 million in 2012, $4.1 million in 2013 and $1.6 million thereafter.

In 2009, the useful life of certain brand names was determined to be no longer indefinite. After impairment charges totaling $0.5 million, reflected above as a reduction of cost, the remaining cost of such brand names, totaling $6.1 million, is being amortized over a three-year period. In 2008, the Company recorded impairment charges totaling $3.6 million, primarily due to reduced expectations with respect to future sales of certain branded products within the industrial segment. Impairment charges in 2008 were reflected above as reductions of cost, reducing brand names by $3.1 million, customer relationships by $0.3 million and proprietary technology by $0.2 million.

Other Assets. Components of other assets were (in thousands):

	2009	2008
Cash surrender value of life insurance	$ 4,409	$ 2,678
Capitalized software	945	1,436
Deposits and other	2,752	2,497
Total	$ 8,106	$ 6,611

The Company paid $1.5 million in 2009 for contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans. These insurance contracts will be used to fund the non-qualified pension and deferred compensation arrangements. The insurance contracts are held in a trust and are available to general creditors in the event of the Company's insolvency. Changes in cash surrender value are recorded in operating expense and were not significant in 2009, 2008 and 2007.

Capitalized software is amortized over its estimated useful life (generally 2 to 5 years) beginning at date of implementation.

Impairment of Long-Lived Assets. The Company evaluates long-lived assets (including property and equipment, goodwill and other intangible assets) for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Goodwill and other intangible assets not subject to amortization are also reviewed for impairment annually in the fourth quarter. Except for the impairment of certain intangibles noted above, there have been no significant write-downs of any long-lived assets in the periods presented.

Other Current Liabilities. Components of other current liabilities were (in thousands):

	2009	2008
Accrued self-insurance retentions	$ 7,785	$ 7,896
Accrued warranty and service liabilities	7,437	8,033
Accrued trade promotions	2,953	9,001
Payable for employee stock purchases	5,115	5,473
Income taxes payable	1,550	904
Other	22,533	24,217
Total	$ 47,373	$ 55,524

Self-Insurance. The Company is self-insured for certain losses and costs relating to product liability, workers' compensation and employee medical benefits claims. The Company has purchased stop-loss coverage in order to limit its exposure to significant claims. Accrued self-insured retentions are based on claims filed and estimates of claims incurred but not reported.

Product Warranties. A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

	2009	2008
Balance, beginning of year	$ 8,033	$ 7,084
Charged to expense	4,548	6,793
Margin on parts sales reversed	2,876	3,698
Reductions for claims settled	(8,020)	(9,542)
Balance, end of year	$ 7,437	$ 8,033

Revenue Recognition. Sales are recognized when revenue is realized or realizable and has been earned. The Company's policy is to recognize revenue when risk and title passes to the customer. This is generally on the date of shipment, however certain sales are shipped with terms requiring recognition when received by the customer. In cases where there are specific customer acceptance provisions, revenue is recognized at the later of customer acceptance or shipment (subject to shipping terms). Payment terms are established based on the type of product, distributor capabilities and competitive market conditions. Rights of return are typically contractually limited, amounts are estimable, and the Company records provisions for anticipated returns and warranty claims at the time revenue is recognized. Historically, sales returns have been approximately 2 percent of sales. Provisions for sales returns are recorded as a reduction of net sales, and provisions for warranty claims are recorded in selling, marketing and distribution expenses. From time to time, the Company may promote the sale of new products by agreeing to accept returns of superseded products. In such cases, provisions for estimated returns are recorded as a reduction of net sales.

Trade promotions are offered to distributors and end users through various programs, generally with terms of one year or less. Such promotions include cooperative advertising arrangements, rebates based on annual purchases, coupons and reimbursement for competitive products. Payment of incentives may take the form of cash, trade credit, promotional merchandise or free product. Under cooperative advertising arrangements, the Company reimburses the distributor for a portion of its advertising costs related to the Company's products; estimated costs are accrued at the time of sale and classified as selling, marketing and distribution expense. Rebates are accrued based on the program rates and progress toward the estimated annual sales amount, and are recorded as a reduction of sales (cash, trade credit) or cost of products sold (free goods). The estimated costs related to coupon programs are accrued at the time of sale and classified as selling, marketing and distribution expense or cost of products sold, depending on the type of incentive offered.

Earnings Per Common Share. Basic net earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the year. Diluted net earnings per share is computed after giving effect to the exercise of all dilutive outstanding option grants.

Comprehensive Income. Comprehensive income is a measure of all changes in shareholders' equity except those resulting from investments by and distributions to owners, and includes such items as net earnings, certain foreign currency translation items, changes in the value of qualifying hedges and pension liability adjustments.

Derivative Instruments and Hedging Activities. The Company accounts for all derivatives, including those embedded in other contracts, as either assets or liabilities and measures those financial instruments at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

As part of its risk management program, the Company may periodically use forward exchange contracts and interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity. The Company does not hold or issue derivative financial instruments for trading purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In 2007, the Company entered into interest rate swap contracts that effectively fix the rates paid on a total of $80 million of variable rate borrowings. One contract fixed the rate on $40 million of borrowings at 4.7 percent plus the applicable spread (depending on cash flow leverage ratio) until December 2010. The second contract fixed an additional $40 million of borrowings at 4.6 percent plus the applicable spread until January 2011. Both contracts have been designated as cash flow hedges against interest rate volatility. Consequently, changes in the fair market value are recorded in accumulated other comprehensive income (loss) (AOCI). Amounts included in AOCI will be reclassified to earnings as interest rates increase and as the swap contracts approach their expiration dates. Net amounts paid or payable under terms of the contracts were charged to interest expense and totaled $3.0 million in 2009 and $0.9 million in 2008.

The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts or options, or borrows in various currencies, in order to hedge its net monetary positions. These instruments are recorded at current market values and the gains and losses are included in other expense, net. There were seven contracts outstanding as of December 25, 2009, with notional amounts totaling $16 million. There were 62 contracts outstanding during all or part of 2009, with net losses of $1.5 million offsetting $0.9 million of exchange gains on net monetary positions, included in other expense, net. The Company believes it uses strong financial counterparts in these transactions and that the resulting credit risk under these hedging strategies is not significant.

The Company uses significant other observable inputs to value the derivative instruments used to hedge interest rate volatility and net monetary positions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	2009	2008
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ (3,722)	$ (4,936)
Gain (loss) on foreign currency forward contracts			
Gains		$ 207	$ 1,868
Losses		(249)	(670)
Net	Accounts receivable		$ 1,198
	Other current liabilities	$ (42)	

The Company may periodically hedge other anticipated transactions, generally with forward exchange contracts, which are designated as cash flow hedges. Gains and losses representing effective hedges are initially recorded as a component of other comprehensive income and are subsequently reclassified into earnings when the hedged exposure affects earnings. There were no gains or losses on such transactions in 2009, 2008 and 2007, and there were no such transactions outstanding as of December 25, 2009, and December 26, 2008.

Recent Accounting Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued a new accounting standard that established a consistent framework for measuring fair value and expanded disclosures on fair market value measurements. It was effective for the Company starting in fiscal 2008 for financial assets and liabilities. With respect to non-financial assets and liabilities, it was effective for the Company starting in fiscal 2009. The adoption of this standard as it pertains to non-financial assets and liabilities had no significant impact on the consolidated financial statements.

Subsequent Events. The company has evaluated subsequent events through the time the financial statements were approved for issuance on February, 15, 2010.

B. Segment Information

The Company has three reportable segments: Industrial, Contractor and Lubrication. The Industrial segment markets equipment and pre-engineered packages for moving and applying paints, coatings, sealants, adhesives and other fluids. Markets served include automotive and truck assembly and components plants, wood products, rail, marine, aerospace, farm, construction, bus, recreational vehicles, and various other industries. The Contractor segment markets sprayers for architectural coatings for painting, roofing, texture, corrosion control and line striping and also high-pressure washers. The Lubrication segment markets products to move and dispense lubricants for fast oil change facilities, service garages, fleet service centers, automobile dealerships, the mining industry and industrial lubrication. All segments market parts and accessories for their products.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The cost of manufacturing for each segment is based on product cost, and expenses are based on actual costs incurred along with cost allocations of shared and centralized functions based on activities performed, sales or space utilization. Assets of the Company are not tracked along reportable segment lines. Depreciation expense is charged to the manufacturing or operating cost center that utilizes the asset, and is then allocated to segments on the same basis as other expenses within that cost center.

Reportable segments are defined by product. Segments are responsible for development, manufacturing, marketing and sales of their products. This allows for focused marketing and efficient product development. The segments share common purchasing, certain manufacturing, distribution and administration functions.

Reportable Segments (in thousands)	2009	2008	2007
Net Sales			
Industrial	$ 312,935	$ 462,941	$ 444,725
Contractor	208,544	266,772	306,703
Lubrication	57,733	87,557	89,911
Total	$ 579,212	$ 817,270	$ 841,339
Operating Earnings			
Industrial	$ 68,310	$ 138,240	$ 152,278
Contractor	28,952	47,156	81,528
Lubrication	(2,907)	12,475	9,252
Unallocated corporate (expense)	(19,888)	(10,506)	(10,578)
Total	$ 74,467	$ 187,365	$ 232,480

Unallocated corporate is not included in management's measurement of segment performance and includes such items as stock compensation, bad debt expense, charitable contributions and certain other charges or credits driven by corporate decisions. In 2009, unallocated corporate also included $9.4 million related to the non-service portion of pension expense.

Geographic Information (in thousands)	2009	2008	2007
Net sales (based on customer location)			
United States	$ 279,814	$ 384,221	$ 434,012
Other countries	299,398	433,049	407,327
Total	$ 579,212	$ 817,270	$ 841,339
Long-lived assets			
United States	122,035	132,036	
Other countries	17,018	17,718	
Total	$ 139,053	$ 149,754	

Sales to Major Customers

There were no customers that accounted for 10 percent or more of consolidated sales in 2009, 2008 or 2007.

C. Inventories

Major components of inventories were as follows (in thousands):

	2009	2008
Finished products and components	$ 36,665	$ 50,703
Products and components in various stages of completion	22,646	24,938
Raw materials and purchased components	31,826	51,348
	91,137	126,989
Reduction to LIFO cost	(32,479)	(35,385)
Total	$ 58,658	$ 91,604

Inventories valued under the LIFO method were $36.7 million for 2009 and $58.1 million for 2008. All other inventory was valued on the FIFO method.

Certain inventory quantities were reduced in 2009, resulting in liquidation of LIFO inventory quantities carried at lower costs from prior years. The effect on net earnings was not significant.

D. Property, Plant and Equipment

Property, plant and equipment were as follows (in thousands):

	2009	2008
Land and improvements	$ 10,303	$ 10,303
Buildings and improvements	102,222	101,445
Manufacturing equipment	188,225	177,044
Office, warehouse and automotive equipment	31,442	31,619
Additions in progress	2,248	6,318
Total property, plant and equipment	334,440	326,729
Accumulated depreciation	(195,387)	(176,975)
Net property, plant and equipment	$ 139,053	$ 149,754

Depreciation expense was $21.7 million in 2009, $20.9 million in 2008 and $19.5 million in 2007.

E. Income Taxes

Earnings before income tax expense consist of (in thousands):

	2009	2008	2007
Domestic	$ 55,749	$ 159,972	$ 203,795
Foreign	12,918	18,607	25,041
Total	$ 68,667	$ 178,579	$ 228,836

Income tax expense consists of (in thousands):

	2009	2008	2007
Current			
Domestic			
Federal	$ 17,002	$ 50,483	$ 67,255
State and local	(133)	2,300	4,600
Foreign	2,953	4,741	6,023
	19,822	57,524	77,878
Deferred			
Domestic	(448)	(436)	(1,874)
Foreign	326	612	(4)
	(122)	176	(1,878)
Total	$ 19,700	$ 57,700	$ 76,000

Income taxes paid were $15.3 million, $55.8 million and $74.6 million in 2009, 2008 and 2007.

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate follows:

	2009	2008	2007
Statutory tax rate	35%	35%	35%
Earnings from non-U.S. sales at lower tax rates	(1)	(1)	(1)
State taxes, net of federal effect	—	1	2
U.S. general business tax credits	(3)	(1)	(1)
Domestic production deduction	(2)	(2)	(2)
Effective tax rate	29%	32%	33%

Deferred income taxes are provided for temporary differences between the financial reporting and the tax basis of assets and liabilities. The deferred tax assets (liabilities) resulting from these differences are as follows (in thousands):

	2009	2008
Inventory valuations	$ 7,532	$ 8,723
Self-insurance retention accruals	2,403	2,356
Warranty reserves	2,370	2,628
Vacation accruals	2,025	2,036
Bad debt reserves	1,730	1,858
Stock compensation	2,000	2,000
Interest rate swaps	1,397	1,827
Other	923	1,579
Total Current	20,380	23,007
Unremitted earnings of consolidated foreign subsidiaries	(1,800)	(1,900)
Excess of tax over book depreciation	(22,114)	(22,307)
Pension liability	16,951	29,751
Postretirement medical	7,587	7,932
Stock compensation	5,947	3,864
Deferred compensation	833	806
Other	968	773
Total Non-current	8,372	18,919
Net deferred tax assets	$ 28,752	$ 41,926

Total deferred tax assets were $65.1 million and $78.6 million, and total deferred tax liabilities were $36.3 million and $36.7 million on December 25, 2009, and December 26, 2008.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The Company records penalties and accrued interest related to uncertain tax positions in income tax expense. Total reserves for uncertain tax positions were not material.

F. Debt

In July 2007, the Company entered into an agreement with a syndicate of lenders providing an unsecured credit facility for 5 years. This credit facility provides $250 million of committed credit, available for general corporate purposes, working capital needs, share repurchases and acquisitions. Borrowings under the facility bear interest at either the bank's prime rate, the federal funds rate plus 0.5 percent or the London Interbank Offered Rate plus a spread of between 0.23 percent and 0.57 percent, depending on the Company's cash flow leverage ratio (debt to earnings before interest, taxes, depreciation and amortization). The weighted average interest rate on borrowings against the credit facility was 0.6 percent as of December 25, 2009. The Company is also required to pay a facility fee on the full amount of the loan commitment at an annual rate ranging from 0.07 percent to 0.15 percent, depending on the Company's cash flow leverage ratio. The agreement requires the Company to maintain certain financial ratios as to cash flow leverage and interest coverage.

On December 25, 2009, the Company had $272 million in lines of credit, including the $250 million in committed credit facilities described above and $22 million with foreign banks. The unused portion of committed credit lines was $175 million as of December 25, 2009. In addition, the Company has unused, uncommitted lines of credit with foreign banks totaling $12 million. Borrowing rates under these credit lines vary with the prime rate, rates on domestic certificates of deposit and the London Interbank market. The weighted average cost of borrowing (including the effect of interest rate swaps) was 3.3 percent, 3.9 percent and 5.3 percent for the years ended December 25, 2009, December 26, 2008 and December 28, 2007. The Company pays facility fees of up to 0.15 percent per annum on certain of these lines. No compensating balances are required.

The Company is in compliance with all financial covenants of its debt agreements.

Interest paid on debt during 2009, 2008 and 2007 was $4.8 million, $8.1 million and $2.6 million.

G. Shareholders' Equity

At December 25, 2009, the Company had 22,549 authorized, but not issued, cumulative preferred shares, $100 par value. The Company also has authorized, but not issued, a separate class of 3 million shares of preferred stock, $1 par value.

The Company maintains a plan in which one preferred share purchase right (Right) exists for each common share of the Company. Each Right will entitle its holder to purchase one four-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $180, subject to adjustment. The Rights are exercisable only if a person or group acquires beneficial ownership of 15 percent or more of the Company's outstanding common stock. The Rights expire in March 2010 and may be redeemed earlier by the Board of Directors for $.001 per Right. In February 2010, the Board of Directors approved a new share rights plan with features similar to the expiring plan, effective March 2010.

Components of accumulated other comprehensive income (loss) were (in thousands):

	2009	2008
Pension and postretirement medical liability adjustment	$ (48,560)	$ (70,322)
Gain (loss) on interest rate hedge contracts	(2,344)	(3,109)
Cumulative translation adjustment	(823)	(1,057)
Total	$ (51,727)	$ (74,488)

H. Share-Based Awards, Purchase Plans and Compensation Cost

Stock Option and Award Plan. The Company has a stock incentive plan under which it grants stock options and share awards to directors, officers and other employees. Option price is the market price on the date of grant. Options become exercisable at such time, generally over three or four years, and in such installments as set by the Company, and expire ten years from the date of grant.

Restricted share awards have been made to certain key employees under the plan. The market value of restricted stock at the date of grant is charged to operations over the vesting period. Compensation cost charged to operations for restricted share awards was $287,000 in 2009, $280,000 in 2008 and $31,000 in 2007. Individual nonemployee directors of the Company may elect to receive, either currently or deferred, all or part of their annual retainer, and/or payment for attendance at Board or Committee meetings, in the form of shares of the Company's common stock instead of cash. Under this arrangement, the Company issued 14,952 shares in 2009, 10,228 shares in 2008 and 10,338 shares in 2007. The expense related to this arrangement is not significant.

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 29, 2006	3,956	$ 24.79	2,272	$ 16.94
Granted	1,037	40.08		
Exercised	(836)	19.96		
Canceled	(378)	38.98		
Outstanding, December 28, 2007	3,779	$ 28.63	2,228	$ 21.41
Granted	819	35.56		
Exercised	(419)	16.60		
Canceled	(224)	38.81		
Outstanding, December 26, 2008	3,955	$ 30.77	2,186	$ 24.98
Granted	1,180	20.74		
Exercised	(164)	10.59		
Canceled	(158)	31.57		
Outstanding, December 25, 2009	4,813	$ 28.98	2,445	$ 28.38

The following table summarizes information for options outstanding and exercisable at December 25, 2009 (in thousands, except per share and contractual term amounts):

Range of Prices	Options Outstanding	Options Outstanding Weighted Avg. Remaining Contractual Term in Years	Options Outstanding Weighted Avg. Exercise Price	Options Exercisable	Options Exercisable Weighted Avg. Exercise Price
$ 9-20	830	2	$ 14.55	825	$ 14.54
20-30	1,582	8	22.58	427	27.42
30-40	1,508	7	36.37	627	35.60
40-49	893	6	41.22	566	41.25
$ 9-49	4,813	6	$ 28.98	2,445	$ 28.38

The aggregate intrinsic value of exercisable option shares was $13.8 million as of December 25, 2009, with a weighted average contractual term of 4.2 years. There were approximately 4.8 million vested share options and share options expected to vest as of December 25, 2009, with an aggregate intrinsic value of $24.3 million, a weighted average exercise price of $28.98 and a weighted average contractual term of 6.3 years.

Information related to options exercised follows (in thousands):

	2009	2008	2007
Cash received	$ 1,733	$ 6,950	$ 16,688
Aggregate intrinsic value	2,173	8,734	17,465
Tax benefit realized	800	3,100	6,500

Stock Purchase Plan. Under the Company's Employee Stock Purchase Plan, the purchase price of the shares is the lesser of 85 percent of the fair market value on the first day or the last day of the plan year. The Company issued 312,424 shares under this Plan in 2009, 216,047 shares in 2008 and 202,096 shares in 2007.

Authorized Shares. Shares authorized for issuance under the stock option and purchase plans are shown below (in thousands):

	Total Shares Authorized	Available for Future Issuance as of December 25, 2009
Stock Incentive Plan (2006)	7,375	2,166
Employee Stock Purchase Plan (2006)	2,000	1,472
Total	9,375	3,638

Amounts available for future issuance exclude outstanding options. Options outstanding as of December 25, 2009, include options granted under three plans that were replaced by the Stock Incentive Plan in 2001 and 2006. No shares are available for future grants under those plans.

Share-based Compensation. The Company recognized share-based compensation cost of $9.4 million in 2009, $9.1 million in 2008 and $8.6 million in 2007, which reduced net income by $7.3 million, or $0.12 per weighted common share in 2009, $6.7 million, or $0.11 per weighted common share in 2008 and $6.4 million, or $0.10 per weighted common share in 2007. As of December 25, 2009, there was $7.0 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of approximately two years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	2009	2008	2007
Expected life in years	6.0	6.0	5.6
Interest rate	2.1%	3.2%	4.2%
Volatility	30.1%	25.1%	25.1%
Dividend yield	3.7%	2.1%	1.7%
Weighted average fair value per share	$ 4.27	$ 8.28	$ 10.55

Expected life is estimated based on vesting terms and exercise and termination history. Interest rate is based on the U.S Treasury rate on zero-coupon issues with a remaining term equal to the expected life of the option. Expected volatility is based on historical volatility over a period commensurate with the expected life of options.

The fair value of employees' purchase rights under the Employee Stock Purchase Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	2009	2008	2007
Expected life in years	1.0	1.0	1.0
Interest rate	0.7%	1.5%	4.9%
Volatility	51.5%	27.1%	24.4%
Dividend yield	4.5%	2.1%	1.6%
Weighted average fair value per share	$ 5.60	$ 8.14	$ 9.79

I. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	2009	2008	2007
Net earnings available to common shareholders	$ 48,967	$ 120,879	$ 152,836
Weighted average shares outstanding for basic earnings per share	59,865	60,264	65,043
Dilutive effect of stock options computed based on the treasury stock method using the average market price	364	571	941
Weighted average shares outstanding for diluted earnings per share	60,229	60,835	65,984
Basic earnings per share	$ 0.82	$ 2.01	$ 2.35
Diluted earnings per share	$ 0.81	$ 1.99	$ 2.32

Stock options to purchase 2.4 million, 2.9 million and 1.1 million shares were not included in the 2009, 2008 and 2007 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

J. Retirement Benefits

The Company has a defined contribution plan, under Section 401(k) of the Internal Revenue Code, which provides retirement benefits to most U.S. employees. For all employees who choose to participate, the Company matches employee contributions at a 100 percent rate, up to 3 percent of the employee's compensation. For employees not covered by a defined benefit plan, the Company contributes an amount equal to 1.5 percent of the employee's compensation. Employer contributions totaled $2.7 million in 2009, $3.1 million in 2008 and $3.0 million in 2007.

The Company's postretirement medical plan provides certain medical benefits for retired U.S. employees. Employees hired before January 1, 2005, are eligible for these benefits upon retirement and fulfillment of other eligibility requirements as specified by the plan.

The Company has both funded and unfunded noncontributory defined benefit pension plans that together cover most U.S. employees hired before January 1, 2006, certain directors and some of the employees of the Company's non-U.S. subsidiaries. For U.S. plans, benefits are based on years of service and the highest five consecutive years' earnings in the ten years preceding retirement. The Company funds annually in amounts consistent with minimum funding requirements and maximum tax deduction limits.

Investment policies and strategies of the funded pension plan are based on a long-term view of economic growth and heavily weighted toward equity securities. The primary goal of the plan's investments is to ensure that the plan's liabilities are met over time. In developing strategic asset allocation guidelines, an emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes. The plan invests primarily in common stocks and bonds, including the Company's common stock. Target allocations for plan assets are 80 percent equity securities, 15 percent fixed income securities and 5 percent real estate investments. Plan assets by category and fair value measurement level as of December 25, 2009 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Equity				
Graco common stock	$ 10,448	$ 10,448	$ —	$ —
U.S. Large Cap	58,836	21,597	37,239	—
U.S. Small Cap	24,465	24,465	—	—
International	28,731	2,063	26,668	—
Total Equity	122,480	58,573	63,907	—
Fixed income	35,967	25,305	10,662	—
Real estate and other	7,642	956	—	6,686
Total	$ 166,089	$ 84,834	$ 74,569	$ 6,686

Levels within fair value hierarchy:
Level 1 — based on quoted prices in active markets for identical assets
Level 2 — based on significant observable inputs
Level 3 — based on significant unobservable inputs

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The Company uses a year-end measurement date for all of its plans. The following provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the periods ending December 25, 2009, and December 26, 2008, and a statement of the funded status as of the same dates (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Obligation, beginning of year	$ 215,154	$ 202,182	$ 23,782	$ 23,596
Service cost	4,718	4,968	565	557
Interest cost	12,305	12,223	1,313	1,381
Actuarial loss (gain)	(4,961)	4,960	(848)	393
Plan amendments	—	514	—	385
Exchange rate changes	210	(317)	—	—
Benefit payments	(9,229)	(9,376)	(2,086)	(2,530)
Obligation, end of year	$ 218,197	$ 215,154	$ 22,726	$ 23,782
Change in plan assets				
Fair value, beginning of year	$ 128,720	$ 215,378	$ —	$ —
Actual return on assets	30,757	(78,935)	—	—
Employer contributions	15,841	1,653	2,086	2,530
Benefit payments	(9,229)	(9,376)	(2,086)	(2,530)
Fair value, end of year	$ 166,089	$ 128,720	$ —	$ —
Funded status	$ (52,108)	$ (86,434)	$ (22,726)	$ (23,782)
Amounts recognized in consolidated balance sheets				
Current liabilities	$ 672	$ 726	$ 2,006	$ 2,222
Non-current liabilities	51,436	85,708	20,720	21,560
Total liabilities	$ 52,108	$ 86,434	$ 22,726	$ 23,782

The accumulated benefit obligation as of year-end for all defined benefit pension plans was $202 million for 2009 and $195 million for 2008. Information for plans with an accumulated benefit obligation in excess of plan assets follows (in thousands):

	2009	2008
Projected benefit obligation	$ 218,197	$ 215,154
Accumulated benefit obligation	201,628	195,307
Fair value of plan assets	166,089	128,720

The components of net periodic benefit cost for the plans for 2009, 2008 and 2007 were as follows (in thousands):

	Pension Benefits			Postretirement Medical Benefits		
	2009	2008	2007	2009	2008	2007
Service cost-benefits earned during the period	$ 4,718	$ 4,968	$ 5,618	$ 565	$ 557	$ 537
Interest cost on projected benefit obligation	12,305	12,223	11,504	1,313	1,381	1,345
Expected return on assets	(10,857)	(18,981)	(18,795)	—	—	—
Early retirement incentives	—	530	—	—	385	—
Amortization of prior service cost (credit)	183	232	244	(658)	(658)	(739)
Amortization of net loss (gain)	8,757	176	236	598	641	811
Cost of pension plans which are not significant and have not adopted SFAS No. 87	73	136	478	N/A	N/A	N/A
Net periodic benefit cost (credit)	$ 15,179	$ (716)	$ (715)	$ 1,818	$ 2,306	$ 1,954

Amounts recognized in other comprehensive (income) loss in 2009 and 2008 were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2009	2008	2009	2008
Prior service cost (credit) arising during the period	$ —	$ 514	$ —	$ 385
Net loss (gain) arising during the period	(24,848)	102,755	(848)	393
Amortization of prior service credit (cost)	(183)	(232)	658	658
Amortization of net gain (loss)	(8,757)	(706)	(598)	(1,026)
Total	$ (33,788)	$ 102,331	$ (788)	$ 410

Amounts included in accumulated other comprehensive (income) loss as of December 25, 2009 and December 26, 2008, that had not yet been recognized as components of net periodic benefit cost, were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2009	2008	2009	2008
Prior service cost (credit)	$ 251	$ 431	$ (5,074)	$ (5,732)
Net loss	73,994	107,605	7,907	9,352
Net before income taxes	74,245	108,036	2,833	3,620
Income taxes	(27,470)	(39,995)	(1,048)	(1,338)
Net	$ 46,775	$ 68,041	$ 1,785	$ 2,282

Amounts included in accumulated other comprehensive (income) loss that are expected to be recognized as components of net periodic benefit cost in 2010 were as follows (in thousands):

	Pension Benefits	Postretirement Medical Benefits
Prior service cost (credit)	$ 113	$ (658)
Net loss (gain)	5,868	569
Net before income taxes	5,981	(89)
Income taxes	(2,213)	33
Net	$ 3,768	$ (56)

Assumptions used to determine the Company's benefit obligations are shown below:

	Pension Benefits		Postretirement Medical Benefits	
Weighted average assumptions	2009	2008	2009	2008
Discount rate	6.0%	6.0%	6.0%	6.0%
Rate of compensation increase	3.8%	3.8%	N/A	N/A

Assumptions used to determine the Company's net periodic benefit cost are shown below:

	Pension Benefits			Postretirement Medical Benefits		
Weighted average assumptions	2009	2008	2007	2009	2008	2007
Discount rate	6.0%	6.2%	5.7%	6.0%	6.3%	5.8%
Expected return on assets	8.5%	9.0%	9.0%	N/A	N/A	N/A
Rate of compensation increase	3.8%	3.8%	3.8%	N/A	N/A	N/A

Several sources of information are considered in determining the expected rate of return assumption, including the allocation of plan assets, the input of actuaries and professional investment advisors, and historical long-term returns. In setting the return assumption, the Company recognizes that historical returns are not always indicative of future returns and also considers the long-term nature of its pension obligations.

The Company's U.S. retirement medical plan limits the annual cost increase that will be paid by the Company. In 2006, the annual cost increase limitation was changed to 5 percent for 2007, 4 percent for 2008 and 3 percent thereafter. In 2007, the Company made changes in the administration of the plan to facilitate compliance with the cost limitation provisions. The Company also amended the plan to remove the 30-year service cap applied to the calculation of service-based credits provided to future retirees for postretirement health care costs. In measuring the accumulated postretirement benefit obligation (APBO), the annual trend rate for health care costs was assumed to be 9 percent for 2010, decreasing ratably each year to a constant rate of 4.5 percent in 2025 and thereafter, subject to the plan's annual increase limitation.

At December 25, 2009, a one percent change in assumed health care cost trend rates would have no significant impact on the service and interest cost components of net periodic postretirement health care benefit cost or the APBO for health care benefits.

The Company expects to contribute $0.7 million to its unfunded pension plans and $2.0 million to the postretirement medical plan in 2010. The Company expects that no contribution to the funded pension plan will be required in 2010. Estimated future benefit payments are as follows (in thousands):

	Pension Benefits	Postretirement Medical Benefits
2010	$ 9,873	$ 2,006
2011	10,489	1,909
2012	11,182	1,759
2013	11,942	1,682
2014	12,814	1,704
Years 2015 - 2019	75,269	9,262

K. Commitments and Contingencies

Lease Commitments. Aggregate annual rental commitments under operating leases with noncancelable terms of more than one year were $3.9 million at December 25, 2009, payable as follows (in thousands):

	Buildings	Vehicles & Equipment	Total
2010	$ 396	$ 1,256	$ 1,652
2011	85	839	924
2012	28	408	436
2013	22	136	158
2014	22	57	79
Thereafter	626	—	626
Total	$ 1,179	$ 2,696	$ 3,875

Total rental expense was $3.1 million for 2009, $2.6 million for 2008 and $2.3 million for 2007.

Other Commitments. The Company is committed to pay suppliers under the terms of open purchase orders issued in the normal course of business totaling approximately $19 million at December 25, 2009. The Company also has commitments with certain suppliers to purchase minimum quantities, and under the terms of certain agreements, the Company is committed for certain portions of the supplier's inventory. The Company does not purchase, or commit to purchase quantities in excess of normal usage or amounts that cannot be used within one year. The Company estimates that the maximum commitment amount under such agreements does not exceed $16 million. In addition, the Company could be obligated to perform under standby letters of credit totaling $2 million at December 25, 2009. The Company has also guaranteed the debt of its subsidiaries for up to $30 million.

Contingencies. The Company is party to various legal proceedings arising in the normal course of business. The Company is actively defending these matters and has recorded an estimate of the probable costs. Management does not expect that resolution of these matters will have a material adverse effect on the Company, although the ultimate outcome cannot be determined based on available information.

L. Acquisitions

In February 2008, the Company acquired GlasCraft Inc. for approximately $35 million cash. GlasCraft had sales of approximately $18 million in 2007. It designed, manufactured and sold spray systems for the composites manufacturing industry and high performance dispense systems for the polyurethane foam and polyurea coatings industries. The products, brands, distribution channels and engineering capabilities of GlasCraft expanded and complemented the Company's Industrial Equipment business. GlasCraft operations were moved from Indiana to Company facilities in Ohio, South Dakota and Minnesota in 2008.

In September 2008, the Company acquired certain assets of Lubrication Scientifics, Inc. (LubeSci) for approximately $5 million cash. LubeSci designed and manufactured automated lubrication equipment used in industrial markets and had sales of approximately $3 million in 2007. LubeSci operations were moved to Company facilities in Minnesota from California in 2008.

In October 2008, the Company acquired the Airlessco assets of Durotech Co. in Moorpark, California, for approximately $15 million cash. Airlessco is a line of spray-painting equipment that generated approximately $14 million of sales in 2007, and complements the Company's Contractor Equipment business. The move of Airlessco operations to other existing Company facilities will be completed in 2010.

The purchase price of each acquisition was allocated based on estimated fair values as follows (in thousands):

	GlasCraft	LubeSci	Airlessco
Accounts receivable and prepaid expenses	$ 2,200	$ —	$ 2,400
Inventories	3,700	500	3,000
Deferred income taxes	700	—	—
Property, plant and equipment	700	600	500
Identifiable intangible assets	18,200	900	5,500
Goodwill	17,700	2,500	4,800
Total purchase price	43,200	4,500	16,200
Current liabilities assumed	(1,000)	—	(800)
Deferred income taxes	(6,900)	—	—
Net assets acquired	$ 35,300	$ 4,500	$ 15,400

Identifiable intangible assets and estimated useful life were as follows (in thousands):

	GlasCraft	LubeSci	Airlessco
Product documentation (5 years)	$ 900	$ —	$ —
Customer relationships (5 - 6 years)	14,100	600	4,600
Proprietary technology (3 - 5 years)	500	300	—
Tradenames and trademarks (3 years)	—	—	800
Patents (3 years)	—	—	100
Total (6 years, weighted average)	15,500	900	5,500
Brand names (indefinite useful life)	2,700	—	—
Total identifiable intangible assets	$ 18,200	$ 900	$ 5,500

None of the GlasCraft goodwill or identifiable intangible assets is deductible for tax purposes. Goodwill and identifiable intangible assets from the acquisitions of LubeSci and Airlessco are deductible for tax purposes.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the fiscal year covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, the Vice President and Controller, and the Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective.

Management's Annual Report on Internal Control Over Financial Reporting

The information under the heading "Management's Report on Internal Control Over Financial Reporting" in Part II, Item 8, of this 2009 Annual Report on Form 10-K is incorporated herein by reference.

Reports of Independent Registered Public Accounting Firm

The information under the heading "Reports of Independent Registered Public Accounting Firm: Internal Control Over Financial Reporting" in Part II, Item 8, of this 2009 Annual Report on Form 10-K is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

During the fourth quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the heading "Executive Officers of the Company" in Part I of this 2009 Annual Report on Form 10-K and the information under the headings "Election of Directors," and "Director Qualifications and Selection Process" of our Company's Proxy Statement for its 2010 Annual Meeting of Shareholders, to be held on April 23, 2010 (the "Proxy Statement"), is incorporated herein by reference.

Audit Committee Members and Audit Committee Financial Expert

The information under the heading "Committees of the Board of Directors" of our Company's Proxy Statement is incorporated herein by reference.

Corporate Governance Guidelines, Committee Charters and Code of Ethics

Our Company has adopted Corporate Governance Guidelines and Charters for the Audit, Governance, and Management Organization and Compensation Committees of the Board of Directors. We have also issued Code of Ethics and Business Conduct (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, Committee Charters, and 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.

Section 16(a) Reporting Compliance

The information under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the headings "Director Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Report of the Management Organization and Compensation Committee" of the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained under the headings "Equity Compensation Plan Information" and "Beneficial Ownership of Shares" of the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information under the headings "Related Person Transaction Approval Policy" and "Director Independence" of the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information under the headings "Independent Registered Public Accounting Firm Fees and Services" and "Pre-Approval Policies" of the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) The following documents are filed as part of this report:

(1) Financial Statements	See Part II	
(2) Financial Statement Schedule	Schedule II — Valuation and Qualifying Accounts	52
	All other schedules are omitted because they are not applicable, or are not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.	
(3) Management Contract, Compensatory Plan or Arrangement. (See Exhibit Index)	Those entries marked by an asterisk are Management Contracts, Compensatory Plans or Arrangements.	54

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Schedule II — Valuation and Qualifying Accounts

Graco Inc. and Subsidiaries

(in thousands)

	Balance at beginning of year	Additions charged to costs and expenses	Deductions from reserves [1]	Other add (deduct) [2]	Balance at end of year
Year ended					
December 25, 2009					
Allowance for doubtful accounts	$ 2,200	$ 900	$ 1,000	$ —	$ 2,100
Allowance for returns and credits	4,400	8,900	8,900	—	4,400
	$ 6,600	$ 9,800	$ 9,900	$ —	$ 6,500
December 26, 2008					
Allowance for doubtful accounts	$ 2,500	$ —	$ 400	$ 100	$ 2,200
Allowance for returns and credits	4,000	12,000	11,600	—	4,400
	$ 6,500	$ 12,000	$ 12,000	$ 100	$ 6,600
December 28, 2007					
Allowance for doubtful accounts	$ 2,600	$ 200	$ 400	$ 100	$ 2,500
Allowance for returns and credits	3,200	12,400	11,600	—	4,000
	$ 5,800	$ 12,600	$ 12,000	$ 100	$ 6,500

1 For doubtful accounts, represents amounts determined to be uncollectible and charged against reserve, net of collections on accounts previously charged against reserves. For returns and credits, represents amounts of credits issued and returns processed.

2 Includes amounts assumed or established in connection with acquisitions and effects of foreign currency translation.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Graco Inc.

/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer	February 15, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*	February 15, 2010
/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*	February 15, 2010
/s/ Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*	February 15, 2010

Lee R. Mitau	Director, Chairman of the Board
William J. Carroll	Director
Jack W. Eugster	Director
J. Kevin Gilligan	Director
Patrick J. McHale	Director
Marti Morfitt	Director
William G. Van Dyke	Director
R. William Van Sant	Director

Patrick J. McHale, by signing his name hereto, does hereby sign this document on behalf of himself and each of the above named directors of the Registrant pursuant to powers of attorney duly executed by such persons.

/s/ Patrick J. McHale Patrick J. McHale *(For himself and as attorney-in-fact)*	February 15, 2010

Exhibit Index

Exhibit Number	Description
2.1	Stock Purchase Agreement By and Among PMC Global, Inc. Gusmer Machinery Group, Inc. and Graco Inc., dated as of February 4, 2005 (Incorporated by reference to Exhibit 2.1 to the Company's Report on Form 8-K dated February 10, 2005.)
2.2	Stock Purchase Agreement By and Among PMC Europe Investments, S.L. and Graco Inc. dated as of February 4, 2005. (Incorporated by reference to Exhibit 2.2 to the Company's Report on Form 8-K dated February 10, 2005.)
3.1	Restated Articles of Incorporation as amended June 14, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
3.2	Restated Bylaws as amended June 13, 2002. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 28, 2002.)
4.1	Share Rights Agreement dated as of February 25, 2000, between the Company and Wells Fargo, formerly known as Norwest Bank Minnesota, National Association, as Rights Agent. (Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A dated March 9, 2000.)
4.2	Credit Agreement dated July 12, 2007, between the Company and U.S. Bank National Association, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated July 12, 2007.)
*10.1	Executive Officer Bonus Plan as amended and restated December 23, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's 2008 Annual Report on Form 10-K.)
*10.2	Executive Officer Annual Incentive Bonus Plan as amended and restated December 23, 2008. (Incorporated by reference to Exhibit 10.2 to the Company's 2008 Annual Report on Form 10-K.)
*10.3	Graco Inc. Nonemployee Director Stock Option Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.4	Long Term Stock Incentive Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.5	Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed March 14, 2006.)
10.6	Employee Stock Incentive Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.7	Deferred Compensation Plan Restated, effective December 1, 1992. (Incorporated by reference to Exhibit 2 to the Company's Report on Form 8-K dated March 11, 1993.) First Amendment dated September 1, 1996. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.) Second Amendment dated May 27, 2000. (Incorporated by reference to Exhibit 10.7 to the Company's 2005 Annual Report on Form 10-K.) Third Amendment adopted on December 19, 2002. (Incorporated by reference to Exhibit 10.7 to the Company's 2005 Annual Report on Form 10-K.) Fourth Amendment adopted June 14, 2007. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
*10.8	Deferred Compensation Plan (2005 Statement) as amended and restated on April 4, 2005. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the thirteen weeks ended July 1, 2005.) Second Amendment dated November 1, 2005. (Incorporated by reference to Exhibit 10.8 to the Company's 2005 Annual Report on Form 10-K.) Third Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.8 to the Company's 2008 Annual Report on Form 10-K.)
10.9	CEO Award Program. (Incorporated by reference to Exhibit 10.9 to the Company's 2005 Annual Report on Form 10-K.)

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Exhibit Number	Description
*10.10	Retirement Plan for Nonemployee Directors. (Incorporated by reference to Attachment C to Item 5 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 1991.) First Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.10 to the Company's 2008 Annual Report on Form 10-K.)
*10.11	Graco Restoration Plan (2005 Statement). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 29, 2006.) First Amendment adopted December 8, 2006. (Incorporated by reference to Exhibit 10.12 to the Company's 2006 Annual Report on Form 10-K.) Second Amendment adopted August 15, 2007. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 28, 2007.) Third Amendment adopted March 27, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.) Fourth Amendment adopted December 29, 2008. (Incorporated by reference to Exhibit 10.11 to the Company's 2008 Annual Report on Form 10-K.)
*10.12	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Nonemployee Director Stock Option Plan. (Incorporated by reference to Exhibit 10.11 to the Company's 2001 Annual Report on Form 10-K.)
*10.13	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.22 to the Company's 2002 Annual Report on Form 10-K.) Amended form of agreement for awards made to nonemployee directors. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 2004.)
*10.14	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.) Amended form of agreement for awards made to nonemployee directors in 2008. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 27, 2008.) Amended and restated form of agreement for awards made to nonemployee directors in 2009.
*10.15	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Long Term Stock Incentive Plan. (Incorporated by reference to Exhibit 10.12 to the Company's 2001 Annual Report on Form 10-K.)
*10.16	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 2002.) Amended form of agreement for awards made to Chief Executive Officer in 2001 and 2002. Amended form of agreement for awards made to executive officers in 2003. (Incorporated by reference to Exhibit 10.15 of the Company's 2003 Annual Report on Form 10-K.) Amended form of agreement for awards made to executive officers in 2004. Amended form of agreement for awards made to Chief Executive Officer in 2004. (Incorporated by reference to Exhibit 10.2 and 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 2004.)
*10.17	Stock Option Agreement. Form of agreement used for award in 2007 of non-incentive stock options to executive officers under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to executive officers in 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.18	Stock Option Agreement. Form of agreement used for award in 2007 of non-incentive stock options to chief executive officer under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to chief executive officer in 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.19	Executive Deferred Compensation Agreement. Form of supplementary agreement entered into by the Company which provides a retirement benefit to one executive officer, as amended by First Amendment, effective September 1, 1990. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated March 11, 1993.) As

Exhibit Number	Description
	further amended by agreement, effective December 4, 2008. (Incorporated by reference to Exhibit 10.19 to the Company's 2008 Annual Report on Form 10-K.)
*10.20	Executive Officer Restricted Stock Agreement. Form of agreement used to award restricted stock to selected executive officers. (Incorporated by reference to Exhibit 10.20 to the Company's 2007 Annual Report on Form 10-K.)
*10.21	Election Form. Form of agreement used for the issuance of stock or deferred stock in lieu of cash payment of retainer and/or meeting fees to nonemployee directors under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.17 to the Company's 2004 Annual Report on Form 10-K.) Amended form of agreement used for the 2006 plan year. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
*10.22	Election Form. Form of agreement used for the 2007 plan year for the issuance of stock or deferred stock in lieu of cash payment of retainer and/or meeting fees to nonemployee directors under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.5 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.) Amended form of agreement used for the 2008 plan year. (Incorporated by reference to Exhibit 10.22 to the Company's 2007 Annual Report on Form 10-K.) Amended form of agreement used for 2009 plan year. (Incorporated by reference to Exhibit 10.22 to the Company's 2008 Annual Report on Form 10-K.) Amended form of agreement used for 2010 plan year.
*10.23	Key Employee Agreement. Form of agreement used with chief executive officer. (Incorporated by reference to Exhibit 10.24 to the Company's 2007 Annual Report on Form 10-K.)
*10.24	Key Employee Agreement. Form of agreement used with executive officers reporting to the chief executive officer. (Incorporated by reference to Exhibit 10.25 to the Company's 2007 Annual Report on Form 10-K.)
*10.25	Key Employee Agreement. Form of agreement used with executive officer reporting to an executive officer other than the chief executive officer. (Incorporated by reference to Exhibit 10.26 to the Company's 2007 Annual Report on Form 10-K.)
*10.26	Executive Group Long-Term Disability Policy as revised in 1995. (Incorporated by reference to Exhibit 10.23 to the Company's 2004 Annual Report on Form 10-K.) As enhanced by Supplemental Income Protection Plan in 2004. (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K.)
*10.27	Amendment to the 2003 through 2006 Nonstatutory Stock Option Agreements of one nonemployee director.
11	Statement of Computation of Earnings per share included in Note I on page 44.
21	Subsidiaries of the Registrant included herein on page 58.
23	Independent Registered Public Accounting Firm's Consent included herein on page 59.
24	Power of Attorney included herein on page 60.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) included herein on page 61.
31.2	Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) included herein on page 62.
32	Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C. included herein on page 63.
99	Cautionary Statement Regarding Forward-Looking Statements included herein on page 64.

Except as otherwise noted, all documents incorporated by reference above relate to File No. 001-09249.

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* Management Contracts, Compensatory Plans or Arrangements.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of the Company and its subsidiaries are not filed as exhibits because the amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries. The Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.

Exhibit 21

Subsidiaries of Graco Inc.

The following are subsidiaries of the Company as of December 25, 2009.

Subsidiary	Jurisdiction of Organization	Percentage of Voting Securities Owned by the Company
GlasCraft, Inc.	United States	100%[5]
Graco Australia Pty Ltd.	Australia	100%
Graco California Inc.	United States	100%
Graco Canada Inc.	Canada	100%
Graco do Brasil Limitada	Brazil	100%[1]
Graco Fluid Equipment (Shanghai) Co., Ltd.	China (PRC)	100%
Graco Fluid Equipment (Suzhou) Co., Ltd.	China (PRC)	100%[4]
Graco GmbH	Germany	100%
Graco Hong Kong Ltd.	Hong Kong	100%
Graco Indiana Inc.	United States	100%
Graco K.K.	Japan	100%
Graco Korea Inc.	Korea	100%
Graco Ltd.	England	100%
Graco Minnesota Inc.	United States	100%
Graco N.V.	Belgium	100%[1]
Graco Ohio Inc.	United States	100%
Graco S.A.S.	France	100%
Gusmer Corporation	United States	100%
Gusmer Canada Ltd.	Canada	100%[2]
Gusmer Europe, S.L.	Spain	100%[2]
Gusmer Sudamerica S.A.	Argentina	100%[3]

1 Includes shares held by executive officer of the Company or the relevant subsidiary to satisfy the requirements of local law.

2 Shares 100% held by Gusmer Corporation.

3 Shares held by Gusmer Corporation and by executive officer of the Company to satisfy the requirements of local law.

4 Shares 100% owned by Graco Minnesota Inc.

5 Shares 100% owned by Graco Indiana Inc.

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements No. 333-17691, No. 333-03459, No. 333-75307, No. 333-63128, No. 333-123813, No. 333-134162, and No. 333-140848 on Form S-8 of our reports dated February 15, 2010, relating to the financial statements and financial statement schedule of Graco Inc. and Subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Graco Inc. and Subsidiaries for the year ended December 25, 2009.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota February 15, 2010

Exhibit 24

Power of Attorney

Know all by these presents, that each person whose signature appears below hereby constitutes and appoints Patrick J. McHale or James A. Graner, that person's true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution for that person and in that person's name, place and stead, in any and all capacities, to sign the Report on Form 10-K for the year ended December 25, 2009, of Graco Inc. (and any and all amendments thereto) and to file the same with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as that person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitutes, may lawfully do or cause to be done by virtue hereof.

In witness whereof, the following persons have signed this Power of Attorney on the date indicated.

	Date
/s/ William J. Carroll William J. Carroll	February 12, 2010
/s/ Jack W. Eugster Jack W. Eugster	February 12, 2010
/s/ J. Kevin Gilligan J. Kevin Gilligan	February 12, 2010
/s/ Patrick J. McHale Patrick J. McHale	February 12, 2010
/s/ Lee R. Mitau Lee R. Mitau	February 12, 2010
/s/ Marti Morfitt Marti Morfitt	February 12, 2010
/s/ William G. Van Dyke William G. Van Dyke	February 12, 2010
/s/ R. William Van Sant R. William Van Sant	February 12, 2010

Exhibit 31.1

Certification

I, Patrick J. McHale, certify that:

1. I have reviewed this annual report on Form 10-K of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
   - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

Certification

I, James A. Graner, certify that:

1. I have reviewed this annual report on Form 10-K of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 32

Certification Under Section 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: February 15, 2010	/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer
Date: February 15, 2010	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer

Exhibit 99

Cautionary Statement Regarding Forward-Looking Statements

Graco Inc. (our "Company") wishes to take advantage of the "safe harbor" provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so.

From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Company's Form 10-K, Form 10-Q and Form 8-K, its Annual Report to Shareholders, and press releases, other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as "expect," "foresee," "anticipate," "believe," "project," "should," "estimate," "will", and similar expressions, and reflect our Company's expectations concerning the future. Such statements are based upon currently available information, but various risks and uncertainties may cause our Company's actual results to differ materially from those expressed in these statements. Among the factors which management believes could affect our Company's operating results are the following:

- With respect to our Company's business as a whole, our Company's prospects and operating results may be affected by:
  - — changes in world economies, including expansions, downturns or recessions and fluctuations in gross domestic product, capital goods investment activity, interest rates, and foreign currency exchange rates;
  - — the ability of our Company to successfully integrate acquisitions;
  - — the ability of our Company to successfully divest or discontinue incompatible or unprofitable lines of business;
  - — the ability to locate and access reasonably priced financing;
  - — the ability of our Company to successfully maintain quality, customer service and inventory levels in light of the longer lead times created by the establishment of assembly operations in Suzhou, People's Republic of China, and the expanding use of foreign sources for materials and components, especially in Asia;
  - — the ability of our Company to successfully recruit, hire and retain employees with required or desired skills, training and education;
  - — international trade factors, including changes in international trade policy, such as export controls, trade sanctions, increased tariff barriers and other restrictions; weaker protection of our Company's proprietary technology in certain foreign countries; the burden of complying with foreign laws and standards; and potentially burdensome taxes;
  - — the ability of our Company to: develop new products and technologies; maintain and enhance its market position relative to its competitors; maintain and enhance its distribution channels; identify and enter into new markets; realize productivity and product quality improvements; react expeditiously to fluctuations in demand by adjusting our cost structure; offset cost pressures from labor, materials and overhead with price increases; and control expenses;
  - — disruption in operations, transportation, communication, customer operations, distribution, payment or sources of supply, including the cost and availability of skilled labor, materials and energy, caused by political or economic instability, acts of God, labor disputes, war, embargo, weather, climate change, flood, fire, infectious disease, or other cause beyond its reasonable control, including military conflict in the Middle East or on the Korean peninsula, and terrorist activity throughout the world;
  - — cost pressure and lack of availability of key materials used in the manufacture of products;
  - — worldwide competition from low-cost manufacturers, including those that copy our Company's products;

- security breaches, breakdown, interruption in or inadequate upgrading or maintenance of our Company's information processing software, hardware or networks;
- implementation of an enterprise resource planning software system throughout our Company;
- changes in the markets in which our Company participates, including consolidation of competitors and major customers, price competition, and products demanded;
- changes in accounting standards or in the application by our Company of critical accounting policies;
- compliance with corporate governance requirements;
- growth in either the severity or magnitude of the products liability claims against our Company; and
- changes in the return on investments in the Company's retirement plan.

- The prospects and operating results of our Company's Contractor Equipment segment may be affected by: variations in the level of residential, commercial and institutional building and remodeling activity; the loss of, or significant reduction in sales to large customers; the pricing power of large customers; the availability and cost of construction financing; changes in the environmental regulation of coatings; consolidation in the paint equipment manufacturing industry and paint manufacturing industry; changes in the technology of paint and coating applications; changes in the buying and channel preferences of the end user; the Company's success in converting painters outside North America from brush and roller to spray equipment; changes in the business practices (including inventory management) of the major distributors of equipment; changes in construction materials and techniques; changes in the cost of labor in foreign markets; the regional market strength of certain competitors; the level of government spending on infrastructure development and road construction, maintenance and repair; and the nature and extent of highway safety regulation.
- The prospects and operating results of our Company's Industrial Equipment segment may be affected by: the capital equipment spending levels of customers; the availability and cost of financing; changes in the environmental regulation of coatings; changes in the technical and performance characteristics of materials, including powder coatings; changes in application technology; the ability of our Company to meet changing customer requirements; consolidation or other change in the channels of distribution; the pricing strategies of competitors; consolidation in the fluid handling equipment manufacturing industry; changes in the worldwide procurement practices of major manufacturers; changes in manufacturing processes; and consolidation in the manufacturing industry worldwide.
- The prospects and operating results of our Company's Lubrication Equipment segment may be affected by: consolidation in the oil production industry; the development of extended life lubricants for vehicles; the reduction in the need for changing vehicle lubricants; the successful development of vehicles that use power sources other than the internal combustion engine; consolidation of automotive dealerships; trends in spending by state and local governments; variations in the equipment spending levels of the major oil companies; and the ability to develop and profitably market innovative high-quality products and meet competitive challenges in our industrial lubrication business.

GRACO INC (GGG)

10-K/A

Annual report pursuant to section 13 and 15(d)
Filed on 02/18/2010
Filed Period 12/25/2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the fiscal year ended December 25, 2009, or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from __________ to __________.

Commission File No. 001-09249

Graco Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	41-0285640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

88
–11th Avenue Northeast
Minneapolis, MN 55413 (Address of principal executive offices) (Zip Code)

(612) 623-6000 (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $1.00 per share Preferred Share Purchase Rights Shares registered on the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ 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 for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☑

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" and "accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).
Yes ☐ No ☑

The aggregate market value of approximately 60,000,000 shares of common stock held by non-affiliates of the registrant was approximately $1.3 billion as of June 26, 2009.

60,080,211 shares of common stock were outstanding as of February 8, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") to the Graco Inc. Annual Report on Form 10-K for the year ended December 25, 2009, as filed with the Securities and Exchange Commission on February 16, 2010 (the "2009 Annual Report"), is being filed solely for the purpose of filing Exhibits 10.14, 10.22 and 10.27, which were listed on the Index to Exhibits required by Item 15 of the 2009 Annual Report but were inadvertently not filed as exhibits to the 2009 Annual Report. This Amendment No. 1 does not otherwise update any information as originally filed and does not otherwise reflect events occurring after the original filing date of our 2009 Annual Report.

Item 15. Exhibits and Financial Statement Schedule

(a) The following documents are filed as part of this report:

(3) Management Contract, Compensatory Plan or Arrangement. (See Exhibit Index) Those entries marked by an asterisk are Management Contracts, Compensatory Plans or Arrangements.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Graco Inc.

/s/Patrick J. McHale Patrick J. McHale President and Chief Executive Officer	February 17, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*	February 17, 2010
/s/James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*	February 17, 2010
/s/Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*	February 17, 2010

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Exhibit Index

Exhibit Number	Description
2.1	Stock Purchase Agreement By and Among PMC Global, Inc. Gusmer Machinery Group, Inc. and Graco Inc., dated as of February 4, 2005 (Incorporated by reference to Exhibit 2.1 to the Company's Report on Form 8-K dated February 10, 2005.)
2.2	Stock Purchase Agreement By and Among PMC Europe Investments, S.L. and Graco Inc. dated as of February 4, 2005. (Incorporated by reference to Exhibit 2.2 to the Company's Report on Form 8-K dated February 10, 2005.)
3.1	Restated Articles of Incorporation as amended June 14, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
3.2	Restated Bylaws as amended June 13, 2002. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 28, 2002.)
4.1	Share Rights Agreement dated as of February 25, 2000, between the Company and Wells Fargo, formerly known as Norwest Bank Minnesota, National Association, as Rights Agent. (Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A dated March 9, 2000.)
4.2	Credit Agreement dated July 12, 2007, between the Company and U.S. Bank National Association, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated July 12, 2007.)
*10.1	Executive Officer Bonus Plan as amended and restated December 23, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's 2008 Annual Report on Form 10-K.)
*10.2	Executive Officer Annual Incentive Bonus Plan as amended and restated December 23, 2008. (Incorporated by reference to Exhibit 10.2 to the Company's 2008 Annual Report on Form 10-K.)
*10.3	Graco Inc. Nonemployee Director Stock Option Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.4	Long Term Stock Incentive Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.5	Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed March 14, 2006.)
10.6	Employee Stock Incentive Plan, as amended and restated June 18, 2004. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2005.)
*10.7	Deferred Compensation Plan Restated, effective December 1, 1992. (Incorporated by reference to Exhibit 2 to the Company's Report on Form 8-K dated March 11, 1993.) First Amendment dated September 1, 1996. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.) Second Amendment dated May 27, 2000. (Incorporated by reference to Exhibit 10.7 to the Company's 2005 Annual Report on Form 10-K.) Third Amendment adopted on December 19, 2002. (Incorporated by reference to Exhibit 10.7 to the Company's 2005 Annual Report on Form 10-K.) Fourth Amendment adopted June 14, 2007. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
*10.8	Deferred Compensation Plan (2005 Statement) as amended and restated on April 4, 2005. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the thirteen weeks ended July 1, 2005.) Second Amendment dated November 1, 2005. (Incorporated by reference to Exhibit 10.8 to the Company's 2005 Annual Report on Form 10-K.) Third Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.8 to the Company's 2008 Annual Report on Form 10-K.)
10.9	CEO Award Program. (Incorporated by reference to Exhibit 10.9 to the Company's 2005 Annual Report on Form 10-K.)

Exhibit Number	Description
*10.10	Retirement Plan for Nonemployee Directors. (Incorporated by reference to Attachment C to Item 5 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 1991.) First Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.10 to the Company's 2008 Annual Report on Form 10-K.)
*10.11	Graco Restoration Plan (2005 Statement). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 29, 2006.) First Amendment adopted December 8, 2006. (Incorporated by reference to Exhibit 10.12 to the Company's 2006 Annual Report on Form 10-K.) Second Amendment adopted August 15, 2007. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 28, 2007.) Third Amendment adopted March 27, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.) Fourth Amendment adopted December 29, 2008. (Incorporated by reference to Exhibit 10.11 to the Company's 2008 Annual Report on Form 10-K.)
*10.12	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Nonemployee Director Stock Option Plan. (Incorporated by reference to Exhibit 10.11 to the Company's 2001 Annual Report on Form 10-K.)
*10.13	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.22 to the Company's 2002 Annual Report on Form 10-K.) Amended form of agreement for awards made to nonemployee directors. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 2004.)
*10.14	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.) Amended form of agreement for awards made to nonemployee directors in 2008. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 27, 2008.) Amended and restated form of agreement for awards made to nonemployee directors in 2009.
*10.15	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Long Term Stock Incentive Plan. (Incorporated by reference to Exhibit 10.12 to the Company's 2001 Annual Report on Form 10-K.)
*10.16	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 2002.) Amended form of agreement for awards made to Chief Executive Officer in 2001 and 2002. Amended form of agreement for awards made to executive officers in 2003. (Incorporated by reference to Exhibit 10.15 of the Company's 2003 Annual Report on Form 10-K.) Amended form of agreement for awards made to executive officers in 2004. Amended form of agreement for awards made to Chief Executive Officer in 2004. (Incorporated by reference to Exhibit 10.2 and 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 2004.)
*10.17	Stock Option Agreement. Form of agreement used for award in 2007 of non-incentive stock options to executive officers under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to executive officers in 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.18	Stock Option Agreement. Form of agreement used for award in 2007 of non-incentive stock options to chief executive officer under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to chief executive officer in 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.19	Executive Deferred Compensation Agreement. Form of supplementary agreement entered into by the Company which provides a retirement benefit to one executive officer, as amended by First Amendment, effective September 1, 1990. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated March 11, 1993.) As

	further amended by agreement, effective December 4, 2008. (Incorporated by reference to Exhibit 10.19 to the Company's 2008 Annual Report on Form 10-K.)
*10.20	Executive Officer Restricted Stock Agreement. Form of agreement used to award restricted stock to selected executive officers. (Incorporated by reference to Exhibit 10.20 to the Company's 2007 Annual Report on Form 10-K.)
*10.21	Election Form. Form of agreement used for the issuance of stock or deferred stock in lieu of cash payment of retainer and/or meeting fees to nonemployee directors under the Graco Inc. Stock Incentive Plan. (Incorporated by reference to Exhibit 10.17 to the Company's 2004 Annual Report on Form 10-K.) Amended form of agreement used for the 2006 plan year. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.)
*10.22	Election Form. Form of agreement used for the 2007 plan year for the issuance of stock or deferred stock in lieu of cash payment of retainer and/or meeting fees to nonemployee directors under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.5 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.) Amended form of agreement used for the 2008 plan year. (Incorporated by reference to Exhibit 10.22 to the Company's 2007 Annual Report on Form 10-K.) Amended form of agreement used for 2009 plan year. (Incorporated by reference to Exhibit 10.22 to the Company's 2008 Annual Report on Form 10-K.) Amended form of agreement used for 2010 plan year.
*10.23	Key Employee Agreement. Form of agreement used with chief executive officer. (Incorporated by reference to Exhibit 10.24 to the Company's 2007 Annual Report on Form 10-K.)
*10.24	Key Employee Agreement. Form of agreement used with executive officers reporting to the chief executive officer. (Incorporated by reference to Exhibit 10.25 to the Company's 2007 Annual Report on Form 10-K.)
*10.25	Key Employee Agreement. Form of agreement used with executive officer reporting to an executive officer other than the chief executive officer. (Incorporated by reference to Exhibit 10.26 to the Company's 2007 Annual Report on Form 10-K.)
*10.26	Executive Group Long-Term Disability Policy as revised in 1995. (Incorporated by reference to Exhibit 10.23 to the Company's 2004 Annual Report on Form 10-K.) As enhanced by Supplemental Income Protection Plan in 2004. (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K.)
*10.27	Amendment to the 2003 through 2006 Nonstatutory Stock Option Agreements of one nonemployee director.
†11	Statement of Computation of Earnings per share.
†21	Subsidiaries of the Registrant.
†23	Independent Registered Public Accounting Firm's Consent.
†24	Power of Attorney.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a).
32	Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
†99	Cautionary Statement Regarding Forward-Looking Statements.

Except as otherwise noted, all documents incorporated by reference above relate to File No. 001-09249.

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* Management Contracts, Compensatory Plans or Arrangements.

† Previously filed with 2009 Annual Report on Form 10-K filed on February 16, 2010.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of the Company and its subsidiaries are not filed as exhibits because the amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries. The Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.

NONEMPLOYEE DIRECTOR
AMENDED AND RESTATED STOCK INCENTIVE PLAN (2006)

STOCK OPTION AGREEMENT
(NSO)

THIS AGREEMENT, made this__________ day of __________, 200___by and between Graco Inc., a Minnesota corporation (the "Company") and «NAME» (the "Nonemployee Director").

WITNESSETH THAT:

WHEREAS, the Company pursuant to the Graco Inc. Amended and Restated Stock Incentive Plan (2006) (the "Plan") wishes to grant this stock option to Nonemployee Director.

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties agree as follows:

1. Grant of Option

   The Company grants to Nonemployee Director the right and option (the "Option") to purchase all or any part of an aggregate of «Shares» shares of Common Stock of the Company, par value $1.00 per share, at the price of «Price» per share on the terms and conditions set forth herein. This is a nonstatutory stock Option which does not qualify for special tax treatment under Sections 421 or 422 of the Internal Revenue Code. The date of grant is ______________________ (the "Date of Grant")

2. Duration and Exercisability

   A. No portion of this Option may be exercised by Nonemployee Director until the first anniversary of the Date of Grant, and then only in accordance with the Vesting Schedule set forth below. In no event shall this Option or any portion of this Option be exercisable following the tenth anniversary of the Date of Grant.

   Vesting Schedule

Date	Portion of Option Exercisable
First Anniversary of Date of Grant	25%
Second Anniversary of Date of Grant	50%
Third Anniversary of Date of Grant	75%
Fourth Anniversary of Date of Grant	100%

   If Nonemployee Director does not purchase in any one year the full number of shares of Common Stock of the Company to which he/she is entitled under this Option, he/she may, subject to the terms and conditions of Section 3 hereof, purchase such shares of Common Stock in any subsequent year during the term of this Option. The Option shall expire as of the close of trading at the national securities exchange on which the Common Stock is traded ("Exchange") on the tenth anniversary of the Date of Grant, or if the Exchange is closed on the anniversary date, or the Common Stock of the Company is not trading on said anniversary date, such earlier business day on which the Common Stock is trading on the Exchange.

B. During the lifetime of Nonemployee Director, the Option shall be exercisable only by him/her and shall not be assignable or transferable by him/her otherwise than by will or the laws of descent and distribution.

C. Under no circumstances may the Option granted by this Agreement be exercised after the term of the Option expires.

3. Effect of Termination of Membership on the Board

A. In the event Nonemployee Director ceases being a director of the Company for any reason other than the reasons identified in Section 3B below, Nonemployee Director shall have the right to exercise the Option as follows:

(1) If Nonemployee Director was a member of the Board of Directors of the Company for five (5) or more years, the portion of the Option not yet exercisable shall become immediately exercisable upon the date Nonemployee Director ceases being a director. Nonemployee Director may exercise all or any portion of the Option not yet exercised for a period beginning on the day after the date of Nonemployee Director's ceasing to be a director and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant, provided that if Nonemployee Director dies during the period between the date of Nonemployee Director ceasing to be a director and the expiration of the Option, the executor(s) or administrator(s) of Nonemployee Director's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent may exercise the unexercised portion of the Option at any time during a period beginning the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the anniversary of death one (1) year later. In no event shall the Option be exercisable following the tenth anniversary of the Date of Grant.

(2) If Nonemployee Director was a member of the Board of Directors of the Company for less than five (5) years, Nonemployee Director may exercise that portion of the Option exercisable upon the date Nonemployee Director ceases being a director at any time within the period beginning on the day after Nonemployee Director ceases being a director and ending at the close of trading on the Exchange thirty (30) days later. If Nonemployee Director dies within the thirty (30) day period and shall not have fully exercised the Option, the executor(s) or administrator(s) of Nonemployee Director's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent, may exercise the remaining portion of the Option at any time during a period beginning on the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the anniversary of death one (1) year later.

(3) If Nonemployee Director dies while a member of the Board of Directors of the Company, the Option, to the extent exercisable by Nonemployee Director at the date of death, may be exercised by the executor(s) or administrator(s) of Nonemployee Director's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent, at any time during a period beginning on

the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the anniversary of death one (1) year later.

(4) In the event the Option is exercised by the executors, administrators, legatees, or distributees of the estate of a deceased Nonemployee Director, the Company shall be under no obligation to issue stock thereunder unless and until the Company is satisfied that the person(s) exercising the Option is the duly appointed legal representative of Nonemployee Director's estate or the proper legatee or distributee thereof.

B. If Nonemployee Director ceases being a director of the Company by reason of Nonemployee Director's gross and willful misconduct, including but not limited to, (i) fraud or intentional misrepresentation; (ii) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any affiliate of the Company; (iii) breach of fiduciary duty, or (iv) any other gross or willful misconduct, as determined by the Board, in its sole and conclusive discretion, the unexercised portion of the Option granted to such Nonemployee Director shall immediately be forfeited as of the time of the misconduct. If the Board determines subsequent to the time Nonemployee Director ceases being a director of the Company for whatever reason, that Nonemployee Director engaged in conduct while a member of the Board of Directors of the Company that would constitute gross and willful misconduct, the Option shall terminate as of the time of such misconduct. Furthermore, if the Option is exercised in whole or in part and the Board thereafter determines that Nonemployee Director engaged in gross and willful misconduct while a member of the Board of Directors of the Company at any time prior to the date of such exercise, the Option shall be deemed to have terminated as of the time of the misconduct and the Company may elect to rescind the Option exercise.

C. For purposes of this Section 3, if the last day of the relevant period is a day upon which the Exchange is not open for trading or the Common Stock is not trading on that day, the relevant period will expire at the close of trading on such earlier business day on which the Exchange is open and the Common Stock is trading.

4. Manner of Exercise

A. Nonemployee Director or other proper party may exercise the Option only by delivering within the term of the Option written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the Option is being exercised and, except as provided in Sections 4B(2) and 4C, accompanied by payment in full of one hundred percent (100%) of the Option price.

B. The Nonemployee Director may, at his/her election, pay the Option price as follows:

(1) by cash or check (bank check, certified check, or personal check),

(2) by delivery of shares of Common Stock to the Company, which shall have been owned for at least six (6) months and have a fair market value per share on the date of surrender equal to the exercise price.

For purposes of Section 4B(2), the fair market value of the Company's Common Stock shall be the closing price of the Common Stock on the Exchange on the day immediately preceding the date of exercise. If there is not a quotation available for such day, then the closing price on the next preceding day for which such a quotation exists shall be determinative of fair market value. If the shares are not then traded on an exchange, the fair market value shall be the average of the closing bid and asked prices of the Common Stock as reported by the National Association of Securities Dealers Automated Quotation System. If the Common Stock is not then traded on NASDAQ or on an exchange, then the fair market value shall be determined in such manner as the Company shall deem reasonable.

C. The Nonemployee Director may, with the consent of the Company, pay the Option price by delivery to the Company of a properly executed exercise notice, together with irrevocable instructions to a broker to promptly deliver to the Company from sale or loan proceeds the amount required to pay the exercise price.

5. Change of Control

A. Notwithstanding Section 2A hereof, the entire Option shall become immediately and fully exercisable upon a "Change of Control" and shall remain fully exercisable until either exercised or expiring by its terms. A "Change of Control" means:

(1) an acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "1934 Act")), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) which, together with other acquisitions by such Person, results in the aggregate beneficial ownership by such Person of 30% or more of either

(a) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or

(b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities");

provided, however, that the following acquisitions will not result in a Change of Control:

(i) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company,

(ii) an acquisition by the Employee or any group that includes the Employee, or

(iii) an acquisition by any entity pursuant to a transaction that complies with clauses (a), (b) and (c) of Section 5A(3) below; or

(2) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of said Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial membership on the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board; or

(3) Consummation of a reorganization, merger or consolidation of the Company with or into another entity or a statutory exchange of Outstanding Company Common Stock or Outstanding Company Voting Securities or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination"); excluding, however, such a Business Combination pursuant to which

(a) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, a majority of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or comparable equity interests), as the case may be, of the surviving or acquiring entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction beneficially owns 100% of the outstanding shares of common stock and the combined voting power of the then outstanding voting securities (or comparable equity securities) or all or substantially all of the Company's assets either directly or indirectly) in substantially the same proportions (as compared to the other holders of the Company's common stock and voting securities prior to the Business Combination) as their respective ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities,

(b) no Person (excluding (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or such entity resulting from such Business Combination or any entity controlled by the Company or the entity resulting from such Business Combination, (ii) any entity beneficially owning 100% of the outstanding shares of common stock and the combined voting power of the then outstanding voting securities (or comparable equity securities) or all or substantially all of the Company's assets either directly or indirectly and (iii) the Employee and any group that includes the Employee) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of common stock (or comparable equity interests) of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities (or comparable equity interests) of such entity, and

(c) immediately after the Business Combination, a majority of the members of the board of directors (or comparable governors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(4) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

6. Adjustments; Fundamental Change

A. If there shall be any change in the number or character of the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, dividend in the form of stock (of whatever amount), stock split or other change in the corporate structure of the Company, and all or any portion of the Option shall then be unexercised and not yet expired, appropriate adjustments in the outstanding Option shall be made by the Company, in order to prevent dilution or enlargement of Employee's Option rights. Such adjustments shall include, where appropriate, changes in the number of shares of Common Stock and the price per share subject to the outstanding Option.

B. In the event of a proposed (i) dissolution or liquidation of the Company, (ii) a sale of substantially all of the assets of the Company, (iii) a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or (iv) a statutory share exchange involving the capital stock of the Company (each, a "Fundamental Change"), the Management Organization and Compensation Committee of the Board (the "Committee") may, but shall not be obligated to:

(1) with respect to a Fundamental Change that involves a merger, consolidation or statutory share exchange, make appropriate provision for the protection of the Option by the substitution of options and appropriate voting common stock of the corporation surviving any such merger or consolidation or, if appropriate, the "parent corporation" (as defined in Section 424(e) of the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder, or any successor provision) of the Company or such surviving corporation, in lieu of the Option and shares of Common Stock of the Company, or

(2) with respect to any Fundamental Change, including, without limitation, a merger, consolidation or statutory share exchange, declare, prior to the occurrence of the Fundamental Change, and provide written notice to the holder of the Option of the declaration, that the Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Fundamental Change in exchange for payment to the holder of the Option, within 20 days after the Fundamental Change, of cash (or, if the Committee so elects in lieu of solely cash, of such form(s) of consideration, including cash and/or property, singly or in such combination as the Committee shall determine, that the holder of the Option would have received as a result of the Fundamental Change if the holder of the Option had exercised the Option immediately prior to the Fundamental Change) equal to, for each share of Common Stock covered by the canceled Option, the amount, if any, by which the Fair Market Value (as defined in this Section 6B) per share of Common Stock exceeds the exercise price per share of Common Stock covered by the Option. At the time of the declaration provided for in the immediately preceding sentence, the Option shall immediately become exercisable in full and the holder of the Option shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the shares of Common Stock covered thereby in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 6B, the Option, to the extent that it shall not have been exercised prior to the Fundamental Change, shall be canceled at the time of, or immediately prior to, the Fundamental Change, as provided in the declaration. Notwithstanding the foregoing, the holder of the Option shall not be entitled to the payment provided for in this Section 6B if such Option shall have expired or been forfeited. For purposes of this Section 6B only, "Fair Market Value" per share of Common Stock means the fair market value, as determined in good faith by the Committee, of the consideration to be received per share of Common Stock by the shareholders of the Company upon the occurrence of the Fundamental Change, notwithstanding anything to the contrary provided in this Agreement.

7. Miscellaneous

A. This Option is granted pursuant to the Plan and is subject to its terms. The terms of the Plan are available for inspection during business hours at the principal offices of the Company.

B. Neither the Plan nor any action taken hereunder shall be construed as giving Nonemployee Director any right to be retained in the service of the Company.

C. Neither Nonemployee Director, Nonemployee Director's legal representative, nor the executor(s) or administrator(s) of Nonemployee Director's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any shares of Common Stock receivable upon the exercise of this Option, in whole or in part, unless and until such shares shall have been issued upon exercise of this Option.

D. The Company shall at all times during the term of the Option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.

E. The internal law, and not the law of conflicts, of the State of Minnesota, U.S.A., shall govern all questions concerning the validity, construction and effect of this Agreement, the Plan and any rules and regulations relating to the Plan or this Option.

F. Nonemployee Director hereby consents to the transfer to his employer or the Company of information relating to his/her participation in the Plan, including the personal data set forth in this Agreement, between them or to other related parties in the United States or elsewhere, or to any financial institution or other third party engaged by the Company, but solely for the purpose of administering the Plan and this Option. Nonemployee Director also consents to the storage and processing of such data by such persons for this purpose.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the day and year first above written.

GRACO INC.

By ______________________________.

Its Vice President, General Counsel
and Secretary

NONEMPLOYEE DIRECTOR

______________________________.

«NAME»

Exhibit 10.22

GRACO INC.

**NONEMPLOYEE DIRECTOR RETAINER/MEETING FEES
CASH/STOCK/DEFERRED STOCK**

ELECTION/CHANGE IN ELECTION FORM

SUBMIT TO: Secretary to the Board, Legal Department, Graco Inc., P.O. Box 1441, Mpls, MN. 55440-1441

NAME: ______________________________

Stock may be registered in director's name and name of one other person. Print name(s) exactly as you wish them to appear in stock register.

EFFECTIVE DATE: This Form must be completed and delivered to the Secretary to the Board before the beginning of the tax year in which the services are to be performed. Your election will remain in effect for, and may not be changed during, the entire tax year. A director is encouraged to complete a new Election Form each year as some of the content may have been amended from that contained in prior election forms. However, if a Change in Election Form is not received prior to the beginning of any tax year, the election currently in effect will remain in effect for the next tax year. An individual who becomes a nonemployee director during a tax year may participate in this Program only if the individual has not previously been eligible to participate in any deferred compensation plan required to be aggregated with this Program pursuant to regulations issued under Section 409A of the Internal Revenue Code. If eligible, the individual must complete and deliver his Initial Election Form to the Secretary no later than 30 days after the date that the individual first becomes a nonemployee director and the election will be applicable only to services performed after receipt of the Form by the Secretary.

Check One:

☐ **Initial Election**. Allocate my annual retainer and meeting fees according to the percentages indicated below.

☐ **Change in Election.** I elect to change my election for the taxable year following the current taxable year and all taxable years subsequent thereto, unless I submit a Change in Election Form prior to the commencement of the applicable taxable year. Allocate my annual retainer and meeting fees according to the percentages indicated below.

Fill in Blanks:

Retainer: [Select one: 0%, 25%, 50%, 75%, 100%]	
Percentage of Retainer paid in cash:	%
Percentage of Retainer paid in Graco stock:	%
Percentage of Retainer credited to Deferred Stock Account:	%
TOTAL**	%

Meeting Fees (Board and Committee): [Select one: 0%, 25%, 50%, 75%, 100%]	
Percentage of Meeting Fees paid in cash:	%
Percentage of Meeting Fees paid in Graco stock:	%
Percentage of Meeting Fees credited to Deferred Stock Account:	%
TOTAL**	%

** *Total cannot exceed 100%*

PAYMENT ELECTION:

If you have made a Deferred Stock Account Election, select one of the payment options below. NOTE: If you are changing your payment election from a payment election previously made, the new payment election will apply only to deferrals made with respect to services performed in tax years subsequent to the current tax year. Previous payment elections are irrevocable with respect to services performed in the tax years to which they apply.

I elect to receive payment from my Deferred Stock Account by the method checked below.

☐ **Lump sum.** Credits to a Deferred Stock Account will be paid in full by the issuance of shares of Graco Common Stock plus cash in lieu of any fractional share on January 10, or the first business day after January 10, of the year following my separation from service, as defined by regulations and rulings issued under Section 409A of the Internal Revenue Code, as amended (the "IRC"), or such other date as elected by me. Alternative date: ____________________.(month/date/year)

☐ **Installments.** Number of installments elected (from 2 to 15): ____________________. Credits to a Deferred Stock Account will be paid in annual installments by the issuance of shares of Graco Common Stock, plus cash in lieu of any fractional share, on January 10, or the first business day after January 10, of each year following my separation from service on the Board as defined by regulations and rulings issued under Section 409A of the IRC,. The number of annual installments may range from 2 to 15. The amount of each payment will be computed by multiplying the number of shares credited to my Deferred Stock Account as of January 10 of each year by a fraction, the numerator of which is one and the denominator of which is the total number of installments elected (not to exceed fifteen) minus the number of installments previously paid. Amounts paid prior to the final installment payment will be rounded to the nearest whole number of shares. The final installment payment will be for the whole number of shares remaining credited to my Deferred Stock Account, plus cash in lieu of any fractional share.

BENEFICIARY

In order to permit the payment of your Deferred Stock Account to a beneficiary in the event of your death prior to the complete payout of your Deferred Stock Account, provide the information indicated below:

Primary Beneficiary(ies)*

Name
Address

____

Name
Address

____

* Your Primary Beneficiaries will share equally unless any beneficiary dies before you or unless you specify otherwise above.

Secondary Beneficiary(ies)*
(If no primary beneficiary survives you)
Name
Address

____

Name
Address

____

* Your Secondary Beneficiaries will share equally unless any beneficiary dies before you or unless you specify otherwise above.

I have made the elections indicated above and on the reverse side and have received and read the Terms applicable to this Stock/Deferred Stock Program which are set forth in the document attached hereto entitled Graco Inc. Nonemployee Director Stock and Deferred Stock Program Terms and hereby agree to such Terms.

______________________________ ______________________________
Date Signature

GRACO INC.
NONEMPLOYEE DIRECTOR
STOCK AND DEFERRED STOCK PROGRAM

TERMS

1. Purpose of the Stock and Deferred Stock Program. The purpose of the Graco Inc. Nonemployee Director Stock and Deferred Stock Program (the "Program") is to provide an opportunity for nonemployee members of the Board of Directors (the "Board") of Graco Inc. ("Graco" or the "Company") to increase their ownership of Graco Common Stock ("Common Stock") and thereby align their interest in the long-term success of the Company with that of the other shareholders. Each nonemployee director may elect to receive all or a portion of his or her retainer and/or any fees payable for attendance at Board or Committee meetings in the form of shares of Common Stock or defer the receipt of such shares until a later date pursuant to an election made under the Program.

2. Eligibility. Directors of the Company who are not also officers or other employees of the Company or its subsidiaries are eligible to participate in the Program ("Eligible Directors").

3. Administration. The Program will be administered by the Secretary of the Company (the "Administrator"). Since the issuance or crediting of shares of Common Stock pursuant to the Program is based on elections made by Eligible Directors, the Administrator's duties under the Program will be limited to matters of interpretation and administrative oversight. All questions of interpretation of the Program will be determined by the Administrator, and each determination, interpretation or other action that the Administrator makes or takes pursuant to the provisions of the Program will be conclusive and binding for all purposes and on all persons. The Administrator will not be liable for any action or determination made in good faith with respect to the Program.

4. Election to Receive Stock and Stock Issuance.

4.1. Election to Receive Stock/Credit in Lieu of Cash. On forms provided by the Company, each Eligible Director may irrevocably elect ("Stock Election") in lieu of cash, (i) to be issued shares of Common Stock or (ii) to have credited to an account ("Deferred Stock Account") the number of shares of Common Stock having a Fair Market Value, as defined in Section 4.3, equal to 25%, 50%, 75% or 100% of the annual cash retainer (the "Retainer") and/or 25%, 50%, 75% or 100% of any fees payable for attendance at Board or Committee meetings (the "Meeting Fees") payable to that director for services rendered as a director ("Participating Director"). Eligible Directors are customarily paid the Retainer and the Meeting Fees in quarterly installments in arrears at the end of each calendar quarter. Any Stock Election must be received by the Company before the commencement of the first full taxable year with respect to which such election is made. Any Stock Election may only be amended or revoked ("Amended Stock Election") in accordance with the procedure set forth in Section 4.4.

4.1.1. Initial Election. An individual who first becomes an Eligible Director during a taxable year may make a Stock Election by delivering an election form to the Secretary of the Company within thirty (30) calendar days of the date that the individual first becomes an Eligible Director, provided that the individual has not previously been eligible to participate in any deferred compensation plan required to be aggregated with this Program pursuant to regulations issued under Section 409A of the Internal Revenue Code. In the event that an individual is permitted to become a Participating Director under this subsection, the Stock Election will be applicable only to services performed after the election form is received by the Secretary.

4.2. Issuance of Stock/Application of Credit in Lieu of Cash. If the Stock Election is for the issuance of shares of Common Stock, shares of Common Stock having a Fair Market Value equal to the amount of the Retainer and/or Meeting Fees so elected shall be issued to each Participating Director when each quarterly installment of the Retainer and the Meeting Fees is customarily paid. The Company shall not issue fractional shares, but in lieu thereof shall pay cash of equivalent value using the same Fair Market Value used to determine the number of Shares to be issued on the relevant issue date. If the Stock Election is for a credit to a Deferred Stock Account, the number of shares of Common Stock (rounded to the nearest hundredth of a share) having a Fair Market Value equal to the amount of the Retainer and/or the Meeting Fees so elected shall be credited to the Participating Director's Deferred Stock Account when each quarterly installment of the Retainer and Meeting Fees is customarily paid. In the event that a Participating Director elects to receive less than 100% of each quarterly installment of the Retainer and/or Meeting Fees in shares of Common Stock, either issued or credited, he or she shall receive the balance of the quarterly installment in cash.

4.3. Fair Market Value. For purposes of converting dollar amounts into shares of Common Stock, the Fair Market Value of each share of Common Stock shall be equal to the closing price of one share of the Company's Common Stock on the New York Stock Exchange-Composite Transactions on the last business day of the calendar quarter for which such shares are issued or credited.

4.4. Change in Election. Each Participating Director may irrevocably elect in writing to change an earlier Stock Election, either to elect to be issued shares of Common Stock or to have credited to the Participating Director's Deferred Stock Account, a number of shares of Common Stock having a Fair

Market Value equal to a percentage of the Participating Director's Retainer and/or Meeting Fees different from the percentages previously elected or to receive the entire Retainer and/or Meeting Fees in cash (an "Amended Stock Election"). An Amended Stock Election shall not become effective until the commencement of the first full taxable year after the date of receipt of such Amended Stock Election by the Company and shall only apply prospectively.

4.5. Termination of Service as a Director. If a Participating Director leaves the Board before the conclusion of any calendar quarter and has elected to be issued shares of Common Stock, he or she will be paid the quarterly installment of the Retainer and Meeting Fees, not in shares of Common Stock, but entirely in cash, notwithstanding that a Stock Election or Amended Stock Election is on file with the Company. The date of termination of a Participating Director's service as a director of the Company will be deemed to be the date of termination recorded on the personnel or other records of the Company.

4.6. Dividend Credit. Each time a dividend is paid on the Common Stock, each Participating Director who has a Deferred Stock Account shall receive a credit to his or her Deferred Stock Account equal to that number of shares of Common Stock (rounded to the nearest one-hundredth of a share) having a Fair Market Value on the dividend payment date equal to the amount of the dividend payable on the number of shares of Common Stock credited to the Participating Director's Deferred Stock Account on the dividend record date.

5. Payment of Deferred Stock Account. Subject to the regulations and rulings issued under Section 409A of the Internal Revenue Code, as amended (the "IRC"), the following rules apply.

5.1. Payment Election. At the time of making the Stock Election in which the Participating Director elects to have a Deferred Stock Account credited in accordance with the provisions of Section 4.1, the Participating Director will also elect the manner and timing for payment of the amounts credited to his or her Deferred Stock Account ("Payment Election") from the alternatives described in Section 5.2. The Participating Director may change the manner and timing for payment of amounts to be credited to his or her Deferred Stock Account by executing another Payment Election; provided, however, that the previously made Payment Election will be irrevocable as to all amounts credited to the Participating Director's Deferred Stock Account prior to the effective date of the new Payment Election. A new Payment Election shall not become effective until the commencement of the first full taxable year after the date of receipt of such new Payment Election by the Company.

5.2. Payment from Deferred Stock Accounts. A Participating Director may elect to receive payment from his or her Deferred Stock Account in a lump sum or installments. Payments, whether in a lump sum or by installments, shall be made in shares of Common Stock plus cash in lieu of any fractional share.

Unless the Participating Director elects to receive payment in installments, credits to a Participating Director's Deferred Stock Account shall be payable in full on January 10 of the year following the Participating Director's termination from service as defined in regulations and rulings issued under Section 409A of the IRC, the first business day after January 10, or such other date as elected by the Participating Director pursuant to Section 5.1. If the Participating Director elects to receive payment from his or her Deferred Stock Account in installments, each installment payment will be made annually on January 10 of each year, or the first business day after January 10, and the amount of each payment will be computed by multiplying the number of shares credited to the Deferred Stock Account as of January 10 of each year by a fraction, the numerator of which is one and the denominator of which is the total number of installments elected (not to exceed fifteen) minus the number of installments previously paid. Amounts paid prior to the final installment payment will be rounded to the nearest whole number of shares; the final installment payment shall be for the whole number of shares remaining credited to the Deferred Stock Account, plus cash in lieu of any fractional share.

5.3 Six-Month Delay in Commencement of Payment. If a Participating Director as of the date of payment is a "specified employee" as defined by the regulations issued under Section 409A, the payment (if lump sum) or the initial payment (if installments) to the Participating Director from his or her Deferred Stock Account shall be delayed until six (6) months following the date upon which the payment would have otherwise been made pursuant to Section 5.2 of these Terms.

6. Beneficiary.

6.1. Beneficiary Designation. A Participating Director may designate a beneficiary or beneficiaries who, upon his or her death, shall immediately receive the full payment of all unpaid credits to said Participating Director's Deferred Stock Account, including payments for which the Participating Director has elected installment payments. All designations shall be in writing and shall be effective only if and when delivered to the Company during the lifetime of the Participating Director. Unless otherwise indicated by the Participating Director, no amounts shall be paid to the estate or heirs of beneficiaries who die before the Participating Director.

6.1.1. Rules. Unless a Participating Director has otherwise specified in his Beneficiary designation, the following rules shall apply:

(a) If there is insufficient evidence that a Beneficiary was living at the time of the death of the Participating Director, the Beneficiary shall be deemed to be not living at the time of the Participating Director's death.

(b) The Beneficiaries designated by the Participating Director shall become fixed at the time of the Participating Director's death so that, if a Beneficiary survives the Participating Director but dies before the receipt of payment due such Beneficiary hereunder, such payment shall be made to the representatives of such Beneficiary's estate.

(c) If the Participating Director designates as a Beneficiary the person who is the Participating Director's spouse on the date of the designation, either by name or relationship, or both, the dissolution, annulment or other legal termination of the marriage between the Participating Director and such person shall automatically revoke such designation. The foregoing shall not prevent the Participating Director from designating a former spouse as a Beneficiary on a form signed by the Participating Director and received by the Secretary of the Company after the date of the legal termination of the marriage between the Participating Director and such former spouse, and during the Participating Director's lifetime. Notwithstanding the foregoing, if the Participating Director has elected to have the Stock registered in the name of the Participating Director and another person, and the Participating Director has commenced receiving payment under the Program, the joint owner of the Stock may not be changed.

(d) Any designation of a Beneficiary by name accompanied by a description of the relationship of the Beneficiary to the Participating Director shall be given effect without regard to whether the relationship to the Participating Director exists either then or at the time of the Participating Director's death.

(e) Any designation of a Beneficiary only by statement of the Beneficiary's relationship to the Participating Director shall be effective only to designate the person or persons standing in that relationship to the Participating Director at the time of the Participating Director's death.

6.2. Change of Beneficiary. A Participating Director may from time to time during his or her lifetime change his or her beneficiary or beneficiaries by a written instrument delivered to the Company. In the event a Participating Director shall not designate a beneficiary or beneficiaries pursuant to this Section, or if for any reason such designation shall be ineffective, in whole or in part, the distribution that otherwise would have been paid to such Participating Director shall be paid to his or her estate and in such event, the term "beneficiary" shall include his or her estate.

7. Limitation on Rights of Eligible and Participating Directors.

7.1. Service as a Director. Nothing in the Program will interfere with or limit in any way the right of the Company's Board or its shareholders to remove an Eligible or Participating Director from the Board. Neither the Program nor any action taken pursuant to it will constitute or be evidence of any agreement or understanding, express or implied, that the Company's Board or its shareholders have retained or will retain an Eligible or Participating Director for any period of time or at any particular rate of compensation.

7.2. Nonexclusivity of the Program. Nothing contained in the Program is intended to effect, modify or rescind any of the Company's existing compensation programs or programs or to create any limitations on the Board's power or authority to modify or adopt compensation arrangements as the Board may from time to time deem necessary or desirable.

8. Program Amendment, Modification and Termination. The Board may suspend or terminate the Program at any time. The Board may amend the Program from time to time in such respects as the Board may deem advisable in order that the Program will conform to any change in applicable laws or regulations or in any other respect that the Board may deem to be in the Company's best interests.

9. Participants are General Creditors of the Company. The Participating Directors and beneficiaries thereof shall be general, unsecured creditors of the Company with respect to any payments to be made pursuant to the Program and shall not have any preferred interest by way of trust, escrow, lien or otherwise in any specific assets of the Company. If the Company shall, in fact, elect to set aside monies or other assets to meet its obligations hereunder (there being no obligation to do so), whether in a grantor's trust or otherwise, the same shall, nevertheless, be regarded as part of the general assets of the Company subject to the claims of its general creditors, and neither any Participating Director nor any beneficiary thereof shall have a legal, beneficial or security interest therein.

10. Miscellaneous.

10.1. Securities Law and Other Restrictions. Notwithstanding any other provision of the Program or any Stock Election or Amended Stock Election delivered pursuant to the Program, the Company will not be required to issue any shares of Common Stock under the Program and a Participating Director may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to the Program, unless:

(a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and

(b) there has been obtained any other consent, approval or permit from any other regulatory body that the Administrator, in his or her sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company, in order to comply with such securities law or other restriction.

10.2. Adjustment to Shares. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend, an appropriate adjustment shall be made in the number and/or kind of securities available for issuance under the Plan to prevent the dilution or the enlargement of the rights of the Eligible and Participating Directors.

11. Governing Law. The validity, construction, interpretation, administration and effect of the Program and any rules, regulations and actions relating to the Program will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, to the extent that federal laws and regulations do not apply.

12. Compliance with Section 409A. The plan is maintained as a nonqualified deferred compensation arrangement under section 409A of the Internal Revenue Code. Each provision should be interpreted and administered accordingly.

Exhibit 10.27

AMENDMENT TO
NONEMPLOYEE DIRECTOR
NONSTATUTORY STOCK OPTION AGREEMENTS
2003 THROUGH 2006

AMENDMENT made this 4th day of December 2009, ("Amendment") to Nonemployee Director Nonstatutory Stock Option Agreements between GRACO INC., a Minnesota corporation (the "Company") and Mark H. Rauenhorst (the "Nonemployee Director") made in the years 2003 through 2006.

WHEREAS, Nonemployee Director has resigned from the Board of Directors effective December 4, 2009;

WHEREAS, the Nonemployee Director Nonstatutory Stock Option Agreements made with the Nonemployee Director in the years 2003 through 2006 ("Stock Option Agreements 2003-2006") limited the exercise period for directors leaving the Board to three (3) years from the date that the Nonemployee Director ceased to be a director but in no event beyond the term;

WHEREAS, the Nonemployee Director Nonstatutory Stock Option Agreements made with the Nonemployee Director in the years 2007 through 2009 extended the exercise period for directors leaving the Board to the expiration of the term of the Option;

WHEREAS, the Board of Directors of the Company at its meeting on December 4, 2009 resolved that Subsection 3a(1) of the Stock Option Agreements (2003-2006) be amended to extend the period during which the Nonemployee Director may exercise the applicable options to the expiration of the term of the applicable option.

NOW, THEREFORE, the Board amends the following agreements:

Nonemployee Director Nonstatutory Stock Option Agreement made on May 6, 2003 between Graco Inc. and Mark H. Rauenhorst

Nonemployee Director Nonstatutory Stock Option Agreement made on April 23, 2004 between Graco Inc. and Mark H. Rauenhorst

Nonemployee Director Nonstatutory Stock Option Agreement made on April 22, 2005 between Graco Inc. and Mark H. Rauenhorst

Nonemployee Director Nonstatutory Stock Option Agreement made on April 21, 2006 between Graco Inc. and Mark H. Rauenhorst by replacing the second sentence of Subsection 3a(1) in these agreements in its entirety with the following:

> Nonemployee Director may exercise all or any portion of the Option not yet exercised for a period beginning on the day after the date of Nonemployee Director's ceasing to be a director and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant, provided that if Nonemployee Director dies during the period between the date of Nonemployee Director ceasing to be a director and the expiration of the Option, the executor(s) or administrator(s) of Nonemployee Director's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent may exercise the unexercised portion of the Option at any time during a period beginning the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the anniversary of death one (1) year later. In no event shall the Option be exercisable following the tenth anniversary of the Date of Grant.

FOR THE BOARD

/s/ Lee R. Mitau
Lee R. Mitau
Chairman

Exhibit 31.1

Certification

I, Patrick J. McHale, certify that:

1. I have reviewed this Form 10-K/A of Graco Inc.; and
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: February 17, 2010

/s/ Patrick J. Mchale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

Certification

I, James A. Graner, certify that:

1. I have reviewed this Form 10-K/A of Graco Inc.; and
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: February 17, 2010	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer

Exhibit 32

Certification Under Section 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: February 17, 2010	/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer
Date: February 17, 2010	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer

Exhibit III

Current reports on Form 8-K dated December 2, 2010, April 23, 2010, February 12, 2010 and January 25, 2010

GRACO INC (GGG)

8-K

Current report filing
Filed on 01/26/2010
Filed Period 01/25/2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 25, 2010

Graco Inc.
(Exact name of registrant as specified in charter)

Minnesota	**001-09249**	**41-0285640**
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

88 – 11th Avenue Northeast Minneapolis, Minnesota	**55413**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (612) 623-6000

Not Applicable

(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On January 25, 2010, Graco Inc. issued a press release to report the Company's results of operations and financial condition for the year ended December 25, 2009. A copy of this press release is furnished as Exhibit 99.1 hereto and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 Press Release dated January 25, 2010.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRACO INC.

Date: January 26, 2010 By: /s/ Karen Park Gallivan

Karen Park Gallivan
Its: Vice President, General Counsel and Secretary

Exhibit 99.1

GRACO INC.
P.O. Box 1441
Minneapolis, MN
55440-1441
NYSE: GGG

News Release

FOR IMMEDIATE RELEASE:
Monday, January 25, 2010

FOR FURTHER INFORMATION:
James A. Graner (612) 623-6635

GRACO REPORTS FOURTH QUARTER AND ANNUAL SALES AND EARNINGS

MINNEAPOLIS, MN (January 25, 2010) — Graco Inc. **(NYSE: GGG)** today announced results for the quarter and year ended December 25, 2009.

Summary
$ in millions except per share amounts

	Quarter Ended			Year Ended		
	Dec 25, 2009	Dec 26, 2008	% Change	Dec 25, 2009	Dec 26, 2008	% Change
Net Sales	$ 146.3	$ 166.7	(12)%	$ 579.2	$ 817.3	(29)%
Net Earnings	17.2	10.1	71%	49.0	120.9	(59)%
Diluted Net Earnings per Common Share	$ 0.28	$ 0.17	65%	$ 0.81	$ 1.99	(59)%

- Cash flow from operations totaled $147 million in 2009, including $36 million in the fourth quarter.
- Net earnings for the quarter were 12 percent of sales.
- Sales for the fourth quarter are steady compared to the preceding two quarters.
- Gross margin rate of 53 percent for the quarter is 4 percentage points higher than last year's fourth quarter rate.
- Lower operating expenses in 2009 reflect the results of lower volume and cost reduction actions taken in the fourth quarter of 2008 and the first quarter of 2009.
- Currency translation had a favorable effect on fourth quarter sales ($5 million) and net earnings ($3 million), but had an unfavorable effect on full-year sales ($10 million) and net earnings ($4 million).

"While we are not satisfied with our 2009 results, we are encouraged by higher order activity in the fourth quarter in Asia Pacific," said Patrick J. McHale, President and Chief Executive Officer. "We began a limited recall of factory employees, and cash flow remains strong. Our focus on managing working capital reduced inventories and receivables by a total of $60 million since the end of last year. We also reduced debt by $100 million (50 percent) and made a voluntary $15 million tax-deductible contribution to our defined benefit pension plan. We intend to continue making targeted investments in our strategic growth initiatives while managing capital."

Consolidated Results

Sales were down 12 percent for the quarter and 29 percent for the year. For the quarter, sales decreased 20 percent in the Americas and 14 percent in Europe (21 percent at consistent translation rates). Sales for the quarter increased 15 percent in Asia Pacific (10 percent at consistent translation rates). Sales for the year decreased 28 percent in the Americas, 39 percent in Europe (35 percent at consistent translation rates) and 17 percent in Asia Pacific.

Gross profit margin, expressed as a percentage of sales, was 53 percent for the quarter, up from 49 percent for the fourth quarter last year. Approximately half of the increase was from favorable effects of currency translation. Costs related to workforce reductions lowered the 2008 fourth quarter gross margin rate, accounting for

More . . .

approximately 1 percentage point of the increase in 2009. For the year, gross profit margin rate was 51 percent in 2009, down from 53 percent last year. The decrease was primarily due to lower production volumes (approximately 4 percentage points) and increased pension cost (approximately 1 percentage point). Decreases were partially offset by the effects of favorable material costs and pricing.

Total operating expenses for the quarter and year were down 19 percent and 11 percent, respectively. For both the quarter and year, the effects of spending reductions (including lower workforce reduction expenses) and lower volume-related expenses were partially offset by higher pension expenses. The effects of currency translation increased expenses for the quarter by approximately $1 million and decreased expenses for the year by approximately $3 million.

The effective income tax rate for the fourth quarter was 24 percent in 2009 and 21 percent in 2008. A higher-than-expected benefit upon filing of prior year tax returns contributed to a lower rate in the fourth quarter of 2009. The effective rate for the fourth quarter of 2008 was low because the federal R&D tax credit was not renewed until the fourth quarter and no credit was included in the first three quarters of 2008. The effective rate for the year was 29 percent in 2009 and 32 percent in 2008. The effect of federal business credits and the domestic production deduction was greater in 2009 as a percentage of pre-tax earnings as compared to the prior year.

Segment Results

Certain measurements of segment operations are summarized below:

	Quarter Ended			Year Ended		
	Industrial	**Contractor**	**Lubrication**	**Industrial**	**Contractor**	**Lubrication**
Net sales (in millions)	$ 86.1	$ 45.3	$ 14.9	$ 312.9	$ 208.5	$ 57.7
Net sales percentage change from last year	(12)%	(11)%	(17)%	(32)%	(22)%	(34)%
Operating earnings as a percentage of net sales						
2009	27%	10%	3%	22%	14%	(5)%
2008	21%	(5)%	1%	30%	18%	14%

All segments had decreases in sales compared to last year for both the quarter and year. Improved fourth quarter operating earnings of all segments reflect the lower cost structure resulting from workforce and other spending reduction actions taken in the fourth quarter of 2008 and the first quarter of 2009. Contractor operating results for the fourth quarter of 2008 were affected by sales, costs and expenses related to the rollout of entry-level paint sprayers to additional paint and home center stores. For the year, operating earnings of all segments reflect the impacts of low volume and higher pension cost. Mix of product sold and costs related to discontinued products further contributed to lower margin rates in the Lubrication segment.

Outlook

"During the recession, we continued to fully fund our key growth initiatives," said Patrick J. McHale, President and Chief Executive Officer. "Our product offering, global distribution channel, competitive position and served market segments are broader and stronger than ever. We believe many of our key end markets will improve as we move through 2010, and as our revenue returns, we expect to deliver impressive incremental margins."

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Cautionary Statement Regarding Forward-Looking Statements

A forward-looking statement is any statement made in this earnings release and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press releases, analyst briefings, conference calls and the Company's Annual Report to shareholders, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time it is made. All forecasts and projections are forward-looking statements. The Company undertakes no obligation to update these statements in light of new information or future events.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2008 (and most recent Form 10-Q, if applicable) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at www.sec.gov.

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Tuesday, January 26, 2010, at 11:00 a.m. ET, to discuss Graco's fourth quarter and year-end results.

A real-time Webcast of the conference call will be broadcast live over the Internet. Individuals wanting to listen and view slides can access the call at the Company's website at www.graco.com. Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2:00 p.m. ET on January 26, 2010, by dialing 800.406.7325, Conference ID #4200188, if calling within the U.S. or Canada. The dial-in number for international participants is 303.590.3030, with the same Conference ID #. The replay by telephone will be available through January 31, 2010.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

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GRACO INC. AND SUBSIDIARIES
Consolidated Statement of Earnings (Unaudited)

	Quarter Ended		Year Ended	
	Dec 25, 2009	Dec 26, 2008	Dec 25, 2009	Dec 26, 2008
Net Sales	$ 146,312	$ 166,689	$ 579,212	$ 817,270
Cost of products sold	68,973	85,288	286,396	385,093
Gross Profit	77,339	81,401	292,816	432,177
Product development	8,954	9,953	37,538	36,558
Selling, marketing and distribution	28,736	36,582	115,550	138,665
General and administrative	15,944	19,447	65,261	69,589
Operating Earnings	23,705	15,419	74,467	187,365
Interest expense	1,119	2,190	4,854	7,633
Other expense, net	57	547	946	1,153
Earnings Before Income Taxes	22,529	12,682	68,667	178,579
Income taxes	5,300	2,600	19,700	57,700
Net Earnings	$ 17,229	$ 10,082	$ 48,967	$ 120,879
Net Earnings per Common Share				
Basic	$ 0.29	$ 0.17	$ 0.82	$ 2.01
Diluted	$ 0.28	$ 0.17	$ 0.81	$ 1.99
Weighted Average Number of Shares				
Basic	59,980	59,493	59,865	60,264
Diluted	60,518	59,837	60,229	60,835

Segment Information (Unaudited)

	Quarter Ended		Year Ended	
	Dec 25, 2009	Dec 26, 2008	Dec 25, 2009	Dec 26, 2008
Net Sales				
Industrial	86,127	$ 97,913	$ 312,935	$ 462,941
Contractor	45,331	50,780	208,544	266,772
Lubrication	14,854	17,996	57,733	87,557
Total	$ 146,312	$ 166,689	$ 579,212	$ 817,270
Operating Earnings				
Industrial	$ 23,048	$ 20,393	$ 68,310	$ 138,240
Contractor	4,532	(2,507)	28,952	47,156
Lubrication	441	142	(2,907)	12,475
Unallocated corporate (expense)	(4,316)	(2,609)	(19,888)	(10,506)
Total	$ 23,705	$ 15,419	$ 74,467	$ 187,365

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GRACO INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited) (In thousands)

	Dec 25, 2009	Dec 26, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,412	$ 12,119
Accounts receivable, less allowances of $6,500 and $6,600	100,824	127,505
Inventories	58,658	91,604
Deferred income taxes	20,380	23,007
Other current assets	3,719	6,360
Total current assets	188,993	260,595
Property, Plant and Equipment		
Cost	334,440	326,729
Accumulated depreciation	(195,387)	(176,975)
Property, plant and equipment, net	139,053	149,754
Goodwill	91,740	91,740
Other Intangible Assets, net	40,170	52,231
Deferred Income Taxes	8,372	18,919
Other Assets	8,106	6,611
Total Assets	$ 476,434	$ 579,850
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 12,028	$ 18,311
Trade accounts payable	17,983	18,834
Salaries and incentives	14,428	17,179
Dividends payable	12,003	11,312
Other current liabilities	47,373	55,524
Total current liabilities	103,815	121,160
Long-term debt	86,260	180,000
Retirement Benefits and Deferred Compensation	73,705	108,656
Uncertain Tax Positions	3,000	2,400
Shareholders' Equity		
Common stock	59,999	59,516
Additional paid-in-capital	190,261	174,161
Retained earnings	11,121	8,445
Accumulated other comprehensive income (loss)	(51,727)	(74,488)
Total shareholders' equity	209,654	167,634
Total Liabilities and Shareholders' Equity	$ 476,434	$ 579,850

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GRACO INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited) (In thousands)

	Years Ended Dec 25, 2009	Years Ended Dec 26, 2008
Cash Flows From Operating Activities		
Net Earnings	$ 48,967	$ 120,879
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	35,140	35,495
Deferred income taxes	(69)	(160)
Share-based compensation	9,369	9,051
Excess tax benefit related to share-based payment arrangements	(375)	(2,873)
Change in:		
Accounts receivable	28,420	14,965
Inventories	32,663	(9,937)
Trade accounts payable	(701)	(6,806)
Salaries, wages and commissions	(2,893)	(3,169)
Retirement benefits and deferred compensation	(848)	(2,672)
Other accrued liabilities	(2,838)	5,658
Other	(303)	2,047
Net cash provided by operating activities	146,532	162,478
Cash Flows From Investing Activities		
Property, plant and equipment additions	(11,463)	(29,102)
Proceeds from sale of property, plant and equipment	770	1,768
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(602)	(1,327)
Acquisition of businesses, net of cash acquired	—	(55,186)
Net cash used in investing activities	(12,794)	(85,346)
Cash Flows From Financing Activities:		
Net borrowings (payments) on short-term lines of credit	(6,385)	(1,329)
Borrowings on long-term line of credit	77,996	242,849
Payments on long-term line of credit	(171,736)	(169,909)
Excess tax benefit related to share-based payment arrangements	375	2,873
Common stock issued	6,570	13,701
Common stock retired	(188)	(114,836)
Cash dividends paid	(45,444)	(44,702)
Net cash provided by (used in) financing activities	(138,812)	(71,353)
Effect of exchange rate changes on cash	(1,633)	1,418
Net increase (decrease) in cash and cash equivalents	(6,707)	7,197
Cash and cash equivalents:		
Beginning of year	12,119	4,922
End of year	$ 5,412	$ 12,119

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GRACO INC (GGG)

8-K
Current report filing
Filed on 02/16/2010
Filed Period 02/12/2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

February 12, 2010

Date of report (date of earliest event reported)

Graco Inc.

(Exact name of registrant as specified in its charter)

Minnesota	001-09249	41-0285640
(State of Incorporation)	(Commission file number)	(I.R.S. Employer Identification No.)

88-11th Avenue Northeast Minneapolis, Minnesota	55413
(Address of principal executive offices)	(Zip Code)

Telephone Number: (612) 623-6000

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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SIGNATURE
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Item 1.01 Entry Into a Material Definitive Agreement.

On February 12, 2010, the Board of Directors of Graco Inc. (the "Company") declared a dividend of one preferred share purchase right (a "Right") for each outstanding Common Share of the par value of $1.00 per share (the "Common Shares") of the Company. The dividend is payable on March 29, 2010 (the "Record Date") to shareholders of record as of the close of business on that date.

Each Right entitles the registered holder to purchase from the Company one one-thousandth of a Series A Junior Participating Preferred Share of the par value of $1.00 per share (the "Preferred Shares") of the Company at a price of $150 per one one-thousandth of a Preferred Share (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement"), dated as of February 12, 2010, between the Company and Wells Fargo Bank, N.A., as Rights Agent.

Initially, the Rights will attach to all certificates representing Common Shares then outstanding and no separate certificates evidencing the Rights (the "Right Certificates") will be distributed. The Rights will separate from the Common Shares and a Distribution Date for the Rights will occur upon the close of business on the fifteenth day following a public announcement that a person or group of affiliated or associated persons has become an "Acquiring Person" (i.e., has become, subject to certain exceptions, the beneficial owner of 15% or more of the outstanding Common Shares) (such a date being the "Distribution Date").

Until the Distribution Date,

(i) the Rights will be evidenced by the Common Share certificates and will be transferred with and only with the Common Shares,

(ii) new Common Share certificates issued after the Record Date upon transfer or new issuance of the Common Shares will contain a notation incorporating the Rights Agreement by reference, and

(iii) the surrender for transfer of any Common Share certificate, even without such notation or a copy of the Summary of Rights attached thereto, will also constitute the transfer of the Rights associated with the Common Shares represented by such certificate.

As promptly as practicable following the Distribution Date, Right Certificates will be mailed to holders of record of the Common Shares as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on March 29, 2020, unless extended or earlier redeemed or exchanged by the Company as described below.

The Purchase Price payable, and the number of Preferred Shares or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution:

(i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Shares,

(ii) upon the grant to holders of the Preferred Shares of certain rights, options or warrants to subscribe for or purchase Preferred Shares or securities convertible into Preferred Shares at less than the then current market price of the Preferred Shares, or

(iii) upon the distribution to holders of the Preferred Shares of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Preferred Shares) or of subscription rights or warrants (other than those described in clause (ii) hereof).

The number of Preferred Shares issuable upon the exercise of a Right is also subject to adjustment in the event of a dividend on Common Shares payable in Common Shares, or a subdivision, combination or consolidation of the Common Shares.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in the Purchase Price. No fractional Preferred Shares will be issued (other than fractional shares that are integral multiples of one one-thousandth (subject to adjustment) of a Preferred Share, which may, at the election of the Company, be evidenced by depositary receipts) if in lieu thereof a payment in cash is made based on the closing price (pro-rated for the fraction) of the Preferred Shares on the last trading date prior to the date of exercise.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, proper provision shall be made so that each holder of a Right, other than Rights that are or were beneficially owned by the Acquiring Person (which will thereafter be void), will thereafter have the right to receive upon exercise thereof at the then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price, subject to certain possible adjustments.

In the event that, after the Distribution Date or within 15 days prior thereto, the Company is acquired in certain mergers or other business combination transactions or 50% or more of the assets or earning power of the Company and its subsidiaries (taken as a whole) are sold or otherwise transferred, each holder of a Right (other than Rights which have become void under the terms of the Rights Agreement) will thereafter have the right to receive, upon exercise thereof at the then Purchase Price, that number of common shares of the acquiring company (or, in certain cases, one of its affiliates) having a market value of two times the Purchase Price.

In certain events specified in the Rights Agreement, the Company is permitted to temporarily suspend the exercisability of the Rights.

At any time after a person or group of affiliated or associated persons becomes an Acquiring Person (subject to certain exceptions) and prior to the acquisition by a person or group of affiliated or associated persons of 50% or more of the outstanding Common Shares, the Board of Directors of the Company may exchange all or part of the Rights (other than Rights which have become void under the terms of the Rights Agreement) for Common Shares or equivalent securities at an exchange ratio per Right equal to the result obtained by dividing the Purchase Price by the current per share market price of the Common Shares, subject to adjustment.

At any time prior to such time as a person or group of affiliated or associated persons becomes an Acquiring Person, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $.001 per Right, subject to adjustment, payable in cash. The period of time during which the Rights may be redeemed may be extended by the Board of Directors of the Company if no person has become an Acquiring Person. The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The Board of Directors and the Company shall not have any liability to any person as a result of the redemption or exchange of the Rights pursuant to the provisions of the Rights Agreement.

The terms of the Rights may be amended by the Board of Directors of the Company, subject to certain limitations after such time as a person or group of affiliated or associated persons becomes an

Acquiring Person, without the consent of the holders of the Rights, including an amendment prior to the date a person or group of affiliated or associated persons becomes an Acquiring Person to lower the 15% threshold for exercisability of the Rights to not less than 10%. The Board may not cause a person or group to become an Acquiring Person by lowering this threshold below the percentage interest that such person or group already owns.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends.

A copy of the Rights Agreement (including all exhibits thereto) is filed with this Current Report on Form 8-K as Exhibit 4.1 and is incorporated by reference herein. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement.

Item 3.03 Material Modifications to Rights of Security Holders.

The information required by this item is included in Item 1.01 above.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

In connection with its adoption of the Rights Agreement, the Company's Board of Directors approved Articles of Amendment of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Shares (the "Amended Certificate"), the form of which is filed with this Current Report on Form 8-K as Exhibit 4.2, and is incorporated by reference herein. The Company will file the Amended Certificate with the Secretary of State of the State of Minnesota on or about March 1, 2010. Once filed, the Amended Certificate will be effective as of March 29, 2010.

The Preferred Shares will not be redeemable. Each Preferred Share will be entitled to a minimum preferential quarterly dividend payment of the greater of $10.00 per share or 1,000 times the dividend declared per Common Share, subject to adjustment. In the event of liquidation, the holders of the Preferred Shares will be entitled to a minimum preferential liquidation payment of the greater of $1,000 per share or 1,000 times the payment made per Common Share, subject to adjustment. Each 1/1,000th of a Preferred Share will have one vote per share, voting together with holders of Common Shares, subject to adjustment. In the event of any consolidation, merger, combination, statutory share exchange or other transaction in which Common Shares are exchanged, each Preferred Share will be entitled to receive 1,000 times the amount received per Common Share, subject to adjustment. These rights are protected by customary antidilution provisions.

The foregoing description of the rights of the Preferred Shares does not purport to be complete and is qualified in its entirety by reference to the Amended Certificate.

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Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are filed herewith:

4.1 Rights Agreement, dated as of February 12, 2010, between the Company and Wells Fargo Bank, N.A., as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A filed on February 16, 2010)

4.2 Form of Articles of Amendment of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Shares (incorporated by reference to Exhibit 2 to the Company's Registration Statement on Form 8-A filed on February 16, 2010)

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

GRACO INC.

Date: February 16, 2010	By:	/s/ Karen Park Gallivan
		Karen Park Gallivan
		Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit	Description	Method of Filing
4.1	Rights Agreement, dated as of February 12, 2010, between the Company and Wells Fargo Bank, N.A., as Rights Agent	Incorporated by Reference
4.2	Form of Amendment of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Shares	Incorporated by Reference

GRACO INC (GGG)

8-K

Current report filing
Filed on 04/29/2010
Filed Period 04/23/2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **April 23, 2010**

Graco Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**001-9249**	**41-0285640**
(State or other jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

th Avenue Northeast
nneapolis, Minnesota
of principal executive offices)

(

Registrant's telephone number, including area code: **(612) 623-6000**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule-425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.02 Termination of a Material Definitive Agreement.

Upon shareholder approval of the Graco Inc. 2010 Stock Incentive Plan as described under 5.02 below, the Company ceased granting awards under the Graco Inc. Amended and Restated Stock Incentive Plan (2006).

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On April 23, 2010, the shareholders of Graco Inc. (the "Company") approved and adopted the Graco Inc. 2010 Stock Incentive Plan (the "2010 Plan"). The 2010 Plan was adopted by the Board of Directors ("Board") in February 2010.

A brief description of the material terms of the 2010 Plan is set forth below, and is qualified by the actual text of the 2010 Plan, which is filed herewith as Exhibit 10.1, and incorporated herein by reference.

General

The 2010 Plan provides for the grant of a wide variety of equity-based awards, including options, stock appreciation rights, restricted stock, restricted stock units, performance awards and dividend equivalents, to employees, officers and non-employee directors of the Company and its affiliates. The aggregate number of shares of common stock that may be issued under all awards made under the 2010 Plan will be 5,100,000. Restricted stock, restricted stock units and performance awards payable in common stock shall be counted as two shares against the total authorized. The 2010 Plan will expire on April 23, 2020, unless earlier terminated by the Board.

Shares covered by an award, which are forfeited or not purchased, will be available under the 2010 Plan again for granting future awards. Similarly, shares subject to awards outstanding under the Graco Inc. Amended and Restated Stock Incentive Plan (2006) as of the date of shareholder approval of the 2010 Plan that are not purchased or are forfeited or otherwise terminate without delivery of shares shall also become available under the 2010 Plan.

The 2010 Plan has been designed to meet the requirements of Section 162(m) of the Internal Revenue Code (the "Code") regarding the deductibility of executive compensation with regard to the awards conditioned upon the achievement of certain performance conditions. No person eligible for awards under the 2010 Plan may, in any calendar year, be granted stock options and any other award, the value of which is based solely on an increase in the price of Graco common stock, relating to more than 450,000 shares. In addition, no person may, in any calendar year, be granted awards intended to qualify as performance-based awards under Section 162(m) denominated in cash in excess of $3,000,000 or for more than 250,000 shares of Graco common stock. It is also intended that the 2010 Plan qualify as an incentive stock option plan meeting the requirements of Section 422 or 424 of the Code with respect to awards of up to 5,000,000 shares.

The Board may amend or terminate the 2010 Plan, at any time, except that prior shareholder approval will be required for any amendment to the 2010 Plan that:

- Requires shareholder approval under the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company,
- Permits repricing of outstanding stock options or stock appreciation rights granted under the 2010 Plan, except in the case of a stock split or other recapitalization,
- Increases the number of shares authorized under the 2010 Plan, except in the case of a stock split or other recapitalization, or
- Permits the award of stock options or stock appreciation rights under the 2010 Plan with an exercise price less than 100% of the fair market value of share of common stock as defined in the 2010 Plan.

Administration

The 2010 Plan is administered by a committee selected by the Board (the "Committee"). The Committee consists of two or more members who are members of the Board and are "non-employee directors" within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act"). The Committee may grant stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, dividend equivalents and other stock-based awards to employees, officers and non-employee directors of Graco or any of its affiliates. However, no dividend equivalents may be awarded on stock options, stock appreciation rights or performance awards. The Committee may delegate to the chief executive officer its authority under the 2010 Plan for purposes of designating, designing and administering awards to participants who are not executive officers subject to Section 16 of the Exchange Act or directors of the Company.

The Committee has the power to designate persons eligible for awards under the 2010 Plan, interpret and administer the 2010 Plan and any award agreement, establish rules as deemed appropriate for the administration of the 2010 Plan and, subject to the provisions of the 2010 Plan and applicable law, determine:

- The type of award and number of shares covered by each award, provided that the term of any option or stock appreciation right cannot exceed ten years,
- The terms and conditions of any award or award agreement, and
- The terms of exercise of any award.

The Committee may also amend or waive the terms and conditions of an outstanding award, but may not adjust or amend the exercise price of any outstanding stock option or stock appreciation right, except in the case of a stock split or other recapitalization.

In the event that the Committee determines that a dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, affects the Company's common stock such that an adjustment is deemed appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended under the 2010 Plan, the Committee shall make adjustments to the number and type of shares that may be subject to an award or are subject to outstanding awards and to the purchase or exercise price of any award.

Item 5.07 Submission of Matters to a Vote of Security Holders.

On April 23, 2010, the Company held its Annual Meeting of the Shareholders (the "Annual Meeting") in Minneapolis, Minnesota. At the Annual Meeting, the Company's shareholders approved four proposals based on the votes set forth below. The proposals are described in detail in the proxy statement for the Annual Meeting.

Proposal 1.

The election of two directors to serve for three-year terms.

Director's Name	For	Withhold Authority	Broker Non-Votes
J. Kevin Gilligan	26,366,510	22,206,785	4,485,072
William G. Van Dyke	26,132,128	22,441,167	4,485,072

Proposal 2.

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2010.

For	Against	Abstain
52,708,205	297,921	52,241

Proposal 3.

Approval of the Graco Inc. 2010 Stock Incentive Plan.

For	Against	Abstain	Broker Non-Votes
41,392,268	7,053,131	127,896	4,485,072

Proposal 4.

Shareholder Proposal to adopt majority voting for the election of directors.

For	Against	Abstain	Broker Non-Votes
30,711,564	17,521,726	340,005	4,485,072

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

10.1 Graco Inc. 2010 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's Proxy Statement for the Annual Meeting of Shareholders held on April 23, 2010).

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRACO INC.

Date: April 29, 2010	By:	/s/ Karen Park Gallivan
		Karen Park Gallivan
	Its:	Vice President, General Counsel and Secretary

GRACO INC (GGG)

8-K

Current report filing
Filed on 12/03/2010
Filed Period 12/02/2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **December 2, 2010**

Graco Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**001-9249**	**41-0285640**
(State or other jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

88-11th Avenue Northeast Minneapolis, Minnesota	**55413**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(612) 623-6000**

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule-425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On December 2, 2010, the Board of Directors (the "Board") of Graco Inc. (the "Company") elected Mr. Eric P. Etchart as a director of the Company, effective immediately. Mr. Etchart was elected to the class of directors whose terms expire at the 2013 annual meeting of shareholders of the Company.

Mr. Etchart has been appointed to serve on the Board's Audit and Management Organization and Compensation Committees. In connection with his election, Mr. Etchart will be receiving the standard director compensation as referenced in our Proxy Statement for the 2010 Annual Meeting.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description
99.1	Press Release dated December 3, 2010 announcing that Mr. Eric P. Etchart has joined the Board of Directors of Graco Inc. effective December 2, 2010.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRACO INC.

Date: December 3, 2010

/s/Karen Park Gallivan
Karen Park Gallivan
Vice President, General Counsel &
Secretary

Exhibit 99.1

News Release

GRACO INC.
P.O. Box 1441
Minneapolis, MN
55440-1441
NYSE: GGG

FOR IMMEDIATE RELEASE:
Friday, December 3, 2010

FOR FURTHER INFORMATION:
James A. Graner (612) 623-6635

GRACO INCREASES REGULAR QUARTERLY DIVIDEND BY 5 PERCENT

AND ANNOUNCES NEW BOARD MEMBER, ERIC P. ETCHART

MINNEAPOLIS, MN (December 3, 2010) - The Board of Directors of Graco Inc. **(NYSE:GGG)** has declared a regular quarterly dividend of 21 cents per common share, an increase of 5 percent, payable on February 2, 2011, to shareholders of record at the close of business on January 18, 2011. The Company has approximately 59.9 million shares outstanding.

Graco Inc. is pleased to announce that Eric P. Etchart has joined the company's board of directors, effective Thursday, December 2, 2010. Mr. Etchart is President of the Manitowoc Crane Group of The Manitowoc Company, Inc., and a Senior Vice President of The Manitowoc Company, Inc., Manitowoc, Wisconsin. Mr. Etchart has nearly twenty-eight years of global experience with manufacturing companies. He has twenty-five years of experience in management positions outside of the U.S., including positions in China, Singapore, Italy, France, and the Middle East. Mr. Etchart is particularly well suited to provide international perspective to the Company as Graco develops its business in global markets.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction, and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

# # #

Exhibit IV

Quarterly Reports on Form 10-Q for the quarters ended on March 26, 2010, June 25, 2010 and September 24, 2010

GRACO INC (GGG)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 04/21/2010
Filed Period 03/26/2010

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 **March 26, 2010**

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	55413
(Address of principal executive offices)	(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

60,604,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of April 15, 2010.

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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	
	March 26, 2010	March 27, 2009
Net Sales	$ 164,721	$ 137,880
Cost of products sold	75,426	73,552
Gross Profit	89,295	64,328
Product development	9,474	10,051
Selling, marketing and distribution	29,160	31,933
General and administrative	17,955	16,215
Operating Earnings	32,706	6,129
Interest expense	1,080	1,366
Other expense, net	161	595
Earnings Before Income Taxes	31,465	4,168
Income taxes	10,900	1,400
Net Earnings	$ 20,565	$ 2,768
Basic Net Earnings per Common Share	$ 0.34	$ 0.05
Diluted Net Earnings per Common Share	$ 0.34	$ 0.05
Cash Dividends Declared per Common Share	$ 0.20	$ 0.19

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands)

	March 26, 2010	December 25, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,633	$ 5,412
Accounts receivable, less allowances of $7,200 and $6,500	119,109	100,824
Inventories	66,410	58,658
Deferred income taxes	21,123	20,380
Other current assets	3,874	3,719
Total current assets	222,149	188,993
Property, Plant and Equipment		
Cost	335,820	334,440
Accumulated depreciation	(199,670)	(195,387)
Property, plant and equipment, net	136,150	139,053
Goodwill	91,740	91,740
Other Intangible Assets, net	37,183	40,170
Deferred Income Taxes	10,014	8,372
Other Assets	8,047	8,106
Total Assets	$ 505,283	$ 476,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 14,051	$ 12,028
Trade accounts payable	24,021	17,983
Salaries and incentives	15,594	14,428
Dividends payable	12,025	12,003
Other current liabilities	51,697	47,373
Total current liabilities	117,388	103,815
Long-term debt	80,000	86,260
Retirement Benefits and Deferred Compensation	74,391	73,705
Uncertain Tax Positions	3,000	3,000
Shareholders' Equity		
Common stock	60,592	59,999
Additional paid-in-capital	200,653	190,261
Retained earnings	19,618	11,121
Accumulated other comprehensive income (loss)	(50,359)	(51,727)
Total shareholders' equity	230,504	209,654
Total Liabilities and Shareholders' Equity	$ 505,283	$ 476,434

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Cash Flows From Operating Activities		
Net Earnings	$ 20,565	$ 2,768
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,578	8,475
Deferred income taxes	(3,254)	(52)
Share-based compensation	2,108	2,417
Excess tax benefit related to share-based payment arrangements	(700)	(200)
Change in		
Accounts receivable	(19,601)	18,588
Inventories	(7,849)	5,525
Trade accounts payable	6,088	(4,044)
Salaries and incentives	1,333	(4,444)
Retirement benefits and deferred compensation	2,714	3,602
Other accrued liabilities	6,153	(5,692)
Other	(94)	758
Net cash provided by operating activities	16,041	27,701
Cash Flows From Investing Activities		
Property, plant and equipment additions	(2,847)	(5,732)
Proceeds from sale of property, plant and equipment	57	567
Capitalized software and other intangible asset additions	(125)	(46)
Net cash used in investing activities	(2,915)	(5,211)
Cash Flows From Financing Activities:		
Net borrowings (payments) on short-term lines of credit	2,891	(995)
Borrowings on long-term line of credit	—	34,211
Payments on long-term line of credit	(6,260)	(47,401)
Excess tax benefit related to share-based payment arrangements	700	200
Common stock issued	7,984	4,949
Common stock retired	(52)	—
Cash dividends paid	(12,002)	(11,308)
Net cash provided by (used in) financing activities	(6,739)	(20,344)
Effect of exchange rate changes on cash	(166)	534
Net increase (decrease) in cash and cash equivalents	6,221	2,680
Cash and cash equivalents:		
Beginning of year	5,412	12,119
End of period	$ 11,633	$ 14,799

See notes to consolidated financial statements

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of March 26, 2010 and the related statements of earnings for the thirteen weeks ended March 26, 2010 and March 27, 2009, and cash flows for the thirteen weeks ended March 26, 2010 and March 27, 2009 have been prepared by the Company and have not been audited.

   In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of March 26, 2010, and the results of operations and cash flows for all periods presented.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K.

   The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Thirteen Weeks Ended March 26, 2010	Thirteen Weeks Ended March 27, 2009
Net earnings available to common shareholders	$ 20,565	$ 2,768
Weighted average shares outstanding for basic earnings per share	60,206	59,638
Dilutive effect of stock options computed using the treasury stock method and the average market price	507	265
Weighted average shares outstanding for diluted earnings per share	60,713	59,903
Basic earnings per share	$ 0.34	$ 0.05
Diluted earnings per share	$ 0.34	$ 0.05

Stock options to purchase 3,103,000 and 4,034,000 shares were not included in the 2010 and 2009 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

3. Information on option shares outstanding and option activity for the thirteen weeks ended March 26, 2010 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 25, 2009	4,813	$ 28.98	2,445	$ 28.38
Granted	733	26.97		
Exercised	(156)	10.41		
Canceled	(13)	34.94		
Outstanding, March 26, 2010	5,377	$ 29.23	2,889	$ 29.85

The Company recognized year-to-date share-based compensation of $2.1 million in 2010 and $2.4 million in 2009. As of March 26, 2010, there was $10.2 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.4 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Expected life in years	6.0	6.0
Interest rate	2.7%	2.1%
Volatility	33.8%	29.9%
Dividend yield	3.0%	3.7%
Weighted average fair value per share	$ 7.16	$ 4.25

Under the Company's Employee Stock Purchase Plan, the Company issued 436,000 shares in 2010 and 312,000 shares in 2009. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Expected life in years	1.0	1.0
Interest rate	0.3%	0.7%
Volatility	47.8%	51.5%
Dividend yield	2.9%	4.5%
Weighted average fair value per share	$ 9.01	$ 5.60

4. The components of net periodic benefit cost (credit) for retirement benefit plans were as follows (in thousands):

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Pension Benefits		
Service cost	$ 1,241	$ 1,279
Interest cost	3,277	3,220
Expected return on assets	(3,475)	(2,700)
Amortization and other	1,504	2,414
Net periodic benefit cost (credit)	$ 2,547	$ 4,213
Postretirement Medical		
Service cost	$ 125	$ 150
Interest cost	325	350
Net periodic benefit cost (credit)	$ 450	$ 500

5. Total comprehensive income was as follows (in thousands):

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Net earnings	$ 20,565	$ 2,768
Cumulative translation adjustment	—	234
Pension and postretirement medical liability adjustment	1,468	2,329
Gain (loss) on interest rate hedge contracts	705	(73)
Income taxes	(805)	(836)
Comprehensive income	$ 21,933	$ 4,422

Components of accumulated other comprehensive income (loss) were (in thousands):

	March 26, 2010	December 25, 2009
Pension and postretirement medical liability adjustment	$ (47,634)	$ (48,560)
Gain (loss) on interest rate hedge contracts	(1,902)	(2,344)
Cumulative translation adjustment	(823)	(823)
Total	$ (50,359)	$ (51,727)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. The Company does not track assets by segment. Sales and operating earnings by segment for the thirteen weeks ended March 26, 2010 and March 27, 2009 were as follows (in thousands):

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Net Sales		
Industrial	$ 96,792	$ 75,232
Contractor	50,797	47,448
Lubrication	17,132	15,200
Total	$ 164,721	$ 137,880
Operating Earnings		
Industrial	$ 30,474	$ 11,495
Contractor	4,883	1,239
Lubrication	1,707	(1,436)
Unallocated corporate (expense)	(4,358)	(5,169)
Total	$ 32,706	$ 6,129

7. Major components of inventories were as follows (in thousands):

	March 26, 2010	December 25, 2009
Finished products and components	$ 40,353	$ 36,665
Products and components in various stages of completion	24,087	22,646
Raw materials and purchased components	34,773	31,826
	99,213	91,137
Reduction to LIFO cost	(32,803)	(32,479)
Total	$ 66,410	$ 58,658

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
March 26, 2010					
Customer relationships	3 - 8	$ 41,075	$ (20,201)	$ (181)	$ 20,693
Patents, proprietary technology and product documentation	3 - 10	21,072	(12,751)	(85)	8,236
Trademarks, trade names and other	3 - 10	8,154	(3,080)	—	5,074
		70,301	(36,032)	(266)	34,003
Not Subject to Amortization:					
Brand names		3,180	—	—	3,180
Total		$ 73,481	$ (36,032)	$ (266)	$ 37,183
December 25, 2009					
Customer relationships	3 - 8	$ 41,075	$ (18,655)	$ (181)	$ 22,239
Patents, proprietary technology and product documentation	3 - 10	22,862	(13,708)	(87)	9,067
Trademarks, trade names and other	3 - 10	8,154	(2,470)	—	5,684
		72,091	(34,833)	(268)	36,990
Not Subject to Amortization:					
Brand names		3,180	—	—	3,180
Total		$ 75,271	$ (34,833)	$ (268)	$ 40,170

Amortization of intangibles was $3.0 million in the first quarter of 2010. Estimated annual amortization expense is as follows: $10.9 million in 2010, $10.7 million in 2011, $9.5 million in 2012, $4.3 million in 2013, $0.9 million in 2014 and $0.7 million thereafter.

9. Components of other current liabilities were (in thousands):

	March 26, 2010	December 25, 2009
Accrued self-insurance retentions	$ 7,793	$ 7,785
Accrued warranty and service liabilities	7,325	7,437
Accrued trade promotions	2,745	2,953
Payable for employee stock purchases	718	5,115
Income taxes payable	11,228	1,550
Other	21,888	22,533
Total other current liabilities	$ 51,697	$ 47,373

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

	Thirteen Weeks Ended March 26, 2010	Year Ended December 25, 2009
Balance, beginning of year	$ 7,437	$ 8,033
Charged to expense	880	4,548
Margin on parts sales reversed	746	2,876
Reductions for claims settled	(1,738)	(8,020)
Balance, end of period	$ 7,325	$ 7,437

10. The Company accounts for all derivatives, including those embedded in other contracts, as either assets or liabilities and measures those financial instruments at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

As part of its risk management program, the Company may periodically use forward exchange contracts and interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity. The Company does not hold or issue derivative financial instruments for trading purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In 2007, the Company entered into interest rate swap contracts that effectively fix the rates paid on a total of $80 million of variable rate borrowings. One contract fixed the rate on $40 million of borrowings at 4.7 percent plus the applicable spread (depending on cash flow leverage ratio) until December 2010. The second contract fixed an additional $40 million of borrowings at 4.6 percent plus the applicable spread until January 2011. Both contracts have been designated as cash flow hedges against interest rate volatility. Consequently, changes in the fair market value are recorded in accumulated other comprehensive income (loss) (AOCI). Amounts included in AOCI will be reclassified to earnings as interest rates increase and as the swap contracts approach their expiration dates. Net amounts paid or payable under terms of the contracts were charged to interest expense and totaled $0.9 million in the first quarter of 2010.

The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts or options, or borrows in various currencies, in order to hedge its net monetary positions. These instruments are recorded at current market values and the gains and losses are included in other expense (income), net. There were seven contracts outstanding as of March 26, 2010, with notional amounts totaling $16 million. The Company believes it uses strong financial counterparts in these transactions and that the resulting credit risk under these hedging strategies is not significant.

The Company uses significant other observable inputs to value the derivative instruments used to hedge interest rate volatility and net monetary positions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	March 26, 2010	December 25, 2009
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ (3,017)	$ (3,722)
Gain (loss) on foreign currency forward contracts			
Gains		$ 130	$ 207
Losses		(188)	(249)
Net	Other current liabilities	$ (58)	$ (42)

Item 2. **GRACO INC. AND SUBSIDIARIES**

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

Overview

The Company designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. Management classifies the Company's business into three reportable segments: Industrial, Contractor and Lubrication. Key strategies include developing and marketing new products, expanding distribution globally, opening new markets with technology and channel expansion and completing strategic acquisitions.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts and percentages):

	Thirteen Weeks Ended		
	March 26, 2010	March 27, 2009	% Change
Net Sales	$ 164.7	$ 137.9	19%
Net Earnings	$ 20.6	$ 2.8	640%
Diluted Net Earnings per Common Share	$ 0.34	$ 0.05	580%

Sales, gross profit margins and net earnings improved significantly compared to last year. Sales increased in all segments and geographic regions. Currency translation had a favorable effect on sales ($5 million) and net earnings ($2 million). Costs of $4 million related to a workforce reduction were included in last year's results.

Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Americas[1]	$ 86.7	$ 80.2
Europe[2]	41.8	35.8
Asia Pacific	36.2	21.9
Consolidated	$ 164.7	$ 137.9

[1] North and South America, including the U.S. [2] Europe, Africa and Middle East

Sales in Asia Pacific increased 65 percent (55 percent at consistent translation rates), accounting for more than half of the increase in sales. In Europe, sales increased 17 percent (11 percent at consistent translation rates). Sales in the Americas increased 8 percent.

Gross profit margin, expressed as a percentage of sales, was 54 percent, up from 47 percent for the first quarter last year. The increase included approximately $1^1/2$ percentage points from the favorable effects of currency translation. Costs related to workforce reductions lowered the 2009 first quarter gross margin rate approximately 2 percentage points. Higher production volume in 2010 contributed approximately $1^1/2$ percentage points to the increase in gross margin rate. Lower material and pension costs and price increases also contributed to the increase in 2010 margin rate.

Total operating expenses were down 3 percent. The effect of cost reduction actions in 2008 and 2009 and lower pension expense were partially offset by the effects of currency translation and increases in bad debt expense and incentives.

The effective income tax rate of $34^1/2$ percent was 1 percentage point higher in 2010 compared to 2009. The federal R&D credit has not been renewed for 2010, so no credit was included in the 2010 rate.

Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended March 26, 2010	Thirteen Weeks Ended March 27, 2009
Net sales (in millions)		
Americas	$ 41.9	$ 35.8
Europe	27.9	23.8
Asia Pacific	27.0	15.6
Total	$ 96.8	$ 75.2
Operating earnings as a percentage of net sales	31 %	15 %

Industrial segment sales increased 17 percent in the Americas, 17 percent in Europe (11 percent at consistent translation rates) and 74 percent in Asia Pacific (65 percent at consistent translation rates.)

Higher volume and lower costs and expenses (from actions taken in 2009 and 2008), along with currency translation and price increases, contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended March 26, 2010	Thirteen Weeks Ended March 27, 2009
Net sales (in millions)		
Americas	$ 31.9	$ 31.7
Europe	12.6	10.9
Asia Pacific	6.3	4.8
Total	$ 50.8	$ 47.4
Operating earnings as a percentage of net sales	10 %	3 %

Contractor segment sales were flat in the Americas, increased 16 percent in Europe (10 percent at consistent translation rates) and increased 30 percent in Asia Pacific (20 percent at consistent translation rates).

The increase in sales volume along with improved gross margin rate drove the increase in operating earnings. Overall, segment expenses were flat compared to last year, although product development spending increased as work neared completion on a new product release.

Lubrication

	Thirteen Weeks Ended	
	March 26, 2010	March 27, 2009
Net sales (in millions)		
Americas	$ 12.8	$ 12.6
Europe	1.4	1.1
Asia Pacific	2.9	1.5
Total	$ 17.1	$ 15.2
Operating earnings as a percentage of net sales	10 %	(9)%

Lubrication segment sales were flat in the Americas. From small bases, sales increased 33 percent in Europe (27 percent at consistent translation rates) and 95 percent in Asia Pacific (73 percent at consistent translation rates).

Higher volume and lower costs and expenses (from actions taken in 2009 and 2008), along with currency translation, contributed to the improvement in operating earnings as a percentage of sales.

Liquidity and Capital Resources

In the first quarter of 2010, the Company used cash to reduce borrowings under its long-term line of credit by $6 million and paid dividends of $12 million. Significant uses of cash and borrowings in the first quarter of 2009 included $13 million for reduction of borrowings under the long-term line of credit and $11 million for payment of dividends.

Since the end of 2009, inventories increased by $8 million to meet higher demand. Accounts receivable increased by $18 million due to higher sales levels.

At March 26, 2010, the Company had various lines of credit totaling $270 million, of which $178 million was unused. Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2010.

Outlook

Management remains cautious about the short-term base business prospects of the Contractor segment in North America and Western Europe, as the residential construction recovery is still weak and commercial construction markets remain depressed. New product introductions in Contractor may provide some upside to the difficult end-market conditions as the year progresses.

While the improvement in the Lubrication segment is encouraging, a return to historical operating margins will require significant additional volume as the segment continues to invest in growth initiatives.

During the recession, management remained committed to making significant organic growth investments in new product development, international sales people and global distribution channel. While these investments weigh on short-term profitability, especially in the face of significant revenue declines, we are confident that this approach has positioned the Company well to deliver solid long-term shareholder returns.

SAFE HARBOR CAUTIONARY STATEMENT

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, or in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Item 1A and Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes related to market risk from the disclosures made in the Company's 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, the Vice President and Controller, and the Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 18, 2009, the Board of Directors authorized the Company to purchase up to 6,000,000 shares of its outstanding common stock, primarily through open-market transactions. The authorization expires on September 30, 2012.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Dec 26, 2009 – Jan 22, 2010	-	$ -	-	6,000,000
Jan 23, 2010 – Feb 19, 2010	1,868	$ 27.58	-	6,000,000
Feb 20, 2010 – Mar 26, 2010	-	$ -	-	6,000,000

Item 6. Exhibits

4.1	Rights Agreement, dated as of February 12, 2010, between the Company and Wells Fargo Bank, N.A., as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A filed on February 16, 2010).
10.1	Executive Officer Compensation Recoupment Policy adopted by the Management Organization and Compensation Committee of the Graco Inc. Board of Directors on February 12, 2010.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer and Treasurer pursuant to rule 13a-14(a).
32	Certification of President and Chief Executive Officer, Chief Financial Officer and Treasurer, and Vice President and Controller pursuant to Section 1350 of Title 18, U.S.C.
99.1	Press Release, Reporting First Quarter Earnings, dated April 21, 2010.
100	XBRL-Related Documents.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date:	April 21, 2010	By:	/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*
Date:	April 21, 2010	By:	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*
Date:	April 21, 2010	By:	/s/ Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*

Exhibit 10.1

GRACO INC.

EXECUTIVE OFFICER INCENTIVE COMPENSATION RECOUPMENT POLICY

In the event that after a cash incentive award granted under the Graco Inc. Executive Officer Annual Incentive Bonus Plan or the Graco Inc. Executive Officer Bonus Plan to an executive officer of Graco Inc. (the "Company") is paid, but prior to a Change of Control (as defined in the employment agreement between the Company and such executive officer) the Company issues a material restatement of a financial statement because of material noncompliance by the Company with applicable financial reporting requirements due to an executive officer's intentional misconduct or fraud, each executive officer shall, at the request of the Management Organization and Compensation Committee (the "Committee") made within 90 days after the restatement, remit to the Company the Net Proceeds (as hereafter defined) of such cash incentive awards. The "Net Proceeds" of an award shall equal the portion of the payment made with respect to the cash incentive award that the executive officer would not have been entitled to receive if the financial results had been as reported in the restatement, net of taxes paid or payable by the executive officer with respect to the forfeited payment.

In addition, for any executive officer who engaged in intentional misconduct or fraud that caused or contributed to the need for such a restatement, such executive officer shall, at the request of the Committee made within 90 days after the restatement, remit to the Company the entire amount of any cash incentive payment received by the executive officer, net of taxes paid or payable by the executive officer with respect to the forfeited payment.

The Committee may, but shall not be required by the executive officer to, reduce the forfeiture, return and/or payment obligations hereunder to the extent that the Committee, in its sole and absolute discretion, shall deem appropriate. Nothing herein shall limit any other rights the Company shall have by law for misconduct of the executive officer that caused or contributed to the need for such restatement.

Exhibit 31.1

CERTIFICATION

I, Patrick J. McHale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James A. Graner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 32

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: April 21, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Date: April 21, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

GRACO INC.
P.O. Box 1441
Minneapolis, MN
55440-1441
NYSE: GGG

News Release

FOR IMMEDIATE RELEASE:
Wednesday, April 21, 2010

FOR FURTHER INFORMATION:
James A. Graner (612) 623-6635

GRACO REPORTS FIRST QUARTER SALES AND EARNINGS
IMPROVED PERFORMANCE LED BY SOLID REVENUE GROWTH

MINNEAPOLIS, MN (April 21, 2010) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter ended March 26, 2010.

Summary
$ in millions except per share amounts

	First Quarter Ended		
	March 26, 2010	**March 27, 2009**	**% Change**
Net Sales	$ 164.7	$ 137.9	19 %
Net Earnings	20.6	2.8	640 %
Diluted Net Earnings per Common Share	$ 0.34	$ 0.05	580 %

- Sales and operating earnings each increased by $27 million.
- Sales increased in all divisions and regions
- Asia Pacific contributed more than half of the sales increase, and Europe increased by 17 percent.
- Gross margin rate of 54 percent was $7^1/2$ percentage points higher than last year's first quarter rate.
- Operating earnings as a percentage of sales increased to 20 percent, up from 4 percent for the first quarter last year.

"This year's first quarter results are significantly better than last year's low-point, but are still below our pre-recession results of 2008," said Patrick J. McHale, President and Chief Executive Officer. "We're encouraged by the business tempo in our international markets, especially in developing countries. While we're pleased with the improvement in our Lubrication segment, a return to historical operating margins will require significant additional volume as we continue to invest in growth initiatives. We remain cautious about the short-term base business prospects for our Contractor segment in North America and Western Europe as the residential recovery is still weak and commercial construction markets remain depressed. Nevertheless, we're optimistic that our new product introductions in Contractor may provide some upside to the difficult end-market conditions as the year progresses."

Consolidated Results

Sales for the first quarter increased 19 percent, with 3 percentage points of the increase from currency translation. Sales increased 8 percent in the Americas, 17 percent in Europe (11 percent at consistent translation rates) and 65 percent in Asia Pacific (55 percent at consistent translation rates).

Gross profit margin, expressed as a percentage of sales, was 54 percent, up from 47 percent for the first quarter last year. The increase included approximately $1^1/2$ percentage points from the favorable effects of currency translation. Costs related to workforce reductions lowered the 2009 first quarter gross margin rate, accounting for approximately 2 percentage points of the increase in 2010. Higher production volume in 2010 contributed approximately $1^1/2$ percentage points to the increase in gross margin rate. Lower material and pension costs, price increases and product mix also contributed to the increase in margin rate.

More . . .

Total operating expenses were down 3 percent. The effects of cost reduction actions in 2008 and 2009 and lower pension expense were partially offset by the effects of currency translation and increases in bad debt expense and incentives.

The effective income tax rate of 34^1/2 percent was 1 percentage point higher in 2010 compared to 2009. The federal R&D credit has not been renewed for 2010, so no credit is included in the 2010 rate.

Segment Results

Certain measurements of segment operations are summarized below:

	First Quarter		
	Industrial	**Contractor**	**Lubrication**
Net sales (in millions)	$ 96.8	$ 50.8	$ 17.1
Net sales percentage change from last year	29 %	7 %	13 %
Operating earnings as a percentage of net sales			
2010	31 %	10 %	10 %
2009	15 %	3 %	(9)%

Sales increased in all segments. Industrial Products increased 29 percent (24 percent at consistent translation rates), Contractor increased 7 percent (4 percent at consistent translation rates) and Lubrication increased 13 percent (9 percent at consistent translation rates). Improved operating earnings of all segments reflect the effect of higher sales and the lower cost structure resulting from workforce and other spending reduction actions taken in the fourth quarter of 2008 and the first quarter of 2009.

Outlook

"We believe that our improved operating results reflect the strength of our business model and competitive position," said Patrick J. McHale, President and Chief Executive Officer. "During the recession, we remained committed to making significant organic growth investments in new product development, international sales people and our global distribution channel. While these investments weighed on short-term profitability in the face of significant revenue declines, we are confident that this approach is working and has positioned us well to deliver solid long-term shareholder returns."

More . . .

Cautionary Statement Regarding Forward-Looking Statements

A forward-looking statement is any statement made in this earnings release and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press releases, analyst briefings, conference calls and the Company's Annual Report to shareholders, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time it is made. All forecasts and projections are forward-looking statements. The Company undertakes no obligation to update these statements in light of new information or future events.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 (and most recent Form 10-Q, if applicable) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at www.sec.gov.

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, April 22, 2010, at 11:00 a.m. ET, to discuss Graco's first quarter results.

A real-time Webcast of the conference call will be broadcast live over the Internet. Individuals wanting to listen and view slides can access the call at the Company's website at www.graco.com. Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2:00 p.m. ET on April 22, 2010, by dialing 800.406.7325, Conference ID #4282472, if calling within the U.S. or Canada. The dial-in number for international participants is 303.590.3030, with the same Conference ID #. The replay by telephone will be available through April 27, 2010.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

More . . .

GRACO INC. AND SUBSIDIARIES
Consolidated Statement of Earnings (Unaudited)

(in thousands, except per share amounts)	Thirteen Weeks Ended March 26, 2010	Thirteen Weeks Ended March 27, 2009
Net Sales	$ 164,721	$ 137,880
Cost of products sold	75,426	73,552
Gross Profit	89,295	64,328
Product development	9,474	10,051
Selling, marketing and distribution	29,160	31,933
General and administrative	17,955	16,215
Operating Earnings	32,706	6,129
Interest expense	1,080	1,366
Other expense, net	161	595
Earnings Before Income Taxes	31,465	4,168
Income taxes	10,900	1,400
Net Earnings	$ 20,565	$ 2,768
Net Earnings per Common Share		
Basic	$ 0.34	$ 0.05
Diluted	$ 0.34	$ 0.05
Weighted Average Number of Shares		
Basic	60,206	59,638
Diluted	60,713	59,903

Segment Information (Unaudited)

	Thirteen Weeks Ended March 26, 2010	Thirteen Weeks Ended March 27, 2009
Net Sales		
Industrial	$ 96,792	$ 75,232
Contractor	50,797	47,448
Lubrication	17,132	15,200
Total	$ 164,721	$ 137,880
Operating Earnings		
Industrial	$ 30,474	$ 11,495
Contractor	4,883	1,239
Lubrication	1,707	(1,436)
Unallocated corporate (expense)	(4,358)	(5,169)
Total	$ 32,706	$ 6,129

All figures are subject to audit and adjustment at the end of the fiscal year.

The consolidated Balance Sheets, Consolidated Statements of Cash Flows and Management's Discussion and Analysis are available in our Quarterly Report on Form 10-Q on our website at www.graco.com

# # #

GRACO INC (GGG)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 07/21/2010
Filed Period 06/25/2010

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 **June 25, 2010**

Commission File Number: 001-09249

GRACO INC.
(Exact name of registrant as specified in its charter)

Minnesota	41-0285640
e of incorporation)	(I.R.S. Employer Identification Nu

88 - 11th Avenue N.E.
Minneapolis, Minnesota
ddress of principal executive offices) 55413 (Zip Coc

(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 X 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

60,248,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of July 16, 2010.

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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		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net Sales	$ 192,088	$ 147,712	$ 356,809	$ 285,592
Cost of products sold	90,168	74,704	165,594	148,256
Gross Profit	101,920	73,008	191,215	137,336
Product development	9,472	9,781	18,946	19,832
Selling, marketing and distribution	32,647	28,292	61,807	60,225
General and administrative	20,592	16,489	38,547	32,704
Operating Earnings	39,209	18,446	71,915	24,575
Interest expense	1,041	1,221	2,121	2,587
Other expense (income), net	(268)	91	(107)	686
Earnings Before Income Taxes	38,436	17,134	69,901	21,302
Income taxes	13,600	5,500	24,500	6,900
Net Earnings	$ 24,836	$ 11,634	$ 45,401	$ 14,402
Basic Net Earnings per Common Share	$ 0.41	$ 0.19	$ 0.75	$ 0.24
Diluted Net Earnings per Common Share	$ 0.41	$ 0.19	$ 0.74	$ 0.24
Cash Dividends Declared per Common Share	$ 0.20	$ 0.19	$ 0.40	$ 0.38

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	June 25, 2010	December 25, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,878	$ 5,412
Accounts receivable, less allowances of $6,400 and $6,500	138,279	100,824
Inventories	76,198	58,658
Deferred income taxes	20,408	20,380
Other current assets	3,535	3,719
Total current assets	243,298	188,993
Property, Plant and Equipment		
Cost	337,848	334,440
Accumulated depreciation	(204,041)	(195,387)
Property, plant and equipment, net	133,807	139,053
Goodwill	91,740	91,740
Other Intangible Assets, net	34,229	40,170
Deferred Income Taxes	11,776	8,372
Other Assets	8,273	8,106
Total Assets	$ 523,123	$ 476,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 13,599	$ 12,028
Trade accounts payable	33,780	17,983
Salaries and incentives	21,611	14,428
Dividends payable	12,053	12,003
Other current liabilities	45,338	47,373
Total current liabilities	126,381	103,815
Long-term debt	80,000	86,260
Retirement Benefits and Deferred Compensation	74,651	73,705
Uncertain Tax Positions	3,000	3,000
Shareholders' Equity		
Common stock	60,314	59,999
Additional paid-in-capital	203,716	190,261
Retained earnings	23,892	11,121
Accumulated other comprehensive income (loss)	(48,831)	(51,727)
Total shareholders' equity	239,091	209,654
Total Liabilities and Shareholders' Equity	$ 523,123	$ 476,434

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009
Cash Flows From Operating Activities		
Net Earnings	$ 45,401	$ 14,402
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	17,319	16,953
Deferred income taxes	(5,247)	(696)
Share-based compensation	5,127	5,209
Excess tax benefit related to share-based payment arrangements	(900)	(300)
Change in		
Accounts receivable	(40,392)	15,370
Inventories	(17,742)	22,691
Trade accounts payable	9,552	(3,218)
Salaries and incentives	7,624	(6,015)
Retirement benefits and deferred compensation	4,996	7,215
Other accrued liabilities	1,287	(2,135)
Other	1,020	16
Net cash provided by operating activities	28,045	69,492
Cash Flows From Investing Activities		
Property, plant and equipment additions	(5,932)	(9,129)
Proceeds from sale of property, plant and equipment	123	495
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(193)	(200)
Net cash used in investing activities	(7,501)	(10,333)
Cash Flows From Financing Activities		
Net borrowings (payments) on short-term lines of credit	3,004	(3,621)
Borrowings on long-term line of credit	-	68,126
Payments on long-term line of credit	(6,260)	(104,211)
Excess tax benefit related to share-based payment arrangements	900	300
Common stock issued	8,815	5,289
Common stock retired	(3,462)	(141)
Cash dividends paid	(24,122)	(22,686)
Net cash provided by (used in) financing activities	(21,125)	(56,944)
Effect of exchange rate changes on cash	47	(425)
Net increase (decrease) in cash and cash equivalents	(534)	1,790
Cash and cash equivalents:		
Beginning of year	5,412	12,119
End of period	$ 4,878	$ 13,909

See notes to consolidated financial statements

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of June 25, 2010 and the related statements of earnings for the thirteen and twenty-six weeks ended June 25, 2010 and June 26, 2009, and cash flows for the twenty-six weeks ended June 25, 2010 and June 26, 2009 have been prepared by the Company and have not been audited.

   In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of June 25, 2010, and the results of operations and cash flows for all periods presented.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K.

   The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net earnings available to common shareholders	$ 24,836	$ 11,634	$ 45,401	$ 14,402
Weighted average shares outstanding for basic earnings per share	60,597	59,903	60,402	59,770
Dilutive effect of stock options computed using the treasury stock method and the average market price	587	280	546	273
Weighted average shares outstanding for diluted earnings per share	61,184	60,183	60,948	60,043
Basic earnings per share	$ 0.41	$ 0.19	$ 0.75	$ 0.24
Diluted earnings per share	$ 0.41	$ 0.19	$ 0.74	$ 0.24

Stock options to purchase 2,987,000 and 3,920,000 shares were not included in the 2010 and 2009 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

3. Information on option shares outstanding and option activity for the twenty-six weeks ended June 25, 2010 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 25, 2009	4,813	$ 28.98	2,445	$ 28.38
Granted	827	27.80		
Exercised	(203)	11.67		
Canceled	(31)	32.23		
Outstanding, June 25, 2010	5,406	$ 29.43	2,901	$ 30.21

The Company recognized year-to-date share-based compensation of $5.1 million in 2010 and $5.2 million in 2009. As of June 25, 2010, there was $8.8 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009
Expected life in years	6.0	6.0
Interest rate	2.7%	2.1%
Volatility	34.0%	30.1%
Dividend yield	3.0%	3.7%
Weighted average fair value per share	$ 7.38	$ 4.27

Under the Company's Employee Stock Purchase Plan, the Company issued 436,000 shares in 2010 and 312,000 shares in 2009. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009
Expected life in years	1.0	1.0
Interest rate	0.3%	0.7%
Volatility	42.8%	51.5%
Dividend yield	2.9%	4.5%
Weighted average fair value per share	$ 8.48	$ 5.60

4. The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Pension Benefits				
Service cost	$ 894	$ 1,141	$ 2,135	$ 2,420
Interest cost	3,138	3,115	6,415	6,335
Expected return on assets	(3,325)	(2,850)	(6,800)	(5,550)
Amortization and other	1,548	2,313	3,052	4,727
Net periodic benefit cost	$ 2,255	$ 3,719	$ 4,802	$ 7,932
Postretirement Medical				
Service cost	$ 150	$ 100	$ 275	$ 250
Interest cost	295	300	620	650
Amortization	(95)	-	(95)	-
Net periodic benefit cost	$ 350	$ 400	$ 800	$ 900

The Company paid $1.5 million in June 2010 and $1.5 million in June 2009 for contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans. These insurance contracts will be used to fund the non-qualified pension and deferred compensation arrangements. The insurance contracts are held in a trust and are available to general creditors in the event of the Company's insolvency. Cash surrender value of $5.9 million and $4.4 million is included in other assets in the consolidated balance sheet as of June 25, 2010 and December 25, 2009, respectively.

5. Total comprehensive income was as follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net earnings	$ 24,836	$ 11,634	$ 45,401	$ 14,402
Cumulative translation adjustment	-	-	-	234
Pension and postretirement medical liability adjustment	1,491	2,422	2,959	4,751
Gain (loss) on interest rate hedge contracts	933	364	1,638	291
Income taxes	(896)	(1,030)	(1,701)	(1,866)
Comprehensive income	$ 26,364	$ 13,390	$ 48,297	$ 17,812

Components of accumulated other comprehensive income (loss) were (in thousands):

	June 25, 2010	December 25, 2009
Pension and postretirement medical liability adjustment	$ (46,696)	$ (48,560)
Gain (loss) on interest rate hedge contracts	(1,312)	(2,344)
Cumulative translation adjustment	(823)	(823)
Total	$ (48,831)	$ (51,727)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. The Company does not track assets by segment. Sales and operating earnings by segment for the thirteen and twenty-six weeks ended June 25, 2010 and June 26, 2009 were as follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net Sales				
Industrial	$ 100,461	$ 73,334	$ 197,253	$ 148,566
Contractor	73,782	60,386	124,579	107,834
Lubrication	17,845	13,992	34,977	29,192
Total	$ 192,088	$ 147,712	$ 356,809	$ 285,592
Operating Earnings				
Industrial	$ 29,565	$ 13,435	$ 60,039	$ 24,930
Contractor	13,203	12,043	18,086	13,282
Lubrication	1,868	(1,745)	3,575	(3,181)
Unallocated corporate (expense)	(5,427)	(5,287)	(9,785)	(10,456)
Total	$ 39,209	$ 18,446	$ 71,915	$ 24,575

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7. Major components of inventories were as follows (in thousands):

	June 25, 2010	December 25, 2009
Finished products and components	$ 42,251	$ 36,665
Products and components in various stages of completion	27,270	22,646
Raw materials and purchased components	39,597	31,826
	109,118	91,137
Reduction to LIFO cost	(32,920)	(32,479)
Total	$ 76,198	$ 58,658

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
June 25, 2010					
Customer relationships	3 - 8	$ 41,075	$ (21,748)	$ (181)	$ 19,146
Patents, proprietary technology and product documentation	3 - 10	21,072	(13,548)	(85)	7,439
Trademarks, trade names and other	3 - 10	8,154	(3,690)	-	4,464
		70,301	(38,986)	(266)	31,049
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 73,481	$ (38,986)	$ (266)	$ 34,229
December 25, 2009					
Customer relationships	3 - 8	$ 41,075	$ (18,655)	$ (181)	$ 22,239
Patents, proprietary technology and product documentation	3 - 10	22,862	(13,708)	(87)	9,067
Trademarks, trade names and other	3 - 10	8,154	(2,470)	-	5,684
		72,091	(34,833)	(268)	36,990
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 75,271	$ (34,833)	$ (268)	$ 40,170

Amortization of intangibles was $2.9 million in the second quarter of 2010 and $5.9 million year-to-date. Estimated annual amortization expense is as follows: $11.2 million in 2010, $10.7 million in 2011, $9.1 million in 2012, $4.3 million in 2013, $0.9 million in 2014 and $0.7 million thereafter.

9. Components of other current liabilities were (in thousands):

	June 25, 2010	December 25, 2009
Accrued self-insurance retentions	$ 7,650	$ 7,785
Accrued warranty and service liabilities	6,882	7,437
Accrued trade promotions	4,108	2,953
Payable for employee stock purchases	2,420	5,115
Income taxes payable	2,433	1,550
Other	21,845	22,533
Total other current liabilities	$ 45,338	$ 47,373

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

	Twenty-six Weeks Ended June 25, 2010	Year Ended December 25, 2009
Balance, beginning of year	$ 7,437	$ 8,033
Charged to expense	1,385	4,548
Margin on parts sales reversed	1,295	2,876
Reductions for claims settled	(3,235)	(8,020)
Balance, end of period	$ 6,882	$ 7,437

10. The Company accounts for all derivatives, including those embedded in other contracts, as either assets or liabilities and measures those financial instruments at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

As part of its risk management program, the Company may periodically use forward exchange contracts and interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity. The Company does not hold or issue derivative financial instruments for trading purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In 2007, the Company entered into interest rate swap contracts that effectively fix the rates paid on a total of $80 million of variable rate borrowings. One contract fixed the rate on $40 million of borrowings at 4.7 percent plus the applicable spread (depending on cash flow leverage ratio) until December 2010. The second contract fixed an additional $40 million of borrowings at 4.6 percent plus the applicable spread until January 2011. Both contracts have been designated as cash flow hedges against interest rate volatility. Consequently, changes in the fair market value are recorded in accumulated other comprehensive income (loss) (AOCI). Amounts included in AOCI will be reclassified to earnings as interest rates increase and as the swap contracts approach their expiration dates. Net amounts paid or payable under terms of the contracts were charged to interest expense and totaled $1.8 million in the first half of 2010.

The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts or options, or borrows in various currencies, in order to hedge its net monetary positions. These instruments are recorded at current market values and the gains and losses are included in other expense (income), net. There were seven contracts outstanding as of June 25, 2010, with notional amounts totaling $18 million. The Company believes it uses strong financial counterparts in these transactions and that the resulting credit risk under these hedging strategies is not significant.

The Company uses significant other observable inputs to value the derivative instruments used to hedge interest rate volatility and net monetary positions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	June 25, 2010	December 25, 2009
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ (2,084)	$ (3,722)
Gain (loss) on foreign currency forward contracts			
Gains		$ 84	$ 207
Losses		(431)	(249)
Net	Other current liabilities	$ (347)	$ (42)

Item 2. **GRACO INC. AND SUBSIDIARIES**

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

Overview

The Company designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. Management classifies the Company's business into three reportable segments: Industrial, Contractor and Lubrication. Key strategies include developing and marketing new products, expanding distribution globally, opening new markets with technology and channel expansion and completing strategic acquisitions.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts and percentages):

	Thirteen Weeks Ended			Twenty-six Weeks Ended		
	June 25, 2010	June 26, 2009	% Change	June 25, 2010	June 26, 2009	% Change
Net Sales	$ 192.1	$ 147.7	30%	$ 356.8	$ 285.6	25%
Net Earnings	$ 24.8	$ 11.6	113%	$ 45.4	$ 14.4	215%
Diluted Net Earnings per Common Share	$ 0.41	$ 0.19	116%	$ 0.74	$ 0.24	208%

Sales, gross profit margins and net earnings for the quarter and year-to-date improved significantly compared to last year. Sales increased in all segments and geographic regions. Currency translation had a favorable effect on year-to-date sales ($6 million) and net earnings ($3 million) but there was no significant effect on consolidated results for the quarter.

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Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Americas[1]	$ 110.2	$ 88.3	$ 196.9	$ 168.5
Europe[2]	44.0	34.6	85.8	70.4
Asia Pacific	37.9	24.8	74.1	46.7
Consolidated	$ 192.1	$ 147.7	$ 356.8	$ 285.6

[1] North and South America, including the U.S.

[2] Europe, Africa and Middle East

Sales for the quarter increased 25 percent in the Americas, 27 percent in Europe (33 percent at consistent translation rates) and 53 percent in Asia Pacific (47 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increase of 30 percent. Year-to-date sales increased 17 percent in the Americas, 22 percent in Europe and 59 percent in Asia Pacific (51 percent at consistent translation rates). The overall year-to-date growth rate of 25 percent included 2 percentage points from translation.

Gross profit margin, expressed as a percentage of sales, was 53 percent for the quarter and 53^1/2 percent year-to-date, up from 49^1/2 percent and 48 percent, for the comparable periods last year, respectively. Higher production volume in 2010 was the major factor in the improvement in both the quarter and year-to-date rates. Costs related to workforce reductions lowered the 2009 first-half gross margin rate and the favorable effects of currency translation contributed to the increase in the 2010 year-to-date rate. Selling price increases, lower material and pension costs, and divisional mix also contributed to the increase in margin rates.

Total operating expenses were up $7 million year-to-date. Improved results drove the increase, mainly from higher incentives expense, partially offset by lower pension expense.

The year-to-date effective income tax rate of 35 percent for 2010 was higher than the 32 percent rate for the comparable period of 2009. The federal R&D credit has not been renewed for 2010, so no credit is included in the 2010 rate.

Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net sales (in millions)				
Americas	$ 45.5	$ 35.5	$ 87.4	$ 71.3
Europe	27.1	19.8	55.0	43.7
Asia Pacific	27.9	18.0	54.9	33.6
Total	$ 100.5	$ 73.3	$ 197.3	$ 148.6
Operating earnings as a percentage of net sales	29 %	18 %	30 %	17 %

The Industrial segment had strong sales increases in all regions. For the quarter, sales increased 28 percent in the Americas, 37 percent in Europe (43 percent at consistent translation rates) and 54 percent in Asia Pacific (50 percent at consistent translation rates). Year-to-date sales increased 23 percent in the Americas, 26 percent in Europe and 63 percent in Asia Pacific (57 percent at consistent translation rates).

Higher volume and lower costs and expenses (from actions taken in 2009 and 2008), along with price increases, contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net sales (in millions)				
Americas	$ 51.6	$ 41.0	$ 83.5	$ 72.8
Europe	15.2	14.0	27.8	24.8
Asia Pacific	7.0	5.4	13.3	10.2
Total	$ 73.8	$ 60.4	$ 124.6	$ 107.8
Operating earnings as a percentage of net sales	18 %	20 %	15 %	12 %

For the quarter, Contractor segment sales increased 26 percent in the Americas, 10 percent in Europe (15 percent at consistent translation rates) and 29 percent in Asia Pacific (22 percent at consistent translation rates). Year-to-date sales increased 15 percent in the Americas, 12 percent in Europe and 29 percent in Asia Pacific (21 percent at consistent translation rates).

Stocking shipments of new products contributed to strong second quarter sales, but costs and expenses related to the new product introduction resulted in a small decrease in operating earnings as a percentage of sales.

Lubrication

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 25, 2010	June 26, 2009	June 25, 2010	June 26, 2009
Net sales (in millions)				
Americas	$ 13.2	$ 11.8	$ 26.0	$ 24.4
Europe	1.5	0.8	2.9	1.9
Asia Pacific	3.1	1.4	6.0	2.9
Total	$ 17.8	$ 14.0	$ 34.9	$ 29.2
Operating earnings as a percentage of net sales	10 %	(12)%	10 %	(11)%

For the quarter, Lubrication segment sales increased 12 percent in the Americas. From small bases, sales approximately doubled in Europe and Asia Pacific. Year-to-date, sales increased 7 percent in the Americas, 55 percent in Europe and 108 percent in Asia Pacific.

Higher volume and lower costs and expenses (from actions taken in 2009 and 2008) contributed to the improvement in operating earnings as a percentage of sales.

Liquidity and Capital Resources

In the first half of 2010, the Company used cash to reduce borrowings under its long-term line of credit by $6 million and paid dividends of $24 million. The Company also purchased $10 million of its common stock, of which $6^1/2 million settled in the third quarter and is included in trade accounts payable as of June 25, 2010. Significant uses of cash in the first half of 2009 included $36 million for reduction of borrowings under the long-term line of credit and $23 million for payment of dividends.

Since the end of 2009, inventories increased by $18 million to meet higher demand. Accounts receivable increased by $37 million due to higher sales levels.

At June 25, 2010, the Company had various lines of credit totaling $269 million, of which $178 million was unused. Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2010.

Outlook

Investments in new product development, international sales people and global distribution channel are paying off in the form of improved results. While second quarter is generally the strongest quarter for the Contractor business, management expects modest improvement in end markets in the Americas and Europe over the last half of 2010, and anticipates that activity in Asia Pacific will remain strong.

SAFE HARBOR CAUTIONARY STATEMENT

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, or in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Item 1A and Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes related to market risk from the disclosures made in the Company's 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, the Vice President and Controller, and the Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 18, 2009, the Board of Directors authorized the Company to purchase up to 6,000,000 shares of its outstanding common stock, primarily through open-market transactions. The authorization expires on September 30, 2012.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Mar 27, 2010 – Apr 23, 2010	-	$ -	-	6,000,000
Apr 24, 2010 – May 21, 2010	13,891	$ 32.80	10,000	5,990,000
May 22, 2010 – Jun 25, 2010	313,589	$ 29.73	313,589	5,676,411

Item 6. Exhibits

10.1	Executive Officer Stock Holding Policy adopted by the Graco Inc. Board of Directors on April 23, 2010.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer and Treasurer pursuant to rule 13a-14(a).
32	Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
99.1	Press Release, Reporting Second Quarter Earnings, dated July 21, 2010.
101	Interactive Data File.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date:	July 21, 2010	By:	/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*
Date:	July 21, 2010	By:	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*
Date:	July 21, 2010	By:	/s/ Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*

Exhibit 10.1

Stock Holding Policy for
Executive Officers of the Company *

The Company's Board of Directors has adopted the following stock holding policy reflecting guidelines to align the interests of all of its executive officers with the interests of shareholders:

Except as set forth below, all of the Company's executive officers (except for the Chief Executive Officer who continues to be subject to a previously adopted stock holding requirement policy) (the "Executive Officers") are required to retain, until the effective date of retirement or other termination of employment, an amount equal to 50% of the outstanding "Net Shares" delivered to the Executive Officer pursuant to awards granted under the Company's equity programs (the "50% Stock Holding Requirement"). "Net Shares" are those shares that remain after shares are sold or withheld by the Company to pay the exercise price of stock options, withholding taxes and other transaction costs. Net Shares shall include, but not be limited to, shares acquired through:

(a) stock option exercises;
(b) restricted stock, restricted stock unit or performance share awards;
(c) participation in the Graco Employee Stock Purchase Plan;
(d) dividend reinvestment programs including dividend reinvestments related to shares acquired outside of Company incentive plans; and
(e) stock splits with respect to shares acquired through any of the foregoing.

Upon owning shares of the Company having a fair market value equal to three (3) times the current base salary for Executive Officers reporting directly to the President and Chief Executive Officer and two (2) times the current base salary for Executive Officers reporting to someone other than the President and Chief Executive Officer (the "Ownership Threshold"), and so long as the Executive Officer remains at or above this Ownership Threshold, transactions related to equity awards to which this Policy applies shall be exempt from the 50% Stock Holding Requirement. Shares used to calculate whether the Ownership Threshold has been met include:

(a) Net Shares retained upon option exercise;
(b) restricted stock, whether vested or unvested;
(c) Employee Stock Purchase Plan and Employee Stock Ownership Plan shares;
(d) shares acquired by open market purchase;
(e) shares owned by family members or entities if the Executive Officer would be deemed to beneficially own the shares;
(f) shares obtained through dividend reinvestment or stock split.

To mitigate the effects of stock price volatility, compliance with these guidelines shall be evaluated once each year using the average daily closing price of the Company's common stock during the previous one-year period commencing April 1 through March 31.

This Policy shall apply only to those equity awards made or granted to an Executive Officer after the effective date of this Policy.

The foregoing Policy requirement shall be waived by the Company with regard to an individual Executive Officer upon the effective date of (a) that Executive Officer's "Disability", (b) the death of the Executive Officer, or (c) a "Change of Control", as those terms are defined in that certain Key Employee Agreement between the Company and the Executive Officer, as amended from time to time.

Exhibit 10.1

The Board of Directors has delegated authority to the Company's Chief Executive Officer to determine whether and to what extent (a) special circumstances may warrant the grant by the Company of an exception, hardship or otherwise, to the foregoing holding guidelines, or (b) the extent to which a failure by an individual Executive Officer to comply with the stock holding guidelines set forth in this Policy may warrant further reasonable action to effectuate its intent.

This Policy may be amended, modified, restated, suspended, eliminated, terminated or otherwise changed at any time by the Board of Directors without prior notice to, or consultation with, any Executive Officer.

The effective date of this Policy shall be April 23, 2010.

* The Board previously adopted a stock holding requirement policy for the Company's Chief Executive Officer on February 13, 2009, which policy does not contain an ownership threshold. It is intended that the terms of the previously adopted policy shall continue to apply to the Chief Executive Officer.

Exhibit 31.1

CERTIFICATION

I, Patrick J. McHale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James A. Graner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 32

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: July 21, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Date: July 21, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 99.1

GRACO INC. P.O. Box 1441 Minneapolis, MN 55440-1441 NYSE: GGG

News Release

Wednesday, July 21, 2010

FOR FURTHER INFORMATION:
James A. Graner (612) 623-6635

GRACO REPORTS SECOND QUARTER SALES AND EARNINGS
REVENUE GROWTH DRIVES IMPROVED RESULTS

MINNEAPOLIS, MN (July 21, 2010) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter and six months ended June 25, 2010.

Summary $ in millions except per share amounts

	Thirteen Weeks Ended			Twenty-six Weeks Ended		
	June 25, 2010	June 26, 2009	% Change	June 25, 2010	June 26, 2009	% Change
Net Sales	$ 192.1	$ 147.7	30 %	$ 356.8	$ 285.6	25 %
Net Earnings	24.8	11.6	113 %	45.4	14.4	215 %
Diluted Net Earnings per Common Share	$ 0.41	$ 0.19	116 %	$ 0.74	$ 0.24	208 %

- All divisions and regions had double-digit percentage revenue growth for the quarter and year-to-date.
- Year-to-date gross margin rate of 53 1/2 percent was 5 1/2 percentage points higher than last year's first-half rate.
- Net earnings as a percentage of sales increased to 13 percent for the year-to-date, up from 5 percent for the comparable period last year.

"Revenue growth continued to drive improved earnings in the second quarter," said Patrick J. McHale, President and Chief Executive Officer. "Sales gains were strong worldwide, with Asia Pacific leading the way with a 53 percent increase over last year. New product introductions led to improved results for the Contractor segment and solid sales growth continued in the Industrial and Lubrication segments."

Consolidated Results

Sales for the quarter increased 25 percent in the Americas, 27 percent in Europe (33 percent at consistent translation rates) and 53 percent in Asia Pacific (47 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increase of 30 percent. Year-to-date sales increased 17 percent in the Americas, 22 percent in Europe and 59 percent in Asia Pacific (51 percent at consistent translation rates). The overall year-to-date growth rate of 25 percent included 2 percentage points from translation.

Gross profit margin, expressed as a percentage of sales, was 53 percent for the quarter and 53 1/2 year-to-date, up from 49 1/2 percent and 48 percent, for the comparable periods last year, respectively. Higher production volume in 2010 was the major factor in the improvement in both the quarter and year-to-date rates. Costs related to workforce reductions lowered the 2009 first-half gross margin rate and the favorable effects of currency translation contributed to the increase in the 2010 year-to-date rate. Selling price increases, lower material and pension costs, and divisional mix also contributed to the increase in margin rates.

More . . .

Total operating expenses were up $7 million year-to-date. Improved results drove the increase, mainly from higher incentives expense, partially offset by lower pension expense.

The year-to-date effective income tax rate of 35 percent for 2010 was higher than the 32 percent rate for the comparable period of 2009. The federal R&D credit has not been renewed for 2010, so no credit is included in the 2010 rate.

Segment Results

Certain measurements of segment operations are summarized below:

	Thirteen Weeks			Twenty-six Weeks		
	Industrial	**Contractor**	**Lubrication**	**Industrial**	**Contractor**	**Lubrication**
Net sales (in millions)	$ 100.5	$ 73.8	$ 17.8	$ 197.3	$ 124.6	$ 35.0
Net sales percentage change from last year	37 %	22 %	28 %	33 %	16 %	20 %
Operating earnings as a percentage of net sales						
2010	29 %	18 %	10 %	30 %	15 %	10 %
2009	18 %	20 %	(12)%	17 %	12 %	(11)%

All segments had double-digit percentage sales growth for the quarter and year-to-date. The Industrial segment had strong increases in all regions, including a 54 percent increase for the quarter in Asia Pacific (63 percent year-to-date). Stocking shipments of new products contributed to strong second quarter sales in Contractor (up 22 percent for the quarter and 16 percent year-to-date). Costs and expenses related to the new product introduction contributed to a small decrease in Contractor's operating earnings as a percentage of sales. Lubrication sales increased 28 percent for the quarter and 20 percent year-to-date, with large increases on small bases in Europe and Asia Pacific. Improved year-to-date operating earnings of all segments reflect the effects of higher sales and the lower cost structure resulting from workforce and other spending reduction actions taken in the fourth quarter of 2008 and the first quarter of 2009.

Outlook

"Investments in new product development, international sales people and our global distribution channel are paying dividends in the form of improved results," said Patrick J. McHale, President and Chief Executive Officer. "We saw strong growth in Asia Pacific and Europe in the second quarter, and Industrial segment sales increased by 37 percent. We expect that activity in Asia will remain strong. While second quarter is generally the strongest quarter for our Contractor business, we look for modest improvement in end markets in the Americas and Europe over the last half of 2010."

More . . .

Cautionary Statement Regarding Forward-Looking Statements

A forward-looking statement is any statement made in this earnings release and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press releases, analyst briefings, conference calls and the Company's Annual Report to shareholders, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time it is made. All forecasts and projections are forward-looking statements. The Company undertakes no obligation to update these statements in light of new information or future events.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 (and most recent Form 10-Q, if applicable) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at www.sec.gov.

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, July 22, 2010, at 11:00 a.m. ET, to discuss Graco's second quarter results.

A real-time Webcast of the conference call will be broadcast live over the Internet. Individuals wanting to listen and view slides can access the call at the Company's website at www.graco.com. Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2:00 p.m. ET on July 22, 2010, by dialing 800.406.7325, Conference ID #4323043, if calling within the U.S. or Canada. The dial-in number for international participants is 303.590.3030, with the same Conference ID #. The replay by telephone will be available through July 25, 2010.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

More . . .

GRACO INC. AND SUBSIDIARIES
Consolidated Statement of Earnings (Unaudited)

(in thousands, except per share amounts)	Thirteen Weeks Ended June 25, 2010	Thirteen Weeks Ended June 26, 2009	Twenty-six Weeks Ended June 25, 2010	Twenty-six Weeks Ended June 26, 2009
Net Sales	$ 192,088	$ 147,712	$ 356,809	$ 285,592
Cost of products sold	90,168	74,704	165,594	148,256
Gross Profit	101,920	73,008	191,215	137,336
Product development	9,472	9,781	18,946	19,832
Selling, marketing and distribution	32,647	28,292	61,807	60,225
General and administrative	20,592	16,489	38,547	32,704
Operating Earnings	39,209	18,446	71,915	24,575
Interest expense	1,041	1,221	2,121	2,587
Other expense (income), net	(268)	91	(107)	686
Earnings Before Income Taxes	38,436	17,134	69,901	21,302
Income taxes	13,600	5,500	24,500	6,900
Net Earnings	$ 24,836	$ 11,634	$ 45,401	$ 14,402
Net Earnings per Common Share				
Basic	$ 0.41	$ 0.19	$ 0.75	$ 0.24
Diluted	$ 0.41	$ 0.19	$ 0.74	$ 0.24
Weighted Average Number of Shares				
Basic	60,597	59,903	60,402	59,770
Diluted	61,184	60,183	60,948	60,043

Segment Information (Unaudited)

	Thirteen Weeks Ended June 25, 2010	Thirteen Weeks Ended June 26, 2009	Twenty-six Weeks Ended June 25, 2010	Twenty-six Weeks Ended June 26, 2009
Net Sales				
Industrial	$ 100,461	$ 73,334	$ 197,253	$ 148,566
Contractor	73,782	60,386	124,579	107,834

Lubrication	17,845	13,992	34,977	29,192
Total	$ 192,088	$ 147,712	$ 356,809	$ 285,592
Operating Earnings				
Industrial	$ 29,565	$ 13,435	$ 60,039	$ 24,930
Contractor	13,203	12,043	18,086	13,282
Lubrication	1,868	(1,745)	3,575	(3,181)
Unallocated corporate (expense)	(5,427)	(5,287)	(9,785)	(10,456)
Total	$ 39,209	$ 18,446	$ 71,915	$ 24,575

All figures are subject to audit and adjustment at the end of the fiscal year.

The consolidated Balance Sheets, Consolidated Statements of Cash Flows and Management's Discussion and Analysis are available in our Quarterly Report on Form 10-Q on our website at www.graco.com

# # #

GRACO INC (GGG)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 10/20/2010
Filed Period 09/24/2010

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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 24, 2010**

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	55413
(Address of principal executive offices)	(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 X 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

59,878,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of October 14, 2010.

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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 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net Sales	$ 189,963	$ 147,308	$ 546,772	$ 432,900
Cost of products sold	85,405	69,167	250,999	217,423
Gross Profit	104,558	78,141	295,773	215,477
Product development	9,263	8,752	28,209	28,584
Selling, marketing and distribution	33,280	26,589	95,087	86,814
General and administrative	18,592	16,613	57,139	49,317
Operating Earnings	43,423	26,187	115,338	50,762
Interest expense	1,038	1,148	3,159	3,735
Other expense (income), net	254	203	147	889
Earnings Before Income Taxes	42,131	24,836	112,032	46,138
Income taxes	11,700	7,500	36,200	14,400
Net Earnings	$ 30,431	$ 17,336	$ 75,832	$ 31,738
Basic Net Earnings per Common Share	$ 0.51	$ 0.29	$ 1.26	$ 0.53
Diluted Net Earnings per Common Share	$ 0.50	$ 0.29	$ 1.25	$ 0.53
Cash Dividends Declared per Common Share	$ 0.20	$ 0.19	$ 0.60	$ 0.57

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	Sep 24, 2010	Dec 25, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,666	$ 5,412
Accounts receivable, less allowances of $5,300 and $6,500	135,583	100,824
Inventories	85,342	58,658
Deferred income taxes	20,441	20,380
Other current assets	2,636	3,719
Total current assets	253,668	188,993
Property, Plant and Equipment		
Cost	340,287	334,440
Accumulated depreciation	(207,963)	(195,387)
Property, plant and equipment, net	132,324	139,053
Goodwill	91,740	91,740
Other Intangible Assets, net	31,274	40,170
Deferred Income Taxes	9,618	8,372
Other Assets	8,516	8,106
Total Assets	$ 527,140	$ 476,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 11,066	$ 12,028
Trade accounts payable	24,869	17,983
Salaries and incentives	29,059	14,428
Dividends payable	11,977	12,003
Other current liabilities	46,338	47,373
Total current liabilities	123,309	103,815
Long-term Debt	90,000	86,260
Retirement Benefits and Deferred Compensation	65,977	73,705
Uncertain Tax Positions	-	3,000
Shareholders' Equity		
Common stock	59,868	59,999
Additional paid-in-capital	205,353	190,261
Retained earnings	30,035	11,121
Accumulated other comprehensive income (loss)	(47,402)	(51,727)
Total shareholders' equity	247,854	209,654
Total Liabilities and Shareholders' Equity	$ 527,140	$ 476,434

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009
Cash Flows From Operating Activities		
Net Earnings	$ 75,832	$ 31,738
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	25,496	26,200
Deferred income taxes	(3,848)	4,671
Share-based compensation	7,339	7,441
Excess tax benefit related to share-based payment arrangements	(1,000)	(300)
Change in		
Accounts receivable	(34,845)	22,434
Inventories	(26,740)	30,745
Trade accounts payable	6,892	(2,050)
Salaries and incentives	14,637	(3,853)
Retirement benefits and deferred compensation	(2,810)	(4,741)
Other accrued liabilities	(258)	(2,437)
Other	1,744	313
Net cash provided by operating activities	62,439	110,161
Cash Flows From Investing Activities		
Property, plant and equipment additions	(9,416)	(9,375)
Proceeds from sale of property, plant and equipment	180	615
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(342)	(501)
Net cash used in investing activities	(11,077)	(10,760)
Cash Flows From Financing Activities		
Net borrowings (payments) on short-term lines of credit	(334)	(4,700)
Borrowings on long-term line of credit	10,000	75,491
Payments on long-term line of credit	(6,260)	(148,127)
Excess tax benefit related to share-based payment arrangements	1,000	300
Common stock issued	9,667	6,119
Common stock retired	(24,218)	(157)
Cash dividends paid	(36,171)	(34,069)
Net cash provided by (used in) financing activities	(46,316)	(105,143)
Effect of exchange rate changes on cash	(792)	(1,313)
Net increase (decrease) in cash and cash equivalents	4,254	(7,055)
Cash and cash equivalents:		
Beginning of year	5,412	12,119
End of period	$ 9,666	$ 5,064

See notes to consolidated financial statements

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of September 24, 2010 and the related statements of earnings for the thirteen and thirty-nine weeks ended September 24, 2010 and September 25, 2009, and cash flows for the thirty-nine weeks ended September 24, 2010 and September 25, 2009 have been prepared by the Company and have not been audited.

   In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of September 24, 2010, and the results of operations and cash flows for all periods presented.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K.

   The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net earnings available to common shareholders	$ 30,431	$ 17,336	$ 75,832	$ 31,738
Weighted average shares outstanding for basic earnings per share	60,107	59,940	60,304	59,827
Dilutive effect of stock options computed using the treasury stock method and the average market price	517	374	536	306
Weighted average shares outstanding for diluted earnings per share	60,624	60,314	60,840	60,133
Basic earnings per share	$ 0.51	$ 0.29	$ 1.26	$ 0.53
Diluted earnings per share	$ 0.50	$ 0.29	$ 1.25	$ 0.53

Stock options to purchase 2,965,000 and 2,834,000 shares were not included in the 2010 and 2009 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

3. Information on option shares outstanding and option activity for the thirty-nine weeks ended September 24, 2010 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 25, 2009	4,813	$ 28.98	2,445	$ 28.38
Granted	827	27.80		
Exercised	(251)	12.54		
Canceled	(61)	32.23		
Outstanding, September 24, 2010	5,328	$ 29.53	2,841	$ 30.41

The Company recognized year-to-date share-based compensation of $7.3 million in 2010 and $7.7 million in 2009. As of September 24, 2010, there was $7.3 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009
Expected life in years	6.0	6.0
Interest rate	2.7 %	2.1 %
Volatility	34.0 %	30.1 %
Dividend yield	3.0 %	3.7 %
Weighted average fair value per share	$ 7.38	$ 4.27

Under the Company's Employee Stock Purchase Plan, the Company issued 436,000 shares in 2010 and 312,000 shares in 2009. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009
Expected life in years	1.0	1.0
Interest rate	0.3 %	0.7 %
Volatility	42.8 %	51.5 %
Dividend yield	2.9 %	4.5 %
Weighted average fair value per share	$ 8.48	$ 5.60

4. The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Pension Benefits				
Service cost	$ 1,038	$ 1,078	$ 3,173	$ 3,498
Interest cost	3,160	2,926	9,575	9,261
Expected return on assets	(3,564)	(2,593)	(10,364)	(8,143)
Amortization and other	1,547	2,034	4,599	6,761
Net periodic benefit cost	$ 2,181	$ 3,445	$ 6,983	$ 11,377
Postretirement Medical				
Service cost	$ 138	$ 174	$ 413	$ 424
Interest cost	310	335	930	985
Amortization	(50)	(45)	(145)	(45)
Net periodic benefit cost	$ 398	$ 464	$ 1,198	$ 1,364

The Company made voluntary tax-deductible contributions to its funded defined benefit plan in the amount of $10 million in the third quarter of 2010 and $15 million in the third quarter of 2009.

The Company paid $1.5 million in June 2010 and $1.5 million in June 2009 for contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans. These insurance contracts will be used to fund the non-qualified pension and deferred compensation arrangements. The insurance contracts are held in a trust and are available to general creditors in the event of the Company's insolvency. Cash surrender value of $6.0 million and $4.4 million is included in other assets in the consolidated balance sheet as of September 24, 2010 and December 25, 2009, respectively.

5. Total comprehensive income was as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net earnings	$ 30,431	$ 17,336	$ 75,832	$ 31,738
Cumulative translation adjustment	-	-	-	234
Pension and postretirement medical liability adjustment	1,507	2,432	4,466	7,183
Gain (loss) on interest rate hedge contracts	763	303	2,401	594
Income taxes	(841)	(1,011)	(2,542)	(2,877)
Comprehensive income	$ 31,860	$ 19,060	$ 80,157	$ 36,872

Components of accumulated other comprehensive income (loss) were (in thousands):

	Sep 24, 2010	Dec 25, 2009
Pension and postretirement medical liability adjustment	$ (45,747)	$ (48,560)
Gain (loss) on interest rate hedge contracts	(832)	(2,344)
Cumulative translation adjustment	(823)	(823)
Total	$ (47,402)	$ (51,727)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. The Company does not track assets by segment. Sales and operating earnings by segment for the thirteen and thirty-nine weeks ended September 24, 2010 and September 25, 2009 were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net Sales				
Industrial	$ 99,236	$ 78,242	$ 296,489	$ 226,808
Contractor	70,362	55,379	194,941	163,213
Lubrication	20,365	13,687	55,342	42,879
Total	$ 189,963	$ 147,308	$ 546,772	$ 432,900
Operating Earnings				
Industrial	$ 31,195	$ 20,332	$ 91,234	$ 45,262
Contractor	13,753	11,138	31,839	24,420
Lubrication	2,751	(167)	6,326	(3,348)
Unallocated corporate (expense)	(4,276)	(5,116)	(14,061)	(15,572)
Total	$ 43,423	$ 26,187	$ 115,338	$ 50,762

7. Major components of inventories were as follows (in thousands):

	Sep 24, 2010	Dec 25, 2009
Finished products and components	$ 48,690	$ 36,665
Products and components in various stages of completion	28,742	22,646
Raw materials and purchased components	41,284	31,826
	118,716	91,137
Reduction to LIFO cost	(33,374)	(32,479)
Total	$ 85,342	$ 58,658

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
September 24, 2010					
Customer relationships	3 - 8	$ 41,075	$ (23,294)	$ (181)	$ 17,600
Patents, proprietary technology and product documentation	3 - 10	21,072	(14,347)	(85)	6,640
Trademarks, trade names and other	3 - 10	8,154	(4,300)	-	3,854
		70,301	(41,941)	(266)	28,094
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 73,481	$ (41,941)	$ (266)	$ 31,274
December 25, 2009					
Customer relationships	3 - 8	$ 41,075	$ (18,655)	$ (181)	$ 22,239
Patents, proprietary technology and product documentation	3 - 10	22,862	(13,708)	(87)	9,067
Trademarks, trade names and other	3 - 10	8,154	(2,470)	-	5,684
		72,091	(34,833)	(268)	36,990
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 75,271	$ (34,833)	$ (268)	$ 40,170

Amortization of intangibles was $3.0 million in the third quarter of 2010 and $8.9 million year-to-date. Estimated annual amortization expense is as follows: $11.8 million in 2010, $10.7 million in 2011, $8.8 million in 2012, $4.1 million in 2013, $0.9 million in 2014 and $0.7 million thereafter.

9. Components of other current liabilities were (in thousands):

	Sep 24, 2010	Dec 25, 2009
Accrued self-insurance retentions	$ 7,282	$ 7,785
Accrued warranty and service liabilities	6,815	7,437
Accrued trade promotions	4,757	2,953
Payable for employee stock purchases	4,040	5,115
Income taxes payable	2,739	1,550
Other	20,705	22,533
Total other current liabilities	$ 46,338	$ 47,373

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

	Thirty-nine Weeks Ended Sep 24, 2010	Year Ended Dec 25, 2009
Balance, beginning of year	$ 7,437	$ 8,033
Charged to expense	2,203	4,548
Margin on parts sales reversed	1,921	2,876
Reductions for claims settled	(4,746)	(8,020)
Balance, end of period	$ 6,815	$ 7,437

10. The Company accounts for all derivatives, including those embedded in other contracts, as either assets or liabilities and measures those financial instruments at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

As part of its risk management program, the Company may periodically use forward exchange contracts and interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity. The Company does not hold or issue derivative financial instruments for trading purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In 2007, the Company entered into interest rate swap contracts that effectively fix the rates paid on a total of $80 million of variable rate borrowings. One contract fixed the rate on $40 million of borrowings at 4.7 percent plus the applicable spread (depending on cash flow leverage ratio) until December 2010. The second contract fixed an additional $40 million of borrowings at 4.6 percent plus the applicable spread until January 2011. Both contracts have been designated as cash flow hedges against interest rate volatility. Consequently, changes in the fair market value are recorded in accumulated other comprehensive income (loss) (AOCI). Amounts included in AOCI will be reclassified to earnings as interest rates increase and as the swap contracts approach their expiration dates. Net amounts paid or payable under terms of the contracts were charged to interest expense and totaled $2.6 million in the first nine months of 2010.

The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts or options, or borrows in various currencies, in order to hedge its net monetary positions. These instruments are recorded at current market values and the gains and losses are included in other expense (income), net. There were seven contracts outstanding as of September 24, 2010, with notional amounts totaling $20 million. The Company believes it uses strong financial counterparts in these transactions and that the resulting credit risk under these hedging strategies is not significant.

The Company uses significant other observable inputs to value the derivative instruments used to hedge interest rate volatility and net monetary positions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	Sep 24, 2010	Dec 25, 2009
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ (1,321)	$ (3,722)
Gain (loss) on foreign currency forward contracts			
Gains		$ 42	$ 207
Losses		(280)	(249)
Net	Other current liabilities	$ (238)	$ (42)

Item 2. GRACO INC. AND SUBSIDIARIES

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

Overview

The Company designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. Management classifies the Company's business into three reportable segments: Industrial, Contractor and Lubrication. Key strategies include developing and marketing new products, expanding distribution globally, opening new markets with technology and channel expansion and completing strategic acquisitions.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts and percentages):

	Thirteen Weeks Ended			Thirty-nine Weeks Ended		
	Sep 24, 2010	Sep 25, 2009	% Change	Sep 24, 2010	Sep 25, 2009	% Change
Net Sales	$ 190.0	$ 147.3	29%	$ 546.8	$ 432.9	26%
Net Earnings	$ 30.4	$ 17.3	76%	$ 75.8	$ 31.7	139%
Diluted Net Earnings per Common Share	$ 0.50	$ 0.29	72%	$ 1.25	$ 0.53	136%

All segments and geographic regions had double-digit percentage revenue growth for both the quarter and year-to-date. Volume increases drove improvements in gross margin rates and net earnings. Currency translation did not have a significant effect on consolidated results for the quarter or year-to-date.

Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Americas[1]	$ 108.7	$ 84.1	$ 305.6	$ 252.6
Europe[2]	43.4	35.6	129.2	105.9
Asia Pacific	37.9	27.6	112.0	74.4
Consolidated	$ 190.0	$ 147.3	$ 546.8	$ 432.9

[1] North and South America, including the U.S.

[2] Europe, Africa and Middle East

Sales for the quarter increased 29 percent in the Americas, 22 percent in Europe (32 percent at consistent translation rates) and 37 percent in Asia Pacific (33 percent at consistent translation rates). Year-to-date sales increased 21 percent in the Americas, 22 percent in Europe (25 percent at consistent translation rates) and 51 percent in Asia Pacific (45 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increases of 29 percent for the quarter and 26 percent year-to-date.

Gross profit margin, expressed as a percentage of sales, was 55 percent for the quarter and 54 percent year-to-date, up from 53 percent and 50 percent, for the comparable periods last year, respectively. Higher production volume in 2010 was the major factor in the improvement in both the quarter and year-to-date rates. Selling price increases and lower pension costs contributed to the increase in margin rates. Costs related to workforce reductions lowered the 2009 nine-month gross margin rate.

Total operating expenses increased $9 million for the quarter and $16 million year-to-date. Higher incentives expense, driven by improved results, accounted for most of the increase in both the quarter and year-to-date. As a percentage of sales, operating expenses decreased to 32 percent for the quarter and 33 percent year-to-date, from 35 percent and 38 percent for the comparable periods last year.

The effective income tax rate of 28 percent for the quarter reflects the effects of expiring statutes of limitations and recent tax law rulings. The year-to-date effective income tax rate of 32 percent for 2010 was higher than the 31 percent rate for the comparable period of 2009. The federal R&D credit has not been renewed for 2010, so no credit is included in the 2010 rate.

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Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net sales (in millions)				
Americas	$ 46.7	$ 37.0	$ 134.1	$ 108.3
Europe	25.6	22.0	80.6	65.7
Asia Pacific	26.9	19.2	81.8	52.8
Total	$ 99.2	$ 78.2	$ 296.5	$ 226.8
Operating earnings as a percentage of net sales	31 %	26 %	31 %	20 %

Industrial segment sales for the quarter increased 26 percent in the Americas, 16 percent in Europe (25 percent at consistent translation rates) and 40 percent in Asia Pacific (36 percent at consistent translation rates). Year-to-date sales increased 24 percent in the Americas, 23 percent in Europe and 55 percent in Asia Pacific (49 percent at consistent translation rates).

Higher volume and leveraging of expenses, along with price increases, contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net sales (in millions)				
Americas	$ 46.8	$ 36.2	$ 130.2	$ 109.0
Europe	16.2	12.5	44.1	37.3
Asia Pacific	7.4	6.7	20.6	16.9
Total	$ 70.4	$ 55.4	$ 194.9	$ 163.2
Operating earnings as a percentage of net sales	20 %	20 %	16 %	15 %

Contractor segment sales for the quarter increased 29 percent in the Americas, 30 percent in Europe (41 percent at consistent translation rates) and 10 percent in Asia Pacific (7 percent at consistent translation rates). Year-to-date sales increased 20 percent in the Americas, 18 percent in Europe (22 percent at consistent translation rates) and 22 percent in Asia Pacific (16 percent at consistent translation rates). Sales of new products contributed to the increased pace of sales in the third quarter.

Operating margin percentages were steady compared to last year as the favorable effects of higher volume were offset by costs and expenses related to new product introductions.

Lubrication

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 24, 2010	Sep 25, 2009	Sep 24, 2010	Sep 25, 2009
Net sales (in millions)				
Americas	$ 15.2	$ 10.9	$ 41.2	$ 35.4
Europe	1.6	1.1	4.5	2.9
Asia Pacific	3.6	1.7	9.6	4.6
Total	$ 20.4	$ 13.7	$ 55.3	$ 42.9
Operating earnings as a percentage of net sales	14 %	(1)%	11 %	(8)%

Lubrication segment sales for the quarter increased 39 percent in the Americas. From small bases, sales increased 49 percent in Europe and approximately doubled in Asia Pacific. Year-to-date sales increased 17 percent in the Americas, 53 percent in Europe and 111 percent in Asia Pacific.

Higher volume, actions to reduce product costs, leveraging of expenses and price increases contributed to the improvement in operating earnings as a percentage of sales.

Liquidity and Capital Resources

In the first nine months of 2010, the Company paid dividends of $36 million and purchased $24 million of its common stock. The Company also made a $10 million voluntary contribution to a funded defined benefit pension plan. Significant uses of cash in the first nine months of 2009 included $73 million for reduction of borrowings under the long-term line of credit, $34 million for payment of dividends and $15 million for a contribution to a funded pension plan.

Since the end of 2009, inventories increased by $27 million to meet higher demand. Accounts receivable increased by $35 million due to higher sales levels.

At September 24, 2010, the Company had various lines of credit totaling $270 million, of which $171 million was unused. Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2010.

Outlook

During the recession, the Company continued to invest in new product development and international expansion. Management is pleased with the resulting flow of new products and the strengthened teams, infrastructure and channel in Europe and Asia Pacific that are contributing to sales and earnings growth. Although management expects construction markets in the U.S. and parts of Europe will remain in difficult shape for the near-term, we are optimistic that the global industrial recovery will continue.

SAFE HARBOR CAUTIONARY STATEMENT

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, or in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Item 1A and Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes related to market risk from the disclosures made in the Company's 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, the Vice President and Controller, and the Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective.

Changes in internal controls

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 18, 2009, the Board of Directors authorized the Company to purchase up to 6,000,000 shares of its outstanding common stock, primarily through open-market transactions. The authorization expires on September 30, 2012.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Jun 26, 2010 – Jul 23, 2010	86,411	$ 29.30	86,411	5,590,000
Jul 24, 2010 – Aug 20, 2010	215,000	$ 29.58	215,000	5,375,000
Aug 21, 2010 – Sep 24, 2010	195,362	$ 28.13	195,362	5,179,638

Item 6. Exhibits

10.1	Graco Restoration Plan (2005 Statement). Fifth Amendment adopted September 16, 2010.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer and Treasurer pursuant to rule 13a-14(a).
32	Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
99.1	Press Release, Reporting Third Quarter Earnings, dated October 20, 2010.
101	Interactive Data File.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date:	October 20, 2010	By:	/s/ Patrick J. McHale Patrick J. McHale President and Chief Executive Officer *(Principal Executive Officer)*
Date:	October 20, 2010	By:	/s/ James A. Graner James A. Graner Chief Financial Officer and Treasurer *(Principal Financial Officer)*
Date:	October 20, 2010	By:	/s/ Caroline M. Chambers Caroline M. Chambers Vice President and Controller *(Principal Accounting Officer)*

Exhibit 10.1

FIFTH AMENDMENT
GRACO RESTORATION PLAN
(2005 Statement)

Graco Inc. has established and maintains a nonqualified deferred compensation plan (the "Plan") which, in its most recent amended and restated form, is embodied in a document entitled "GRACO RESTORATION PLAN (2005 Statement)," effective January 1, 2005 (as amended, the "Plan Statement") The amendment to the Plan set forth below is not intended to make any change in the documentation or operation of the Plan that would cause a violation of section 409A of the Internal Revenue Code or its accompanying regulations. If any change that occurs as a result of this amendment is determined to be a violation of section 409A, this amendment shall be ineffective and shall be disregarded in the administration of the Plan. Subject to the limitation stated above, the Plan is hereby amended as follows:

1. ONE-TIME ELECTION. Effective October 1, 2010, a new Section 7.1.2(e) is added to the Plan Statement that reads as follows:

(e) **One-Time Election**. If a Participant is an active employee of an Employer on October 1, 2010 and has accrued benefits under the Plan, the Participant shall be eligible to make a one-time election as described in this Section 7.1.2(e) with respect to the form of payment for benefits accrued under the Plan on and after January 1, 2011. The following rules shall apply if a Participant makes the one-time election provided for under this paragraph:

(i) The election provided for under this paragraph may be made only once with respect to the benefits accrued on and after January 1, 2011. A one-time election form shall be completed, signed and returned to Graco's Vice President-Human Resources on or before December 1, 2010.

(ii) On and after January 1, 2011, a Participant may make a subsequent election to change the form of payment of the benefits for which a one-time election has been made (benefits accrued on and after January 1, 2011), provided that the Participant complies with the provisions of Section 7.1.2(b) of the Plan. The Participant may also make a separate subsequent election pursuant to the provisions of Section 7.1.2(b) with respect to the benefits the Participant accrued prior to January 1, 2011.

(iii) If a Participant's benefits under the Plan on or after January 1, 2011 exceed the Participant's benefits as of December 31, 2010, the excess amount shall be subject to the one-time election (if any) made by the Participant between October 1, 2010 and December 1, 2010.

(iv) If a Participant makes a one-time election, this Section 7.1.2(e) is intended to bifurcate the Participant's benefits under the Plan into (1) benefits accrued prior to January 1, 2011 and (2) benefits accrued on and after January 1, 2011. The Participant's benefits accrued as of December 31, 2010 shall be calculated in accordance with the provisions of the Plan and the guidance provided under section 409A of the Code.

Any change in the amount of benefits accrued under the Plan is not intended to impermissibly accelerate or delay payment of those benefits within the meaning of section 409A of the Code. The intent is to freeze the benefits accrued as of December 31, 2010, so that no benefits are shifted from being paid under one form of payment to being paid under any other form of payment. If, at the time that the distribution of the Participant's benefits is to commence, the Participant's benefit exceeds the amount of the Participant's benefit as of December 31, 2010, the additional amount shall be paid as directed by the Participant in the one-time election made between October 1, 2010 and December 1, 2010, as modified by any subsequent election made pursuant to Section 7.1.2(b) with respect to benefits accrued on and after January 1, 2011. If, at the time that the distribution of the Participant's benefits is to commence, the Participant's benefit is equal to or less than the amount of the Participant's benefits as of December 31, 2010, the one-time election shall not apply and all of the Participant's benefits shall be paid as provided by the Plan as modified by any subsequent election with respect to the benefits accrued as of December 31, 2010, made pursuant to Section 7.1.2(b)

(v) If a Participant does not make the one-time election provided for in this Section 7.1.2(e), then the provisions of this Section 7.1.2(e) shall not apply. No Participant shall be eligible to make the one-time election provided for under Section 7.1.2(e) after December 31, 2010.

(vi) The Committee shall have complete discretion to interpret this Section 7.1.2(e) and to determine the Participant's benefit in a manner consistent with the intent of Section 7.1.2(e) and section 409A of the Code. The Committee may resolve questions regarding, and make adjustments to, the factors (such as compensation and years of service) used to calculate a Participant's benefits.

2. SAVINGS CLAUSE. Save and except as hereinabove expressly amended, the Plan Statement shall continue in full force and effect.

Exhibit 31.1

CERTIFICATION

I, Patrick J. McHale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2010

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James A. Graner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2010

/s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

Exhibit 32

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date:	October 20, 2010	/s/ Patrick J. McHale
		Patrick J. McHale President and Chief Executive Officer
Date:	October 20, 2010	/s/ James A. Graner
		James A. Graner Chief Financial Officer and Treasurer

Exhibit 99.1

News Release

GRACO INC. P.O. Box 1441 Minneapolis, MN 55440-1441 NYSE: GGG

FOR IMMEDIATE RELEASE: Wednesday, October 20, 2010 **FOR FURTHER INFORMATION:** James A. Graner (612) 623-6635

GRACO REPORTS THIRD QUARTER SALES AND EARNINGS
REVENUE GROWTH DRIVES IMPROVED RESULTS

MINNEAPOLIS, MN (October 20, 2010) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter and nine months ended September 24, 2010.

Summary $ in millions except per share amounts

	Thirteen Weeks Ended			Thirty-nine Weeks Ended		
	Sep 24, 2010	**Sep 25, 2009**	**% Change**	**Sep 24, 2010**	**Sep 25, 2009**	**% Change**
Net Sales	$ 190.0	$ 147.3	29 %	$ 546.8	$ 432.9	26 %
Net Earnings	30.4	17.3	76 %	75.8	31.7	139 %
Diluted Net Earnings per Common Share	$ 0.50	$ 0.29	72 %	$ 1.25	$ 0.53	136 %

- All divisions and regions had double-digit percentage revenue growth for the quarter and year-to-date.
- Year-to-date gross margin rate of 54 percent was 4 percentage points higher than the rate for the comparable period last year.
- Return on sales for the quarter was 16 percent, up from 12 percent for the third quarter last year. Year-to-date return on sales was 14 percent, up from 7 percent for the comparable period last year.
- Sales of new products contributed to third-quarter growth in the Contractor segment.
- Strong sales growth in Asia Pacific continued (up 37 percent for the quarter and 51 percent year-to-date).

"Revenue growth continued to drive improved earnings," said Patrick J. McHale, President and Chief Executive Officer. "Sales gains were strong worldwide, with increases in excess of 20 percent in all regions. We are particularly pleased with the revenue performance of our Contractor segment, which was able to grow with new products despite the depressed conditions in major construction markets. Operating margins in our Industrial and Lubrication businesses improved nicely on strong top-line performance, driven by improved economic conditions, new products and solid global execution."

Consolidated Results

Sales for the quarter increased 29 percent in the Americas, 22 percent in Europe (32 percent at consistent translation rates) and 37 percent in Asia Pacific (33 percent at consistent translation rates). Year-to-date sales increased 21 percent in the Americas, 22 percent in Europe (25 percent at consistent translation rates) and 51 percent in Asia Pacific (45 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increases of 29 percent for the quarter and 26 percent year-to-date.

Gross profit margin, expressed as a percentage of sales, was 55 percent for the quarter and 54 percent year-to-date, up from 53 percent and 50 percent, for the comparable periods last year. Higher production volume in 2010 was the

More . . .

major factor in the improvement in both the quarter and year-to-date rates. Selling price increases and lower pension costs contributed to the increase in margin rates. Costs related to workforce reductions lowered the 2009 nine-month gross margin rate.

Total operating expenses increased $9 million for the quarter and $16 million year-to-date. Higher incentives expense, from improved results, accounted for most of the increase in both the quarter and year-to-date. As a percentage of sales, operating expenses decreased to 32 percent for the quarter and 33 percent year-to-date, from 35 percent and 38 percent for the comparable periods last year.

The effective income tax rate of 28 percent for the quarter reflects the effects of expiring statutes of limitations and recent tax law rulings. The year-to-date effective income tax rate of 32 percent for 2010 was higher than the 31 percent rate for the comparable period of 2009. The federal R&D credit has not been renewed for 2010, so no credit is included in the 2010 rate.

Segment Results

Certain measurements of segment operations are summarized below:

	Thirteen Weeks			Thirty-nine Weeks		
	Industrial	Contractor	Lubrication	Industrial	Contractor	Lubrication
Net sales (in millions)	$ 99.2	$ 70.4	$ 20.4	$ 296.5	$ 194.9	$ 55.3
Net sales percentage change from last year	27 %	27 %	49 %	31 %	19 %	29 %
Operating earnings as a percentage of net sales						
2010	31 %	20 %	14 %	31 %	16 %	11 %
2009	26 %	20 %	(1)%	20 %	15 %	(8)%

Industrial segment sales increased 27 percent for the quarter and 31 percent year-to-date, with the strongest percentage growth in Asia Pacific (up 40 percent for the quarter and 55 percent year-to-date). Contractor segment sales increased 27 percent for the quarter and 19 percent year-to-date, including gains for the quarter of 29 percent in the Americas and 30 percent in Europe (41 percent at consistent translation rates). Sales of new products boosted third quarter sales in the Contractor segment. Lubrication segment sales increased 49 percent for the quarter and 29 percent year-to-date, with strong increases in all regions.

Higher volume and leveraging of expenses drove continued improvement in operating earnings, particularly in the Industrial and Lubrication segments. In the Contractor segment, operating margin percentages were steady as the favorable effects of higher volume were offset by costs and expenses related to new product introductions.

Outlook

"Although we expect construction markets in the U.S. and parts of Europe will remain in difficult shape for the near-term, we are optimistic that the global industrial recovery will continue," said Patrick J. McHale, President and Chief Executive Officer. "During the recession, we continued to invest heavily in new product development and international expansion. We are pleased with the resulting flow of exciting new products, from every division, that are contributing to our growth performance, and with the continued strengthening of our teams, infrastructure and channel in Europe and Asia Pacific. "

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Cautionary Statement Regarding Forward-Looking Statements

A forward-looking statement is any statement made in this earnings release and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press releases, analyst briefings, conference calls and the Company's Annual Report to shareholders, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time it is made. All forecasts and projections are forward-looking statements. The Company undertakes no obligation to update these statements in light of new information or future events.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2009 (and most recent Form 10-Q, if applicable) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at www.sec.gov.

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, October 21, 2010, at 11:00 a.m. ET, to discuss Graco's third quarter results.

A real-time Webcast of the conference call will be broadcast live over the Internet. Individuals wanting to listen and view slides can access the call at the Company's website at www.graco.com. Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2:00 p.m. ET on October 21, 2010, by dialing 800-406-7325, Conference ID #4370547, if calling within the U.S. or Canada. The dial-in number for international participants is 303-590-3030, with the same Conference ID #. The replay by telephone will be available through October 24, 2010.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

More . . .

GRACO INC. AND SUBSIDIARIES Consolidated Statement of Earnings (Unaudited)

(in thousands, except per share amounts)	Thirteen Weeks Ended Sep 24, 2010	Thirteen Weeks Ended Sep 25, 2009	Thirty-nine Weeks Ended Sep 24, 2010	Thirty-nine Weeks Ended Sep 25, 2009
Net Sales	$ 189,963	$ 147,308	$ 546,772	$ 432,900
Cost of products sold	85,405	69,167	250,999	217,423
Gross Profit	104,558	78,141	295,773	215,477
Product development	9,263	8,752	28,209	28,584
Selling, marketing and distribution	33,280	26,589	95,087	86,814
General and administrative	18,592	16,613	57,139	49,317
Operating Earnings	43,423	26,187	115,338	50,762
Interest expense	1,038	1,148	3,159	3,735
Other expense (income), net	254	203	147	889
Earnings Before Income Taxes	42,131	24,836	112,032	46,138
Income taxes	11,700	7,500	36,200	14,400
Net Earnings	$ 30,431	$ 17,336	$ 75,832	$ 31,738
Net Earnings per Common Share				
Basic	$ 0.51	$ 0.29	$ 1.26	$ 0.53
Diluted	$ 0.50	$ 0.29	$ 1.25	$ 0.53
Weighted Average Number of Shares				
Basic	60,107	59,940	60,304	59,827
Diluted	60,624	60,314	60,840	60,133

Segment Information (Unaudited)

	Thirteen Weeks Ended Sep 24, 2010	Thirteen Weeks Ended Sep 25, 2009	Thirty-nine Weeks Ended Sep 24, 2010	Thirty-nine Weeks Ended Sep 25, 2009
Net Sales				
Industrial	$ 99,236	$ 78,242	$ 296,489	$ 226,808
Contractor	70,362	55,379	194,941	163,213
Lubrication	20,365	13,687	55,342	42,879
Total	$ 189,963	$ 147,308	$ 546,772	$ 432,900
Operating Earnings				
Industrial	$ 31,195	$ 20,332	$ 91,234	$ 45,262
Contractor	13,753	11,138	31,839	24,420
Lubrication	2,751	(167)	6,326	(3,348)
Unallocated corporate (expense)	(4,276)	(5,116)	(14,061)	(15,572)
Total	$ 43,423	$ 26,187	$ 115,338	$ 50,762

All figures are subject to audit and adjustment at the end of the fiscal year.

The consolidated Balance Sheets, Consolidated Statements of Cash Flows and Management's Discussion and Analysis are available in our Quarterly Report on Form 10-Q on our website at www.graco.com.

# # #

Exhibit V

Proxy statement for 2010 Annual Meeting of Shareholders

GRACO INC (GGG)

DEF 14A
Definitive proxy statements
Filed on 03/11/2010
Filed Period 04/23/2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☑ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☑ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

Graco Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☑ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

GRACO INC.   88 Eleventh Avenue N.E.   Minneapolis, MN 55413

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

Please join us on Friday, April 23, 2010, at 1:00 p.m. Central Time for Graco Inc.'s Annual Meeting of Shareholders at the George Aristides Riverside Center, which is located at 1150 Sibley Street N.E., Minneapolis, Minnesota.

At this meeting, shareholders will consider the following matters:

1. Election of two directors to serve for three-year terms.
2. Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2010.
3. Approval of the Graco Inc. 2010 Stock Incentive Plan.
4. Vote on a shareholder proposal, if properly presented at the meeting.
5. Transaction of such other business as may properly come before the meeting.

Shareholders of record at the close of business on February 22, 2010 are entitled to vote at this meeting or any adjournment.

We encourage you to join us and vote at the meeting. If you are unable to do so, you have the option to vote by Internet, or by requesting a paper copy and voting by telephone or returning your proxy card by mail, as described in further detail later in this Proxy Statement.

If you do not vote by Internet, telephone, returning a proxy card or voting your shares in person at the meeting, you will lose your right to vote on matters that are important to you as a shareholder. Accordingly, please vote your shares in one of the methods identified above. This will not prevent you from voting in person if you decide to attend the meeting.

Sincerely,

/s/PATRICK J. MCHALE
Patrick J. McHale
President and Chief
Executive Officer

/s/KAREN PARK GALLIVAN
Karen Park Gallivan
Secretary

March 11, 2010
Minneapolis, Minnesota

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GENERAL REQUESTS FOR 2009 GRACO INC. ANNUAL REPORT ON FORM 10-K

The 2009 Graco Inc. Annual Report on Form 10-K, including the Financial Statements and the Financial Statement Schedule, is available to the public at www.graco.com. A copy may also be obtained free of charge by calling (612) 623-6609 or writing:

Investor Relations Graco Inc. P.O. Box 1441 Minneapolis, Minnesota 55440-1441

GRACO INC. 88 Eleventh Avenue N.E. Minneapolis, MN 55413

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 23, 2010

Your proxy is solicited by the Board of Directors of Graco Inc. in connection with our Annual Meeting of Shareholders to be held on April 23, 2010 and any adjournments of that meeting (the "Meeting").

We have provided you with access to our proxy materials on the Internet. We are providing a Notice Regarding the Availability of Proxy Materials (the "Notice") to our shareholders of record and our beneficial owners. All shareholders will have the ability to access the proxy materials free of charge on the website identified in the Notice or request email or paper copies of the proxy materials. The Notice contains instructions on how to access the proxy materials through the Internet or request electronic or paper copies. If your shares are held by a broker, bank, broker-dealer or similar organization, you are the beneficial owner of shares held in "street name" and the notice will be forwarded to you by that organization. As the beneficial owner, you have the right to direct the organization holding your shares how to vote the shares.

The costs of the solicitation, including the cost of preparing and mailing the Notice, Notice of Annual Meeting of Shareholders, and this Proxy Statement, will be paid by us. Solicitation will be primarily through Internet availability of this Proxy Statement to all shareholders entitled to vote at the Meeting. We have retained Morrow & Co., LLC, to act as a proxy solicitor for a fee estimated to be $6,000, plus reimbursement of out-of-pocket expenses. Proxies may be solicited by our officers personally, but at no compensation in addition to their regular compensation as officers. We may reimburse brokers, banks and others holding shares in their names for third parties, for the cost of forwarding proxy material to, and obtaining proxies from, third parties. The Notice will be mailed to shareholders on or about March 11, 2010, and the proxy materials will be available at that time on www.proxyvote.com.

Proxies may be revoked at any time prior to being voted by giving written notice of revocation to our Secretary. All properly executed proxies received by management will be voted in the manner set forth in this Proxy Statement or as otherwise specified by the shareholder giving the proxy.

Shares voted as abstentions on any matter (or a "withhold vote for" as to directors) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the Meeting, and as unvoted (although present and entitled to vote) for purposes of determining the approval of each matter as to which the shareholder has abstained. If a broker submits a proxy which indicates that the broker does not have discretionary authority as to certain shares to vote on one or more matters, those shares will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the Meeting, but will not be considered as present and entitled to vote with respect to such matters. The election of directors and approval of the Graco Inc. 2010 Stock Incentive Plan will be considered proposals on which your broker does not have discretionary authority to vote. Thus, if your shares are held in street name and you do not provide instructions as to how your shares are to be voted on these matters, your broker or other nominee may not be able to vote your shares in these matters. Accordingly, we urge you to provide instructions to your broker or nominee so that your votes may be counted on these matters. You should vote your shares by following the instructions provided on the voting instruction card that you receive from your broker.

Except for the election of directors, which are elected by a plurality of the votes cast, each matter requires the approval of the greater of a majority of the shares present at the Meeting and entitled to vote or a majority of the voting power of the minimum number of shares necessary to constitute a quorum. In addition, for proposal 3, the total votes cast must represent over 50 percent of the shares entitled to vote.

Only shareholders of record as of the close of business on February 22, 2010 may vote at the Meeting or at any adjournment. As of that date, there were issued and outstanding 60,124,523 common shares of our Company, the only class of securities entitled to vote at the Meeting. Each share registered to a shareholder of record is entitled to one vote. Cumulative voting is not permitted.

VOTING METHODS

Registered shareholders may vote by using any one of the following methods:

1. Vote by Internet.

   You may visit www. proxyvote.com to vote your shares on the Internet. Have your Notice or proxy card (if you have requested one) in front of you when you access the website, as it includes information, including a unique shareholder control number, that is required to access the system.

2. Vote by Telephone.

   You may request a paper proxy card by following the instructions on your Notice for requesting a copy of materials. After you receive your paper proxy card, you may call the toll-free phone number, 1-800-690-6903, listed on your proxy card to vote your shares. Have your proxy card or Notice in front of you when calling, as they include information, including a unique shareholder control number, that is required to access the system.

3. Vote by Mail.

   You may request a paper proxy card by following the instructions on your Notice for requesting a copy of materials. After you receive your paper proxy card, you may mark, date, and sign the proxy card, and return it as soon as possible in the envelope provided.

4. Vote in Person at the Annual Meeting.

   You may vote in person at the Annual Meeting to be held at the George Aristides Riverside Center, 1150 Sibley Street N.E., Minneapolis, Minnesota, on Friday, April 23, 2010, at 1:00 p.m. Central Time.

If you own your shares through a broker, bank, broker-dealer or similar organization, you may vote by the methods made available to you through your broker. Follow the instructions describing the available processes for voting your stock that are provided to you by your broker.

PROPOSAL 1

ELECTION OF DIRECTORS

NOMINEES AND OTHER DIRECTORS

The number of directors of our Company is set at eight; there are currently eight directors. The directors are divided into three classes, each class being as equal in number as reasonably possible. Vacancies may be filled by a majority vote of the directors then in office, though less than a quorum, and directors so chosen are subject to election by the shareholders at the next annual meeting of shareholders. Directors elected at an annual meeting of shareholders to succeed directors whose terms expire are elected for three-year terms. Our Board policy states a director shall retire from the Board effective as of the date of the annual shareholder meeting next following his or her 72^{nd} birthday, unless our Board waives this requirement. At the Meeting, two persons will be nominated for election to our Board of Directors.

Upon recommendation of the Governance Committee, which acts as the nominating committee of the Board, the Board has nominated J. Kevin Gilligan and William G. Van Dyke for three-year terms expiring in the year 2013. Messrs. Gilligan and Van Dyke, whose current terms expire at the Meeting, have previously been elected by the shareholders as directors of our Company.

Unless otherwise instructed not to vote for the election of directors, proxies will be voted to elect the nominees. A director nominee must receive the vote of a plurality of the voting power of shares present at the Meeting in order to be elected. Unless the Board reduces the number of directors, your proxy will be voted to elect the replacement nominee designated by the Board in the event that a nominee is unable or unwilling to serve.

The following information is given as of February 22, 2010, with respect to the two nominees for election and the other six directors whose terms of office will continue after the Meeting. Except as noted below, each of the nominees and directors has held the same position, or another executive position with the same employer, for the past five years.

Nominees for election at this Meeting to terms expiring in 2013:

J. Kevin Gilligan

Mr. Gilligan, 55, is Chief Executive Officer of Capella Education Company, an on-line education provider, a position he has held since March 5, 2009. Mr. Gilligan was the President and Chief Executive Officer of United Subcontractors, Inc., a national construction services company, from October 2004 until February 2009. United Subcontractors voluntarily filed for Chapter 11 bankruptcy on March 31, 2009 and emerged from the bankruptcy proceedings on June 30, 2009. Mr. Gilligan was President and Chief Executive Officer, Automation and Control Solutions, Honeywell International, Inc., a diversified technology and manufacturing company, from 2001 until January 2004. Mr. Gilligan has been a director of Graco since February 2001 and is also a director of Capella Education Company. From 2004 until 2009, Mr. Gilligan served as a director of ADC Telecommunications, Inc.

William G. Van Dyke

Mr. Van Dyke, 64, was Chairman of the Board of Donaldson Company, Inc., a diversified manufacturer of air and liquid filtration products, from August 2004 until his retirement in August 2005. He was Chief Executive Officer and President of Donaldson Company, Inc. from 1996 to August 2004. Mr. Van Dyke has been a director of Graco since May 1995 and is also a director of Polaris Industries, Inc. and Alliant Techsystems Inc. From 2005 until 2006, he served as a director of Black Hills Corporation.

Directors whose terms continue until 2011:

Patrick J. McHale

Mr. McHale, 48, is President and Chief Executive Officer of Graco Inc., a position he has held since June 2007. He served as Vice President and General Manager, Lubrication Equipment Division of Graco from June 2003 until June 2007. He was Vice President of Manufacturing and Distribution Operations from April 2001 until June 2003. He served as Vice President, Contractor Equipment Division from February 2000 to March 2001. Prior to becoming Vice President, Lubrication Equipment Division in September 1999, he held various manufacturing management positions in Minneapolis, Minnesota; Plymouth, Michigan; and Sioux Falls, South Dakota. Mr. McHale joined the Company in December 1989.

Lee R. Mitau

Mr. Mitau, 61, is the Executive Vice President and General Counsel of U.S. Bancorp, a regional bank holding company. He assumed this position in 1995. Mr. Mitau has been a director of Graco since May 1990. He served as Chairman of the Board of the Company from May 2002 until April 2006 and has been serving as the Chairman of the Board of the Company since June 2007. He also serves as Chairman of the Board of H.B. Fuller Company.

Marti Morfitt

Ms. Morfitt, 52, is Chief Executive Officer of Airborne, Inc., a manufacturer of dietary supplements. She assumed this position in October 2009. Ms. Morfitt is also President and Chief Executive Officer of River Rock Partners, Inc., a business and cultural transformation consulting firm. She assumed this position in 2008. Ms. Morfitt formerly served as President and Chief Executive Officer of CNS, Inc., a manufacturer and marketer of consumer products. She held this position from 2001 through March 2007. Ms. Morfitt left her position at CNS, Inc. effective March 2007 as a result of the acquisition of CNS, Inc. by GlaxoSmithKline plc in December 2006. Ms. Morfitt has been a director of Graco since October 1995 and is also a director of Solta Medical, Inc. f/k/a Thermage, Inc., Life Time Fitness, Inc. and lululemon athletica inc. From 1998 until 2007, she served as director of CNS, Inc. and from 2005 until 2006, she served as a director of Intrawest Corporation.

Directors whose terms continue until 2012:

William J. Carroll

Mr. Carroll, 65, was appointed Chief Executive Officer of Limo-Reid Technologies, Inc. d/b/a NRG Dynamixs, a power train designer and manufacturer, effective March 1, 2009. From May 2006 until March 2009, he was a principal of Highland Jebco LLC, which provides advisory and consulting services to the automotive parts industry. He was the Director of Economic and Community Development for the city of Toledo, Ohio from September 2004 until January 2006. From September 2003 to March 2004, Mr. Carroll was the President and Chief Operating Officer of Dana Corporation. Dana Corporation engineers, manufactures and distributes components and systems for vehicular and industrial manufacturers worldwide. From 1997 to March 2004, Mr. Carroll was the President — Automotive Systems Group of Dana Corporation. Mr. Carroll has been a director of Graco since June 1999.

Jack W. Eugster

Mr. Eugster, 64, was the Chairman, President and Chief Executive Officer of Musicland Stores, Inc., a retail music and home video company, from 1980 until his retirement in January 2001. Mr. Eugster has been a director of Graco since February 2004, and is also a director of Donaldson Company, Inc., Black Hills Corporation and Life Time Fitness, Inc. From 2000 until 2007, Mr. Eugster served as a director of Golf Galaxy, Inc., and from 1991 until late 2005, he served as a director of ShopKo Stores, Inc.

R. William Van Sant

Mr. Van Sant, 71, is an operating partner of Stone Arch Capital, LLC, a private equity firm. He assumed this position in January 2008. From August 2006 through December 2007, he was the President and Chief Executive Officer of Paladin Brands Holding, Inc., a Dover Corporation company, which manufactures attachments for construction equipment. From 2003 until August 2006, Mr. Van Sant was Chairman of Paladin Brands, LLC, and from 2003 until November 2005, Mr. Van Sant was Chairman and Chief Executive Officer of Paladin. He was an Operating Partner with Norwest Equity Partners, a private equity firm, from 2001 through 2006. Mr. Van Sant has been a director of Graco since February 2004 and is also a director of H.B. Fuller Company.

The Board of Directors, upon recommendation of the Governance Committee, recommends that shareholders vote FOR all nominees for election at the Meeting to terms expiring in 2013.

DIRECTOR INDEPENDENCE

Our Board of Directors has determined that Mr. Carroll, Mr. Eugster, Mr. Gilligan, Mr. Mitau, Ms. Morfitt, Mr. Van Dyke and Mr. Van Sant are independent directors. The independent directors constitute a majority of the Board, and the only director who is not independent is Mr. McHale, the Company's President and Chief Executive Officer. In making its determination regarding the independence of the directors, our Board noted that each independent director meets the standards for independence set out in Section 303A.02 of the New York Stock Exchange corporate governance rules, and that there is no material business relationship between our Company and any independent director, including any business entity with which any independent director is affiliated.

In making its determination, our Board reviewed information provided by each of the independent directors and information gathered by our management, and determined that none of the independent directors, other than Mr. Mitau, have any relationship with the Company other than as a director and/or shareholder. Some of our nonemployee directors are or were during the previous three fiscal years a non-management director of another company that did business with us during these years, and/or a non-executive director of one or more charitable organizations to which our Company's charitable foundation made a contribution during those years. The Board specifically considered that Mr. Mitau serves as Executive Vice President and General Counsel of U.S. Bancorp, to which our Company paid approximately $300,000 in 2009 for banking services, including cash management, credit card processing, directed trustee and letter of credit fees. Our Company also paid U.S. Bancorp approximately $600,000 for interest expense related to our revolver and credit lines in 2009. Our banking and borrowing relationship with U.S. Bancorp predates Mr. Mitau's service on our Board and Mr. Mitau has never been personally involved in the negotiation of our business terms or relationships with U.S. Bancorp. The total amount our Company paid to U.S. Bancorp in 2009, approximately $900,000, falls significantly below 2 percent of U.S. Bancorp's 2009 gross revenues, or $334 million, the threshold for determining independence under the New York Stock Exchange's independence standards. The Board determined that neither the nature of the relationship between U.S. Bancorp and our Company nor the amount of payments was material to either of the entities. Moreover, our Board concluded that Mr. Mitau does not have a material interest in the foregoing transactions because he was not directly involved in the transactions nor does he derive any special benefit related to the transactions, and the transactions with U.S. Bancorp were the result of a competitive bidding process and arm's-length negotiations.

BOARD LEADERSHIP STRUCTURE

Our Corporate Governance Guidelines provide for the position of Chairman of the Board of Directors, who may or may not be the same person who serves as our President and Chief Executive Officer ("CEO"). Mr. Mitau has served as our independent Chairman of the Board from May 2002 until April 2006 and again since June 2007. Our Board currently believes that separating the roles of Chairman of the Board and CEO is appropriate for our Company because our current CEO had limited public company chief executive officer experience at the time of his election, and Mr. Mitau, who previously served as our independent Chairman of the Board, had significant public company experience. Our Corporate Governance Guidelines set forth several responsibilities of the Chairman of the Board, including setting agendas for board meetings and presiding at executive sessions of non-employee directors.

BOARD OVERSIGHT OF RISK

Our Board of Directors takes an active role in oversight of our Company's risk by assessing risks inherent in the Company's decisions and key strategies. The Audit Committee specifically discusses policies with respect to risk assessment and risk management as part of its responsibility to oversee the Company's compliance with legal and regulatory requirements.

The Company engages in an Enterprise Risk Management ("ERM") process. The ERM process consists of periodic risk assessments performed by each division, region and functional group during the year. Executive management periodically reviews the divisional, regional and functional risk assessments. These assessments are presented to the Audit Committee each September to ensure completeness, appropriate oversight and review, and for approval.

MEETINGS OF THE BOARD OF DIRECTORS

During 2009, our Board of Directors met five times. Attendance of our directors at all Board and Committee meetings averaged 93.7 percent. During 2009, every director attended at least 75 percent of the aggregate number of meetings of the Board and all committees of the Board on which he or she served, except Mr. Mark H. Rauenhorst, who resigned from our Board effective December 4, 2009. Our Corporate Governance Guidelines require that each director make all reasonable efforts to attend the

Company's Annual Meeting of Shareholders. In 2009, all of the directors attended the Annual Meeting of Shareholders. Each regularly scheduled meeting of the Board includes an executive session of only non-employee directors. Mr. Mitau, Chairman of the Board, presides at the executive sessions.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has an Audit Committee, a Governance Committee, and a Management Organization and Compensation Committee. Membership as of February 22, 2010, the record date, was as follows:

Audit	Governance	Management Organization and Compensation
R. William Van Sant, Chair	Lee R. Mitau, Chair	Jack W. Eugster, Chair
William J. Carroll	William J. Carroll	J. Kevin Gilligan
Jack W. Eugster	Marti Morfitt	Lee R. Mitau
J. Kevin Gilligan	William G. Van Dyke	Marti Morfitt
William G. Van Dyke	R. William Van Sant	

Audit Committee (8 meetings in fiscal 2009)

The Audit Committee is composed entirely of directors who meet the independence requirements of Rule 10A-3(b) under the Securities Exchange Act of 1934. All of the Audit Committee members are, in the judgment of the Board, financially literate. Our Board has determined that Mr. Carroll, Mr. Van Dyke and Mr. Van Sant are audit committee financial experts.

The Audit Committee assists the Board in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the qualification and independence of the independent auditor, and the performance of the internal audit function and independent auditors.

The responsibilities of the Audit Committee are set forth in a written charter. The Audit Committee has reviewed and reassessed the adequacy of its charter and concluded that the charter satisfactorily states the responsibilities of the Audit Committee. The Audit Committee Charter was most recently approved by the Board on February 13, 2009.

Governance Committee (4 meetings in fiscal 2009)

The Governance Committee has the following functions:

- Sets criteria for the selection of prospective Board members, identifies and recruits suitable candidates, and presents director nominees to the Board;
- Periodically evaluates our Company's shareholder value protections, board structure, and business continuity provisions, and recommends any changes to the Board; and
- Recommends to the Board requirements for Board membership, including minimum qualifications and retirement policies; the appropriate number of directors; the compensation, benefits and retirement programs for directors; the committee structure, charters, chairs and membership; the number and schedule of Board meetings; a set of Corporate Governance Guidelines; and the appropriate person(s) to hold the positions of Chair of the Board and Chief Executive Officer.

The responsibilities of the Governance Committee are fully set forth in its written charter, which was most recently approved by the Board on February 17, 2006.

Management Organization and Compensation Committee (3 meetings in fiscal 2009)

The Management Organization and Compensation Committee has the following functions:

- Develops our Company's philosophy and structure for executive compensation;
- Determines the compensation of the Chief Executive Officer and approves the compensation of the executive officers;

- Reviews and discusses with management, and recommends to the Board the inclusion of, the Compensation Discussion and Analysis in our Company's annual proxy statement;
- Reviews the performance of the Chief Executive Officer based on individual goals and objectives, and communicates to the CEO its assessment of the CEO's performance on an annual basis;
- Administers our Company's stock option and other stock-based compensation plans; and
- Reviews and makes recommendations on executive management organization and succession plans.

The responsibilities of the Management Organization and Compensation Committee are fully set forth in its written charter, which was most recently approved by the Board on February 16, 2007.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Board who served on the Management Organization and Compensation Committee during 2009 has ever been an officer or employee of our Company or any of its subsidiaries.

DIRECTOR QUALIFICATIONS AND SELECTION PROCESS

Qualification Standards

Graco will only consider as candidates for director individuals who possess a high level of ethics, integrity and values, and who are committed to representing the long-term interests of our shareholders. Such candidates must be able to make a significant contribution to the governance of our Company by virtue of their business and financial expertise, educational and professional background, and current or recent experience as a chief executive officer or other senior leader of a public company or other major organization. The business discipline that may be sought at any given time will vary depending on the needs and strategic direction of our Company, and the disciplines represented by incumbent directors. In evaluating candidates for nomination as a director of Graco, the Governance Committee will also consider other criteria, including geographical representation, independence, practical wisdom, mature judgment and the ability of the candidate to represent the interests of all shareholders and not those of a special interest group. One or more of our directors is required to possess the education or experience required to qualify as an audit committee financial expert as defined in the applicable rules of the Securities and Exchange Commission.

Once elected, all directors are subject to the standards set forth in our Corporate Governance Guidelines which include, among others, the requirement to resign from the Board effective as of the date of the annual shareholder meeting next following the director's 72^{nd} birthday, unless the Board waives such requirement, and the requirement to tender the director's resignation if his or her employment status significantly changes.

The Governance Committee is responsible for the identification and recruitment of suitable prospective director candidates and has the sole authority to hire an outside search firm to identify director candidates. The Governance Committee may retain an outside search firm as a resource for future candidate sourcing and succession planning as the Governance Committee deems appropriate.

Qualifications of Current Directors

All of our directors meet the qualification standards and expectations described above. In addition to possessing a high level of ethics, integrity and values, excellent judgment and a commitment to representing the long-term interests of our shareholders, each of our directors brings a particular set of skills and experience that enable them to make a significant contribution to the governance of our Company. The following describes the particular experience, qualifications, attributes or skills that led the Board to conclude that each of our directors should serve as members of the Board.

- Mr. Carroll, a member of our Governance and Audit Committees, brings a seasoned perspective and comprehensive breadth of automotive industry expertise to our Board. As the former President and Chief Operating Officer of Dana Corporation, he gained considerable skill in financial, accounting and manufacturing oversight. Our Board recognizes this skill through its designation of Mr. Carroll as one of our Audit Committee financial experts. He remains active in the automotive parts industry, a key market served by Graco, through his current role as President and CEO of Limo-Reid Technologies, Inc. d/b/a NRG Dynamixs.

- Mr. Eugster, our Chair of the Management Organization and Compensation Committee and member of the Audit Committee, has more than forty years of public company experience, including as Chairman, President and CEO of Musicland Stores Inc. He has served on numerous public company boards including Donaldson Company, Inc., Black Hills Corporation, Life Time Fitness, Inc., Golf Galaxy, Inc. and ShopKo Stores, Inc. He has extensive knowledge of and expertise in finance and marketing, and is able to devote considerable attention to Company matters.

- Mr. Gilligan, a member of our Audit and Management Organization and Compensation Committees, has over twenty-five years of global operational experience including as President and CEO, Automation and Control Solutions, for Honeywell International. He also has comprehensive knowledge of the construction industry, one of the key industries that Graco serves. Mr. Gilligan's additional public company experience as the CEO of Capella Education Company and the former lead director of ADC Telecommunications, Inc. provides additional depth to our Board's leadership capabilities.

- Mr. McHale, our President and Chief Executive Officer, has twenty years of progressive experience in various manufacturing, sales and marketing roles while at Graco. Mr. McHale has led each of our Contractor and Lubrication Equipment divisions, and has extensive manufacturing experience acquired in his role as Vice President of Manufacturing. He also has in-depth experience with financial and managerial accounting practices at Graco.

- Mr. Mitau, our Chairman of the Board and Chair of the Governance Committee, the current Executive Vice President and General Counsel of U.S. Bancorp and former chair of the corporate department of a global law firm, has extensive public company legal and governance expertise. This governance expertise has also been developed as a director of H.B. Fuller Company, where he has served as Chairman of the Board since 2006. In addition, he is an expert in corporate finance and mergers and acquisitions. With nearly twenty years on our Board, Mr. Mitau has developed an in-depth knowledge of our business. His long history with our Company, combined with his leadership and corporate governance skills, makes him particularly well qualified to be our Chairman.

- Ms. Morfitt, a member of our Governance and Management Organization and Compensation Committees, brings a wealth of global marketing and leadership skills to our board. Her CEO experiences at Airborne, Inc., River Rock Partners, Inc., and CNS, Inc., and as Vice President at Pillsbury Company, allow her to provide our Company with significant strategic and product marketing guidance. With fourteen years on our Board, Ms. Morfitt's considerable knowledge of our business makes her well suited to provide advice with respect to our strategic plans and marketing programs.

- Mr. Van Dyke, a member of our Audit and Governance Committees, brings to our Board visionary, disciplined leadership developed over his distinguished career as Chairman and CEO of Donaldson Company, Inc., a global manufacturing company like Graco. In addition, the Board also values his experience as a director of two other public manufacturing companies, Polaris Industries, Inc. and Alliant Techsystems Inc. He was selected by our Board not only for his financial, accounting and operational expertise, but also because of his knowledge of industrial product markets and manufacturing processes. Mr. Van Dyke has nearly fifteen years of experience serving Graco on its board, and has been designated by our Board as an Audit Committee financial expert.

- Mr. Van Sant, our Audit Committee Chair and member of the Governance Committee, is an expert in management, finance and manufacturing operations, experience he has acquired over many years as the Chairman, director and/or CEO of various manufacturing companies including H.B. Fuller Company, Paladin (a Dover Corporation company), Nortrax Inc., Lukens, Inc., Blount Inc., and Cessna Aircraft Company. He also held progressively larger roles over a nearly thirty-year career at John Deere Company, and has more recently served as an operating partner with two private equity firms, Stone Arch Capital, LLC, where he currently works, and Norwest Equity Partners. Mr. Van Sant's strong leadership experience and seasoned business valuation skills make him a key contributor to our Board on strategy and growth topics. He has been designated by our Board as an Audit Committee financial expert.

Board Diversity

In considering whether to recommend an individual for election to our Board, the Governance Committee considers diversity of experience, geographical representation, gender and race, in addition to the other qualifications described in the "Qualification Standards" section of this Proxy Statement. The Committee views diversity expansively and considers, among other things, functional areas of business and financial expertise, educational and professional background, and those competencies that it deems appropriate to develop a cohesive Board such as ethics, integrity, values, practical wisdom, mature judgment and the ability of the candidate to represent the interests of all shareholders and not those of a special interest group.

Our Board of Directors and each of its committees engage in an annual self-evaluation process. As part of that process, directors, including our President and Chief Executive Officer, provide feedback on, among other things, whether the Board has the right set of skills, experience and expertise. This evaluation encompasses a consideration of diversity as described above.

Nominee Selection Process

The selection process for director candidates reflects guidelines established from time to time by the Governance Committee. A shareholder seeking to recommend a prospective candidate for the Governance Committee's consideration should submit such recommendation in writing and addressed to the Governance Committee in care of the Secretary of the Company at our Company's corporate headquarters. Our by-laws provide that timely notice must be received by the Secretary not less than 90 days prior to the anniversary of the date of our Annual Meeting of Shareholders. The nominations must set forth (i) the name, age, business and residential addresses and principal occupation or employment of each nominee proposed in such notice; (ii) the name and address of the shareholder giving the notice, as it appears in our Company's stock register; (iii) the number of shares of capital stock of our Company which are beneficially owned by each such nominee and by such shareholder; and (iv) such other information concerning each such nominee as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such nominee. Such notice must also include a signed consent of each such nominee to serve as a director of our Company, if elected. Shareholder nominees will be evaluated in the same manner as nominees from other sources.

DIRECTOR COMPENSATION

During 2009, the annual retainer for each non-employee director of our Company, except the non-employee Chairman, was $32,000. The non-employee Chairman was paid at the rate of $75,000 per annum. We also pay annual retainers of $5,000 for the chair of the Governance Committee and $7,500 for each of the chairs of the Audit Committee and Management Organization and Compensation Committee. The non-employee directors received a meeting fee of $1,500 for each Board meeting attended. The meeting fee for each of our three Committees is $1,200 per meeting. Attendance by telephone at any Board or Committee meeting is one-half of the fee for in-person attendance. All retainer and meeting fees are paid in arrears. At both its February 2009 and 2010 meetings, our Board, upon recommendation of the Governance Committee, determined that no changes would be made to director compensation in 2009 or in 2010.

A non-employee director may elect to receive shares of our common stock instead of cash for all or part of the director's annual retainer (including committee chair retainer) and meeting fees. A director may choose to receive the shares currently or defer receipt until the director leaves the Board, at which time the director may receive the shares in a lump sum or installments. Payments, whether in a lump sum or by installments, will be made in shares of common stock, plus cash in lieu of any fractional share. When our Board declares a dividend, the director's deferred stock account is credited with additional shares of stock in an account held by a trustee in the name of the non-employee director equivalent to the number of shares that could be purchased with the dividends at the current fair market value of the shares.

Under the Stock Incentive Plan, non-employee directors receive an annual option grant. In 2009, non-employee directors received an annual option grant of 8,600 shares on the date of the Company's annual meeting of shareholders. Upon first joining the Board, non-employee directors are also eligible to receive an initial option grant of 8,600. There were no first-time non-employee director appointments in 2009. Options granted under the Plan are non-statutory, have a 10-year duration and become exercisable in equal installments over four years, beginning with the first anniversary of the date of the grant. The option exercise price is the fair market value of the stock on the date of grant, as defined in the Plan. The Plan defines "fair market value" as the last sale price of the stock as reported by the New York Stock Exchange on the date immediately prior to the date of grant.

Our Board's philosophy is to target retainer and meeting fee compensation at the median of the market, and target equity compensation in the form of stock options above the median of the market, in order to attract and retain capable board members and to strengthen the link between our director compensation program and the interest of our shareholders in Graco stock performance. Our Governance Committee requested the Graco compensation department to conduct a peer group comparison of director compensation and present such data at its February 2009 meeting. The peer companies selected were identical to those listed on Page 13 of the Proxy Statement for the 2009 Annual Meeting for executive compensation. In reviewing the peer group comparison, the Governance Committee concluded that its current retainer and meeting fee compensation, in the aggregate, is approximately at the median of the peer group, so no changes were proposed. Equity compensation was above the peer group median target. As a result, the Committee recommended to our Board, and the Board approved, no change to the annual option and initial option grant of 8,600 shares.

Our Governance Committee again requested the Graco compensation department to conduct a peer group comparison of director compensation and present such data at its February 2010 meeting. The peer companies used for the 2010 benchmarking study matched the new peer group identified for executives on page 18 in the Compensation Discussion & Analysis section of this Proxy. In reviewing the peer group comparison, the Governance Committee concluded that, although its current retainer and meeting fee compensation, in the aggregate, is slightly below the median of the peer group, the Governance Committee and, upon recommendation of the Governance Committee, our Board determined that no changes would be made to our directors' compensation at this time.

Share ownership guidelines for our directors were adopted effective February 15, 2008. The guidelines require each of our non-employee directors to own a minimum of approximately five times the total value of their annual retainer and meeting fees in Company stock. Beneficially owned and phantom stock shares are used to calculate each director's ownership level; stock options are not. All of our directors exceed this ownership requirement. Future directors will have five years from their initial date of appointment to reach the minimum ownership level.

In February 2001, our Board terminated the retirement benefit for non-employee directors, which provided that, upon cessation of service, non-employee directors who have served for five full years will receive payments for five years at a rate equal to the director's annual retainer in effect on the director's last day of service on the Board. At the September 19, 2008, Board meeting, our directors clarified that the annual retainer calculation shall be set at the rate then in effect for the non-Chairman annual retainer and shall not include committee chair retainer fees. Such retirement payments will be prorated and made quarterly. Payments will be made in accordance with this retirement benefit to Mr. Mitau, Ms. Morfitt and Mr. Van Dyke upon their respective retirements.

Director Compensation Table for Fiscal Year Ended December 25, 2009

The following table summarizes the total compensation paid to or earned by the members of our Board of Directors during the fiscal year ended December 25, 2009.

Name	Fees Earned or Paid in Cash(1) ($)	Stock Awards(2) ($)	Option Awards(3) ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(4,5) ($)	Total ($)
William J. Carroll	51,500	—	38,699	—	90,199
Jack W. Eugster	19,750	37,450	38,699	—	95,899
J. Kevin Gilligan	—	47,900	38,699	—	86,599
Lee R. Mitau	—	95,900	38,699	0	134,599
Martha A. Morfitt	—	46,700	38,699	0	85,399
Mark H. Rauenhorst (6)	9,854	33,246	38,699	—	81,799
William G. Van Dyke	51,500	—	38,699	0	90,199
Robert W. Van Sant	—	59,000	38,699	—	97,699

(1) Mr. Carroll and Mr. Van Dyke elected to receive all retainer and meeting fees in cash. Mr. Rauenhorst elected to receive all of his retainer and meeting fees in shares of stock plus cash in lieu of any fractional share. Mr. Eugster elected to receive 50% of his retainer in cash and 50% in deferred stock. All other non-employee directors elected to receive retainer and meeting fees in deferred stock.

(2) During all or a portion of their service on the Board, Messrs. Carroll, Eugster, Gilligan, Mitau, Rauenhorst, Van Dyke, Van Sant and Ms. Morfitt have elected to defer the receipt of stock. The amounts in the Stock Awards column reflect the sum of the grant date fair values of the stock for each of the four calendar quarters. Grant date fair value is based on the closing price of the stock on the last trading day of the calendar quarter. The Deferred Stock Account balances as of 2009 year end are as follows: Mr. Carroll —12,671 shares; Mr. Eugster —7,468 shares; Mr. Gilligan —14,495 shares; Mr. Mitau —35,392 shares; Ms. Morfitt — 20,637 shares; Mr. Rauenhorst — 8,598 shares; Mr. Van Dyke — 22,446 shares; and Mr. Van Sant — 9,849 shares.

(3) Each non-employee director received an annual option grant of 8,600 shares on April 24, 2009, the date of the annual meeting of shareholders. The amounts reported in the Option Awards column represent the aggregate grant date fair value of stock options granted in 2009, using a per share value of $4.50, as estimated for financial accounting purposes. Information concerning the assumptions used in accounting for equity awards may be found in Item 8, Financial Statements and Supplementary Data, and Note H to the Consolidated Financial Statements in the Company's 2009 Annual

Report on Form 10-K. Aggregate number of outstanding option grants at year-end are as follows: Mr. Carroll — 17,750 unvested shares, 22,625 exercisable shares; Mr. Eugster —17,750 unvested shares, 17,750 exercisable shares; Mr. Gilligan — 17,750 unvested shares, 35,000 exercisable shares; Mr. Mitau — 17,750 unvested shares, 35,843 exercisable shares; Ms. Morfitt — 17,750 unvested shares, 35,843 exercisable shares; Mr. Rauenhorst — 56,125 exercisable shares; Mr. Van Dyke — 17,750 unvested shares, 35,843 exercisable shares; and Mr. Van Sant — 17,750 unvested shares, 17,750 exercisable shares.

(4) Prior to February 2001, non-employee directors who served five full years on the Board were eligible for a retirement benefit when they left the Board. In February 2001, the Board terminated this retirement benefit for those non-employee directors who had not met the five-year service level. Mr. Mitau, Ms. Morfitt and Mr. Van Dyke, who satisfied the service requirement in 2001, will receive this retirement benefit when they leave the Board.

(5) The assumptions that were made in calculating the aggregate change in the actuarial present value of the accumulated benefit are as follows:

- Discount rate: 6.00% as of December 31, 2009
- Retirement age: The Plan does not have a specified normal retirement age. Therefore the values reflect the increase in present value of the accrued benefit as of December 31, 2009.
- Form of payment: Five-year certain (payable quarterly)

There was no change in pension values because directors did not receive an increase in retainer fees in 2009 and the discount rate did not change from 2008 to 2009.

(6) Mr. Rauenhorst resigned from the Board effective December 4, 2009. Upon Mr. Rauenhorst's resignation, all of his stock options became immediately exercisable. By resolution of the Board of Directors, options granted to Mr. Rauenhorst in years 2003 through 2006 were amended to extend the period in which the options may be exercised from three years to the expiration of the term. Accordingly, all options will terminate upon expiration of the 10-year term of the option. The additional value associated with the Board's decision to extend the exercise period of the 2003 through 2006 grants is not significant.

COMMUNICATIONS WITH THE BOARD

Our Board of Directors welcomes the submission of any comments or concerns from shareholders or other interested parties. These communications will be delivered directly to the Vice President, General Counsel and Secretary. If a communication does not relate in any way to Board matters, he or she will deal with the communication as appropriate. If the communication does relate to any matter of relevance to our Board, he or she will relay the message to the Chairman of the Governance Committee, who will determine whether to relay the communication to the entire Board or to the non-management directors. The Vice President, General Counsel and Secretary will keep a log of all communications addressed to the Board that he or she receives. If you wish to submit any comments or express any concerns to our Board, you may use one of the following methods:

- Write to the Board at the following address:
  Board of Directors
  Graco Inc.
  c/o Karen Park Gallivan, Vice President, General Counsel and Secretary
  P.O. Box 1441
  Minneapolis, Minnesota 55440-1441
- Email the Board at boardofdirectors@graco.com

CORPORATE GOVERNANCE DOCUMENTS

The charters of the Audit, Governance, and Management Organization and Compensation Committees, as well as our Company's Corporate Governance Guidelines and Code of Ethics and Business Conduct, are available on the Company's website at www.graco.com and may be found by selecting the "Investor Relations" tab and then clicking on "Corporate Governance".

AUDIT COMMITTEE REPORT

Report of the Audit Committee

The Audit Committee has reviewed and discussed the audited financial statements of our Company for the fiscal year ended December 25, 2009 ("the financial statements") with both the Company's management and its independent registered public accounting firm, Deloitte & Touche LLP ("Deloitte"). The Audit Committee has discussed with Deloitte the matters required by the Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board. Our management has represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received from Deloitte the written disclosure and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with Deloitte their independence. The Audit Committee has also received written material addressing Deloitte's internal quality control procedures and other matters, as required by the New York Stock Exchange listing standards. The Audit Committee has considered the effect of non-audit fees on the independence of Deloitte and has concluded that such non-audit services are compatible with the independence of Deloitte.

Based on these reviews and discussions, the Audit Committee recommended to our Board of Directors that the financial statements for the fiscal year ended December 25, 2009, be included in the Company's 2009 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

The Members of the Audit Committee
Mr. R. William Van Sant, Chair
Mr. William J. Carroll
Mr. Jack W. Eugster
Mr. J. Kevin Gilligan
Mr. William G. Van Dyke

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate audit fees incurred by Graco Inc. and its subsidiaries from our Company's independent registered public accounting firm, Deloitte & Touche, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively "Deloitte"), and the fees paid to Deloitte for services in the other fee categories during the fiscal years ended December 25, 2009 and December 26, 2008. The Audit Committee has considered the scope and fee arrangements for all services provided by Deloitte to our Company, taking into account whether the provision of non-audit services is compatible with maintaining Deloitte's independence. The Audit Committee pre-approved 100 percent of the services described below.

	Fiscal Year Ended 12/25/09	Fiscal Year Ended 12/26/08
Audit Fees(1)	$715,000	$790,000
Audit-Related Fees	—	—
Tax Fees(2)	110,000	44,000
Total	$825,000	$834,000

(1) Includes fees for the review of purchase accounting of $15,000 in 2008.
(2) Includes fees for tax compliance services of $72,000 and $21,000, and tax advice of $38,000 and $23,000, in 2009 and 2008, respectively.

Pre-Approval Policies

The Audit Committee's policy on approval of services performed by the independent registered public accounting firm is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm during the fiscal year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the firm's independence.

PROPOSAL 2

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP ("Deloitte") has acted as independent registered public accounting firm for our Company since 1962. The Audit Committee of the Board, which has selected Deloitte as the independent registered public accounting firm for fiscal year 2010, recommends ratification of the selection by the shareholders. If the shareholders do not ratify the selection of Deloitte, the selection of the independent auditors will be reconsidered by the Audit Committee. A representative of Deloitte will be present at the Meeting and will have the opportunity to make a statement if so desired and be available to respond to any shareholder questions.

The Audit Committee of the Board of Directors recommends a vote FOR ratification of the appointment of Deloitte as the independent registered public accounting firm for fiscal year 2010.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Philosophy

The Management Organization and Compensation Committee (for purposes of this Executive Compensation section, the "Committee") is responsible for establishing our executive compensation philosophy. The Committee believes that our total compensation program should:

- Globally attract and retain highly qualified executives;
- Motivate executives to improve financial performance and increase shareholder value;
- Provide a compensation package that is competitive with other manufacturing companies of comparable sales volume and financial performance, and that may adjust above or below the market median as a result of our financial performance;
- Align pay to balance the achievement of short- and long-term objectives;
- Maintain a strong link between pay and performance;
- Promote collaboration and teamwork; and
- Provide a compensation package that includes both fixed and variable, cash and non-cash, and short-term and long-term components.

The Committee applies these philosophies in selecting compensation elements. Additionally, the Committee reviews competitive market and/or trend data, peer company compensation data, internal equity among executive officers, individual and company performance, cost, and named executive officer tally sheets (as described below) when determining levels of compensation.

Executive Officer Compensation Processes

The Committee uses the following resources, processes and procedures to help it effectively perform its responsibilities:

- Executive sessions without management present to discuss various compensation matters, including the compensation of our CEO;
- An independent executive compensation consultant who advises the Committee from time to time on compensation matters;
- An annual review of all executive compensation and, when applicable, benefit programs for competitiveness, reasonableness and cost-effectiveness;
- Program design and competitive market data for each compensation component primarily using a reputable

third-party salary survey of similarly sized manufacturing companies and secondarily by using an industry peer group; and

- An annual review of each named executive officer's tally sheet before setting the annual compensation program for the next performance year.

Executive Compensation Consultant

The Committee has the authority under its charter to engage the services of outside consultants, to determine the scope of the consultants' services, and to terminate such consultants' engagement. Effective September 2009, the Committee engaged Towers Perrin, which is now Towers Watson, as its independent outside executive compensation consultant to advise the Committee on matters relating to the determination of annual compensation and long-term incentive programs for the Company's executive officers for fiscal year 2010. Prior to this date, the Committee retained Hewitt Associates ("Hewitt") as its independent outside executive compensation consultant.

In its capacity as the executive compensation consultant, Towers Perrin advised the Committee on the following matters:

- Reviewing the composition of the industry peer group used to benchmark executive compensation;
- Preparing a competitive compensation review of the CEO and other executive officer positions, including a peer group analysis; and
- Providing advice and guidance with respect to trends and issues related to executive compensation.

Additionally, management engaged Hewitt and Towers Perrin to perform certain non-executive compensation services in 2009. The total fees for these services were less than $120,000.

Role of Management in Executive Compensation Decisions

Our management is involved in the following executive compensation processes:

- The Vice President of Human Resources ("Vice President HR") and Compensation Manager develop and oversee the creation of written background and supporting materials for distribution to the Committee prior to its meetings;
- The CEO, Vice President HR, Vice President, General Counsel and Secretary, and Compensation Manager attend the Committee's meetings, but leave during the executive officer performance review discussion (except for the CEO who only leaves for the discussion of his performance review) and the non-employee director executive sessions;
- The CEO, Vice President HR, and Compensation Manager review executive officer compensation competitive analyses and annually present and make recommendations to the Committee relating to bonus and long-term incentive plan designs and changes, if warranted;
- The CEO annually recommends to the Committee base salary adjustments and long-term incentive awards in the form of stock-based grants for all executive officers, excluding the CEO; and
- Following the Committee's executive sessions, the Chair of the Committee provides the Vice President HR with a summary of the executive session decisions, actions and underlying rationale for implementation, as appropriate.

Benchmarking

The Committee annually reviews general market benchmarking data, consisting of three compensation elements: base salary, short-term incentives, and long-term incentives. The Committee targets base salaries at the median of manufacturers with similar sales volumes. In 2009, the Committee assessed our executive compensation based on the Total Compensation Measurement database (the "Hewitt Survey") provided by Hewitt. In determining 2010 executive compensation, the Committee retained Towers Perrin and used the Towers Perrin Executive Compensation DataBank (the "Towers Perrin Survey") to review the competitiveness of each compensation element provided to the Company's named executive officers. Both Hewitt and Towers Perrin use a statistical technique known as regression analysis to model the relationship between variables, which enables them to estimate market levels of compensation that relate closely to a company's revenue size and to adjust compensation data based on differences in revenue size of companies in their database. The data is not regressed based on any other comparative financial performance.

Survey benchmark positions were selected by the Committee to determine salary range midpoints based on market medians. The named executive officer positions include those of CEO, CFO, two division executives and a region executive. For the corporate benchmark positions, the data gathered and provided by Hewitt in December 2008 and Towers Perrin in December 2009 reflected manufacturing companies with similar levels of revenue. Individual midpoints were created for our CEO, CFO, and Vice President and General Manager of Europe based on median market data. A single midpoint was also established among our four U.S. division executives, and our Asia Pacific region executive, who is a U.S. expatriate (the "Business Unit Benchmark"). The individual revenues of the four divisions were averaged and this average revenue was used when establishing median market data for the Business Unit Benchmark. This method was established to provide better internal equity and flexibility in position rotations. The midpoint for our Vice President and General Manager of Europe was established by the Committee reviewing market data provided by Hewitt and Towers Perrin, for determining 2009 and 2010 compensation respectively, based on Belgian companies with revenues comparable to our European operations.

In addition, the Committee periodically requests that its independent executive compensation consultant conduct a peer group comparison of named executive officer positions (the "Peer Group Survey"). This data is reviewed to ensure that our compensation practices are generally in alignment with views on competitive pay for named executive officers in our industry.

At its February 2009 meeting, the Committee agreed to retain an executive compensation consultant in 2009 to review our list of peer companies and make a recommendation as to changes, if any, for future benchmarking. The Committee engaged Towers Perrin to assist in the review of our list of peer companies. At its September 2009 meeting, the Committee approved a list of twenty companies recommended by Towers Perrin as our new peer group. This modified peer group reflected the elimination of the following ten companies because the Committee determined they no longer meet the revenue, industry, location, and/or market capitalization criteria: A.O. Smith Corporation, Arctic Cat Inc., Briggs & Stratton Corporation, Flowserve Corporation, MTS Systems Corporation, Pentair Inc., Regal-Beloit Corporation, Roper Industries Inc., Tecumseh Products Company, and Watts Water Technologies. The new peer group was selected based on similarity to us on a variety of factors, including industry, revenue, location, and market capitalization.

Graco's 2009 Peer Group Survey companies included (*for companies added in 2009):

	Most Recent Fiscal Year End (on or before March 2009)	
Company	Revenue ($M)	Market Cap ($M)
Actuant Corporation	$ 1,664	$ 1,764
Apogee Enterprises, Inc.*	882	448
Chart Industries, Inc. *	744	302
CIRCOR International, Inc.	794	465
Donaldson Company, Inc.	2,240	3,516
ESCO Technologies, Inc. *	624	1,254
Franklin Electric Co., Inc.	746	647
FreightCar America, Inc. *	746	217
Gardner Denver Inc.	2,018	1,207
H.B. Fuller Company*	1,392	859
IDEX Corporation	1,489	1,996
John Bean Technologies Corporation*	1,028	225
Kaydon Corporation*	522	1,177
Ladish Co., Inc. *	469	220
Middleby Corporation (The) *	652	463
Nordson Corporation	1,125	1,259
Robbins & Myers, Inc.	787	1,553
Tennant Company	701	281
Toro Company (The)	1,882	1,215
TransDigm Group Incorporated*	714	1,655
25^{th} Percentile	710	410
50^{th} Percentile	790	1,020
75^{th} Percentile	1,415	1,335
Graco Inc.	817	1,412

Components of the Executive Compensation Programs

Our executive compensation program is designed to reward short-term results and motivate long-term performance through the use of the three primary total compensation components summarized in the following table.

Component	Purpose	Key Characteristics
Base Salary	Recognizes individual work experience, performance, skill, and level of responsibility	Fixed compensation Guided by market median but subject to individual performance in prior year and budget constraints Used to compute other components of compensation
Short-Term Incentives (STI)		
Annual Cash Incentive	Establishes a line of sight between pay and results Motivates attainment of annual key business objectives Serves as "at risk" pay that fluctuates based on corporate and division/region performance	Variable compensation tied to actual performance Bonus thresholds, targets and maximums are set as a percent of base salary
Long-Term Incentives (LTI)		
Stock-based Awards	Motivates attainment of the long-term goals and overall operational growth Aligns executives' interests with shareholders Retains executive talent through gradual vesting schedule	Variable compensation provided to reward company's long-term performance Four year gradual vesting from grant date Stock options expire ten years from grant date

Total Cash Compensation: Base Pay + Short-Term Incentives
Total Direct Compensation: Base Pay + Short-Term Incentives + Long-Term Incentives

When the Committee reviews competitive market data for each of the benchmark executive positions, the Committee evaluates total compensation and each compensation component (base pay, annual cash incentive and stock-based awards). The Committee reviews compensation tally sheets for our named executive officers showing their current and potential total compensation and benefits components. The tally sheets also display projected compensation and benefits for hypothetical change-of-control, involuntary and voluntary terminations. Specifically, the tally sheets reviewed by the Committee in September 2009 provided 2008 actual and 2009 target annual compensation, retirement balances as of December 31, 2008 projected to normal retirement age or the age at which the benefit is not subject to reduction, deferred compensation balances, and the projected value of stock awards based on assumptions regarding stock price appreciation. After analysis of market and tally sheet data and discussion among the Committee members, the Committee reviews the dollar allocation among each of the three components. Although the Committee has not established specific ratios for each of the compensation components, it strives to maintain a reasonable and competitive balance between the fixed and variable elements. The Committee believes the compensation mix and amount paid to each of our named executive officers is market based, reasonable and appropriate.

Base Salary

The Committee provides base salaries to executives to attract and retain talent, provide competitive compensation for the performance of primary job duties and recognize individual contributions to our financial performance. Base salaries may be adjusted at the discretion of the Committee. The Committee generally targets base salary levels at the median of the benchmarked positions in the salary survey provided by its independent outside executive compensation consultant. Adjusting base salaries to achieve or approach median is consistent with the Committee's philosophy of providing competitive base salaries.

In December of each year, the CEO provides the Committee with an evaluation of each executive officer's performance, other than his own, covering the prior twelve months and his recommendation for base salary adjustments. The base salary adjustments are based on several considerations, which include scope and complexity of the individual's role, salary comparison to market data, market projection for executive base salary adjustments, individual performance, experience, internal pay relationships, and retention. Evaluation of the individual performance for each executive officer is based on established annual goals that vary for each role. Annual goals are not weighted and may change from year to year. Additionally, executive officers are evaluated on Graco's core values, which include quality, continuous improvement, fact-based decision making, results orientation, and customer focus. The Committee reviews the competitive market data and base salary adjustments recommended by the CEO. All executive officer base salaries for the next calendar year are approved by the Committee at its December meeting and become effective January 1.

In addition, an executive session is held at the Committee's December meeting to determine the base salary adjustment for the CEO. Management does not provide a CEO base salary adjustment recommendation to the Committee. During this session the Committee considers input from the Board members on the CEO's performance over the past year. It also considers the following criteria: Company financial results and CEO's leadership, strategic planning skills, succession planning and strategic talent management capabilities, communications and external relations abilities, and board interface. Additionally, the Committee evaluates the CEO's performance against annual objectives established at the beginning of the year. The Committee also reviews the CEO's base salary in comparison to the survey market data for CEOs of manufacturing companies with similar sales volume, and our Peer Group Survey, in the years when it is conducted. Following the discussion, the Committee approves the CEO's base salary for the next calendar year, which becomes effective January 1.

The merit decisions for the CEO and the other executive officers in 2009 were based on the criteria identified above and were in line with the market projection for executive base salary adjustments published by Mercer, Hewitt, World at Work, and The Conference Board (the "Market Projection Surveys"). For 2010, there was no merit increase given to any executive officer whose base salary was competitive to the market median. The Committee believes such base salary is already at a competitive level and that a merit increase would not be appropriate due to economic conditions, and the internal workforce reductions that occurred in 2009 (the "2009 Market Conditions").

Refer to the "Compensation of Individual Named Executive Officers" section of this discussion and analysis for detailed information on individual increases for 2009 and 2010.

Annual Cash Incentive

At the beginning of each year, the Committee establishes an annual incentive opportunity for the CEO and the other designated executive officers. An annual incentive plan (the "Executive Officer Annual Incentive Bonus Plan") has been created for those designated by the Committee, including the CEO, to qualify the participant's annual cash incentive as performance-based compensation to ensure deductibility under Section 162(m) of the Internal Revenue Code. A separate annual incentive plan (the "Executive Officer Bonus Plan") applies to the other designated executive officers. In contrast to the Executive Officer Annual Incentive Bonus Plan, the Executive Officer Bonus Plan does not need to be approved by shareholders, and is used to make payments to individuals who are not subject to Section 162(m) or whose compensation is below the deductibility limit under Section 162(m). Each executive officer participates in only one of the two plans. The Executive Officer Annual Incentive Bonus Plan is only tied to corporate measures and provides a higher target bonus as a percent of base salary than the Executive Officer Bonus Plan. In addition to corporate measures, the Executive Officer Bonus Plan also includes worldwide division/region measures for division/region executive officers starting in 2010. There are no other material differences between the two bonus plans. The Executive Officer Annual Incentive Bonus Plan and the Executive Officer Bonus Plan, together, are referred to as the "Annual Incentive Plans".

The Annual Incentive Plans are designed to motivate our executives to increase sales, earnings and other financial performance by offering an incentive that rewards year-over-year growth. Potential payouts under the Annual Incentive Plans are expressed as a percentage of base salary. The Committee reviews market data for the annual incentive element before determining the relationship between performance targets and the bonus payout range. Specific financial performance thresholds must be attained in order to earn an incentive. If specified performance levels are not achieved or exceeded, there is no payout. The annual incentives, to the extent earned, are paid in cash in March following the calendar year-end and are based upon the Committee's determination of actual performance against pre-established targets.

At its meeting in February 2009, the Committee approved participation of the CEO and other executive officers in their respective Annual Incentive Plans for 2009. Mr. McHale was the only person designated as a participant in the Executive

Officer Annual Incentive Bonus Plan. The target payout levels for 2009 were 100 percent of base salary for the CEO and 70 percent of the base salaries for the other executive officers reporting directly to the CEO and serving on the executive management team (the "Management Executives"). The maximum payout levels for 2009 were 150 percent of base salary for the CEO and 105 percent of the base salaries for the Management Executives.

The Committee established two financial measures for both of these plans, consisting of net sales and earnings per share ("EPS") growth over the prior year. Net sales and EPS growth were selected as the metrics against which to measure the officers' performance for the Annual Incentive Plans because the Committee desires to motivate the officers to achieve profitable business growth consistent with our long-term financial objectives. Although the Committee historically has set target performance levels based on multiples of forecasted real U.S. Gross Domestic Product (GDP) growth, due to the economic uncertainty, the Committee used its discretion when setting the 2009 performance targets.

The 2009 incentive award payouts were based upon the achievement of specified levels of net sales and EPS. Given the global economic downturn, the Committee approved lower threshold, lower target and higher maximum performance levels for both metrics. Net sales and EPS threshold performance levels were set at 73 and 40 percent of target performance, respectively. Net sales and EPS maximum performance levels were set at 110 percent of target performance. Financial performance levels for the 2009 Annual Incentive Plans were set as follows:

Financial Metric	Metric Weighting	2009 Threshold Growth Over 2008	2009 Target Growth Over 2008	2009 Maximum Growth Over 2008
Corporate Net Sales	50%	-27%	0%	10%
Corporate Earnings Per Shares	50%	-60%	0%	10%

Net sales of $579.2 million and EPS of $0.81 in 2009 translated into a 12.7 percent of total target award paid out under the Annual Incentive Plans. The Committee has the authority to make adjustments to the Executive Officer Bonus Plan payout award based on unanticipated or special circumstances, but no such adjustment was made.

At its February 2010 meeting, the Committee approved corporate net sales, corporate EPS, worldwide division/region net sales, and division/region earnings as the 2010 performance metrics. These metrics were set with reference to 2009 actual Company performance and estimates of 2010 economic growth and market conditions. Effective in 2010, the Annual Incentive Plans for our CEO and executive officers will incorporate the following design to support a distributed authority model and better align pay with performance:

Position	Measure and Weighting
CEO, CFO, and Function Executives (HR, Legal, and Manufacturing)	50% Corporate Net Sales 50% Corporate EPS
Division and Region Executives	25% Corporate Net Sales 25% Corporate EPS 25% Worldwide Division or Region Net Sales 25% Worldwide Division or Region EPS

If the threshold is not achieved in 2010, the payout provided for under the Annual Incentive Plans will be zero. In addition, above target bonus awards for any measures will only be paid when total Company net income is greater than zero. In 2010, Mr. McHale will participate in the Executive Officer Annual Incentive Bonus Plan with a threshold payout of 0 percent, a target payout of 100 percent, and a maximum payout of 150 percent of base salary. Management Executives will participate in the Executive Officer Bonus Plan with a threshold payout of 0 percent, a target payout of 70 percent, and a maximum payout of 105 percent of base salary.

In February 2010, the Committee adopted an incentive compensation recoupment policy that applies to our executive officers. Pursuant to the policy, if, after a cash incentive award granted under our Annual Incentive Plans is paid, but prior to a change of control, the Company issues a material restatement because of material noncompliance by the Company with applicable financial reporting requirements due to an executive officer's intentional misconduct or fraud, our executive officers may be required to pay back to the Company the amount of any such incentive payment that would not have been earned if the payment had originally been made based on the restated financial information, net of taxes. In addition, any executive officer who engaged in intentional misconduct or fraud that caused or contributed to the need for the restatement must pay back to the Company the entire amount of any incentive payments made under the Annual Incentive Plans, net of taxes. The Committee has discretion to reduce the amount required to be paid back as it deems appropriate. The recoupment policy will apply to awards granted under the Annual Incentive Plans beginning with the award for fiscal 2010.

CEO Awards

Under this program, individual discretionary awards, in an aggregate amount not to exceed $400,000, may be made each year to recognize the significant contributions of selected employees. Executive officers were eligible for this program through 2007. No special bonuses have been awarded to executive officers for performance related to fiscal years 2008 or 2009. The CEO, based on input from his management team, determines the recipients of these monetary awards.

Stock-based Awards

The Company's executive long-term incentive program rewards executive officers through stock-based awards for performance over a period of time, typically exceeding three years. Stock-based awards are structured to align the financial interests of the executive officers with those of our shareholders. The Committee believes equity-based compensation ensures the executives have a continuing stake in driving long-term success.

In December 2007, the Committee granted a long-term incentive award to some of our named executive officers in the form of restricted stock. These shares will cliff vest in December 2010 and are not subject to accelerated vesting upon retirement. The Committee determined that it was in the best interest of our Company to award restricted stock to motivate executive officers reporting to our CEO to contribute to our growth and to continue their service with our Company following a change in the Company's chief executive officer. Messrs. Johnson, Lowe, and Paulis were granted 4,000 shares each. The number of shares granted to each named executive officer was determined by the Committee based on its consideration of the named executive officer's individual responsibilities and ability to significantly impact key company initiatives. Mr. Graner did not receive a restricted stock award in 2007 due to his retirement plans and the forfeiture impact such retirement would have on the award.

The 2009 stock-based awards consisted of stock options granted to executive officers under the Graco Inc. Amended and Restated Stock Incentive Plan (2006) (the "Stock Incentive Plan"). The stock option awards are designed to promote the growth of our stock price by offering officers a financial stake in the Company. As is the case with our shareholders, the options create value for executives only to the extent Graco's stock price increases. The Committee believes executive officers having a financial stake will be motivated to put forth sustained effort on behalf of the Company's shareholders to support the continued growth of the Company's share price. The stock option awards also promote the interests of the Company and its shareholders through the attraction and retention of experienced and capable leaders.

The Committee typically grants stock-based awards to each executive officer at its regularly scheduled February meeting. The Board sets the February meeting date several months in advance. Under the terms of the Stock Incentive Plan, the Committee must approve all stock option grants to officers. In February 2009, executive officers were awarded non-qualified stock options with an exercise price equal to the fair market value of our common stock on the grant date, defined in the Stock Incentive Plan as the closing price of the stock on the day immediately preceding the grant date. Each option has a 10-year term and becomes exercisable in equal installments over four years, beginning with the first anniversary of the grant date. Additionally, our plan prohibits the repricing of stock options.

The number of shares covered by the stock options granted in 2009 to each executive officer was determined by reviewing competitive long-term incentive market data for each of the benchmarked executive officer positions in addition to considering Hewitt's modified Black-Scholes value at the time of the grant. Hewitt's modified Black-Scholes value model assumes a ten year option life and recognizes option specific terms, vesting schedules, forfeiture provisions, stock prices, volatility, and dividend yield. The Committee granted the same number of shares to each of the Management Executives, except for the CEO, given its determination that each of such officers have an approximately equal impact on our performance. The Committee considers, except in the case of the award to the CEO, the recommendation of the CEO for such awards. Other factors considered by the Committee in determining the number of stock options granted to each executive officer include the number of shares granted in previous years, our previous year's financial performance, the dilutive effect on our shareholders, and the allocation of overall share usage attributed to executive officers.

As a result of the market analysis and Black-Scholes value computed by Hewitt in January 2009, the Committee increased the number of shares of stock options granted to Mr. McHale and the other Management Executives in 2009 because of the decrease in the Black-Scholes value when compared to 2008. The 2009 stock options granted to the executive officers have an economic value equivalent to the options granted in 2008. The grant date fair value of the options awarded calculated in accordance with U.S. accounting standards was $4.26 per share.

Effective 2010, as advised by Towers Perrin and approved by the Committee, the amount of stock option grants to executive officers will be based on the fair value as estimated using the Black Scholes option pricing model, with assumptions the same as those used for financial accounting purposes. This will provide consistency and transparency in the methodology used for our executive compensation program. All option grants in February 2010 have a grant date fair value of $7.22 per share.

Upon recommendation of the Governance Committee, the Board approved a stock holding policy for the CEO, effective February 12, 2009, by which the CEO is required to retain, until twelve months following retirement or other termination of employment, an amount equal to 50% of the outstanding net shares delivered to the CEO pursuant to awards granted under the Company's equity programs, including, but not limited to, the exercise of Company stock options. "Net shares" are those shares that remain after shares are sold or netted to pay the exercise price of stock options, withholding taxes and other transaction costs. The foregoing Policy applies to all outstanding equity awards to the CEO whether granted before or after the effective date of the Policy. The foregoing Policy requirement shall be waived by the Company upon the effective date of (a) the CEO's "Disability", (b) the death of the CEO, or (c) a "Change of Control", as those terms are defined in the Key Employee Agreement between the Company and the CEO dated December 10, 2007, as amended from time to time. The Board has delegated authority to the Company's Governance Committee to determine whether and to what extent special circumstances may warrant the grant by the Committee of an exception, hardship or otherwise, to the foregoing holding requirements.

Compensation of Individual Named Executive Officers

Mr. McHale *President and Chief Executive Officer*

Mr. McHale's base salary as of December 2008 fell below the market median of the 2008 Hewitt Survey for a chief executive officer of manufacturing companies with similar sales volumes. Effective January 1, 2009, the Committee increased his base salary 3.5 percent to $641,700 to bring Mr. McHale's base salary closer to the market median and recognize him for his successful completion of certain strategic initiatives. The increase was in line with the Market Projection Surveys. After the salary adjustment, his base salary still fell below the market median. Based on the 2009 net sales and EPS actual results, the Committee awarded Mr. McHale an $81,228 cash bonus award under the Executive Officer Annual Bonus Plan. This represented 12.7 percent of his target award. However, given the 2009 Market Conditions, Mr. McHale declined to accept any bonus payout and received no cash bonus for 2009. As a result, his actual total cash compensation for 2009 fell below the market median of the 2009 Towers Perrin Survey, which is the most current market survey selected and used by the Committee.

In February 2009, the Committee granted Mr. McHale a stock option for 225,000 shares. In reaching its decision, the Committee considered the 2008 Hewitt Survey market data for the 50th and 75th percentiles and adjusted his award based on "run rate" considerations. "Run rate" is defined as the rate at which a company issues equity compensation and it is calculated by dividing the stock options granted annually by the number of common shares outstanding. As a result of company performance and the foregoing decisions by the Committee, Mr. McHale's 2009 total direct compensation fell below the market median of the 2009 Towers Perrin Survey for a chief executive officer of manufacturing companies with similar sales volume.

In December 2009, at Mr. McHale's request, the Committee approved no increase to Mr. McHale's base salary for 2010 because of the 2009 Market Conditions. Mr. McHale's 2010 base salary is below the market median of the 2009 Towers Perrin Survey. His target annual cash incentive payout remains unchanged at 100 percent of his base salary, which approximates the market median target of the 2009 Towers Perrin Survey. In February 2010, the Committee awarded Mr. McHale an option for 143,000 shares. The Committee based its award decision on performance, market data and run rate considerations. Mr. McHale's 2010 target total direct compensation is below the market median of the 2009 Towers Perrin Survey.

Mr. Graner *Chief Financial Officer and Treasurer*

Mr. Graner's base salary as of December 2008 fell below the market median of the 2008 Hewitt Survey for a chief financial officer of manufacturing companies with similar sales volumes. Effective January 1, 2009, the Committee increased his base salary 6 percent to $344,500 to bring it closer to the market median and recognize him for his contributions during the year. Based on the 2009 net sales and EPS actual results, the Committee awarded Mr. Graner a $30,525 cash bonus award under the Executive Officer Bonus Plan. This represented 12.7 percent of his target award. His actual total cash compensation for 2009 fell below the market median of the 2009 Towers Perrin Survey for a chief financial officer of manufacturing companies with similar sales volume.

In February 2009, the Committee granted Mr. Graner, along with the other Management Executives, a stock option for 47,000 shares. The Committee determined the stock option award for each executive based on an equivalent economic value of the 2008 grant and slightly reduced each award due to run rate considerations. The Committee granted the same number of shares of stock options to each of the Management Executives for their overall contributions to our performance in 2008. The Committee believed this approach would equally motivate the executives and drive team behavior. However, this approach may result in variances to market by position. As a result of company performance and the foregoing decisions by the Committee, Mr. Graner's 2009 total direct compensation fell below the market median of the 2009 Towers Perrin Survey.

In December 2009, the Committee approved no increase to Mr. Graner's base salary for 2010 because of the 2009 Market Conditions and because his base salary is at the market median of the 2009 Towers Perrin Survey. His target annual cash incentive payout remains unchanged at 70 percent of his base salary, which is above the market median target of the 2009 Towers Perrin Survey. The target annual incentive design reflects our high performance standards when establishing performance targets in a typical year. The above market median target bonus is balanced with capping the maximum bonus upside at 150 percent of target when compared to a common market practice of 200 percent.

In February 2010, the Committee awarded Mr. Graner an option for 45,000 shares. The Committee based its award decision on performance, market data and run rate considerations. Mr. Graner's 2010 target total direct compensation approximates the market median of the 2009 Towers Perrin Survey.

Mr. Paulis *Vice President and General Manager, Europe*

The base salary for Mr. Paulis, who is employed by Graco N.V., our wholly owned subsidiary, as of December 2008 fell below the market median of the 2008 Hewitt Survey. The Committee used survey benchmark data for a country manager, and applied a 20 percent premium to account for the additional scope of his responsibilities. Mr. Paulis has accountability for our entire European operations rather than only one specific country. Effective January 1, 2009, the Committee increased his base salary 3.5 percent to bring it closer to the market median and recognize him for his performance during the year. Mr. Paulis also received a 4.5 percent cost of living index adjustment mandated by the Belgium government. These salary adjustments brought his base pay to €243,512, which still fell below the market median of the 2008 Hewitt Survey. Based on the 2009 net sales and EPS actual results, the Committee awarded Mr. Paulis a €20,387 cash bonus award under the Executive Officer Bonus Plan. This represented 12.7 percent of his target award. His actual total cash compensation for 2009 was below the market median of the 2009 Towers Perrin Survey for a profit center head with similar sales volume. Our independent executive consultant at Towers Perrin used a profit center head survey match for Mr. Paulis because it more accurately reflects the scope of his responsibilities.

In February 2009, the Committee granted Mr. Paulis, along with the other Management Executives, a stock option award for 47,000 shares, as explained above. As a result of company performance and the foregoing decisions by the Committee, Mr. Paulis's 2009 total direct compensation was above the market median of the 2009 Towers Perrin Survey.

In December 2009, the Committee approved no increase to Mr. Paulis's base salary for 2010 because of the 2009 Market Conditions and his base salary is above the market median of the 2009 Towers Perrin Survey. There is no cost of living indexation adjustment mandated by the Belgium government for 2010. Mr. Paulis's target annual cash incentive payout remains unchanged at 70 percent of his base salary, which is above the market median target for reasons explained above. In February 2010, the Committee awarded Mr. Paulis an option for 30,000 shares. The Committee based its award decision on performance, market data and run rate considerations. Mr. Paulis's 2010 target total direct compensation is above the market median of the 2009 Towers Perrin Survey.

Mr. Johnson *Vice President and General Manager, Contractor Equipment Division*

Mr. Johnson's base salary as of December 2008 was above the market median of the 2008 Hewitt Survey for a division chief executive officer of manufacturing companies. His highly competitive base compensation is based on key factors such as long tenure, strong past performance, and individual contributions to the Company. Effective January 1, 2009, the Committee increased Mr. Johnson's base salary 3.5 percent to $309,635. The increase was in line with the Market Projection Surveys and recognized him for his performance during the year. Based on the 2009 net sales and EPS actual results, the Committee awarded Mr. Johnson a $27,436 cash bonus award under the Executive Officer Bonus Plan. This represented 12.7 percent of his target award. His actual total cash compensation for 2009 fell below the market median of the 2009 Towers Perrin Survey for a profit center head of manufacturing companies. The Towers Perrin Survey's profit center head match encompasses similar scope of responsibilities to that of the Hewitt Survey's division chief executive officer match.

In February 2009, the Committee granted Mr. Johnson, along with the other Management Executives, a stock option award for 47,000 shares, as explained above. As a result of company performance and the foregoing decisions by the Committee, Mr. Johnson's 2009 total direct compensation approximated the market median of the 2009 Towers Perrin Survey.

In December 2009, the Committee approved no increase to Mr. Johnson's base salary for 2010 because of the 2009 Market Conditions and his base salary is above the market median of the 2009 Towers Perrin Survey. Mr. Johnson's target annual cash incentive payout remains unchanged at 70 percent of his base salary, which is above the market median target for reasons explained above. In February 2010, the Committee awarded Mr. Johnson an option for 30,000 shares. The Committee based its award decision on performance, market data and run rate considerations. Mr. Johnson's 2010 target total direct compensation is above the market median of the 2009 Towers Perrin Survey.

Mr. Lowe *Vice President and General Manager, Industrial Products Division*

Mr. Lowe's base salary as of December 2008 approximated the market median of the 2008 Hewitt Survey for a division chief executive officer of manufacturing companies. Effective January 1, 2009, the Committee increased Mr. Lowe's base salary 3.5 percent to $262,912. The increase was in line with the Market Projection Surveys and recognized him for his performance during the year. Based on the 2009 net sales and EPS actual results, the Committee awarded Mr. Lowe a $23,296 cash bonus award under the Executive Officer Bonus Plan. This represented 12.7 percent of his target award. His actual total cash compensation for 2009 fell below the market median of the 2009 Towers Perrin Survey for a profit center head of manufacturing companies. The Towers Perrin Survey's profit center head match encompasses similar scope of responsibilities to that of the Hewitt Survey's division chief executive officer match.

In February 2009, the Committee granted Mr. Lowe, along with the other Management Executives, a stock option award for 47,000 shares, as explained above. As a result of company performance and the foregoing decisions by the Committee, Mr. Lowe's 2009 total direct compensation fell below the market median of the 2009 Towers Perrin Survey.

In December 2009, the Committee approved no increase to Mr. Lowe's base salary for 2010 because of the 2009 Market Conditions and his base salary is within a competitive range of the 2009 Towers Perrin Survey median data. Mr. Lowe's target annual cash incentive payout remains unchanged at 70 percent of his base salary, which is above the market median target for reasons explained above. In February 2010, the Committee awarded Mr. Lowe an option for 30,000 shares. The Committee based its award decision on performance, market data and run rate considerations. Mr. Lowe's 2010 target total direct compensation is above the market median of the 2009 Towers Perrin Survey.

Benefits and Perquisites

In an effort to attract and retain talented employees, we offer retirement, health and welfare programs competitive within our local markets (the "Benefit Programs"). The only Benefit Programs offered to our U.S. executive officers, either exclusively or with terms different from those offered to other eligible employees, include the following:

- Restoration Plan. Since the Internal Revenue Code limits the pension benefits that can be accrued under a tax-qualified defined benefit pension plan, we have established the Graco Inc. Restoration Plan. This plan is a nonqualified excess benefit plan designed to provide retirement benefits to eligible participants in the United States as a replacement for those retirement benefits reduced under the Graco Employee Retirement Plan by operation of Section 415 and Section 401(a)(17) of the Code.
- Supplemental Long-term Disability Program. Each U.S. executive officer is enrolled in an individual executive long-term disability plan under which Graco pays the premiums. Each plan provides the executive with a monthly disability benefit of up to $21,800 in the event of long-term disability.
- Other Perquisites. We provide few other perquisites to our executive officers. We reimburse our U.S. Management Executives for certain financial planning expenses to encourage the executives to maximize the value of their compensation and benefit programs. In 2009, the maximum amount reimbursable for financial planning was $10,000 for the CEO and $7,000 for all other U.S. Management Executives. In order to motivate the executives to receive appropriate preventative medical care to support their continued health and productivity, we offer executive officers in the United States an executive physical examination program through the Mayo Clinic. This program provides a physical examination every three years for executives under age 40, every other year for executives from age 40 through 49, and every year for executives age 50 and older. Executives may be reimbursed and/or receive a tax gross-up for certain limited spousal travel and entertainment events. Mr. Paulis, our named executive officer employed by Graco N.V., is also eligible for benefits and perquisites consistent with those offered to other Graco N.V. management employees.

Severance and Change of Control Arrangements

We have entered into key employee agreements with the CEO and each of the named executive officers, the terms of which are described below under "Change of Control and Post Termination Payments." The Committee believes it is in the best interests of our Company and its shareholders to design compensation programs that:

- Assist our Company in attracting and retaining qualified executive officers;
- Assure our Company will have the continued dedication of our Company's executive officers in the event of a pending, threatened or actual change of control;
- Provide certainty about the consequences of terminating certain executive officers' employment;
- Protect our Company by obtaining non-compete covenants from certain executive officers that continue after their termination of employment not involving a change of control; and
- Obtain a release of any claims from those former executive officers.

Accordingly, the agreements generally provide for certain benefits if the executive officer's employment or service is terminated involuntarily by our Company without cause prior to a change of control or if, within two years after a change of control, the executive officer's employment or service is terminated involuntarily by the Company without cause or the executive officer resigns for good reason. The current form of key employee agreement was approved by the Committee in December 2007 after reviewing the key employee agreements previously in effect and current market practices related to severance arrangements and benefit levels related thereto. In particular, the Committee reviewed Hewitt's most recent "Executive Severance Arrangements Not Related to a Change in Control" and "Executive Change of Control Arrangements" surveys regarding the form and amount of benefits and severance terms provided by companies to their executive officers. Additionally, the Committee reviewed information collected from publicly available information about severance practices at companies in Graco's peer group.

The Committee believes it is imperative to diminish any potential distraction of the executive officers by the personal uncertainties and risks created by a pending or threatened change of control. By offering an agreement that will financially protect the executive officer in the event his or her employment or service is involuntarily terminated or terminated by the executive officer for good reason following a change of control, the Committee believes each executive officer's full attention and dedication to our Company will be enhanced to assist in the evaluation of a proposed change of control, and complete a change of control transaction and facilitate an orderly transition in the event of a change of control. In the event of a change of control of our Company, the agreements provide benefits only if the executive officer's employment or service is terminated involuntarily without cause or if the executive officer resigns for good reason, including by reason of material demotion, decrease in compensation, relocation or increased travel, within two years after the change of control. The Committee believes this "double-trigger" approach is most consistent with the objectives described above. The Committee believes a termination by an executive officer for good reason may be conceptually the same as termination by our Company without cause, and that a potential acquirer would otherwise have an incentive to constructively terminate the executive's employment to avoid paying severance benefits. Thus, the key employee agreements provide severance benefits in the case of resignation for good reason following a change of control.

The Committee believes it is important to attract and retain our executive officers by agreeing to provide certain benefits if the executive officer's employment or service is terminated without cause prior to a change of control. In addition, the Committee believes these benefits are appropriate to compensate these executive officers for agreeing not to work with competitors for a specified period of time following termination of employment, and that compensation enhances the enforceability of these non-compete covenants. The Committee also believes we benefit from obtaining a release of any claims from these former executive officers and the severance payments provide consideration for obtaining the release.

Our equity awards for executive officers and certain key managers provide for accelerated vesting, or lapse of restrictions, upon a change of control. The Committee believes that acceleration upon a change of control is appropriate to minimize the risk that executive officers might favor a transaction based on the likely impact on the executive officer's equity awards, to increase the likelihood that the employees will remain with us after becoming aware of a pending or threatened change of control, and due to the increased likelihood that employees may be terminated by a successor through no fault of their own.

Tax Implications of Executive Compensation

Section 162(m) of the Internal Revenue Code places a limit of $1 million in compensation per year on the amount we may deduct with respect to each of our named executive officers. This limitation does not apply to compensation that qualifies as "performance-based compensation." Annual cash incentives meeting certain conditions and stock option awards constitute performance-based compensation and will generally be fully deductible. The Committee believes all compensation paid to the executive officers for fiscal year 2009 will be deductible for federal income tax purposes. However, the Committee reserves the flexibility to approve elements of compensation for specific officers in the future that may not be fully deductible when the Committee deems the compensation appropriate in light of its philosophies.

Report of the Management Organization and Compensation Committee

The Management Organization and Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Management Organization and Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Members of the Management Organization and Compensation Committee

Mr. Jack W. Eugster, Chair Mr. J. Kevin Gilligan Mr. Lee R. Mitau
Ms. Marti Morfitt

Summary Compensation Table

The table below summarizes the total compensation paid to or earned by our CEO, our chief financial officer ("CFO") and our three other most highly compensated executive officers (collectively with our CEO and CFO, the "Named Executive Officers" or "NEOs"; individually a "Named Executive Officer" or "NEO"), based on total compensation (excluding changes in pension value and nonqualified deferred compensation earnings) during the fiscal year ended December 25, 2009[(1)].

Name and Principal Position	Year	Salary[(2)] ($)	Bonus[(3)] ($)	Stock Awards[(4)] ($)	Option Awards[(5)] ($)	Non-Equity Incentive Plan Compensation[(6)] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[(7)] ($)	All Other Compensation[(8)] ($)	Total ($)
Patrick J. McHale	2009	641,700	—	—	958,185	—	174,000	11,854	1,785,739
President and Chief Executive	2008	620,000	—	—	1,257,480	—	230,000	17,593	2,125,073
Officer	2007	370,393	—	—	1,169,178	216,021	91,000	11,643	1,858,235
James A. Graner	2009	357,750	520	—	200,154	30,525	16,000	23,596	628,545
Chief Financial Officer and	2008	297,077	—	—	326,945	—	167,000	20,232	811,254
Treasurer	2007	330,750	—	—	271,098	111,146	356,000	18,125	1,087,119
Simon J.W. Paulis[9]	2009	339,455	—	—	200,154	28,419	86,083	104,176	758,287
Vice President and General	2008	340,747	—	—	251,496	—	78,308	95,834	766,385
Manager, Europe	2007	254,681	30,000	156,520	271,098	108,853	67,645	85,498	974,295
Dale D. Johnson	2009	309,635	—	—	200,154	27,436	154,000	14,142	705,367
Vice President and General	2008	299,164	—	—	251,496	—	222,000	22,583	795,243
Manager, Contractor Equipment Division	2007	289,047	—	156,520	271,098	130,755	185,000	19,117	1,051,537
David M. Lowe	2009	262,912	—	—	200,154	23,296	52,000	21,756	560,118
Vice President and General Manager, Industrial Products Division									

(1) Also includes information with respect to the fiscal years ended December 28, 2007 and December 26, 2008 for those NEOs serving in such capacity during those fiscal years.
(2) The salary amounts reflect regular base salary earned in the year including any base salary deferred. Mr. Graner's salary amount for 2007 included an accrued vacation payment as a result of his intention to retire at the time. His salary amount for 2009 included an accrued vacation payment elected by him as provided by the terms of the Company's vacation policy applicable to all eligible employees.
(3) Bonus includes any anniversary service awards or discretionary bonuses or awards made under the CEO Award Program.
(4) The amounts reported in the Stock Awards Column represent the aggregate grant date fair value of restricted stock granted

in the fiscal year. Information concerning the assumptions used in accounting for equity awards may be found in Item 8, Financial Statements and Supplementary Data, and Note H to the Consolidated Financial Statements in our Company's 2009 Annual Report on Form 10-K.

(5) The amounts reported in the Option Awards Column represent the aggregate grant date fair value of stock options granted in the fiscal year, as estimated for financial accounting purposes. Information concerning the assumptions used in accounting for equity awards may be found in Item 8, Financial Statements and Supplementary Data, and Note H to the Consolidated Financial Statements in the Company's 2009 Annual Report on Form 10-K.

(6) The amounts represent awards earned under the Executive Officer Annual Incentive Bonus Plan or the Executive Officer Bonus Plan, as applicable, including any amount that was deferred. The Executive Officer Annual Incentive Bonus Plan has a 100 percent of base salary target payout and a 150 percent of base salary maximum payout. The Executive Officer Bonus Plan has a 70 percent of base salary target payout and a 105 percent of base salary maximum payout. See narrative preceding the Grants of Plan-Based Awards table found on page 29. At its February 12, 2010 meeting, the Committee certified that the NEOs who participated in the Executive Officer Bonus Plan for 2009 were entitled to a payout at 12.7 percent of target payout opportunity. Each of those NEOs received a bonus payment equal to 8.9 percent of his established base salary paid in 2009. Given the 2009 Market Conditions, Mr. McHale declined any bonus award and did not receive a payment for 2009, which was 12.7 percent of his established base salary.

(7) The amount shown in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column reflects the aggregate change in the actuarial present value of the NEOs accumulated benefit under the qualified Graco Employee Retirement Plan, and nonqualified excess benefits plan known as the Graco Inc. Restoration Plan as follows: Mr. McHale: $43,000 (qualified pension) and $131,000 (nonqualified restoration); Mr. Graner: $34,000 (qualified pension) and $18,000 (nonqualified restoration); Mr. Johnson: $91,000 (qualified pension) and $63,000 (nonqualified restoration); and Mr. Lowe: $37,000 (qualified pension) and $15,000 (nonqualified restoration). The amount shown for Mr. Paulis reflects the change in present value of $84,104 attributable to the fully insured pension through Swiss Life N.V. and the change in present value of $1,979 attributable to the sector pension plan.

(8) The amounts shown in the All Other Compensation column for 2009 reflect the following for Messrs. McHale, Graner, Johnson, and Lowe:

	Mr. McHale	Mr. Graner	Mr. Johnson	Mr. Lowe
Employee Investment Plan Matching Contribution	$ 7,219	$ 7,350	$ 7,350	$ 7,350
Other Perquisites	4,635	16,246	6,792	14,406
Total	$ 11,854	$ 23,596	$ 14,142	$ 21,756

The Other Perquisites consist of company-provided incremental cost for long-term disability coverage, financial planning, executive physical and tax gross-ups. None of these individual perquisite categories exceeded the greater of $25,000 or 10 percent of the total perquisite amount.

The amount shown in the All Other Compensation column for 2009 reflect the following for Mr. Paulis:

Insurance Premium for Pension, Medical, and Life	$ 65,833
Incremental Cost for Long Term Disability Coverage	10,344
Metal Trade Sector Retirement Contribution	1,697
Other Perquisites	26,302
Total	$ 104,176

The Other Perquisites for Mr. Paulis consist of car related and miscellaneous expenses. None of these individual perquisite categories exceeded the greater of $25,000 or 10 percent of the total perquisite amount. Benefits provided to Belgium employees are very different than those provided to employees based in the United States; however, Mr. Paulis receives benefits similar to those provided to all other Belgium management employees.

(9) Amounts for Mr. Paulis reflect an average exchange rate of 1.394 dollar-to-euro for 2009.

Grants of Plan-Based Awards in 2009

On February 13, 2009, the Committee awarded a non-qualified stock option to each executive officer, including the NEOs, under the Stock Incentive Plan. The amounts shown in the column entitled "All Other Option Awards: Number of Securities Underlying Options" reflect the number of common shares covered by the stock option granted to each NEO. Each option has a 10-year term and becomes exercisable in equal installments over four years, beginning with the first anniversary of the grant date.

Under the Executive Officer Annual Incentive Bonus Plan, the payout to Mr. McHale, upon achievement of applicable financial measures, ranges from a minimum of 12.5 percent to a maximum of 150 percent of his earned base salary.

Under the Executive Officer Bonus Plan, the payout to the eligible NEOs, upon achievement of applicable financial measures, ranges from a minimum of 8.75 percent to a maximum of 105 percent of their earned base salary.

Grants of Plan-Based Awards for Fiscal Year Ended December 25, 2009

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold[1] ($)	Target ($)	Maximum ($)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards[2] ($/sh)	Closing Market Price of Common Stock on Grant Date[2] ($/sh)	Grant Date Fair Value of Stock or Option Award[3] ($)
Patrick J. McHale	2/13/2009	80,213	641,700	962,550	225,000	20.80	21.00	958,185
James A. Graner	2/13/2009	30,144	241,150	361,725	47,000	20.80	21.00	200,154
Simon J.W. Paulis	2/13/2009	28,064	224,509	336,763	47,000	20.80	21.00	200,154
Dale D. Johnson	2/13/2009	27,093	216,745	325,117	47,000	20.80	21.00	200,154
David M. Lowe	2/13/2009	23,005	184,038	276,058	47,000	20.80	21.00	200,154

(1) The amounts represent bonus awards upon attainment of threshold performance for one of the two financial measures (i.e., corporate net sales and corporate EPS).

(2) The Stock Incentive Plan requires the exercise price of an option to be the fair market value of the shares on the date of the grant. The fair market value of the shares is defined as the last sale price on the day preceding the date of grant, unless otherwise determined by the Committee. The Committee has not changed this definition.

(3) The aggregate grant date fair value of the award was calculated in accordance with U.S. accounting standards using a value per share of $4.26.

Outstanding Equity Awards at Fiscal Year Ended December 25, 2009

The following table summarizes the outstanding equity awards held by each Named Executive Officer on December 25, 2009.

Name	Grant Date	Option Awards: Number of Securities Underlying Unexercised Options[1] (#) Exercisable	(#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards: Number of Shares of Unvested Restricted Stock	Market Value of Unvested Restricted Stock[6]
Patrick J. McHale	2/13/2009[2]	0	225,000	20.80	2/13/2019		
	2/15/2008[2]	37,500	112,500	35.90	2/15/2018		
	6/14/2007[2]	37,500	37,500	40.53	6/14/2017		
	2/16/2007[2]	11,250	11,250	41.36	2/16/2017		
	2/17/2006[2]	16,875	5,625	40.68	2/17/2016		
	2/18/2005[2]	22,500	0	38.13	2/18/2015		
	2/20/2004[2]	27,000	0	27.91	2/20/2014		
	2/21/2003[2]	22,500	0	17.34	2/21/2013		
	2/22/2002[2]	12,656	0	18.39	2/22/2012		
	2/23/2001[2]	8,436	0	11.71	2/23/2011		
James A. Graner	2/13/2009[2]	0	47,000	20.80	2/13/2019		
	2/15/2008[2]	9,750	29,250	35.90	2/15/2018		
	2/16/2007[2]	11,250	11,250	41.36	2/16/2017		

Name	Grant Date	Option Awards: Number of Securities Underlying Unexercised Options(1) (#) Exercisable	(#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards: Number of Shares of Unvested Restricted Stock	Market Value of Unvested Restricted Stock(6)
	2/17/2006(2)	16,875	5,625	40.68	2/17/2016		
	2/18/2005(2)	15,000	0	38.13	2/18/2015		
	2/20/2004(2)	18,000	0	27.91	2/20/2014		
	2/21/2003(2)	18,000	0	17.34	2/21/2013		
	2/22/2002(2)	11,250	0	18.39	2/22/2012		
	2/23/2001(2)	11,250	0	11.71	2/23/2011		
Simon J.W. Paulis	2/13/2009(2)	0	47,000	20.80	2/13/2019		
	2/15/2008(2)	7,500	22,500	35.90	2/15/2018		
	2/16/2007(2)	11,250	11,250	41.36	2/16/2017		
	2/17/2006(2)	16,875	5,625	40.68	2/17/2016		
	2/20/2004(2)	6,750	0	27.91	2/20/2014		
	12/07/2007(4)					4,000	119,840
Dale D. Johnson	2/13/2009(2)	0	47,000	20.80	2/13/2019		
	2/15/2008(2)	7,500	22,500	35.90	2/15/2018		
	2/16/2007(2)	11,250	11,250	41.36	2/16/2017		
	2/17/2006(2)	16,875	5,625	40.68	2/17/2016		
	2/18/2005(2)	22,500	0	38.13	2/18/2015		
	2/20/2004(2)	27,000	0	27.91	2/20/2014		
	2/21/2003(2)	27,000	0	17.34	2/21/2013		
	2/22/2002(2)	22,500	0	18.39	2/22/2012		
	2/23/2001(2)	45,000	0	11.71	2/23/2011		
	2/09/2000(3)	55,938	0	9.09	2/09/2010		
	12/07/2007(4)					4,000	119,840
David M. Lowe	2/13/2009(2)	0	47,000	20.80	2/13/2019		
	2/15/2008(2)	7,500	22,500	35.90	2/15/2018		
	2/16/2007(2)	11,250	11,250	41.36	2/16/2017		
	2/17/2006(2)	16,875	5,625	40.68	2/17/2016		
	2/18/2005(2)	22,500	0	38.13	2/18/2015		
	2/20/2004(2)	22,500	0	27.91	2/20/2014		
	2/21/2003(2)	22,500	0	17.34	2/21/2013		
	2/22/2002(2)	16,875	0	18.39	2/22/2012		
	2/23/2001(2)	16,875	0	11.71	2/23/2011		
	2/24/2000(5)	25,312	0	9.09	2/24/2010		
	12/07/2007(4)					4,000	119,840

(1) All data reflect the three-for-two stock splits distributed on June 6, 2002 and March 30, 2004.
(2) These options have a 10-year term and become exercisable in equal installments over four years, beginning with the first anniversary of the grant date.
(3) These options have a 10-year term and become exercisable in equal installments over five years, beginning with the second anniversary of the grant date.
(4) Each stock grant has a 3-year term and becomes fully vested on the date that is three years after the grant.
(5) These options have a 10-year term and become exercisable on the third anniversary of the grant date.
(6) Market value determined using the closing market price of $29.96 per share of common stock on December 24, 2009.

Option Exercises and Stock Vested in 2009

The following table summarizes the options exercised by each Named Executive Officer in 2009.

Name	Option Awards: Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Patrick J. McHale	6,327	123,187
James A. Graner	—	—
Simon J.W. Paulis	—	—
Dale D. Johnson	—	—
David M. Lowe	25,312	374,184

Change of Control and Post-Termination Payments

Summary of Key Employee Agreement

The Key Employee Agreement provides for payment of the following benefits if the employment of a Management Executive is terminated involuntarily by the Company without Cause (as defined below) prior to a Change of Control (as defined below):

- Pro-rata bonus for year of termination based on actual performance;
- Severance pay equal to one times (two times for CEO) base salary plus bonus based on the target level of performance for the year of termination, payable over the severance period;
- Continued medical, dental and life insurance for the severance period;
- Outplacement services; and
- Reimbursement of reasonable legal fees incurred to enforce the agreement.

The Key Employee Agreement provides for payment of the following benefits if, within two years after a change of control, an executive officer's employment is terminated involuntarily by the Company without cause or if the executive officer resigns for good reason:

- Pro-rata bonus for year of termination based on performance at the target level;
- Severance pay equal to two times (three times for CEO) the sum of base salary plus bonus based on the target level of performance for the year of termination, payable in a lump sum six months after the termination date or over the severance period (if the change of control does not conform to the requirements of Internal Revenue Code Section 409A);
- Continued medical, dental and life insurance for the severance period;
- Attribution of two years (three years for CEO) service credit for purposes of nonqualified excess benefit pension plan;
- Reimbursement of reasonable legal fees incurred to enforce the agreement; and
- Gross-up of income taxes, and excise taxes related to such gross-up payment, due under the "excess parachute" provisions of the Internal Revenue Code, subject to a reduction of benefits of up to $25,000 to avoid such taxes.

The definition of "Change of Control" in the Key Employee Agreements generally includes: (i) acquisition of beneficial ownership by a person or group which results in aggregate beneficial ownership of 30 percent or more of voting power or common stock, subject to certain exceptions; (ii) change of 50 percent or more of the Board members, without Board approval; and (iii) consummation of a merger or other business combination unless our Company's shareholders own a majority of the voting power and common stock of the surviving corporation and other conditions are satisfied.

As used in the Key Employee Agreement, "Cause" means: (i) conviction of, or guilty or no contest plea to, any felony or other criminal act involving moral turpitude; (ii) gross misconduct or any act of fraud, disloyalty or dishonesty related to or connected with the executive officer's employment or otherwise likely to cause material harm to our Company or its reputation; (iii) a willful and material violation of our Company's written policies or codes of conduct; (iv) wrongful appropriation of our Company's funds or property or other material breach of the executive officer's fiduciary duties to our Company; or (v) the willful and material breach of the Key Employee Agreement by the executive officer.

As used in the Key Employee Agreement, "Good Reason" means: (i) assignment of duties materially inconsistent with, or other material diminution of, the executive officer's position, duties or responsibilities as in effect immediately prior to the change of control; (ii) material reduction, in the aggregate, to the compensation and benefit plans, programs and perquisites applicable to the executive officer in effect immediately prior to the change of control; (iii) relocation of the executive officer to a location more than 50 miles from where the executive officer was based immediately prior to the change of control, or requiring the executive to travel to a substantially greater extent; or (iv) failure by our Company to assign the Key Employee Agreement to a successor.

Under the Key Employee Agreement, the Management Executive officers agree to protect our Company's confidential information, and not to compete with our Company or solicit employees for two years after termination of employment (or, if the executive officer's employment is terminated involuntarily other than for Cause prior to a change of control, the non-compete covenant may expire after the executive officer is no longer receiving severance payments). The non-compete restriction does not apply if the executive officer's employment is terminated involuntarily without Cause or voluntarily for Good Reason within two years after a change of control. In order to receive severance, the executive officer must sign a release of claims in favor of our Company and be in compliance with the terms of the Key Employee Agreement. The term of the Key Employee Agreement is three years, followed by automatic annual renewals, unless either party gives six months notice of non-renewal.

Except as indicated above with respect to the CEO, the same form of agreement was provided to all executive officers, except that (i) an executive officer who is a resident of a foreign country will receive a version of the agreement that has been modified as necessary to take into account local laws and prevent the duplication of any benefits and (ii) an executive officer who does not report directly to the CEO nor serves on the executive management team will only be entitled to the foregoing severance benefits upon termination following a change of control, as described above, and will not be required to agree to the form of non-competition and non-solicitation provisions applicable to other executive officers, but will be required to sign our Company's standard employee confidentiality and intellectual property agreement.

Other Compensation and Benefits Payable Upon a Change of Control or Certain Terminations

Each Named Executive Officer is eligible for the benefits described in this section as part of our Company's standard practice or policy; however, the benefits are not triggered by any specific termination reason. Incremental amounts for each of these benefits are disclosed in the Summary Compensation Table, Potential Payments Upon Termination or Following a Change of Control Table, or Pension Benefits table.

Pursuant to the Executive Officer Annual Incentive Bonus Plan and the Executive Officer Bonus Plan, each participant is eligible to receive a prorated bonus based on the amount of base salary earned during the fiscal year and the bonus percentage actually paid for that year for a termination due to death, disability or retirement. Unvested stock option awards provided to any executive officer will automatically accelerate and the options will become fully vested in the event of a change of control of our Company or if the employee is terminated due to death, disability or retirement. All unvested restricted stock provided to any executive officer will automatically be accelerated and fully vested in the event of a change of control of our Company or if the employee is terminated due to death or disability.

Participants in the Graco Employee Retirement Plan and the Graco Inc. Restoration Plan are entitled to receive the accumulated pension benefits over their lifetime, over a specific defined time or at the time of their retirement. These amounts are reflected in the Present Value of Accumulated Benefit column of the Pension Benefits table.

Upon any termination of employment, all employees are eligible to receive payment for any credited but unused vacation time. Each Named Executive Officer would receive reimbursement for any miscellaneous travel and spousal travel perquisites and associated tax gross-up payments when incurred during the fiscal year.

The following Table discloses the potential payments and benefits, other than those available generally on a nondiscriminatory basis to all salaried employees, provided upon a change of control or termination of employment for each of the Named Executive Officers calculated as if the change of control or termination of employment had occurred on December 25, 2009.

Potential Payments Upon Termination or Following a Change of Control at December 25, 2009

Name	Involuntary (Not for Cause) or Good Reason Termination Following Change of Control(1,5) ($)	Involuntary (Not for Cause) Termination(2,5) ($)	Retirement(3,5) ($)	Death(3,5) ($)	Disability(4,5) ($)
Patrick J. McHale	8,824,221	2,680,214	86,100	86,100	337,296
James A. Graner	2,578,504	704,407	105,100	105,100	334,504
Simon J.W. Paulis	1,795,099	580,613	799,961	1,387,919	900,986
Dale D. Johnson	1,777,208	673,374	133,800	253,640	462,164
David M. Lowe	1,508,451	487,145	27,700	147,540	326,816

(1) The amounts represent aggregated payments if a change of control and qualifying termination of employment occurred on December 25, 2009, which include:

  a. Severance payment under the Key Employee Agreement. Upon certain terminations of employment within two years following a change of control, Mr. McHale is entitled to a severance payment equal to three times his base salary and target annual bonus and the other NEOs are entitled to two times their base salary and target annual bonus.

  b. The intrinsic value (or spread between the exercise and market price) of the stock options and restricted stock awards whose exercisability would be accelerated. The value of restricted stock awards is determined by multiplying that closing market price of $29.96 per share of common stock by the number of restricted shares, and the value of accelerated stock options is determined by multiplying the number of unvested options by the difference between that closing share price and the option exercise price.

  c. Annual incremental qualified pension and restoration benefit amount. Actuarial annual retirement benefit amount of the accumulated benefit and the accompanying valuation method and assumptions applied for the qualified Graco Employee Retirement Plan and the nonqualified Graco Inc. Restoration Plan may be found in the Pension Benefits Table and the accompanying narrative on page 36. The incremental benefit amount was determined using additional pay and earnings based on December 25, 2009 base pay and target bonus amounts. The change of control annual retirement benefit amount providing for additional years of service credit is calculated as of the earliest possible benefit commencement date. Assuming a December 25, 2009 termination date, current year bonus would be paid in accordance with the Annual Incentive Plans. See Non-Equity Incentive Plan Compensation column and accompanying footnotes in the Summary Compensation Table on page 27.

  d. Gross-up of income taxes and related excise taxes.

  e. The value of other benefits (post employment health care premiums and life insurance premiums).

(2) Reflects two years of base salary and target annual bonus for Mr. McHale; twelve months of base salary and target annual bonus for the other NEOs. Should our Company elect to extend the non-compete duration beyond twelve months, the payment amount for the NEOs, except for Mr. McHale, would increase.

(3) On December 4, 2008, Mr. Graner's SERP benefit was amended to provide for a present value lump sum payout to Mr. Graner in January 2009. The lump sum payout was $75,598. Upon payout, all other benefit payment obligations to Mr. Graner under the SERP ceased.

(4) Assumes NEO is not age 65 and disabled for a full calendar year. Benefit reflects an annualized amount that would be paid on a monthly basis and would cease if NEO reaches their social security normal retirement age or is no longer disabled.

(5) Applicable terms and conditions for Mr. Paulis upon Termination or Following a Change of Control:

  a. <u>Involuntary (Not for Cause) or Good Reason Termination Following Change of Control</u>

    i. The health and dental, life, and retirement values represent eighteen months of premiums that will be provided to Mr. Paulis upon a change of control event. Mr. Paulis is expected to continue his coverage through the insurer using these payments to pay the premium.

    ii. Under Belgium law, Mr. Paulis may be entitled to certain monetary payments and/or benefits as a result of his termination of employment. To the extent that he is entitled to severance and the value of the local obligation is less than what he would receive under his U.S. Key Employee Agreement (KEA) such value will be set off against the payment obligations of his KEA. This condition holds true regardless of whether the termination follows a change of control or involuntary (not for cause) termination. The provisions of his KEA have been followed to calculate the amounts shown in the Table.

  b. <u>Involuntary (Not for Cause) Termination</u> - Under Belgium law, Mr. Paulis may be entitled to certain monetary payments and/or benefits as a result of his termination of employment. To the extent that he is entitled to severance and the value of the local obligation is less than what he would receive under his KEA, such value will be set off against the payment obligations of his KEA. This condition holds true regardless of whether the termination follows a change of control or involuntary (not for cause) termination. The provisions of his KEA have been followed to calculate the amounts shown in the Table.

c. Retirement - The amount reflects the lump sum payable to Mr. Paulis upon his normal retirement date. $786,840 is attributable to the fully insured benefit provided to him by Swiss Life N.V. and $13,121 is attributable to the sector pension plan.

d. Death - The insured pension for Mr. Paulis provides a specific benefit in the event of death before retirement, which is different from and in lieu of the normal retirement benefit. The benefit amount in event of death before retirement is four times annual salary and is paid instead of the amount payable at normal retirement age, not in addition to any retirement benefit. This benefit formula is used for all Belgian employees covered under this policy.

e. Disability - This number reflects the lump sum payable from the pension plan due to disability of $590,121, plus the annual disability benefit payable through the disability contract of $191,025.

f. Exchange Rates - All amounts in this table reflect an average exchange rate of 1.394 dollar-to-euro for 2009.

Retirement Benefits

Graco Employee Retirement Plan (1991 Restatement)

The Graco Employee Retirement Plan (The "Retirement Plan") is a funded defined benefit plan designed to coordinate with Social Security benefits to provide a basic level of retirement benefits for all eligible employees. Eligible executive officers participate in our tax-qualified defined benefit pension plan on the same terms as the rest of our eligible employees. Each of the U.S. named executive officers is eligible for benefits under the Retirement Plan.

Benefits for those eligible under the Retirement Plan consist of a fixed benefit, which is designed to provide retirement income at age 65 of 43.5 percent of a participant's average monthly compensation, less 18 percent of Social Security-covered compensation (calculated in a life annuity option) for an employee with 30 years of service. Average monthly compensation is defined as the average of the five consecutive highest years' cash compensation during the last ten years of service, divided by sixty. The Retirement Plan defines eligible cash compensation as base salary, holiday pay, income earned outside of the United States but paid in the United States, annual bonus, CEO award, sales incentive, area differential, short-term disability payments, vacation pay, paid out accrued vacation, deferrals made under a cash or deferred agreement under Code Section 401(k), contributions to a plan established under Code Section 125, and transit and parking reimbursements made under Code Section 132. Benefits under the Retirement Plan vest upon five years of benefit service.

Normal retirement age is defined as age 65 or age 62 with at least 30 years of service. Early retirement is available to participants age 55 with 5 years of vesting service. The monthly amount of a participant's benefit when retiring prior to age 65, or age 62 with less than 30 years of benefit service, will be reduced by one-half of one percent (0.5%) for each month by which a participant's pension benefit is to begin prior to the participant turning age 65. If a participant continues in employment with the Company after his Normal Retirement Date, payment of the benefit shall be suspended for each calendar month during which the participant continues employment.

The default form of pension benefit is a single life annuity that provides a monthly benefit for the life of the participant. A participant may elect an optional form of payment. The optional forms available are survivor annuity form or a term certain form. A survivor annuity form is an annuity that is payable monthly to and for the lifetime of the participant with a survivor annuity that is payable monthly after the participant dies to and for the lifetime of a participant's designated joint annuitant in an amount equal to 50 percent, 66 2/3 percent, 75 percent or 100 percent (as elected by the participant) of the amount payable during the joint lives of the participant and the designated joint annuitant. The value of the amounts payable in the survivor annuity form shall be actuarially equivalent to the value of the amounts payable in the single life annuity form. Term certain form is a form of annuity that is payable monthly to and for the lifetime of the participant or, if longer, for 120 or 180 months, as elected by the participant before his pension is to begin.

Graco Inc. Restoration Plan (2005 Statement)

Because the Internal Revenue Code ("Code") limits the pension benefits that can be accrued under a tax-qualified defined benefit pension plan, we have established the Graco Inc. Restoration Plan (the "Restoration Plan"). This plan is a nonqualified excess benefit plan, designed to provide retirement benefits to eligible executives as a replacement for the retirement benefits limited under the Retirement Plan by operation of Section 415 and Section 401(a)(17) of the Code or who have experienced a reduction in benefits due to participant contributions to the Graco Deferred Compensation Plan. The Restoration Plan provides comparable level retirement benefits as a percentage of compensation as those provided to other employees.

An employee that is a participant in the Retirement Plan, and has experienced a legislative reduction in benefits under the Graco Employee Retirement Plan due to limitations imposed by Section 415 of the Code, Section 401(a)(17) of the Code, or who has experienced a reduction in benefits due to participant contributions to the Graco Deferred Compensation Plan (2005 Restatement), and is selected for participation, is eligible to participate in the Plan.

Benefits under the Restoration Plan supplement the benefit under the Retirement Plan. The Restoration Plan will pay to a participant as a benefit the amount by which the benefit under the Retirement Plan is exceeded by the benefit to which the participant would have been entitled under the Retirement Plan if the benefit limitations under Section 415 of the Internal Revenue Code and the compensation limitations of Section 401(a)(17) of the Internal Revenue Code did not apply. The Restoration Plan provides for the following default forms of distribution. If the participant is single at the time distribution of a participant's benefit is to commence, the participant's benefit is to be paid in a single life annuity. If the participant is married at the time distribution of a participant's benefit is to commence, a participant's benefit is to be paid in the form of a joint and survivor annuity. The joint and survivor annuity will be paid over the life of the participant and the participant's spouse, with a reduced annuity paid to the survivor after the death of the participant or the participant's spouse. Alternatively, a participant may elect any of the distribution options available under the Graco Employee Retirement Plan or a lump sum option. A participant may elect to change the form of distribution to one of the optional forms of distribution. If the participant's form of payment prior to electing one of the alternate forms is an annuity and the alternate form elected is an actuarially equivalent annuity, the benefit will commence on the same date that the benefit would have been paid but for the election to change the form. If a participant wishes to elect the lump sum option or any option which does not meet the conditions listed above, the election will not take effect until the date that is twelve months after the date on which the participant made the election and the distribution will be delayed for at least five years after the distribution would have otherwise been made absent the election.

A participant's benefit will commence on the first day of the month after the later of (i) the date the participant attains age 62, or (ii) the participant separates from service. In the case of a distribution to a specified employee (as defined in Section 409A of the Internal Revenue Code), where commencement is based on the specified employee's separation from service, the date that the distribution will commence will be the first day of the month following the date that is six months after the specified employee's separation from service.

If the value of a participant's benefit under the Restoration Plan is $10,000 or less as of the date the benefit of the participant is to commence, the benefit will be paid in a single lump sum. There is no cap on the maximum benefits under the Restoration Plan.

The actuarial present values of accumulated benefits as of December 31, 2009 for both the Retirement Plan (1991 Restatement) and Restoration Plan (2005 Restatement) are reflected in the Present Value of Accumulated Benefit Column of the Pension Benefits for 2009 table below. The actuarial present values are based on the valuation method and the assumptions applied in the calculations.

Supplemental Executive Retirement Plan

The Company established a Supplemental Executive Retirement Plan ("SERP") for Mr. Graner in 1994, which provided him with $10,000 per year guaranteed payable for ten years via 120 monthly installments following his retirement. The plan acknowledged that Mr. Graner may retire on the first of any month coincident with or following the completion of five years of service and attainment of age 55. At its December 4, 2008 meeting, the Committee approved a present value lump sum payout of the future benefit amount payable to Mr. Graner in 2009 to avoid the ongoing administrative and legal expense associated with the maintenance of a single participant plan. The payout amount was $75,598. Upon payout, all other benefit obligations to Mr. Graner under the plan ceased.

Belgium

The Company provides all employees with Group Insurance/Benefits Plan for the benefit of Graco N.V. Each employee of Graco N.V. is provided with a group insurance benefit that provides retirement, life and disability benefits.

The pension benefit provides for a retirement benefit payable the first of the month following the employee's 65th birthday. The employee has three payment options: a lump sum, an annuity in life only form, or conversion to another product offered by the insurance company. The employee pays one-third of the premium and Graco N.V. pays two-thirds of the premium.

The life insurance benefit provides a payout of four times annual salary in the event of death prior to retirement. The premium for this benefit is paid by Graco N.V.

The disability coverage consists of an insured annual benefit equal to 10 percent of the annual salary limited to the AMI-Benefits ceiling, plus 70 percent of the excess. In case of occupational accident, the employee will be entitled to an annual disability benefit, equal to 70 percent of the part of the annual salary that exceeds the ceiling. Mr. Paulis' disability benefit is approximately U.S. $177,000. The premium is paid by Graco N.V.

All Graco N.V. employees have a sector retirement plan known as Sector Pension Plan Agoria. Graco N.V. is part of the Metal Trade sector. This additional retirement plan provides for retirement beginning the first day of the month following the employee's 65th birthday. The retirement benefit will be paid as a one-time lump sum. Graco N.V. pays the monthly premium.

Pension Benefits at Fiscal Year Ended December 25, 2009

Name	Plan Name	Years Credited Service (#)	Present Value of Accumulated Benefit[1], [6] ($)	Payments During Last Fiscal Year ($)
Patrick J. McHale	Graco Employee Retirement Plan (1991 Restatement)	20.1	318,000	—
	Graco Inc. Restoration Plan (2005 Statement)	20.1	554,000	—
James A. Graner[2]	Graco Employee Retirement Plan (1991 Restatement)	35.8	1,115,000	75,598[5]
	Graco Inc. Restoration Plan (2005 Statement)	35.8	1,116,000	—
Simon J.W. Paulis[3]	Group Insurance/Benefit Plan for the benefit of Graco N.V.	N/A[4]	496,920	—
	Sector Pension Plan Agoria	N/A[4]	10,136	—
Dale D. Johnson[2]	Graco Employee Retirement Plan (1991 Restatement)	33.9	787,000	—
	Graco Inc. Restoration Plan (2005 Statement)	33.9	1,036,000	—
David M. Lowe	Graco Employee Retirement Plan (1991 Restatement)	14.9	244,000	—
	Graco Inc. Restoration Plan (2005 Statement)	14.9	188,000	—

(1) For details regarding the assumptions, please refer to the Graco Inc. 2009 Annual Report on Form 10-K, Part II, Item 8 Financial Statements and Supplementary Data.
(2) Mr. Graner and Mr. Johnson are eligible for early retirement benefits under the Retirement Plan and Restoration Plan.
(3) The pension benefits provided to Mr. Paulis are provided by insured contracts through Swiss Life N.V.
(4) Both the Group Insurance Benefit Plan and Sector Pension Plan are insurance contracts funded by premium contributions. As such, years of credited service are not a factor in determining the benefit amount.
(5) Lump sum payout to Mr. Graner of present value amount for SERP.
(6) Benefits for both the Retirement Plan and the Restoration Plan are based on either age 65 or the earliest date the NEO would receive unreduced benefits. Messrs. Graner and Johnson are eligible for unreduced benefits upon reaching age 62.

Nonqualified Deferred Compensation

The Graco Deferred Compensation Plan (2005 Statement) (the "Deferred Compensation Plan") is a nonqualified, unfunded, deferred compensation plan intended to meet the requirements of Section 409A of the Internal Revenue Code. Our Company has purchased insurance contracts on the lives of certain employees who are eligible to participate in the Restoration Plan and the Deferred Compensation Plan (2005) to fund the Company's liability under these plans. These insurance contracts are held in trust and are available to general creditors in the event of the Company's insolvency. This plan was adopted following the freezing of the Graco Inc. Deferred Compensation Plan (1992 Restatement) effective December 31, 2004. Only a select group of management and highly compensated employees are eligible for the current Deferred Compensation Plan.

A participant in the Deferred Compensation Plan may elect to defer one percent to 50 percent of his or her base salary or advance sales incentive and/or one percent to 100 percent of his or her annual bonus and year-end sales incentive award. The Deferred Compensation Plan uses measurement funds to value the performance of the participants' accounts. Participants can select one or more measurement funds and allocate their accounts in whole percentages. Participants have the ability to change their measurement funds on a daily basis. Participants are fully vested in the funds credited to their account at all times.

Upon enrollment in the Plan, the participant elects the year distributions are to begin and the form of distribution. The participant may elect a one-time change to the year in which the distribution is to begin. A change will delay the first distribution date for at least five years after the date the distributions would have begun under the original election. Participants have the ability to select between the following distribution forms: lump sum or annual installments for five, ten or fifteen years. In the event of a separation from service, the account will be distributed as soon as administratively possible on the January next following the date of separation from service. For a specified employee (as defined by Code Section 409A) distributions where the timing of the distribution is based on a separation from service, the date of distribution will be the first of the month following the date that is six months after the date the specified employee separated from service.

Effective December 31, 2004, Graco froze the Graco Inc. Deferred Compensation Plan (1992 Restatement). A participant in the Graco Inc. Deferred Compensation Plan (1992 Restatement) could have deferred one percent to 25 percent of his or her base salary or advance sales incentive and/or one percent to 50 percent of his or her annual bonus and year-end sales incentive award. The Graco Inc. Deferred Compensation Plan (1992 Restatement) was amended August 1, 2007 to use the same measurement funds as provided for in the Graco Deferred Compensation Plan (2005 Statement).

A participant in the Graco Inc. Deferred Compensation Plan (1992 Restatement) is eligible for distribution upon his or her retirement on or after the date the participant attains age 55 and completes at least five years of service. The monthly amount of a participant's benefit will be determined by dividing their account balance by the number of months of the payout period that was irrevocably selected by the participant upon enrollment or the number of months necessary to provide a minimum monthly payment of $1,000.

As of December 25, 2009, no executive officers were contributing to the Deferred Compensation Plan.

Name	Executive Contributions in Last Fiscal Year[1] ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year[2] ($)	Aggregate Withdrawals/Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
James A. Graner	0[3]	—	7,509	—	249,009

(1) The executive contributions have been included in the Salary column of the Summary Compensation Table.
(2) The measurement funds available under the Graco Deferred Compensation Plan (2005 Statement), and their annualized returns as of December 31, 2009, were as follows:

Fund	Asset Category	Ticker	Rate of Return (%)
Columbia Acorn USA Z	Small Growth	AUSAX	41.49
Wells Fargo Stable Return G	Stable Value	DSRF1	3.09
American Funds EuroPacific Gr R4	Foreign Large Blend	REREX	39.13
American Funds Grth Fund of Amer R5	Large Growth	RGAFX	34.91
Vanguard Small Cap Index	Small Blend	VSCIX	36.4
Vanguard Institutional Index	Large Blend	VINIX	26.63
Western Asset Core Plus Bond Instl	Intermediate Bond	WACPX	26.2
Hotchkis & Wiley Core Value	Large Blend	HWCIX	37.46
Vanguard Total Bond Mkt Index	Intermediate Bond	VBMFX	5.93

(3) Mr. Graner did not contribute to the Graco Deferred Compensation Plan (2005 Statement) during 2009.

CEO Succession Planning

Our Board is responsible for reviewing and approving, upon recommendation of the Management Organization and Compensation Committee, management's succession plan for key executive positions and for establishing a succession plan for our chief executive officer position. Our Management Organization and Compensation Committee is responsible for reviewing and making recommendations to the Board on the executive management organization. Annually, our CEO, together with our Vice President, Human Resources, present to our Board an overview of our talent management program and processes, including the identification of key individuals, their readiness for certain executive positions, and development actions to be taken to prepare them for these positions over a period of time. In addition, our Board annually reviews and discusses succession planning for our chief executive officer position. In doing so, the Board considers our Company's current and future business and leadership needs, the identification of candidates who may be able to serve as our principal executive officer in an emergency, the development of potential candidates who may be able to serve as our principal executive officer in the longer-term, and progress made by those potential candidates in their development over the past year. Our Board has access to senior executives and key managers from time to time through presentations to the full Board and one-on-one meetings with individual directors.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about shares that may be issued under our Company's various stock option and purchase plans as of December 25, 2009.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)]
Equity compensation plans approved by security holders	4,226,373	28.44	3,637,743
Equity compensation plans not approved by security holders[1]	586,829	32.84	—
Total	4,813,202	28.98	3,637,743

(1) The Company has maintained one plan that did not require approval by shareholders. The Employee Stock Incentive Plan ("ESIP") is a broad-based plan designed to offer employees who are not officers of the Company the opportunity to acquire Graco stock. Under this plan, the option price is the market price on the date of the grant. Options become exercisable at such time and in such installments as the Company shall determine, and expire ten years from the date of the grant. Authorized shares remaining under the ESIP were cancelled as of April 21, 2006, with future grants to be made under the Amended and Restated Stock Incentive Plan (2006), or the Graco Inc. 2010 Stock Incentive Plan, if approved by our shareholders at the Meeting.

BENEFICIAL OWNERSHIP OF SHARES

Director and Executive Officer Beneficial Ownership

The following information, furnished as of February 16, 2010, indicates beneficial ownership of the common shares of our Company by each director, each nominee for election as director, the named executive officers and by all directors and executive officers as a group. Except as otherwise indicated, the persons listed have sole voting and investment power.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership[1,2,3]	Percent of Common Stock Outstanding[4]	Phantom Stock Units
William J. Carroll	43,796		12,852
Jack W. Eugster	33,750		7,468
J. Kevin Gilligan	35,000		14,495
James A. Graner[2,5]	212,653		—
Dale D. Johnson	248,098		—
David M. Lowe[5]	279,110		—
Lee R. Mitau	83,763		35,392
Patrick J. McHale[2]	328,504		—
Marti Morfitt	63,450		20,637
Simon J.W. Paulis	79,631		—
William G. Van Dyke	66,402		22,446
R. William Van Sant	22,750		9,849
All directors and executive officers as a group (19 persons)[5, 6]	2,096,929	3.40%	

(1) Includes 1,409,615 shares with respect to which executive officers, and 256,779 shares with respect to which non-employee directors, have a right, as of April 16, 2010, to acquire beneficial ownership upon the exercise of vested stock options.
(2) Excludes the following shares as to which beneficial ownership is disclaimed: (i) 348,748 shares owned by the Graco Employee Retirement Plan, as to which Messrs. McHale, Graner and Lowe share voting and investment power as members of the Company's Benefits Finance Committee; and (ii) 17,207 shares held by The Graco Foundation, as to which Messrs. McHale and Lowe share voting and investment power as a director.
(3) Beneficial ownership excludes units shown as phantom stock units, held by each individual non-employee director listed as of February 16, 2010. Upon termination of the director's service on the Board, the non-employee director will be paid the balance in his or her deferred stock account through the issuance of Graco shares, either in a lump sum or installments, by January 10 of the year following the separation of non-employee director from service. The information in this column is not required by the rules of the Securities Exchange Commission because the phantom stock units carry no voting rights and the non-employee director has no right or ability to convert the phantom stock to common stock within 60 days of February 16, 2010. Nevertheless, we believe that this information provides a more complete picture of the financial stake that our directors have in our Company.
(4) Less than 1 percent if no percentage is given.
(5) Mr. Graner pledged 36,609 shares of Graco common stock for lines of credit and a margin loan. Mr. Lowe pledged 73,302 shares of Graco common stock for a line of credit.
(6) If the shares referred to in footnote 2 above, as to which one or more directors and designated executive officers share voting power were included, the number of shares beneficially owned by all directors, nominees for election as director and executive officers would be 2,462,884 shares, or 4.0 percent of the outstanding shares.

Principal Shareholder Beneficial Ownership

The following table identifies each person or group known to our Company to beneficially own as of December 31, 2009, 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) Los Angeles, CA 90071	A Division of Capital Research and	Management Company	333 South Hope Street	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.

Section 16(a) Beneficial Ownership Reporting Compliance

Our Company's executive officers, directors, and 10 percent shareholders are required under the Securities Exchange Act of 1934 and regulations promulgated thereunder to file initial reports of ownership of the Company's securities and reports of changes in that ownership with the Securities and Exchange Commission. Copies of these reports must also be provided to the Company.

Based upon its review of the reports and any amendments made thereto furnished to our Company, or written representations that no reports were required, management believes that all reports were filed on a timely basis by reporting persons during and with respect to 2009.

RELATED PERSON TRANSACTION APPROVAL POLICY

In February 2007, our Board of Directors adopted a written related person transaction approval policy, which sets forth our Company's policies and procedures for the review, approval or ratification of any transaction required to be reported in our filings with the Securities and Exchange Commission. Our policy applies to any transaction, arrangement or relationship or any series of similar transactions, arrangements or relationships in which our Company is a participant and in which a related person has a direct or indirect interest, other than the following:

- Payment of compensation by our Company to a related person for the related person's service to our Company in the capacity or capacities that give rise to the person's status as a "related person;" and
- Transactions generally available to all employees or all shareholders of our Company on the same terms.

The Audit Committee of our Board of Directors must approve any related person transaction subject to this policy before commencement of the related person transaction or, if it is not practicable to approve the transaction before commencement, the transaction will be submitted to the Audit Committee or chair of the Audit Committee for ratification as soon as possible. The Audit Committee or its Chair will analyze the following factors, in addition to any other factors the Audit Committee deems appropriate, in determining whether to approve a related person transaction:

- The benefits to our Company;
- The impact on a director's independence;
- The availability of other sources for comparable products or services;
- The terms of the transaction and whether they are fair to our Company;
- Whether the terms are available to unrelated third parties or to employees generally; and
- Whether the transaction is material to the Company.

The Audit Committee or its Chair may, in its or his sole discretion, approve or deny any related person transaction. Approval of a related person transaction may be conditioned upon our Company and the related person following certain procedures designated by the Audit Committee or its Chair.

PROPOSAL 3

PROPOSAL TO APPROVE THE
GRACO INC. 2010 STOCK INCENTIVE PLAN

Introduction

On February 12, 2010, the Company's Board of Directors approved the 2010 Stock Incentive Plan (the "2010 Plan") upon recommendation of the Management Organization and Compensation Committee. The new 2010 Plan provides for issuance of up to 5,100,000 shares of Graco common stock. Upon shareholder approval of the 2010 Plan, no further awards will be granted under the Graco Inc. Amended and Restated Stock Incentive Plan (the "Current Plan"), which is the plan currently used to grant equity-based awards to employees and non-employee directors. Instead, all future grants of equity-based awards to the Company's employees and non-employee directors will be made under the 2010 Plan.

The Current Plan was originally adopted in 2001 and most recently amended and restated in 2006, and provided for issuance of an aggregate of 7,375,000 shares of Graco common stock, following adjustments for stock splits that occurred during the term of the Current Plan. As of December 25, 2009, 2,166,214 shares of Graco common stock remained available for issuance under the Current Plan. Except as described below, the 2010 Plan operates in a manner substantially similar to the Current Plan.

Key Features of the 2010 Plan Proposal

1. The key terms of the 2010 Plan are essentially identical to the terms of the Current Plan approved by the Company's shareholders at the 2006 Annual Meeting, which was approved by holders of over 80% of the shares that voted on that proposal The differences between the 2010 Plan and the Current Plan are described below.

2. The 2010 Plan will enable the Company to continue to attract key talent to the organization while providing long-term incentives that are competitive within the industry.

3. Grants under the Current Plan are, based upon current proposals and historical data, estimated to have an average annual burn rate of approximately 2 percent. The Company's burn rate is calculated as the number of shares granted during a year under the Current Plan, divided by the number of weighted average common shares outstanding at the end of the year.

4. Upon approval by the shareholders, all future equity-based grants to employees and non-employee directors will be made under the 2010 Plan and no further grants will be made under the Current Plan.

5. Restricted stock, restricted stock units and performance awards payable in shares shall be counted as two shares against the total shares authorized for issuance under the 2010 Plan.

6. The 2010 Plan contemplates the issuance of performance-based awards that are tied to certain financial measures. As a result of shareholder approval of the 2010 Plan, which includes the financial measures described below, these awards will qualify for the exemption from the $1 million limitation on the deductibility of compensation paid to certain covered employees.

7. The Company intends to continue its long-standing policy of opportunistically repurchasing shares to offset dilution resulting from issuance of shares under the 2010 Plan.

The Company's Philosophy on Equity Compensation

For many years, Graco's management has believed strongly that a more performance-oriented culture would create shareholder value. As a result, a number of programs were put in place to expand employee stock ownership and directly tie the Company stock performance to employee compensation. In addition to the Current Plan and predecessor stock incentive plans, the Company sponsors the Graco Inc. Employee Stock Purchase Plan, which promotes employee stock ownership at all levels of Graco.

The Board believes that over the years, the Company's stock option plans have contributed to Graco's success in attracting and retaining skilled management personnel, as well as aligning the interests of management and employees with the interests of shareholders. The Company believes this performance-based culture has contributed to the Company's strong financial performance and increased shareholder value. The Company's relative recent financial performance is reflected in the fact that, as of December 31, 2009, the Company's one-year total shareholder return is in the top half of its Global Industry Classification Group. The cumulative total shareholder return of the Company over at least the last five years has outperformed the Dow Jones Industrial Machinery Index.

The Board strongly believes that the Company's stock programs, including the Current Plan, have been integral to the Company's success in the past and will be important to the Company's ability to achieve consistently superior performance in the years ahead. Therefore, approval of the new 2010 Plan that will replace the Current Plan going forward is an important factor in motivating management and employees to achieve future growth plans.

Impact on Shareholder Dilution

Share usage from stock plans has not translated into net shareholder dilution because the Company has a long-standing practice of buying back more shares than the compensation shares issued. As described above, the Company's stock repurchases have historically served to mitigate the dilution from equity-based compensation programs, and the Company expects similar repurchase activity in the future.

Since the Current Plan was last approved by shareholders in 2006, the Company has issued approximately 28,500 shares of restricted stock, 836,497 shares upon exercise of stock options and 40,565 shares to non-employee directors in lieu of cash compensation. As of December 25, 2009, 3,912,596 shares were reserved for issuance upon exercise of outstanding options and 2,166,214 shares remained available for future awards under the Current Plan. The Current Plan will cease to be available for future grants following approval of the 2010 Plan.

The Board monitors the potential shareholder dilution and "overhang" represented by outstanding employee equity awards and shares available for future grant. Based on the approximate number of shares outstanding on the record date, the Company's fully-diluted overhang as of December 25, 2009, is stated below. This ratio assumes that this proposal is approved by shareholders. The Board believes that this rate is in line with Graco's peer group of companies.

$$\text{Fully-Diluted Overhang} = \frac{\text{Outstanding Awards + Shares Available for Grant}}{\text{Common Shares Outstanding + Outstanding Awards + Shares Available for Grant}} \quad 10.4\%$$

In addition to reviewing the Company's overhang, the Board also considers the Company's "burn rate." The Company's burn rate is calculated as the number of shares underlying stock options granted during a year under the Current Plan, divided by the number of weighted average common shares outstanding at the end of the year. The three-year average burn rate for the three-year period ended December 25, 2009, which is the average of the burn rates in each of the last three years, was approximately 1.7 percent.

Based on current plans for granting equity compensation, which are consistent with past practices under both the Current Plan and the 2010 Plan, the Board expects that the 5,100,000 shares authorized for issuance under the 2010 Plan will allow the Company to continue granting equity compensation for approximately four to five years. As a result of the Company's ongoing share repurchase program, the Board believes that the net impact on shareholder dilution will not be significant.

Changes from Current Plan

The proposed 2010 Plan is similar to the Current Plan, but includes the following changes:

- Eliminates the ability to grant reload options.
- In addition to prohibiting repricings of options or stock appreciation rights through amendment, cancellation or replacement grants, the 2010 Plan prohibits repricings through cash buyouts.
- Requires restricted stock, restricted stock units and performance awards payable in shares to count as two shares against the total shares available for issuance under the Plan for every one share subject to such an award.
- Prohibits the grant of dividend equivalents on stock options, stock appreciation rights and unearned performance awards.
- Contemplates the grant of certain awards that would qualify as performance-based compensation under Section 162(m) of the Code.

Key Features of the 2010 Plan

A summary of the 2010 Plan appears below and the full text of the 2010 Plan is set forth as Appendix A to this Proxy Statement. The 2010 Plan has been designed to meet the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the deductibility of executive compensation with respect to stock options and stock appreciation rights granted under the 2010 Plan. In addition, it is intended that the 2010 Plan qualify as an incentive stock option plan meeting the requirements of Section 422 of the Code.

Shares/Stock

- Graco Inc. common stock, par value $1.00 per share.

Eligibility

- Any employee, officer or non-employee director of Graco or any of its affiliates.

Awards

- Any option, stock appreciation right, restricted stock, restricted stock unit, performance award, or other stock-based award. Also includes certain dividend equivalents; however, dividend equivalents on stock options, stock appreciation rights and performance awards are not permitted.

Term

- The 2010 Plan will expire on April 23, 2020, unless earlier terminated by the Board of Directors.

Option Exercise Price

- Not less than 100 percent of the fair market value of a share on the date of grant.
- Fair market value is the last sale price of Graco common stock as reported by the New York Stock Exchange on the business day immediately preceding the date upon which fair market value is being determined.

Number of Shares Authorized

- 5,100,000 shares.
- Restricted stock, restricted stock units and performance awards shares shall be counted as two shares against the total shares authorized.
- Shares subject to awards outstanding under the Current Plan as of the date of shareholder approval of the 2010 Plan that are not purchased or are forfeited or otherwise terminate without delivery of shares shall become available under the 2010 Plan.

Summary of the 2010 Plan

All employees, officers and non-employee directors of Graco and its affiliates are eligible to receive awards under the 2010 Plan at the discretion of the Management Organization and Compensation Committee of the Board of Directors. The Management Organization and Compensation Committee is composed solely of non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and outside directors within the meaning of Section 162(m) of the Code. The 2010 Plan is administered in accordance with the requirements for the award of "qualified performance-based compensation" under Section 162(m) of the Code.

The Management Organization and Compensation Committee has the power to designate persons eligible for awards under the 2010 Plan, interpret and administer the 2010 Plan and any award agreement, establish rules as deemed appropriate for the administration of the 2010 Plan and, subject to the provisions of the 2010 Plan and to applicable law, determine:

- The type of award and number of shares covered by each award, provided that the term of any option or stock appreciation right cannot exceed ten years.
- The terms and conditions of any award or award agreement.
- The terms of exercise of any award.

The Management Organization and Compensation Committee may also amend or waive the terms and conditions of an outstanding award, but may not adjust or amend the exercise price of any outstanding stock option or stock appreciation right, except in the case of a stock split or other recapitalization pursuant to Section 4(c) of the 2010 Plan. The Management Organization and Compensation Committee may delegate some or all of its authority under the 2010 Plan to the Chief Executive Officer of the Company for purposes of designating, determining and administering awards to employees who are not officers or directors of the Company. The Chief Executive Officer may, in turn, delegate such authority to other executive officers of the Company.

The aggregate number of shares of common stock that may be issued under all awards made under the 2010 Plan will be 5,100,000. Restricted stock, restricted stock units and performance awards payable in shares of common stock shall be counted as two shares against the total shares authorized.

The Management Organization and Compensation Committee may adjust the number of shares in the case of a stock split or other recapitalization pursuant to Section 4(c) of the 2010 Plan. Shares covered by an award, which are forfeited or not purchased, will be available under the 2010 Plan again for granting future awards. Similarly, shares subject to awards outstanding under the Current Plan as of the date of shareholder approval of the 2010 Plan that are not purchased or are forfeited or otherwise terminate without delivery of shares shall also become available under the 2010 Plan. In the event that the Management Organization and Compensation Committee determines that a dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, affects Graco common stock such that an adjustment is deemed to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended under the 2010 Plan, the Management Organization and Compensation Committee shall make such adjustments as it deems equitable. No person eligible for awards under the 2010 Plan may, in any calendar year, be granted stock options and any other award, the value of which is based solely on an increase in the price of Graco common stock, relating to more than 450,000 shares. In addition, no person may, in any calendar year, be granted awards denominated in cash in excess of $3,000,000 or for more than 250,000 shares of Graco common stock. The number and types of awards that will be granted under the 2010 Plan are not determinable, as the Committee will make such determinations in its sole discretion. The closing market price per share of Graco common stock as of February 22, 2010 was $26.59.

Under the 2010 Plan the Management Organization and Compensation Committee may award options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents and other stock-based awards, and any combination of these; however, no dividend equivalents can be awarded on stock options, stock appreciation rights or performance awards. Generally, the consideration to be received by the Company for awards under the 2010 Plan will be the eligible persons' past, present or expected future contributions to Graco. The 2010 Plan provides that all awards are to be evidenced by written agreements signed by the Company, containing the terms and conditions of the awards.

Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code may be conditioned upon the achievement of performance goals based on or more of the following performance targets: consolidated pre-tax earnings, net revenues, net earnings, operating income, earnings before interest and taxes, cash flow, return on equity, return on assets, or earnings per share, all as computed in accordance with generally accepted accounting principles as in effect from time to time and as applied by the Company in the preparation of its financial statements.

Transfer of awards may not be made other than by will or by the laws of descent and distribution. During the lifetime of a participant, an award may be exercised only by the participant to whom the award is granted.

Subject to the provisions of the 2010 Plan or an award agreement, the Management Organization and Compensation Committee may not amend any outstanding award agreement without the participant's consent, if the action would adversely affect the participant's rights. The Management Organization and Compensation Committee may assist a participant in satisfying the participant's tax withholding obligations by allowing the participant to elect to have the Company withhold shares that would otherwise be delivered upon exercise or receipt of the award or by delivering to the Company shares already owned with a value equal to the amount of the taxes.

The Board of Directors may amend or terminate the 2010 Plan, at any time, except that prior shareholder approval will be required for any amendment to the 2010 Plan that:

- Requires shareholder approval under the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company,
- Permits repricing of outstanding stock options or stock appreciation rights granted under the 2010 Plan, except in the case of a stock split or other recapitalization pursuant to Section 4(c) of the 2010 Plan,
- Increases the number of shares authorized under the 2010 Plan, except in the case of a stock split or other recapitalization pursuant to Section 4(c) of the 2010 Plan,
- Permits the award of stock options or stock appreciation rights under the 2010 Plan with an exercise price less than 100% of the fair market value of share of common stock as defined in the 2010 Plan, or
- Without shareholder approval, would cause the Company to be unable, under the Code, to grant incentive stock options under the 2010 Plan.

U.S. Federal Income Tax Consequences

The following is a summary of the principal U.S. federal income tax consequences generally applicable to awards under the 2010 Plan.

Option or Stock Appreciation Right

Grant

The grant of an option or stock appreciation right is not expected to result in any taxable income for the recipient.

Exercise

Incentive Stock Option — The holder of an incentive stock option generally will have no taxable income upon exercising the option (except that a liability may arise pursuant to the alternative minimum tax), and the Company will not be entitled to a tax deduction.

Nonqualified Stock Option — Upon exercising a nonqualified stock option, the optionee must recognize ordinary income equal to the excess of the fair market value of the shares of common stock acquired on the date of exercise over the exercise price, and the Company will be entitled at that time to a tax deduction for the same amount.

Stock Appreciation Right

Upon exercising a stock appreciation right, the amount of any cash received and the fair market value on the exercise date of any shares of common stock received are taxable to the recipient as ordinary income and deductible by the Company.

Disposition

The tax consequence to a holder of an option upon a disposition of shares acquired through the exercise of an option will depend on how long the shares have been held and upon whether such shares were acquired by exercising an incentive stock option or by exercising a nonqualified stock option or stock appreciation right. Generally, there will be no tax consequence to the Company in connection with the disposition of shares acquired under an option, except that the Company may be entitled to a tax deduction in the case of the disposition of shares acquired under an incentive stock option before the applicable incentive stock option holding periods set forth in the Code have been satisfied.

Awards Other Than Options or Stock Appreciation Rights

With respect to other awards granted under the 2010 Plan that are payable either in cash or shares of common stock that are either transferable or not subject to a substantial risk of forfeiture, the holder of such an award must recognize ordinary income equal to the excess of (a) the cash or the fair market value of the shares of common stock received (determined as of the date of such receipt) over (b) the amount (if any) paid for such shares of common stock by the holder of the award, and the Company will be entitled at that time to a deduction for the same amount.

With respect to an award that is payable in shares of common stock that are restricted as to transferability and subject to a substantial risk of forfeiture, unless a special election is made pursuant to the Code, the holder of the award must recognize ordinary income equal to the excess of (i) the fair market value of the shares of common stock received (determined as of the first time the shares become transferable or not subject to a substantial risk of forfeiture, whichever occurs earlier) over (ii) the amount (if any) paid for such shares of common stock by the holder, and the Company will be entitled at that time to a tax deduction for the same amount.

Delivery of Shares to Satisfy Tax Obligation

Under the 2010 Plan, the Management Organization and Compensation Committee may permit participants receiving or exercising awards, subject to the discretion of the Committee and upon such terms and conditions as it may impose, to deliver shares of common stock (either shares received upon the receipt or exercise of the award or shares previously owned by the holder of the option) to the Company to satisfy federal and state tax obligations.

Shareholder Approval of 2010 Plan

The Board of Directors recommends that shareholders vote FOR approval of the 2010 Plan.

PROPOSAL 4

VOTE ON SHAREHOLDER PROPOSAL TO ADOPT MAJORITY VOTING FOR ELECTION OF DIRECTORS

California Public Employees' Retirement System, P.O. Box 942708, Sacramento, CA 94229-2708, beneficial owner of approximately 230,337 shares of Graco common stock as of November 5, 2009, has given notice that it intends to present for action at the Annual Meeting the following resolution:

Shareowner Proposal

RESOLVED, that the shareowners of Graco, Inc. (Company) hereby request that the Board of Directors initiate the appropriate process to amend the Company's articles of incorporation and/or bylaws to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats.

Supporting Statement

Is accountability by the Board of Directors important to you? As a long-term shareowner of the Company, CalPERS thinks accountability is of paramount importance. This is why we are sponsoring this proposal which would remove a plurality vote standard for uncontested elections that effectively disenfranchises shareowners and eliminates a meaningful shareowner role in uncontested director elections.

Under the Company's current voting system, a director nominee may be elected with as little as his or her own affirmative vote because "withheld" votes have no legal effect. This scheme deprives shareowners of a powerful tool to hold directors accountable, because it makes it impossible to defeat director nominees who run unopposed. Conversely, a majority voting standard allows shareowners to actually vote "against" candidates and to defeat reelection of a management nominee unsatisfactory to the majority of shareowner votes cast.

For these reasons, a substantial number of companies already have adopted this form of majority voting. In fact, more than 66% of the companies in the S&P 500 have adopted majority voting for uncontested director elections. We believe the Company should join the growing number of companies that have adopted a majority voting standard requiring incumbent directors who do not receive a favorable majority vote to submit a letter of resignation and not continue to serve unless the Board declines the resignation and publicly discloses its reasons for doing so.

Majority voting in director elections empowers shareowners to clearly say "no" to unopposed directors who are viewed as unsatisfactory by a majority of votes cast. Incumbent board members serving in a majority vote system are aware that shareowners have the ability to determine whether the director remains in office. The power of majority voting, therefore, is not just the power to effectively remove poor directors, but to heighten director accountability by raising the threat of a loss of majority support. This is what accountability is all about.

CalPERS believes that corporate governance procedures and practices, and the level of accountability they impose, are closely related to financial performance. It is intuitive that, when directors are accountable for their actions, they perform better. We therefore ask you to join us in requesting that the Board of Directors promptly adopt the majority voting standard. We believe the Company's shareowners will substantially benefit from the increased accountability of incumbent directors and the power to reject directors shareowners believe are not acting in their best interests.

Please vote FOR this proposal.

Our Board of Directors' Response

Do you want your Board held hostage to a special interest group? Our Board has carefully considered the non-binding proposal requesting the adoption of a majority voting standard in the election of directors. This is the first shareholder proposal we have ever received. For the reasons outlined below, we do not believe that the adoption of the proposal is in the best interests of the

Company and our shareholders, employees, retirees, channel partners, and communities. We believe the plurality voting standard continues to be the best standard for electing our Company's directors. A change in the voting standard is unnecessary and will add expense. In addition, and perhaps most importantly, it could lead to unintended and undesirable negative consequences.

Majority Voting May Have Unintended Negative Consequences - Our Board is concerned about the unintended consequences of majority voting. For example, majority voting may give undue influence to special-interest or single-issue voters who use director votes to forward their particular agendas. In addition, many institutional investors rely on voting recommendations issued by proxy advisory firms. Those proxy advisory firms often base their recommendations on single issues and apply inflexible policies. We are concerned that these recommendations are made without consideration of the performance and other circumstances of the particular corporation or the contributions of the particular director to the corporation. Indeed, our historical voting results suggest that this proposal has not been submitted based on concerns regarding the current plurality voting standard, but rather as a mass-produced proposal that is not tailored to our Company. Our Board believes it is unlikely shareholders generally want the consequence of a single-issue message to be the failure to elect a director or group of directors, especially given that the current plurality voting standard allows shareholders to register dissatisfaction by means of a "withhold" vote for one or more directors.

Implementing Majority Voting Will Increase the Time and Cost Required to Elect Directors - Effective January 1, 2010, brokers no longer have discretion to vote shares held in street name for their clients on the election of directors. As a result, if a broker does not receive voting instructions from its client, it may no longer exercise discretion to vote those shares on the election of directors, which is likely to reduce the total number of shares that vote on the election of directors. Because this is a recent rule change, we do not yet know how much this will affect the number of shares voted on the election of our directors. However, the likelihood of a lower voter turnout on the election of directors, particularly combined with a higher voting threshold, will inevitably increase the Company's costs in connection with its annual meetings. We will take additional actions such as conducting telephone solicitation campaigns, second mailings of proxy materials or other vote-getting strategies to obtain the required vote to elect directors in routine circumstances. Our Board believes that these expenditures would be a poor use of Company resources.

We Do Pay Attention to Withhold Votes - Under the Company's current plurality voting system, a "withhold" vote allows shareholders to express their views. We are required to report the results of voting on the election of directors in our SEC filings, and will now report those results even more prominently in a Form 8-K within four business days after our annual meeting. As a result, any director receiving a significant number of "withhold" votes will receive even more visibility than in the past. Our Nominating Committee reviews the voting results from each annual meeting and believes, based on those results, that our shareholders have never expressed concerns with our director nominees in any significant numbers.

We Have an Effective Board Structure - Our Board is held accountable and does not believe that electing directors by a different standard would result in a more effective Board. Our Governance Committee, which consists entirely of independent directors, considers a variety of factors, as described above under "Director Qualifications and Selection Process—Qualification Standards," when nominating directors to stand for election. Other than our CEO, our Board consists solely of independent directors, as determined in accordance with the New York Stock Exchange listing standards, which means that our directors do not have any relationships that might impair their ability to challenge our management. We also have an independent Chairman of the Board, as opposed to combining the roles of Chairman of the Board and Chief Executive Officer. In addition, our shareholders have a right to submit comments and concerns to our Board as described above under "Communications With The Board."

Our Board Process Already Ensures a High Quality of Director Nominees - The Board's success in nominating strong, highly qualified directors is underscored by the fact that historically our shareholders have consistently elected directors with a substantial majority of the votes cast. In the last five years, all directors standing for election have received at least 87% of the shares present and entitled to vote at the annual meeting, and most received over 97%. Since these directors all received well over a majority of the votes cast on the election of directors, the implementation of a majority voting standard in any of these elections would not have impacted the outcome of the election.

Our Board is Monitoring Currently Pending Corporate Governance Developments - Our Board of Directors is mindful of the ongoing debate and developments on the subject of majority voting in the election of directors and has examined this issue. Our Board is also aware of the many other corporate governance proposals currently under consideration by Congress and the SEC, including proposed corporate governance legislation and the SEC's consideration of proxy access, which would facilitate director nominations by shareholders. Our Board will continue to monitor these developments and will consider majority voting in the context of these other developments.

Our Board has considered this proposal and the arguments for and against majority voting and concluded that adoption of a majority voting standard at this point in time may lead to our being held hostage to a special interest group, and is unnecessary and disadvantageous to the Company and our shareholders.

Our Board of Directors recommends that shareholders vote AGAINST the shareholder proposal.

SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING IN THE YEAR 2011

Any shareholders wishing to have a matter considered for inclusion in the proxy statement for the Annual Meeting in the year 2011 must submit such proposal in writing to the Secretary of the Company at the address shown on page 1 of this Statement no later than November 11, 2010.

Any shareholder proposal for the Annual Meeting in year 2011 not included in the Proxy Statement must be submitted by written notice to the Secretary of the Company by January 23, 2011 to be considered.

You are respectfully requested to exercise your right to vote as described in the Notice. In the event that you attend the meeting, you may revoke your proxy (either given by telephone, via the internet or by mail) and vote your shares in person if you wish.

OTHER MATTERS

Our Board is not aware of any matter, other than those stated above, which will or may properly be presented for action at the Annual Meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the available form of proxy to vote the shares represented by such proxies in accordance with their best judgment.

For the Board of Directors,

/s/ KAREN PARK GALLIVAN Karen Park Gallivan Secretary

Dated March 11, 2010

APPENDIX A

GRACO INC. 2010 STOCK INCENTIVE PLAN

Section 1. Purpose; Effect on Prior Plans.

(a) Purpose. The purpose of the Plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting and retaining employees, officers and non-employee Directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company's business and to provide such persons with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with the Company's shareholders.

(b) Effect on Prior Plans. After the date of shareholder approval of this Plan in 2010, no awards shall be granted under the Graco Inc. Amended and Restated Stock Incentive Plan (the "Prior Plan"), but all outstanding awards granted under the Prior Plan prior to or on the date of shareholder approval of this Plan shall remain outstanding in accordance with the terms thereof.

Section 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent or Other Stock-Based Award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) "Committee" shall mean a committee of Directors designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Section 162(m) of the Code. The Company expects to have the Plan administered in accordance with requirements for the award of "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

(g) "Company" shall mean Graco Inc., a Minnesota corporation, and any successor corporation.

(h) "Covered Employee" means a person who is, or is determined by the Committee to likely become, a "covered employee" (as defined in Section 162(m)(3) of the Code).

(i) "Director" shall mean a member of the Board.

(j) "Dividend Equivalent" shall mean any right granted under Section 6(e) of the Plan.

(k) "Eligible Person" shall mean any employee, officer, consultant, independent contractor or non-employee Director providing services to the Company or any Affiliate whom the Committee determines to be an Eligible Person.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, unless otherwise determined by the Committee, the Fair Market Value of Shares for purposes of the Plan shall be the last sale price of the Shares as reported on the composite tape by the New York Stock Exchange on the date immediately preceding the date as of which fair market value is being determined or, if there were no sales of Shares reported on the composite tape on such date, on the most recent preceding date on which there were sales.

(n) "Incentive Stock Option" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(o) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(p) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option

(q) "Other Stock-Based Award" shall mean any right granted under Section 6(f) of the Plan.

(r) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.

(s) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.

(t) "Performance-Based Compensation" means an Award to a Covered Employee that is intended to constitute "performance-based compensation within the meaning of Section 162(m)(4)(c) of the Code. Options and Stock Appreciation Rights, as well as certain other Awards conditioned upon achievement of one or more Performance Targets, granted to Covered Employees are intended to be Performance-Based Compensation.

(u) "Performance Targets" means one or more of the following financial measures established by the Committee for an Award intended to qualify as Performance-Based Compensation: consolidated pre-tax earnings, net revenues, net earnings, operating income, earnings before interest and taxes, cash flow, return on equity, return on assets, or earnings per share, all as computed in accordance with generally accepted accounting principles as in effect from time to time and as applied by the Company in the preparation of its financial statements, and subject to other special rules and conditions as the Committee may establish at any time ending on or before date on which 25% of the performance period has elapsed, provided that the outcome is substantially uncertain at the time the Committee sets the Performance Targets. Any such financial measure may be stated in absolute terms or as compared to another company or companies.

(v) "Person" shall mean any individual, corporation, partnership, association or trust.

(w) "Plan" shall mean this Graco Inc. Stock Incentive Plan, as amended from time to time.

(x) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

(y) "Restricted Stock Unit" shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(z) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act or any successor rule or regulation.

(aa) "Shares" shall mean shares of Common Stock, par value $1.00 per share (as may be adjusted from time to time), of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(bb) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

Section 3. Administration.

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement, provided, however, that except as otherwise provided in Section 4(c) hereof, the Committee shall not adjust or amend the exercise price of Options or Stock Appreciation Rights previously awarded to any Participant, whether through amendment, cancellation and replacement grant, cash buyout or any other means; (vi) accelerate the exercisability of any Award or the lapse of restrictions relating to any Award; (vii) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, promissory notes, other securities, other Awards or other property, or canceled, forfeited or suspended; (viii) determine whether, to what extent and under what circumstances cash, Shares, promissory notes, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (ix) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

(b) Power and Authority of the Board of Directors. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

(c) Delegation of Authority. The Committee may delegate all or any part of its authority under this Plan to the Chief Executive Officer of the Company for purposes of designating, determining and administering Awards to Participants who are not officers of the Company, as officer is defined in Section 16 of the Securities Exchange Act of 1934 and the rules thereunder, or Directors. The Chief Executive Officer may, in turn, delegate such authority to such other executive officer of the Company as the Chief Executive Officer may determine.

Section 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in the third sentence of this Section 4(a) and in Section 4(c) of the Plan, the aggregate number of Shares which may be issued under all Awards under the Plan shall be 5,100,000; provided, however, that any Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units and Performance Awards payable in Shares shall be counted against this aggregate number as two Shares for every one Share granted. Shares to be issued under the Plan will be authorized but unissued Shares. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. The provisions of the preceding sentence shall also apply to any awards granted under the Prior Plan that are outstanding on the effective date of the Plan. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 5,000,000, subject to adjustment as provided in the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

(c) Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; provided, however, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

(d) Award Limitations Under the Plan. No Eligible Person may be granted any Award or Awards under the Plan during any calendar year, (i) with respect to an Award or Awards, the value of which is based solely on an increase in the value of the Shares after the date of grant of such Award or Awards, for more than 450,000 Shares (subject to adjustment as provided in Section 4(c) of the Plan), (ii) denominated in cash in an amount in excess of $3,000,000 that are intended to qualify as Performance-Based Compensation, and (iii) for more than 250,000 Shares (subject to adjustment as provided in Section 4(c) of the Plan) for Awards (other than those covered by clause (i) above) that are intended to qualify as Performance-Based Compensation.

Section 5. Eligibility.

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards.

(a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) Option Term. The term of each Option shall be fixed by the Committee, but shall not exceed ten years from the date of grant.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate. The term of a Stock Appreciation Right shall not exceed ten years.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of

Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Stock Certificates; Delivery of Shares. Any Restricted Stock granted under the Plan shall be evidenced by issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. After the restrictions lapse or are waived, the legended stock certificates will be returned to the Company (or its transfer agent) for cancellation and an entry reflecting the issuance of the Shares to the Participant without restrictions will be made on the books of the Company (or its transfer agent). In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units, thereby evidencing the right to receive Shares, an entry reflecting the issuance of such Shares without restrictions to the holder of the Restricted Stock Units will be made on the books of the Company (or its transfer agent).

(iii) Forfeiture. Except as otherwise determined by the Committee, upon a Participant's termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units held by the Participant at such time shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

(e) Dividend Equivalents. The Committee is hereby authorized to grant Dividend Equivalents to Eligible Persons with respect to Awards (other than Stock Options, Stock Appreciation Rights and Performance Awards) under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan and any applicable Award Agreement, such Dividend Equivalents may have such terms and conditions as the Committee shall determine.

(f) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons, subject to the terms of the Plan and any applicable Award Agreements, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares, or other securities delivered pursuant to a purchase right granted under this Section 6(f) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property, or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

(g) General.

(i) No Cash Consideration for Awards. Awards may be granted for no cash consideration or for such other consideration as may be determined by the Committee or required by applicable law.

(ii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate other than the Plan. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property, or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents with respect to installment or deferred payments.

(iv) Limits on Transfer of Awards. No Award (other than Non-Qualified Stock Options, as hereinafter set forth) and no right under any such Award shall be transferable by a Participant other than by will or by the laws of descent and distribution; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant. Each Award or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee, subject to the term limitations set forth in the Plan.

(vi) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made or legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

(vii) Performance-Based Compensation Provisions. The Committee, when it is comprised solely of two or more outside directors meeting the requirements of Section 162(m) of the Code, in its sole discretion, may designate whether any Restricted Stock Awards, Restricted Stock Unit Awards, Performance Awards or Other Stock-Based Awards to be made to Covered Employees are intended to be Performance-Based Compensation. The vesting of such Awards and the distribution of cash, Shares or other property pursuant thereto, as applicable, will, to the extent required by Section 162(m) of the Code, be conditioned upon the achievement of performance goals based on one or more Performance Targets. Such Performance Targets will be selected and performance goals established by the Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m) of the Code. Following completion of an applicable performance period, the Committee shall certify in writing, in the manner and to the extent required by Section 162(m) of the Code, that the applicable performance goals based on the selected Performance Targets have been met prior to payment of the compensation, and may adjust downward, but not upward, any amount determined to be otherwise payable in connection with such an Award.

Section 7. Amendment and Termination; Adjustments.

(a) Amendments to the Plan. The Board of Directors of the Company may amend, alter, suspend, discontinue or terminate the Plan; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, prior approval of the shareholders of the Company shall be required for any amendment to the Plan that:

(i) requires shareholder approval under the rules or regulations of the New York Stock Exchange, any other securities exchange or the National Association of Securities Dealers, Inc. that are applicable to the Company;

(ii) permits repricing of Options or Stock Appreciation Rights which is prohibited by Section 3(a)(v) of the Plan;

(iii) increases the number of shares authorized under the Plan as specified in Section 4(a);

(iv) permits the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, as prohibited by Sections 6(a)(i), 6(a)(iv) and 6(b)(ii) of the Plan; or

(v) without such shareholder approval, would cause the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan.

(b) Amendments to Awards. Subject to the provisions of the Plan, the Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 8. Income Tax Withholding.

In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state or local payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (a) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the minimum statutory amount of such taxes required to be withheld by the Company or (b) by delivering to the Company certificated Shares from the Participant's account on the books of the Company (or its transfer agent) to the Company, other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award and owned by the Participant for more than six (6) months with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is to be determined.

Section 9. General Provisions.

(a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant shall have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) No Rights of Shareholders. Except with respect to Restricted Stock, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a shareholder of the Company with respect to any Shares issuable upon the exercise or payment of any Award, in whole or in part, unless and until the Shares have been issued.

(d) No Limit on Other Compensation Plans or Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation plans or arrangements, and such plans or arrangements may be either generally applicable or applicable only in specific cases.

(e) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or any Affiliate, or a non-employee Director to be retained as a Director, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

(f) Governing Law. The internal law, and not the law of conflicts, of the State of Minnesota, shall govern all questions concerning the validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award.

(g) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(h) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(i) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Share or whether such fractional Share or any rights thereto shall be canceled, terminated or otherwise eliminated.

(j) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 10. Effective Date of the Plan.

The Plan shall be effective upon approval by the shareholders of the Company at the annual meeting of shareholders of the Company held in 2010.

Section 11. Term of the Plan.

Awards shall only be granted under the Plan during a 10-year period beginning on the effective date of the Plan, unless the Plan is terminated earlier pursuant to Section 7(a) of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond the end of such 10-year period, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board of Directors of the Company to amend the Plan, shall extend beyond the termination of the Plan.

GRACO INC.

88 11TH AVENUE N.E.

MINNEAPOLIS, MN 55413-1894

VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by Graco Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M19145-P88722 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

GRACO INC.

The Board of Directors recommends that you vote FOR the following nominees:

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
1. Election of Directors	0	0	0	

Nominees

01) J. Kevin Gilligan

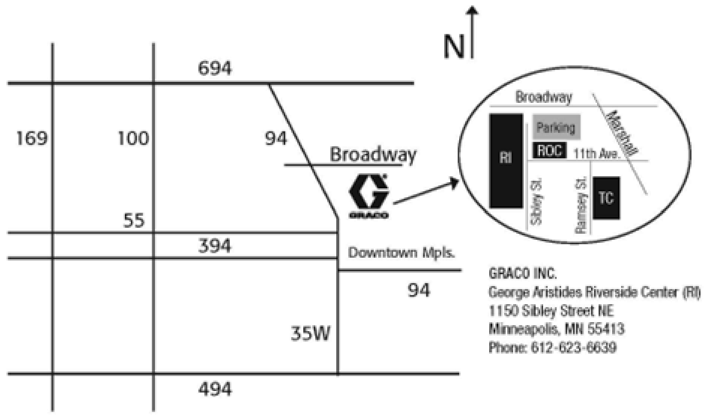
02) William G. Van Dyke

		For	Against	Abstain
The Board of Directors recommends you vote FOR the following proposals:				
2.	Ratification of Appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm.	O	O	O
3.	Approval of the Graco Inc. 2010 Stock Incentive Plan.	O	O	O
The Board of Directors recommends you vote AGAINST the following proposal:				
4.	Shareholder Proposal to Adopt Majority Voting for the Election of Directors.	O	O	O

NOTE: In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date



Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement, Form 10-K and Annual Report are available at www.proxyvote.com.

M19146-P88722

GRACO INC.
Annual Meeting of Shareholders
April 23, 2010 1:00 p.m.
This proxy is solicited by the Board of Directors

The undersigned hereby appoints Patrick J. McHale and James A. Graner, or either of them, as proxies and attorneys-in-fact, each with full power of substitution, to represent the undersigned at the Annual Meeting of Shareholders of Graco Inc., to be held at George Aristides Riverside Center, 1150 Sibley Street N.E., Minneapolis, Minnesota 55413, on Friday, April 23, 2010, at 1:00 p.m. Central Time, and any adjournment or postponement thereof, and to vote the number of shares the undersigned would be entitled to vote if personally present at the meeting.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.

If shares are held under the Graco Employee Investment Plan ("Plan"): This proxy provides confidential voting instructions regarding these shares to the Plan Trustee who then votes the shares. Instructions must be received by 11:59 p.m. Eastern Time on April 20, 2010, to be included in the tabulation to the Plan Trustee. If instructions are not received by that date, or if the instructions are invalid because this proxy is not properly signed and dated, the shares will be voted in accordance with the terms of the Plan Document.

Continued and to be Signed on Reverse Side