Exhibit I

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 31, 2010

GRACO INC (GGG)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/22/2011
Filed Period 12/31/2010

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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 31, 2010, 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 ☐	Smaller reporting company ☐

(Do not check if a 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 59,889,113 shares of common stock held by non-affiliates of the registrant was $1,797,272,295 as of June 25, 2010.

60,105,842 shares of common stock were outstanding as of February 14, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 21, 2011, are incorporated by reference into Part III, as specifically set forth in said Part III.

INDEX TO ANNUAL REPORT
ON FORM 10-K

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

Graco Inc. and its subsidiaries (which we refer to in this Form 10-K as "us," "we," "our Company" or the "Company") design, manufacture and sell equipment that pumps, meters, mixes, dispenses and sprays a wide variety of fluids and semi-solids. Contractors and original equipment manufacturers are the primary users of our Company's equipment, in a wide variety of applications, in the construction, manufacturing, processing and maintenance industries. Our equipment is used to paint, finish, fill, glue and seal a wide range of goods and materials. Our equipment is sold primarily through third-party distributors with approximately 30,000 outlets worldwide.

Our Company sells a full line of its 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 55 percent of our Company's total sales; sales in Europe approximately 24 percent; and sales in Asia Pacific approximately 21 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 markets. Our Company provides marketing, product design and application assistance to, and employs sales personnel in, each of these geographic regions. Subsidiaries located in Belgium, the People's Republic of China ("P.R.C."), Australia, Japan and Korea distribute our Company's products. The majority of our manufacturing occurs in the United States, but certain products are manufactured or assembled in the P.R.C. and Belgium.

Our Company classifies its business into three reportable segments, each with a worldwide 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.

Graco Inc. is a Minnesota corporation and was incorporated in 1926. 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").

Our Company's Strengths and Objectives

Our Company strives to develop technologically superior, multi-featured, high-quality products. We specialize in providing pumping and spraying solutions for difficult-to-handle materials with high viscosities, abrasive or corrosive properties, and multiple component materials that require precise ratio control. Our Company's products enable customers to reduce their use of labor, material and energy, improve quality and achieve environmental compliance. All business segments target growth with new products, through global expansion, particularly in advancing economies, and in new markets. Targeted acquisitions, and the worldwide addition of specialized sales employees and specialized distributors, are key components to our Company's growth strategy. We coordinate and drive these growth strategies across our geographic regions.

Our Company strives to generate 30 percent of its annual sales from products introduced in the prior three years. In 2010, we generated 27 percent of our sales from new products. In 2009, the percentage of sales represented by new products was 26 percent and in 2008 it was 26 percent.

Manufacturing is a key competency of Graco. Our manufacturing is aligned with our business segments and is co-located with product development to accelerate new product development and improve cost and quality. Our Company invests significant resources in maximizing the quality, responsiveness and cost-effectiveness of our production operations by investing in equipment and doing critical machining, assembly and testing in-house. Products are manufactured in focused factories and product cells. Raw materials and purchased components are sourced from suppliers around the world. The segments manage operations devoted to the manufacture of their products. Our corporate manufacturing staff provides oversight and strategic direction of our manufacturing resources. Our corporate manufacturing staff also manages those factories not fully aligned with a single segment, and our warehouses, customer service and other shared corporate manufacturing functions.

Facilities

Major product development efforts are carried out in facilities located in Minneapolis, Anoka and Rogers, Minnesota; North Canton, Ohio; and Suzhou, P.R.C. The product development and engineering groups in each segment focus on new product design, product improvements, new applications for existing products and strategic technologies for their specific customer base. Total product development expenditures for all segments were $38 million in 2010, $38 million in 2009, and $37 million in 2008.

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. In 2010, our Company purchased a small parcel of land adjacent to our owned property in Minneapolis, Minnesota.

A large percentage of our Company's facilities are devoted to the manufacture 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). The North Canton, Ohio facility specializes in developing and manufacturing specialized product configurations, and it has an application development laboratory where we work with distributors, materials suppliers and end users to test new materials and reconfigure existing equipment for use in new applications. Some Industrial 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, as well as our European training, testing and education center (8,600 sq. ft.).

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 leases space in Rogers, Minnesota to store inventory and assemble small electric sprayers (33,000 sq. ft. warehouse/assembly). Our Sioux Falls, South Dakota plant manufactures spray guns and accessories for the Contractor segment. Some Contractor products are manufactured or assembled in our owned facility in Suzhou, P.R.C. In 2010, the Company ceased the manufacture and warehousing of Airlessco®-branded sprayers and spray guns in Moorpark, California (32,778 sq. ft. manufacturing/warehouse/office) and terminated its lease. Airlessco products are now manufactured at our existing facilities in Sioux Falls, South Dakota and Suzhou, P.R.C. and warehoused in and distributed from Sioux Falls, South Dakota, Suzhou, P.R.C. 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 Lubrication segment are also housed in this building. Some Lubrication products are being assembled in our owned facility in Suzhou, P.R.C.

Some products are distributed to the P.R.C. market from a warehouse located in Shanghai, P.R.C. (13,730 sq. ft. warehouse). In 2010, we formed Graco Trading (Suzhou) Co., Ltd., a foreign invested commercial enterprise, for further distribution of our products to the P.R.C.

Our Company opened an Indonesian Representative Office of Graco Hong Kong Ltd. in the third quarter of 2010. In 2010, our Company also signed a lease for a 29,000 sq. ft. office facility in the Huangpu District of Shanghai. In the second quarter of 2011, our Company plans to move its Asia Pacific headquarters and Shanghai Representative Office from their current location in the Xuhui District of Shanghai to the newly-leased facility in the Huangpu District.

Business Segments

Industrial Segment

The Industrial segment is the largest of our Company's businesses and represents approximately 55 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 equipment 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 applications: equipment that applies paint and other coatings to products such as motor vehicles, appliances, furniture and other industrial and consumer products (finishing); and process pump equipment that moves and dispenses chemicals and liquid and semi-solid foods (process pumps).

Our finishing equipment pumps, meters and applies liquids on all types of wood, metal and plastic. Manufacturers in the automotive, automotive feeder, truck/bus/recreational vehicle, military and utility vehicle, aerospace, farm and construction, wood and general metals industries use our liquid finishing products. Our liquid finishing equipment includes paint circulating and paint supply pumps, plural component coating proportioners, various accessories to filter, transport, agitate and regulate fluid, and 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 coatings depending on the viscosity of the fluid, the type of finish desired, and the need to maximize transfer efficiency, minimize overspray and minimize the release of volatile organic compounds (VOCs) into the air.

Our finishing application strategies include being a technology leader and providing environmental compliance solutions. In 2010, we introduced the ProMix® 2KE, a compact, entry-level two-component proportioner that is ideally suited for spraying single color solvent borne and waterborne polyurethanes and epoxies to wood and metals in manufacturing settings. The ProMix 2KE helps reduce waste and VOCs, and has control technology that allows the user to set up, operate and monitor the system from an LCD display as the system performs. We also introduced the ProMix 3KS and the ProControl 1KS, to complete our new family of configurable liquid finishing proportioners first introduced in 2009.

Our process pumps move chemicals, petroleum, food and other fluids. Manufacturers and processors in the food and beverage, dairy, pharmaceutical, cosmetic, oil and gas, electronics, wastewater, mining and ceramics industries use our process pumps. We offer pumps for sanitary applications including FDA-compliant 3-A sanitary pumps, diaphragm pumps, transfer pumps and drum and bin unloaders. Our process pumps provide a mechanized solution to a traditionally manual process in a factory of moving fluids, such as the transfer of bulk tomato paste, from large barrels into equipment that dispenses the fluid into jars or other containers. In 2010, we introduced PVDF, conductive polypropylene and hastelloy options of the Husky 1050 one-inch pump, allowing the pump to be used with a greater variety of fluids and chemicals. The Husky 1050 one-inch pump, which we first introduced in 2009 in aluminum, polypropylene and stainless steel options, is the first in a new series of air-operated double diaphragm pumps. In 2010, we also introduced new Saniforce sanitary transfer pumps, including drum and bin unloaders, which move a broad range of fluids such as fruit juices, pizza sauce, caramel and peanut butter. Saniforce pumps increase end-user efficiency and have a lower cost of ownership compared to more traditional solutions.

Applied Fluid Technologies

The Applied Fluid Technologies division directs its engineering, sales and marketing efforts toward two broad types of applications: equipment to pump, meter, mix and dispense high performance protective coatings and foam (protective coatings and foam); and equipment to pump, meter, mix and dispense sealants, adhesives, molded polyurethane parts and composites (advanced fluid dispense).

We offer sprayer systems and plural component proportioning equipment to apply protective coatings and foam to a wide variety of surfaces. Reactor® plural component pumps are used to apply foam to insulate things such as walls, water heaters, refrigeration, and hot tubs, create commercial roofing membranes and for packaging, architectural design and cavity filling. This equipment is also used to apply two-component polyurea coatings to tanks, pipes, roofs, truck beds and foundations. The Graco XM Plural-Component Sprayer series is used 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.

Our Company offers 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. We also offer resin pumping and metering solutions for advanced composites, which are used in the manufacture of vehicles and aircraft, wind turbines and bridge materials.

Key product strategies of the Applied Fluid Technologies division are to maintain technology leadership in plural component applications, process controls, and electric pumps; and to offer a full range of best-value standard products by using a standardized, modular product structure, with pre-engineered products to cover a broad range of configurations and applications. In the second half of 2010, we launched the XP70, which is an entry-point two-component high-pressure sprayer used to apply protective coatings to tanks, pipes, ships, bridges, and other surfaces requiring industrial coatings. The XP70 is an entry-point plural-component sprayer and an additional option in our protective coatings and foam equipment.

In the second quarter of 2010, we released the Graco HFR Metering System□, an in-plant, hydraulic, fixed-ratio metering system that applies a range of materials from rigid and flexible polyurethanes to elastomers and epoxies used for noise dampening, insulation, and structural integrity. The hydraulic motor control module gives the ability to more precisely control ratio and volume of the system as compared to air-operated systems. It is offered at a lower price point than traditional custom in-plant polyurethane processing systems, and is one of the first modular, configurable in-plant polyurethane processing systems.

The Graco PGM Metering System□, which dispenses sealants and adhesives, was launched in the second quarter of 2010. It combines consistent bead dispense with high flow rates, which means users can improve production rates. It is ideally suited to apply seals to solar panels and automotive windshields.

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. 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. 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 bonding parts of the blades.

Contractor Segment

The Contractor segment generated approximately 35 percent of our Company's 2010 total sales. The Contractor segment directs its product development, sales and marketing efforts toward three broad applications: paint, texture, and pavement maintenance. The Contractor segment markets 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 painters in the construction and maintenance industries, tradesmen and do-it-yourselfers. The products are distributed primarily through distributor outlets whose main products are paint and other coatings. Contractor products are also sold through general equipment distributors. Certain 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 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.

A strategy of the Contractor segment is to expand base markets using our core technologies. In 2010, we introduced new professional-grade handheld paint sprayers designed for the professional and the do-it-yourselfer. After conducting research, we found an opportunity to expand our base markets by adapting core technologies found in our professional sprayers into a compact, handheld design. By leveraging our existing channels, we were able to access customer segments quickly. Two TrueCoat□ corded handheld sprayers are designed for the do-it-yourselfer. The TrueCoat Pro□ and ProShot® cordless handheld sprayers are designed for the do-it-yourselfer, property manager, remodeler, tradesman and professional painting contractor. In 2010, we supported these handheld sprayers with a comprehensive marketing program that included television, print and online advertising, and a dedicated website with resources and tips for successful completion of painting projects. Our Company also offers handheld sprayers for international markets under other Graco brand names.

Another strategy of the Contractor segment is to expand base markets using new technologies. We introduced our first scarifier systems in 2010. The GrindLazer□ products are designed to remove pavement lines and smooth uneven pavement surfaces. The GrindLazer products bring new technologies to the pavement maintenance industry, such as Graco InstaCut□ technology, which allows the user to turn the cutters off and on without having to lift hands off the handles.

In 2010, we also upgraded our electric and gas airless paint sprayers by adding a built-in QuikReel□ hose reel to minimize contractors' hose management difficulties and by adding FastFlush□ technology to decrease clean-up time.

Contractor products are marketed and sold in all major geographic areas. In 2010, we added distributors throughout the world that specialize in the sale of particular Contractor products. 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, some paint companies in the P.R.C. 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 2010. The Lubrication segment focuses its engineering, marketing and sales efforts on two main lubrication markets: vehicle services and industrial. We supply pumps, hose reels, meters, valves and accessories 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, components, and accessories for the automatic lubrication of industrial and commercial equipment, compressors, turbines, and on-road and off-road vehicles. Markets served include gas transmission and petrochemical, pulp and paper, mining and construction, agricultural equipment, food and beverage, material handling, metal manufacturing and wind energy. For the maintenance of wind power components, we offer products that automatically lubricate bearings, gears and generators, and products that evacuate and dispense oil, grease, anti-freeze and hydraulic fluids. Our lubrication products are sold through independent third party distributors, oil jobbers and directly to original equipment manufacturers.

One of our key Lubrication segment strategies is to provide products with differentiated features that are unique to the industries served. The G3 electric lubrication pump, used to pump grease or oil in automatic lubrication systems, was released for sale in 2010. The G3 is designed to lubricate grease points on vehicles, in-plant machines and conveyors, and wind energy equipment. The G3 is a highly versatile pump platform, offering end users the unique ability to choose from three types of controls, multiple reservoir sizes and types, three power choices and the ability to record pump performance through the optional G3 Data Management System (DMS). The G3 works with all major automatic metering systems (single line resistive, single line parallel, and series progressive). Monitoring of its on and off time, pressure, cycle counts, and machine counts make the G3 pump suitable for virtually any lubrication system application.

The Lubrication segment markets and sells our lubrication equipment worldwide, 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 a mix of independent sales representatives and Graco sales people. In 2010, the Lubrication segment focused efforts on developing products for expanded geographic markets. In 2010, we introduced the LD Series hose reel targeted for use in European, Asian and South American markets. The LD Series hose reels were jointly designed by our Lubrication engineering groups in the United States and in the P.R.C. for market specific applications and are manufactured in our owned facility in Suzhou, P.R.C. The Lubrication segment also upgraded the Matrix® automated oil dispense tracking system, and released Matrix software intended for use in European markets.

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. The raw materials and components used are generally 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 2010, the prices of aluminum, nickel, copper, steel, rubber and plastics significantly increased over 2009 pricing levels. 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, price negotiations and an intensive search for new suppliers. In 2010, a worldwide electronic component supply shortage increased lead times on these components. We have performed risk assessments of our key suppliers of electronic components and other commodities, 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 that 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 products. 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 31, 2010.

Employees

As of December 31, 2010, we employed approximately 2,200 persons. Of this total, approximately 500 were employees based outside the United States, and 800 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.

Item 1A. Risk Factors

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

An economic downturn or financial market turmoil may depress demand for our equipment in all major geographies and markets. If our distributors and OEMs are 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 and impact segment profitability.

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.

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

In 2010, approximately 54 percent of our sales were generated by customers located outside the United States. Operations 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 advancing economies and our revenues and net income may be adversely affected by the more volatile economic and political conditions prevalent in these regions. 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.

Suppliers — Risks associated with foreign sourcing of raw materials and components, supply interruption, delays in raw material or component delivery or supply shortages may adversely affect our production or profitability.

Our Company is sourcing an increasing percentage of our materials and components from suppliers outside the United States. Long lead times or supply interruptions associated with a global supply base 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 commodities may impact the manufacturing costs of our products and affect our profitability. Protective tariffs, unpredictable changes in duty rates, and trade regulation changes may make certain foreign-sourced parts no longer competitively priced. Long supply chains may be disrupted by environmental events.

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 business, 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.

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 Item 1 — BUSINESS of this 2010 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 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 Australian subsidiary are housed in leased office space in Melbourne, Australia.

Our Company's facilities are in satisfactory condition, suitable for their respective uses and are generally adequate to meet current needs. During 2010, 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. (Removed and Reserved)

Executive Officers of Our Company

The following are all the executive officers of Graco Inc. as of February 22, 2011:

Patrick J. McHale, 49, 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, 52, became Vice President, Human Resources and Corporate Communications in April 2010. From September 2008 through March 2010, he served as the Company's Vice President, Human Resources. 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, 46, 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, 54, 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, 66, 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, 56, 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, **51**, 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, 55, 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, 63, 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, 59, 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, **46**, 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, 41, 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 23, 2010.

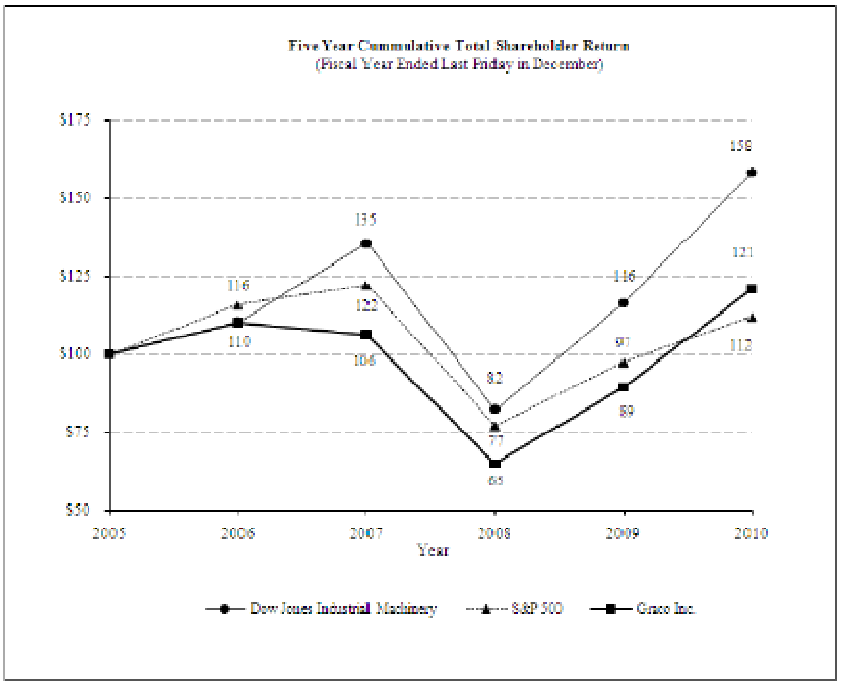
PART II

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 14, 2011, the share price was $42.50 and there were 60,105,842 shares outstanding and 2,884 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 45,000 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, 2005, 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
2010				
Net sales	$ 164,721	$ 192,088	$ 189,963	$ 197,293
Gross profit	89,295	101,920	104,558	107,672
Net earnings	20,565	24,836	30,431	27,008
Per common share				
Basic net earnings	$ 0.34	$ 0.41	$ 0.51	$ 0.45
Diluted net earnings	0.34	0.41	0.50	0.44
Dividends declared	0.20	0.20	0.20	0.21
Stock price (per share)				
High	$ 31.82	$ 35.98	$ 32.61	$ 40.56
Low	25.82	28.74	27.05	30.05

	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	$ 26.42	$ 24.94	$ 30.77	$ 32.09
Low	14.17	16.40	20.57	26.37

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 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.

No shares were purchased in the fourth quarter of 2010. As of December 31, 2010, there were 5,179,638 shares that may yet be purchased under the Board authorization.

Item 6. Selected Financial Data

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

	2010	2009	2008	2007	2006
Net sales	$ 744,065	$ 579,212	$ 817,270	$ 841,339	$ 816,468
Net earnings	102,840	48,967	120,879	152,836	149,766
Per common share					
Basic net earnings	$ 1.71	$ 0.82	$ 2.01	$ 2.35	$ 2.21
Diluted net earnings	1.69	0.81	1.99	2.32	2.17
Cash dividends declared	0.81	0.77	0.75	0.68	0.60
Total assets	$ 530,474	$ 476,434	$ 579,850	$ 536,724	$ 511,603
Long-term debt (including current portion)	70,255	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 and Cash Flow
- Critical Accounting Estimates
- Outlook

Overview

Graco designs, manufactures and markets systems and equipment to pump, meter, mix and dispense a wide variety of fluids. The Company specializes in equipment for applications that involve difficult-to-handle materials with high viscosities, materials with abrasive or corrosive properties and multiple-component materials that require precise ratio control. Graco sells primarily through independent third-party distributors worldwide to industrial and contractor end-users. More than half of our sales are outside of the United States. 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 developing 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 our expectation of 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, operating earnings, net earnings and earnings per share were as follows (in millions except per share amounts):

	2010	2009	2008
Net Sales	$ 744	$ 579	$ 817
Operating Earnings	153	74	187
Net Earnings	103	49	121
Diluted Net Earnings per Common Share	$ 1.69	$ 0.81	$ 1.99

2010 Summary:

- Revenues grew by 28 percent, benefiting from the global industrial recovery and the Company's investments in new products, innovative technologies and commercial capabilities to support geographic expansion. Sales growth in all segments and regions exceeded 20 percent. By region, sales increased 24 percent in the Americas, 25 percent in Europe and 46 percent in Asia Pacific. Sales in the Industrial segment grew by 31 percent; sales in the Contractor segment grew by 23 percent and sales in the Lubrication segment increased by 35 percent.
- Translation rates did not have a significant impact on sales and earnings in 2010. Changes in Asian currencies and the Canadian dollar largely offset the effects of changes in the euro.
- Operating earnings were $153 million as compared to $74 million in the prior year, and as a percentage of sales were 21 percent, up from 13 percent in 2009.
- Net earnings totaled $103 million or $1.69 diluted earnings per share as compared to $49 million or $0.81 diluted earnings per share in 2009.
- There were 53 weeks in fiscal 2010 and 52 weeks in fiscal 2009.
- Gross profit margin as a percentage of sales improved by 3½ points from 2009, mainly due to reduction in unabsorbed manufacturing costs as compared to the prior year. Other factors contributing to improvement in the gross margin rate

included selling price increases and lower pension costs in 2010, and costs related to workforce reductions that lowered the 2009 rate.

- Investment in new product development was $38 million or 5 percent of sales in 2010.
- Total operating expenses were $32 million higher than 2009. The significant recovery in sales and earnings in 2010 resulted in higher incentive expense, accounting for approximately two-thirds of the increase in operating expense for the year. Operating expense as a percentage of sales decreased to 33½ percent in 2010 from 37½ percent.
- The effective tax rate was 31 percent as compared to 29 percent in 2009. The effect of the federal R&D tax credit of $2½ million and the domestic production deduction was lower in 2010 as a percentage of pre-tax earnings as compared to 2009.
- Cash flows from operations were strong at $101 million, though lower than the prior year as working capital requirements for accounts receivable and inventory increased in-line with sales growth.

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 the prior 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.
- 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 6½ 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.
- 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.

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

	2010	2009	2008
Americas[1]	$ 408	$ 329	$ 455
Europe[2]	178	143	232
Asia Pacific	158	107	130
Total	$ 744	$ 579	$ 817

[1] North and South America, including the United States. Sales in the United States were $341 million in 2010, $280 million in 2009 and $384 million in 2008.

[2] Europe, Africa and Middle East

In 2010, sales in the Americas increased by 24 percent overall, with increases of 26 percent in the Industrial segment, 22 percent in the Contractor segment and 23 percent in the Lubrication segment as compared to the prior year. Most end-markets strengthened in 2010, though some select industries, such as residential and commercial construction, remain weak. More than half of the increase in the Contractor segment was due to new product launches.

In 2010, sales in Europe were strong across all segments, with an increase of 25 percent overall and 24 percent in the Industrial segment, 24 percent in the Contractor segment and 56 percent in the Lubrication segment. Sales growth was strong throughout the region.

In 2010, sales growth in Asia Pacific was especially significant, increasing of 46 percent overall and exceeding pre-recession levels. Sales grew 49 percent in the Industrial segment, 24 percent in the Contractor segment and more than double the prior year sales in the Lubrication segment. The Company has continued to invest in this region with additional commercial resources and focus on new distribution to support growing end markets.

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. In Europe, sales declined by 40 percent in the Industrial segment, 35 percent in the Contractor segment and 45 percent in the Lubrication segment. In Asia Pacific, sales declined by 21 percent in the Industrial segment, increased by 1 percent in the Contractor segment and declined by 26 percent in the Lubrication segment. Despite the severity of the global recession, commercial resources were maintained and new distribution outlets were opened in all regions and segments.

The following table presents components of net sales change:

	2010						
	Segment			Region			
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	Consolidated
Volume and Price	30%	23%	33%	23%	29%	41%	28%
Currency	1%	—%	2%	1%	(4)%	5%	—%
Total	31%	23%	35%	24%	25%	46%	28%

	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)%

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

	2010	2009	2008
Net Sales	100.0%	100.0%	100.0%
Cost of products sold	45.8	49.4	47.1
Gross profit	54.2	50.6	52.9
Product development	5.1	6.5	4.5
Selling, marketing and distribution	18.2	19.9	17.0
General and administrative	10.3	11.3	8.5
Operating earnings	20.6	12.9	22.9
Interest expense	0.5	0.8	0.9
Other expense, net	0.1	0.2	0.1
Earnings before income taxes	20.0	11.9	21.9
Income taxes	6.2	3.4	7.1
Net Earnings	13.8%	8.5%	14.8%

2010 Compared to 2009

Operating earnings as a percentage of sales were 21 percent in 2010, up from 13 percent in 2009, with improvements in gross margins and expense leverage as compared to the prior year. Major factors for the improvement included improved product cost, mix and pricing, reduced unabsorbed manufacturing costs and absence of workforce reduction costs incurred in 2009.

Gross profit margin as a percentage of sales was 54 percent in 2010 as compared to 51 percent in 2009. Higher volume rates reduced unabsorbed manufacturing costs from $26 million in 2009 to $12 million in 2010 and accounted for approximately half of the improvement in gross margins. Other factors contributing to improvement in the gross margin rate included selling price increases and lower pension costs in 2010, and costs related to workforce reductions that lowered the 2009 rate.

Total operating expense increased $32 million as compared to 2009 and operating expense as a percentage of sales was 33½ percent, decreasing from 37½ percent the prior year. Higher incentive expense accounted for approximately two-thirds of the increase. Investment in new product development was $38 million or 5 percent of sales in 2010. Selling, marketing and distribution costs were

$136 million in 2010 as compared to $116 million in 2009. General and administrative costs were $77 million as compared to $65 million in the prior year.

Interest expense was $4 million in 2010 as compared to $5 million in 2009. Debt was reduced by $20 million in 2010 from the prior year.

The Company's effective tax rate was 31 percent in 2010, higher than the effective tax rate of 29 percent in 2009. The rate is lower than the U.S. federal statutory rate of 35 percent due primarily to U.S. business credits, the Domestic Production Deduction (DPD) and changes in unrecognized tax benefits resulting from favorable tax rulings. Overall, the effect of the business credits and domestic production deductions in 2010 was lower in 2010 as a percentage of pre-tax earnings as compared to the prior year.

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.

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.

Segment Results

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

	2010	2009	2008
Sales			
Industrial	$ 409	$ 313	$ 463
Contractor	257	208	267
Lubrication	78	58	87
Total	$ 744	$ 579	$ 817
Operating Earnings			
Industrial	$ 126	$ 68	$ 138
Contractor	37	29	47
Lubrication	9	(3)	13
Unallocated corporate	(19)	(20)	(11)
Total	$ 153	$ 74	$ 187

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 as a percentage of sales for the Industrial segment (dollars in millions):

	2010	2009	2008
Sales			
Americas	$ 187	$ 149	$ 220
Europe	109	89	148
Asia Pacific	113	75	95
Total	$ 409	$ 313	$ 463
Components of Net Sales Change			
Volume and Price	30%	(31)%	—%
Acquisitions	—%	—%	2%
Currency	1%	(1)%	2%
Total	31%	(32)%	4%
Operating Earnings as a Percentage of Sales	31%	22%	30%

In 2010, sales in the Industrial segment increased 31 percent, with increases in all regions. By geography, sales increased by 26 percent in the Americas, 24 percent in Europe (27 percent at consistent translation rates) and 49 percent in Asia Pacific (44 percent at consistent translation rates).

In 2010, operating earnings were $126 million or 31 percent of sales as compared to $68 million or 22 percent of sales in 2009, with the higher sales and resulting increases in production volume leading to improvement in operating earnings as a percentage of sales. One percentage point of the change in operating earnings is attributed to favorable product cost, mix and selling prices, one percentage point is attributed to cost of workforce reductions in 2009, two percentage points is attributed to reduction in unabsorbed manufacturing costs and five percentage points is attributed to improved expense leverage.

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 translation 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 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, the Australian dollar and various Asian currencies.

Contractor

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

	2010	2009	2008
Sales			
Americas	$ 163	$ 133	$ 165
Europe	63	50	77
Asia Pacific	31	25	25
Total	$ 257	$ 208	$ 267
Components of Net Sales Change			
Volume and Price	23%	(23)%	(15)%
Acquisitions	—%	3%	1%
Currency	—%	(2)%	1%
Total	23%	(22)%	(13)%
Operating Earnings as a Percentage of Sales	14%	14%	18%

In 2010, sales in the Contractor segment increased 23 percent, with increases in all regions. By geography, sales increased by 22 percent in the Americas, 24 percent in Europe (29 percent at consistent translation rates) and 24 percent in Asia Pacific (18 percent at consistent translation rates). In the Americas, the professional paint stores channel was the primary driver of the sales increase, with more than half of the increase coming from the new handheld product line. The new handheld product was also a significant contributor to growth in Europe, though less significant in Asia Pacific due to product launch late in the year.

In 2010, operating earnings were $37 million as compared to $29 million in 2009, or 14 percent of sales in both years. Operating margin percentages were held down by costs and expenses related to new product introductions and expanding distribution as well as increase in volume-related items including incentives and distributor rebates.

In 2009, sales in the Contractor segment decreased by 22 percent, with declines of 19 percent and 35 percent (31 percent at consistent translation 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 this segment, sales in all regions 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 and other currencies.

Lubrication

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

	2010	2009	2008
Sales			
Americas	$ 58	$ 47	$ 71
Europe	6	4	8
Asia Pacific	14	7	9
Total	$ 78	$ 58	$ 88
Components of Net Sales Change			
Volume and Price	33%	(33)%	(4)%
Acquisitions	—%	—%	1%
Currency	2%	(1)%	—%
Total	35%	(34)%	(3)%
Operating Earnings as a Percentage of Sales	11%	(5)%	14%

In 2010, sales in the Lubrication segment increased 35 percent, with increases in all regions. By geography, sales increased by 23 percent in the Americas, 56 percent in Europe (61 percent at consistent translation rates) and more than doubled in Asia Pacific. Sales of industrial lubrication products contributed significantly to the strong growth seen in 2010 and the Company has begun to benefit from the increase in dedicated commercial resources in Asia Pacific and Europe supporting this segment.

In 2010, operating earnings were $9 million or 11 percent of sales as compared to an operating loss of $3 million in 2009. The improvement in operating earnings as a percentage of sales can be attributed to improved product cost, mix and pricing (six percentage points), lower unabsorbed manufacturing costs (two percentage points) and improved expense leverage (six percentage points).

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 translation rates) in Europe and 26 percent (27 percent at consistent translation rates) in Asia Pacific, with declines in both the vehicle services 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.

Although the Americas represent the substantial majority of sales for the Lubrication segment and indicators in that region are the most significant, management monitors indicators such as levels of gross domestic product, capital investment, industrial production and mining activity worldwide.

Unallocated corporate

(in millions)

	2010	2009	2008
Unallocated corporate (expense)	$ (19)	$ (20)	$ (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 2010, unallocated corporate included $10 million of stock compensation, $4 million related to the non-service cost portion of pension expense and $3 million of contributions to the Company's charitable foundation. In 2009, unallocated corporate included $9 million related to the non-service cost portion of pension expense and $9 million of stock compensation.

Financial Condition and Cash Flow

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

	2010	2009
Working capital	$ 133	$ 85
Current ratio	2.1	1.8
Days of sales in receivables outstanding	62	63
Inventory turnover (LIFO)	4.5	3.9

In 2010, the Company's financial condition and cash flows from operations were strong, with cash flows from operations totaling $101 million. Our working capital investment increased in-line with increased sales volumes. Inventories increased by $33 million with an improvement in turns from the prior year and include build-up of certain Contractor products to support 2011 growth activities. Accounts receivable increased by $24 million, with days of sales outstanding remaining consistent with the prior year. Other primary uses of cash included capital expenditures of $17 million, a voluntary contribution of $10 million to a funded pension plan, dividends of $48 million and share repurchases of $24 million.

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.

Capital Structure. At December 31, 2010, the Company's capital structure included current debt of $8 million, long-term debt of $70 million and shareholders' equity of $264 million.

Shareholders' equity increased by $54 million in 2010. The key components of changes in shareholders' equity include current year earnings of $103 million, reduced by $49 million of dividends declared and $24 million of share repurchases.

Liquidity and Capital Resources. At December 31, 2010, the Company had various lines of credit totaling $270 million, including a $250 million, five year credit facility entered into in 2007 and $20 million with foreign banks. At year-end, long-term debt outstanding was $70 million. The unused portion of committed credit lines was $194 million at year-end. In addition, the Company has unused, uncommitted lines of credit totaling $11 million.

The Company has also reviewed long-term financing requirements, taking into consideration the favorable interest rates available and subsequent to year-end, reached an agreement-in-principle with a major lender to provide long-term private placement debt up to $300 million. Maturities would be between 7 years and 15 years. We expect to use this debt for general corporate purposes, working capital needs, share repurchases and acquisitions.

Internally generated funds and the Company's other sources of financing are expected to provide the Company with the flexibility to meet its liquidity needs in 2010, including its capital expenditure plan of approximately $30 million, planned dividends (estimated at $50 million) and acquisitions. If acquisition opportunities increase, the Company believes that reasonable financing alternatives are available for the Company to execute on those opportunities.

In December 2010, the Company's Board of Directors increased the Company's regular common dividend from an annual rate of $0.80 to $0.84 per share, a 5 percent increase.

Cash Flow. A summary of cash flow follows (in millions):

	2010	2009	2008
Operating Activities	$ 101	$ 147	$ 162
Investing Activities	(19)	(13)	(85)
Financing Activities	(77)	(139)	(71)
Effect of exchange rates on cash	(1)	(2)	1
Net cash provided (used)	4	(7)	7
Cash and cash equivalents at year-end	$ 10	$ 5	$ 12

Cash Flows Provided by Operating Activities. During 2010, $101 million was generated from operating cash flows, compared to $147 million in 2009. The effect of higher net earnings on cash flow was partially offset by use of cash for increases in working capital items, including increases in accounts receivable of $23 million and inventory of $33 million. Higher provisions for incentives increased accruals for salaries and incentives by $20 million in 2010, with payment expected in early 2011.

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.

Cash Flows Used in Investing Activities. During 2010, cash was used to fund $17 million of additions to property, plant and equipment. During 2009, cash was used to fund $11 million of additions to property, plant and equipment.

Cash Flows Used in Financing Activities. During 2010, $77 million was used in financing activities as compared to $139 million in 2009. Cash dividends paid totaled $48 million, an increase of $3 million from the prior year and share repurchases totaled $24 million. During 2009, $139 million was used in financing activities, with net payments on borrowings totaling $100 million and cash dividends of $45 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 5.2 million shares remain available under this authorization as of December 31, 2010. The Company may make opportunistic share repurchases in the future.

Off-Balance Sheet Arrangements and Contractual Obligations. As of December 31, 2010, 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 31, 2010. The Company has also guaranteed the debt of its subsidiaries for up to $32 million. All debt of subsidiaries is reflected in the consolidated balance sheets.

	Payments due by period (in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$ 70	$ —	$ 70	$ —	$ —
Operating leases	10	3	4	2	1
Purchase obligations[1]	42	42	—	—	—
Interest on long-term debt	1	1	—	—	—
Unfunded pension and postretirement medical benefits[2]	27	2	5	5	15
Total	$ 150	$ 48	$ 79	$ 7	$ 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 2011.

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.

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.

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 2011. Mortality rates are based on a common group mortality table for males and females.

Net pension cost in 2010 was $9 million and was allocated to cost of products sold and operating expenses based on salaries and wages. At December 31, 2010, a one-half percentage point decrease in the indicated assumptions would have the following effects (in millions):

Assumption	Funded Status	Expense
Discount rate	$ (17)	$ 2
Expected return on assets	—	1

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued several Accounting Standards Updates (ASU) that will be effective for the Company in 2011. New guidance on revenue recognition (ASU 2009-13 and 2009-14) and on goodwill impairment testing (ASU 2010-29) will not have a significant impact on the Company's consolidated financial statements. New guidance on pro forma financial information for business combinations (ASU 2010-29) will be considered for disclosures of future acquisitions.

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 31, 2010, the currencies to which the Company had the most significant balance sheet exchange rate exposure were the euro, Canadian dollar, British pound, Japanese yen, Australian dollar, Chinese yuan renminbi and South Korean won. 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 2009 results, the effect of the stronger U.S. dollar versus the euro was largely offset by strengthening of Asian currencies and for the year ended December 31, 2010, the impact of currency translation resulted in a calculated increase in net sales and net earnings of approximately $3 million and $2 million, respectively. For the year ended December 25, 2009, the calculated impact of currency translation resulted in an increase in net sales and net earnings of approximately $10 million and $4 million, respectively.

2011 Outlook

Management believes that the Company is well positioned for another year of solid growth in sales and earnings in 2011, building on momentum created in 2010. Investments in new product engineering, development of global commercial capabilities and channel expansion should continue to provide growth in the coming year. Further recovery in the global industrial economy should drive continued growth in the Industrial and Lubrication segments in all regions. The outlook for industrial growth in advancing economies is particularly positive and the Company intends to move forward aggressively with adding commercial resources in those areas. The Company remains cautious about the residential and commercial construction recovery in the U.S. and other areas. However, investments in new products, end-user conversion and channel expansion should provide opportunity for success in the Contractor segment in 2011.

The Company's backlog is typically small compared to annual sales and is not a good indicator of future business levels. In addition to economic growth, the successful launch of new products and expanded distribution coverage, the sales outlook is dependent on many factors, including realization of price increases and stable foreign currency exchange rates.

The Company will continue to pursue strategies focused on growth, with new product development, international expansion, entering new markets and strategic acquisitions. In 2011, the Company intends to expand capital resources, make additional share repurchases and will continue to evaluate acquisition prospects.

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 2010 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

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 31, 2010. 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 31, 2010.

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.

We have audited the internal control over financial reporting of Graco Inc. and Subsidiaries (the "Company") as of December 31, 2010, 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 31, 2010, 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 31, 2010, of the Company and our report dated February 22, 2011, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

February 22, 2011

Consolidated Financial Statements

To the Shareholders and Board of Directors of

Graco Inc.

We have audited the accompanying consolidated balance sheets of Graco Inc. and Subsidiaries (the "Company") as of December 31, 2010 and December 25, 2009, 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 31, 2010. 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 31, 2010 and December 25, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, 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 31, 2010, 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 22, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

February 22, 2011

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except per share amounts)

	Years Ended		
	December 31, 2010	December 25, 2009	December 26, 2008
Net Sales	$ 744,065	$ 579,212	$ 817,270
Cost of products sold	340,620	286,396	385,093
Gross Profit	403,445	292,816	432,177
Product development	37,699	37,538	36,558
Selling, marketing and distribution	135,903	115,550	138,665
General and administrative	76,702	65,261	69,589
Operating Earnings	153,141	74,467	187,365
Interest expense	4,184	4,854	7,633
Other expense, net	417	946	1,153
Earnings Before Income Taxes	148,540	68,667	178,579
Income taxes	45,700	19,700	57,700
Net Earnings	$ 102,840	$ 48,967	$ 120,879
Basic Net Earnings per Common Share	$ 1.71	$ 0.82	$ 2.01
Diluted Net Earnings per Common Share	$ 1.69	$ 0.81	$ 1.99
Cash Dividends Declared per Common Share	$ 0.81	$ 0.77	$ 0.75

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years Ended		
	December 31, 2010	December 25, 2009	December 26, 2008
Net Earnings	$ 102,840	$ 48,967	$ 120,879
Other comprehensive income (loss)			
Cumulative translation adjustment	—	234	(1,105)
Pension and postretirement medical liability adjustment	(4,297)	34,576	(102,741)
Gain (loss) on interest rate hedge contracts	3,268	1,214	(3,236)
Income taxes	313	(13,263)	39,290
Other comprehensive income (loss)	(716)	22,761	(67,792)
Comprehensive Income	$ 102,124	$ 71,728	$ 53,087

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2010	December 25, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,591	$ 5,412
Accounts receivable, less allowances of $5,600 and $6,500	124,593	100,824
Inventories	91,620	58,658
Deferred income taxes	18,647	20,380
Other current assets	7,957	3,719
Total current assets	252,408	188,993
Property, Plant and Equipment, net	134,185	139,053
Goodwill	91,740	91,740
Other Intangible Assets, net	28,338	40,170
Deferred Income Taxes	14,696	8,372
Other Assets	9,107	8,106
Total Assets	$ 530,474	$ 476,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 8,183	$ 12,028
Trade accounts payable	19,669	17,983
Salaries and incentives	34,907	14,428
Dividends payable	12,610	12,003
Other current liabilities	44,385	47,373
Total current liabilities	119,754	103,815
Long-term Debt	70,255	86,260
Retirement Benefits and Deferred Compensation	76,351	73,705
Uncertain Tax Positions	—	3,000
Commitments and Contingencies (Note K)		
Shareholders' Equity		
Common stock, $1 par value; 97,000,000 shares authorized; 60,047,955 and 59,999,158 shares outstanding in 2010 and 2009	60,048	59,999
Additional paid-in-capital	212,073	190,261
Retained earnings	44,436	11,121
Accumulated other comprehensive income (loss)	(52,443)	(51,727)
Total shareholders' equity	264,114	209,654
Total Liabilities and Shareholders' Equity	$ 530,474	$ 476,434

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended		
	December 31, 2010	December 25, 2009	December 26, 2008
Cash Flows From Operating Activities			
Net earnings	$ 102,840	$ 48,967	$ 120,879
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation, amortization and impairment	33,973	35,140	35,495
Deferred income taxes	(4,248)	(69)	(160)
Share-based compensation	10,024	9,369	9,051
Excess tax benefit related to share-based payment arrangements	(1,988)	(375)	(2,873)
Change in			
Accounts receivable	(23,285)	28,420	14,965
Inventories	(32,997)	32,663	(9,937)
Trade accounts payable	1,670	(701)	(6,806)
Salaries and incentives	20,453	(2,893)	(3,169)
Retirement benefits and deferred compensation	(1,428)	(848)	(2,672)
Other accrued liabilities	(18)	(2,838)	5,658
Other	(3,873)	(303)	2,047
Net cash provided by operating activities	101,123	146,532	162,478
Cash Flows From Investing Activities			
Property, plant and equipment additions	(16,620)	(11,463)	(29,102)
Proceeds from sale of property, plant and equipment	257	770	1,768
Investment in life insurance	(1,499)	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(907)	(602)	(1,327)
Acquisition of businesses, net of cash acquired	—	—	(55,186)
Net cash used in investing activities	(18,769)	(12,794)	(85,346)
Cash Flows From Financing Activities			
Borrowings on short-term lines of credit	10,584	10,824	12,431
Payments on short-term lines of credit	(13,789)	(17,209)	(13,760)
Borrowings on long-term line of credit	140,540	270,715	450,470
Payments on long-term line of credit	(156,545)	(364,455)	(377,530)
Excess tax benefit related to share-based payment arrangements	1,988	375	2,873
Common stock issued	12,794	6,571	13,701
Common stock repurchased	(24,218)	(187)	(114,836)
Cash dividends paid	(48,146)	(45,444)	(44,702)
Net cash used in financing activities	(76,792)	(138,810)	(71,353)
Effect of exchange rate changes on cash	(1,383)	(1,635)	1,418
Net increase (decrease) in cash and cash equivalents	4,179	(6,707)	7,197
Cash and Cash Equivalents			
Beginning of year	5,412	12,119	4,922
End of year	$ 9,591	$ 5,412	$ 12,119

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance December 28, 2007	$ 61,964	$ 156,420	$ 32,986	$ (6,696)	$ 244,674
Shares issued	645	13,056	—	—	13,701
Shares repurchased	(3,093)	(8,093)	(100,881)	—	(112,067)
Stock compensation cost	—	9,051	—	—	9,051
Tax benefit related to stock options exercised	—	3,473	—	—	3,473
Restricted stock cancelled	—	254	—	—	254
Net earnings	—	—	120,879	—	120,879
Dividends declared	—	—	(44,539)	—	(44,539)
Other comprehensive income (loss)	—	—	—	(67,792)	(67,792)
Balance December 26, 2008	59,516	174,161	8,445	(74,488)	167,634
Shares issued	491	6,080	—	—	6,571
Shares repurchased	(8)	(23)	(156)	—	(187)
Stock compensation cost	—	9,369	—	—	9,369
Tax benefit related to stock options exercised	—	674	—	—	674
Net earnings	—	—	48,967	—	48,967
Dividends declared	—	—	(46,135)	—	(46,135)
Other comprehensive income (loss)	—	—	—	22,761	22,761
Balance December 25, 2009	59,999	190,261	11,121	(51,727)	209,654
Shares issued	875	11,919	—	—	12,794
Shares repurchased	(826)	(2,619)	(20,773)	—	(24,218)
Stock compensation cost	—	10,024	—	—	10,024
Tax benefit related to stock options exercised	—	2,488	—	—	2,488
Net earnings	—	—	102,840	—	102,840
Dividends declared	—	—	(48,752)	—	(48,752)
Other comprehensive income (loss)	—	—	—	(716)	(716)
Balance December 31, 2010	$ 60,048	$ 212,073	$ 44,436	$ (52,443)	$ 264,114

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Graco Inc. and Subsidiaries

Years Ended December 31, 2010, December 25, 2009 and December 26, 2008

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 year ended December 31, 2010, was a 53-week year. Years ended December 25, 2009 and December 26, 2008, 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 31, 2010, 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):

	2010	2009
Prepaid income taxes	$ 5,879	$ 1,928
Prepaid expenses and other	2,078	1,791
Total	$ 7,957	$ 3,719

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):

	2010	2009
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 31, 2010					
Customer relationships	3 - 8	$ 41,075	$ (24,840)	$ (181)	$ 16,054
Patents, proprietary technology and product documentation	3 - 10	19,902	(13,956)	(87)	5,859
Trademarks, trade names and other	3 - 10	8,154	(4,909)	—	3,245
		69,131	(43,705)	(268)	25,158
Not Subject to Amortization Brand names		3,180	—	—	3,180
Total		$ 72,311	$ (43,705)	$ (268)	$ 28,338
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 $11.8 million in 2010 and $12.3 million in 2009. Estimated future annual amortization is as follows: $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.

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.

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

	2010	2009
Cash surrender value of life insurance	$ 6,185	$ 4,409
Capitalized software	1,050	945
Deposits and other	1,872	2,752
Total	$ 9,107	$ 8,106

The Company paid $1.5 million in 2010 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 2010, 2009 and 2008.

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):

	2010	2009
Accrued self-insurance retentions	$ 6,675	$ 7,785
Accrued warranty and service liabilities	6,862	7,437
Accrued trade promotions	5,947	2,953
Payable for employee stock purchases	5,655	5,115
Income taxes payable	733	1,550
Other	18,513	22,533
Total	$ 44,385	$ 47,373

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):

	2010	2009
Balance, beginning of year	$ 7,437	$ 8,033
Charged to expense	3,484	4,548
Margin on parts sales reversed	3,412	2,876
Reductions for claims settled	(7,471)	(8,020)
Balance, end of year	$ 6,862	$ 7,437

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 have 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 were designated as cash flow hedges against interest rate volatility. Consequently, changes in the fair market value were recorded in accumulated other comprehensive income (loss) (AOCI). Amounts included in AOCI were reclassified to earnings as interest rates varied and as the swap contracts approached expiration dates. Net amounts paid or payable under terms of the contracts were charged to interest expense and totaled $3.5 million in 2010 and $3.0 million in 2009.

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 31, 2010, with notional amounts totaling $19 million. There were 64 contracts outstanding during all or part of 2010, with net losses of $1.9 million offsetting $1.3 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, including reference to market prices and financial models that incorporate relevant market assumptions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	2010	2009
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ (454)	$ (3,722)
Gain (loss) on foreign currency forward contracts			
Gains		$ 92	$ 207
Losses		(284)	(249)
Net	Other current liabilities	$ (192)	$ (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 2010, 2009 and 2008, and there were no such transactions outstanding as of December 31, 2010, and December 25, 2009.

Cash flow presentation. In 2010, the Company changed its cash flow presentation of notes payable activity, for all periods presented, to separately disclose borrowings and payments. In prior years, such activity was disclosed on a net basis. The Company also changed the cash flow presentation of activity on the swingline portion of its long-term revolving credit arrangement by changing the method it uses to accumulate borrowing and payment amounts. The effect of this change was to increase both borrowings and payments on long-term line of credit by $193 million in 2009 and $208 million in 2008. These changes had no impact on net cash used in financing activities.

Recent Accounting Pronouncements. The Financial Accounting Standards Board (FASB) has issued several Accounting Standards Updates (ASU) that will be effective for the Company in 2011. New guidance on revenue recognition (ASU 2009-13 and 2009-14) and on goodwill impairment testing (ASU 2010-29) will not have a significant impact on the Company's consolidated financial

statements. New guidance on pro forma financial information for business combinations (ASU 2010-29) will be considered for disclosures of future acquisitions.

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, corrosion control, texture, and line striping. 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 applications. 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. The Company began identifying or allocating certain assets to segments in 2010. 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)	2010	2009	2008
Net Sales			
Industrial	$ 409,569	$ 312,935	$ 462,941
Contractor	256,588	208,544	266,772
Lubrication	77,908	57,733	87,557
Total	$ 744,065	$ 579,212	$ 817,270
Operating Earnings			
Industrial	$ 126,266	$ 68,310	$ 138,240
Contractor	36,952	28,952	47,156
Lubrication	8,897	(2,907)	12,475
Unallocated corporate (expense)	(18,974)	(19,888)	(10,506)
Total	$ 153,141	$ 74,467	$ 187,365
Assets			
Industrial	$ 270,160		
Contractor	134,938		
Lubrication	81,746		
Unallocated corporate	43,630		
Total	$ 530,474		

Unallocated corporate (expense) is not included in management's measurement of segment performance and includes such items as stock compensation, bad debt expense, charitable contributions and certain portions of pension expense. Unallocated assets include cash, allowances and valuation reserves, deferred income taxes, certain capital items and other assets.

Geographic Information (in thousands)	2010	2009	2008
Net sales (based on customer location)			
United States	$ 341,009	$ 279,814	$ 384,221
Other countries	403,056	299,398	433,049
Total	$ 744,065	$ 579,212	$ 817,270
Long-lived assets			
United States	$ 117,859	$ 122,035	
Other countries	16,326	17,018	
Total	$ 134,185	$ 139,053	

Sales to Major Customers

There were no customers that accounted for 10 percent or more of consolidated sales in 2010, 2009 or 2008.

C. Inventories

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

	2010	2009
Finished products and components	$ 48,670	$ 36,665
Products and components in various stages of completion	31,275	22,646
Raw materials and purchased components	46,693	31,826
	126,638	91,137
Reduction to LIFO cost	(35,018)	(32,479)
Total	$ 91,620	$ 58,658

Inventories valued under the LIFO method were $63.3 million for 2010 and $36.7 million for 2009. 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):

	2010	2009
Land and improvements	$ 10,305	$ 10,303
Buildings and improvements	102,667	102,222
Manufacturing equipment	189,741	188,225
Office, warehouse and automotive equipment	32,043	31,442
Additions in progress	10,098	2,248
Total property, plant and equipment	344,854	334,440
Accumulated depreciation	(210,669)	(195,387)
Net property, plant and equipment	$ 134,185	$ 139,053

Depreciation expense was $21.2 million in 2010, $21.7 million in 2009 and $20.9 million in 2008.

E. Income Taxes

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

	2010	2009	2008
Domestic	$ 137,213	$ 55,749	$ 159,972
Foreign	11,327	12,918	18,607
Total	$ 148,540	$ 68,667	$ 178,579

Income tax expense consists of (in thousands):

	2010	2009	2008
Current			
Domestic			
Federal	$ 43,580	$ 17,002	$ 50,483
State and local	2,200	(133)	2,300
Foreign	4,151	2,953	4,741
	49,931	19,822	57,524
Deferred			
Domestic	(2,364)	(448)	(436)
Foreign	(1,867)	326	612
	(4,231)	(122)	176
Total	$ 45,700	$ 19,700	$ 57,700

Income taxes paid were $55.7 million, $15.3 million and $55.8 million in 2010, 2009 and 2008.

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

	2010	2009	2008
Statutory tax rate	35%	35%	35%
Tax effect of international operations	1	(1)	(1)
State taxes, net of federal effect	1	—	1
U.S. general business tax credits	(2)	(3)	(1)
Domestic production deduction	(3)	(2)	(2)
Change in unrecognized tax benefits	(2)	—	—
Other	1	—	—
Effective tax rate	31%	29%	32%

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):

	2010	2009
Inventory valuations	$ 8,848	$ 7,532
Self-insurance retention accruals	2,168	2,403
Warranty reserves	2,177	2,370
Vacation accruals	2,299	2,025
Bad debt reserves	1,624	1,730
Stock compensation	—	2,000
Interest rate swaps	168	1,397
Other	1,363	923
Total Current	18,647	20,380
Unremitted earnings of consolidated foreign subsidiaries	(3,100)	(1,800)
Excess of tax over book depreciation	(19,518)	(22,114)
Pension liability	17,686	16,951
Postretirement medical	7,790	7,587
Stock compensation	10,194	5,947
Deferred compensation	877	833
Other	767	968
Total Non-current	14,696	8,372
Net deferred tax assets	$ 33,343	$ 28,752

Total deferred tax assets were $70.2 million and $65.1 million, and total deferred tax liabilities were $36.9 million and $36.3 million on December 31, 2010, and December 25, 2009.

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 2004.

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. The Company may borrow up to $25 million under the swingline portion of the facility for daily working capital needs. 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 0.5 percent as of December 31, 2010 and 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 31, 2010, the Company had $270 million in lines of credit, including the $250 million in committed credit facilities described above and $20 million with foreign banks. The unused portion of committed credit lines was $194 million as of December 31, 2010. In addition, the Company has unused, uncommitted lines of credit with foreign banks totaling $11 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 4.6 percent, 3.3 percent and 3.9 percent for the years ended December 31, 2010, December 25, 2009 and December 26, 2008. 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 2010, 2009 and 2008 was $4.4 million, $4.8 million and $8.1 million

Subsequent Event. The Company has agreed in principle to financing through a series of senior notes totaling $300 million, with terms ranging from 7 years to 15 years and fixed interest rates ranging from 4 percent to 5½ percent.

G. Shareholders' Equity

At December 31, 2010, 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 one-thousandth of a share of a new series of junior participating preferred stock at an exercise price of $150, 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 2020 and may be redeemed earlier by the Board of Directors for $.001 per Right.

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

	2010	2009
Pension and postretirement medical liability adjustment	$ (51,334)	$ (48,560)
Gain (loss) on interest rate hedge contracts	(286)	(2,344)
Cumulative translation adjustment	(823)	(823)
Total	$ (52,443)	$ (51,727)

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 $263,000 in 2010, $287,000 in 2009 and $280,000 in 2008. 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 10,104 shares in 2010, 14,952 shares in 2009 and 10,228 shares in 2008. 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 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
Granted	1,201	30.66		
Exercised	(429)	14.45		
Canceled	(76)	33.04		
Outstanding, December 31, 2010	5,509	$ 30.42	2,980	$ 31.99

The following table summarizes information for options outstanding and exercisable at December 31, 2010 (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
$ 11—20	489	1	$ 16.50	485	$ 16.50
20—30	2,236	8	24.07	641	25.00
30—40	1,911	7	36.48	1,085	36.47
40—49	873	5	41.23	769	41.23
$ 11—49	5,509	6	$ 30.42	2,980	$ 31.99

The aggregate intrinsic value of exercisable option shares was $23.6 million as of December 31, 2010, with a weighted average contractual term of 4.8 years. There were approximately 5.4 million vested share options and share options expected to vest as of December 31, 2010, with an aggregate intrinsic value of $50.7 million, a weighted average exercise price of $30.40 and a weighted average contractual term of 6.4 years.

Information related to options exercised follows (in thousands):

	2010	2009	2008
Cash received	$ 6,203	$ 1,733	$ 6,950
Aggregate intrinsic value	7,747	2,173	8,734
Tax benefit realized	2,800	800	3,100

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 435,684 shares under this Plan in 2010, 312,424 shares in 2009 and 216,047 shares in 2008.

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 31, 2010
Stock Incentive Plan (2010)	5,100	4,627
Employee Stock Purchase Plan (2006)	2,000	1,036
Total	7,100	5,663

Amounts available for future issuance exclude outstanding options. Options outstanding as of December 31, 2010, include options granted under four plans that were replaced by subsequent Plans. No shares are available for future grants under those plans.

Share-based Compensation. The Company recognized share-based compensation cost of $10.0 million in 2010, $9.4 million in 2009 and $9.1 million in 2008, which reduced net income by $7.4 million, or $0.12 per weighted common share in 2010, $7.3 million, or $0.12 per weighted common share in 2009 and $6.7 million, or $0.11 per weighted common share in 2008. As of December 31, 2010, there was $8.5 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:

	2010	2009	2008
Expected life in years	5.7	6.0	6.0
Interest rate	2.4%	2.1%	3.2%
Volatility	34.8%	30.1%	25.1%
Dividend yield	2.7%	3.7%	2.1%
Weighted average fair value per share	$ 8.26	$ 4.27	$ 8.28

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:

	2010	2009	2008
Expected life in years	1.0	1.0	1.0
Interest rate	0.3%	0.7%	1.5%
Volatility	42.8%	51.5%	27.1%
Dividend yield	2.9%	4.5%	2.1%
Weighted average fair value per share	$ 8.48	$ 5.60	$ 8.14

I. Earnings per Share

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

	2010	2009	2008
Net earnings available to common shareholders	$ 102,840	$ 48,967	$ 120,879
Weighted average shares outstanding for basic earnings per share	60,209	59,865	60,264
Dilutive effect of stock options computed based on the treasury stock method using the average market price	594	364	571
Weighted average shares outstanding for diluted earnings per share	60,803	60,229	60,835
Basic earnings per share	$ 1.71	$ 0.82	$ 2.01
Diluted earnings per share	$ 1.69	$ 0.81	$ 1.99

Stock options to purchase 1.7 million, 2.4 million and 2.9 million shares were not included in the 2010, 2009 and 2008 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 $3.7 million in 2010, $2.7 million in 2009 and $3.1 million in 2008.

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 levels 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 55 percent equity securities, 25 percent fixed income securities and 20 percent real estate and alternative investments.

Plan assets are held in a trust for the benefit of plan participants and are invested in various commingled funds, most of which are sponsored by the trustee. Plan assets are classified within the fair value hierarchy as follows:

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

In 2010, all plan assets were transferred to a new trust. In connection with the transfer, assets invested in certain funds that were formerly classified as level 1 in the fair value hierarchy were converted to funds sponsored by the new trustee that are now classified as level 2.

Even though the underlying assets held in the trustee-sponsored equity funds are classified by the trustee as level 1, the plan classifies those funds as level 2 because the unit of fund measurement is defined as its net asset value, which is not directly traded on an active exchange. Certain trustee-sponsored funds allow redemptions monthly or quarterly, with 10 or 60 days advance notice, while most of the funds allow redemptions daily.

Level 3 investments consist of real estate investment trusts whose assets are valued at least annually by independent appraisal firms, using market, income and cost approaches.

Plan assets by category and fair value measurement level were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2010				
Equity				
Graco common stock	$ 13,758	$ 13,758	$ —	$ —
U.S. Large Cap	58,296	—	58,296	—
U.S. Small Cap	12,698	—	12,698	—
International	47,793	—	47,793	—
Total Equity	132,545	13,758	118,787	—
Fixed income	48,490	—	48,490	—
Real estate and other	10,274	2,112	—	8,162
Total	$ 191,309	$ 15,870	$ 167,277	$ 8,162
December 25, 2009				
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

A reconciliation of the beginning and ending balances of level 3 plan assets follows:

	2010
Balance, beginning of year	$ 6,686
Purchases	2,079
Redemptions	(940)
Change in unrealized gains (losses)	337
Balance, end of year	$ 8,162

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 31, 2010, and December 25, 2009, and a statement of the funded status as of the same dates (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2010	2009	2010	2009
Change in benefit obligation				
Obligation, beginning of year	$ 218,197	$ 215,154	$ 22,726	$ 23,782
Service cost	4,225	4,718	550	565
Interest cost	12,769	12,305	1,239	1,313
Actuarial loss (gain)	20,257	(4,961)	242	(848)
Plan amendments	(261)	—	—	—
Exchange rate changes	(518)	210	—	—
Benefit payments	(9,364)	(9,229)	(1,698)	(2,086)
Obligation, end of year	$ 245,305	$ 218,197	$ 23,059	$ 22,726
Change in plan assets				
Fair value, beginning of year	$ 166,089	$ 128,720	$ —	$ —
Actual return on assets	23,845	30,757	—	—
Employer contributions	10,739	15,841	1,698	2,086
Benefit payments	(9,364)	(9,229)	(1,698)	(2,086)
Fair value, end of year	$ 191,309	$ 166,089	$ —	$ —
Funded status	$ (53,996)	$ (52,108)	$ (23,059)	$ (22,726)
Amounts recognized in consolidated balance sheets				
Current liabilities	$ 686	$ 672	$ 1,730	$ 2,006
Non-current liabilities	53,310	51,436	21,329	20,720
Total liabilities	$ 53,996	$ 52,108	$ 23,059	$ 22,726

The accumulated benefit obligation as of year-end for all defined benefit pension plans was $227 million for 2010 and $202 million for 2009. Information for plans with an accumulated benefit obligation in excess of plan assets follows (in thousands):

	2010	2009
Projected benefit obligation	$ 245,305	$ 218,197
Accumulated benefit obligation	226,959	201,628
Fair value of plan assets	191,309	166,089

The components of net periodic benefit cost for the plans for 2010, 2009 and 2008 were as follows (in thousands):

	Pension Benefits			Postretirement Medical Benefits		
	2010	2009	2008	2010	2009	2008
Service cost-benefits earned during the period	$ 4,225	$ 4,718	$ 4,968	$ 550	$ 565	$ 557
Interest cost on projected benefit obligation	12,769	12,305	12,223	1,239	1,313	1,381
Expected return on assets	(13,819)	(10,857)	(18,981)	—	—	—
Early retirement incentives	—	—	530	—	—	385
Amortization of prior service cost (credit)	87	183	232	(658)	(658)	(658)
Amortization of net loss (gain)	5,964	8,757	176	465	598	641
Cost of pension plans which are not significant and have not adopted SFAS No. 87	91	73	136	N/A	N/A	N/A
Net periodic benefit cost (credit)	$ 9,317	$ 15,179	$ (716)	$ 1,596	$ 1,818	$ 2,306

Amounts recognized in other comprehensive (income) loss in 2010 and 2009 were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2010	2009	2010	2009
Prior service cost (credit) arising during the period	$ (261)	$ —	$ —	$ —
Net loss (gain) arising during the period	10,174	(24,848)	242	(848)
Amortization of prior service credit (cost)	(87)	(183)	658	658
Amortization of net gain (loss)	(5,964)	(8,757)	(465)	(598)
Total	$ 3,862	$ (33,788)	$ 435	$ (788)

Amounts included in accumulated other comprehensive (income) loss as of December 31, 2010 and December 25, 2009, that had not yet been recognized as components of net periodic benefit cost, were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2010	2009	2010	2009
Prior service cost (credit)	$ (133)	$ 251	$ (4,417)	$ (5,074)
Net loss	78,243	73,994	7,684	7,907
Net before income taxes	78,110	74,245	3,267	2,833
Income taxes	(28,834)	(27,470)	(1,209)	(1,048)
Net	$ 49,276	$ 46,775	$ 2,058	$ 1,785

Amounts included in accumulated other comprehensive (income) loss that are expected to be recognized as components of net periodic benefit cost in 2011 were as follows (in thousands):

	Pension Benefits	Postretirement Medical Benefits
Prior service cost (credit)	$ (2)	$ (658)
Net loss (gain)	5,757	546
Net before income taxes	5,755	(112)
Income taxes	(2,129)	41
Net	$ 3,626	$ (71)

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

	Pension Benefits		Postretirement Medical Benefits	
Weighted average assumptions	2010	2009	2010	2009
Discount rate	5.5%	6.0%	5.5%	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	2010	2009	2008	2010	2009	2008
Discount rate	6.0%	6.0%	6.2%	6.0%	6.0%	6.3%
Expected return on assets	8.5%	8.5%	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 to 3 percent. In measuring the accumulated postretirement benefit obligation (APBO), the annual trend rate for health care costs was assumed to be 8.6 percent for 2011, decreasing each year to a constant rate of 4.5 percent for 2026 and thereafter, subject to the plan's annual increase limitation.

At December 31, 2010, a one percent change in assumed health care cost trend rates would not have a 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 $1.7 million to the postretirement medical plan in 2011. The Company expects that no contribution to the funded pension plan will be required in 2011. Estimated future benefit payments are as follows (in thousands):

	Pension Benefits	Postretirement Medical Benefits
2011	$ 10,350	$ 1,730
2012	10,969	1,602
2013	11,717	1,546
2014	12,548	1,596
2015	13,075	1,654
Years 2016 - 2020	77,243	9,188

K. Commitments and Contingencies

Lease Commitments. Aggregate annual rental commitments under operating leases with noncancelable terms of more than one year were $9.7 million at December 31, 2010, payable as follows (in thousands):

	Buildings	Vehicles & Equipment	Total
2011	$ 1,570	$ 1,779	$ 3,349
2012	1,206	1,242	2,448
2013	808	759	1,567
2014	842	331	1,173
2015	482	112	594
Thereafter	604	—	604
Total	$ 5,512	$ 4,223	$ 9,735

Total rental expense was $2.3 million for 2010, $3.1 million for 2009 and $2.6 million for 2008.

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 $25 million at December 31, 2010. 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 $17 million. In addition, the Company could be obligated to perform under standby letters of credit totaling $2 million at December 31, 2010. The Company has also guaranteed the debt of its subsidiaries for up to $32 million. All debt of subsidiaries is reflected in the consolidated balance sheets.

Contingencies. The Company is party to various legal proceedings arising in the normal course of business. The Company is actively pursuing and 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.

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 2010 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 2010 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 2010 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 2011 Annual Meeting of Shareholders, to be held on April 21, 2011 (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, Financial Statement Schedule

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

(1) Financial Statements
See Part II

(2) Financial Statement Schedule

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) 53
Those entries marked by an asterisk are Management Contracts, Compensatory Plans or Arrangements.

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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 31, 2010					
Allowance for doubtful accounts	$ 2,100	$ 1,400	$ 2,200	$ —	$ 1,300
Allowance for returns and credits	4,400	10,800	10,900	—	4,300
	$ 6,500	$ 12,200	$ 13,100	$ —	$ 5,600
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

[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 — February 22, 2011
Patrick J. McHale
President and Chief Executive Officer

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 — February 22, 2011
Patrick J. McHale
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JAMES A. GRANER — February 22, 2011
James A. Graner
Chief Financial Officer and Treasurer
(Principal Financial Officer)

/s/ CAROLINE M. CHAMBERS — February 22, 2011
Caroline M. Chambers
Vice President and Controller
(Principal Accounting Officer)

Lee R. Mitau	Director, Chairman of the Board	)
William J. Carroll	Director	)
Eric P. Etchart	Director	)
Jack W. Eugster	Director	) A majority of the Board of Directors
Patrick J. McHale	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 — February 22, 2011
Patrick J. McHale
(For himself and as attorney-in-fact)

Exhibit Index

Exhibit Number	Description
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.)
3.3	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.)
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 dated February 16, 2010.)
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. Stock Incentive Plan, dated May 1, 2001. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2001.)
*10.6	Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 14, 2006.)
10.7	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.)
*10.8	Graco Inc. 2010 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 11, 2010.)
*10.9	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 thirteen 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.)
*10.10	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.)

Exhibit Number	Description
*10.11	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.)
*10.12	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.) Fifth Amendment adopted September 16, 2010. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 24, 2010.)
*10.13	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.)
*10.14	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.)
*10.15	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. (Incorporated by reference to Exhibit 10.14 to the Company's 2009 Annual Report on Form 10-K/A.)
*10.16	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. 2010 Stock Incentive Plan.
*10.17	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.)
*10.18	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, 2005 and 2006. Amended form of agreement for awards made to Chief Executive Officer in 2004, 2005 and 2006. (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.)
*10.19	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, 2009 and 2010. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.20	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, 2009 and 2010. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
*10.21	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.)

Exhibit Number	Description
*10.22	Nonemployee Director Stock and Deferred Stock Program. (Incorporated by reference to Exhibit 10.22 to the Company's 2009 Annual Report on Form 10-K/A.)
*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 other than the chief executive officer. (Incorporated by reference to Exhibit 10.25 to the Company's 2007 Annual Report on Form 10-K.)
*10.25	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 2007 Annual Report on Form 10-K.)
*10.26	Amendment to the 2003 through 2006 Nonstatutory Stock Option Agreements of one nonemployee director. (Incorporated by reference to Exhibit 10.27 to the Company's 2009 Annual Report on Form 10-K/A.)
11	Statement of Computation of Earnings per share included in Note I on page 43.
21	Subsidiaries of the Registrant included herein on page 56.
23	Independent Registered Public Accounting Firm's Consent included herein on page 57.
24	Power of Attorney included herein on page 58.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) included herein on page 59.
31.2	Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) included herein on page 60.
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 61.
99	Cautionary Statement Regarding Forward-Looking Statements included herein on page 62.
101	Interactive Data File.

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

* 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.

NONEMPLOYEE DIRECTOR
GRACO INC. 2010 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
(NSO)

THIS AGREEMENT, made this «DATE» day of «MONTH», 20 «YEAR» 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. 2010 Stock Incentive Plan (the "2010 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 «DATE» (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. 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 tenth anniversary of the Date of Grant. 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 ninety (90) days later. If Nonemployee Director dies within the ninety (90) 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 tenth anniversary of the Date of Grant.

(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 2010 Plan and is subject to its terms. The terms of the 2010 Plan are available for inspection during business hours at the principal offices of the Company.

B. Neither the 2010 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 2010 Plan and any rules and regulations relating to the 2010 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 2010 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 2010 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 21

Subsidiaries of Graco Inc.

The following are subsidiaries of the Company as of December 31, 2010.

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%
Graco Trading (Suzhou) Co., Ltd.	China (PRC)	100%[4]
Gusmer Corporation	United States	100%
Gusmer Canada Ltd.	Canada	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 executive officers 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, No. 333-140848 and No. 333-167602 on Form S-8 of our reports dated February 22, 2011, 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 31, 2010.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

February 22, 2011

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 31, 2010, 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 18, 2011
/s/ ERIC P. ETCHART Eric P. Etchart	February 18, 2011
/s/ JACK W. EUGSTER Jack W. Eugster	February 18, 2011
J. Kevin Gilligan	
/s/ PATRICK J. MCHALE Patrick J. McHale	February 18, 2011
/s/ LEE R. MITAU Lee R. Mitau	February 18, 2011
Marti Morfitt	
/s/ WILLIAM G. VAN DYKE William G. Van Dyke	February 18, 2011
/s/ R. WILLIAM VAN SANT R. William Van Sant	February 18, 2011

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 22, 2011

/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 22, 2011

/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 22, 2011

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

Date: February 22, 2011

/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 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 expanding use of foreign manufacturing and 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;
- 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;
- 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.

Exhibit III

Current reports on Form 8-K dated January 31, 2011, February 28, 2011, March 11, 2011, April 14, 2011, April 21, 2011 (as amended), May 23, 2011 and July 26, 2011

GRACO INC (GGG)

8-K

Current report filing
Filed on 02/01/2011
Filed Period 01/31/2011

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 31, 2011**

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 31, 2011, Graco Inc. issued a press release to report the Company's results of operations and financial condition for the year ended December 31, 2010. 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 31, 2011.

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: February 1, 2011 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 31, 2011

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

GRACO REPORTS FOURTH QUARTER AND ANNUAL SALES AND EARNINGS STRONG SALES GROWTH IN ALL SEGMENTS AND REGIONS

MINNEAPOLIS, MN (January 31, 2011) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter and year ended December 31, 2010.

Summary
$ in millions except per share amounts

	Quarter Ended			Year Ended		
	Dec 31, 2010	Dec 25, 2009	% Change	Dec 31, 2010	Dec 25, 2009	% Change
Net Sales	$ 197.3	$ 146.3	35 %	$ 744.1	$ 579.2	28 %
Net Earnings	27.0	17.2	57 %	102.8	49.0	110 %
Diluted Net Earnings per Common Share	$ 0.44	$ 0.28	57 %	$ 1.69	$ 0.81	109 %

- Sales growth in all segments and regions exceeded 30 percent for the quarter and 20 percent for the year.
- Sales in the Lubrication segment grew 52 percent for the quarter and 35 percent for the year.
- Gross margin rate was 1½ percentage points higher for the quarter and 3½ points higher for the year.
- Operating expenses as a percentage of sales for the quarter were 1 percentage point lower than last year. For the year, operating expenses as a percentage of sales were 4 percentage points lower than last year.
- Return on sales was 14 percent for both the quarter and the year, up from 12 percent for the quarter and 8½ percent for the year in 2009.

"The global industrial recovery, along with our investments in new products, innovative technologies and commercial capabilities to support geographic expansion, led to improved results in 2010," said Patrick J. McHale, President and Chief Executive Officer. "Sales growth was strong in all divisions and regions, including a 46 percent increase in Asia Pacific."

Consolidated Results

For the quarter, sales increased 35 percent in the Americas, 33 percent in Europe (42 percent at consistent translation rates), and 37 percent in Asia Pacific (33 percent at consistent translation rates). For the year, sales increased 24 percent in the Americas,

25 percent in Europe (29 percent at consistent translation rates) and 46 percent in Asia Pacific (41 percent at consistent translation rates). There were 53 weeks in our fiscal 2010, including 14 weeks in the fourth quarter. There were 52 weeks in fiscal 2009, with 13 weeks in the fourth quarter. Translation rates did not have a significant impact on the total sales increase of 35 percent for the quarter and 28 percent for the year.

Gross profit margin, expressed as a percentage of sales, was 54 1/2 percent for the quarter and 54 percent for the year. Last year, gross profit margin rate was 53 percent for the quarter and 50 1/2 percent for the year. Improvement in both the quarter and the year is mainly from higher production volumes. Other factors contributing to improvement

More . . .

in the gross margin rate included selling price increases and lower pension costs in 2010, and costs related to workforce reductions that lowered the 2009 rate.

Total operating expenses increased $16 million for the quarter and $32 million for the year due to higher levels of business activity and improved results. Higher incentives expense accounted for approximately half of the increase for the quarter and two-thirds of the increase for the year. Operating expenses as a percentage of sales decreased to 35 1/2 percent from 36 1/2 percent for the quarter and decreased to 33 1/2 percent from 37 1/2 percent for the year.

The effective income tax rate was 26 percent for the quarter and 31 percent for the year, compared to 23 1/2 percent and 29 percent for the comparable periods last year. In both 2010 and 2009, the effective rate for the quarter was lower than the annual rate because the federal R&D tax credit was not renewed until the fourth quarter and no credits were included in the first three quarters. The effect of the federal R&D tax credit in 2010 was lower as a percentage of pre-tax earnings compared to last 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)	$ 113.1	$ 61.6	$ 22.6	$ 409.6	$ 256.6	$ 77.9
Net sales percentage change from last year	31 %	36 %	52 %	31 %	23 %	35 %
Operating earnings as a percentage of net sales						
2010	31 %	8 %	11 %	31 %	14 %	11 %
2009	27 %	10 %	3 %	22 %	14 %	(5) %

Industrial segment sales increased 31 percent for both the quarter and the year. Sales growth for the quarter was consistent across regions. For the year, sales increased 49 percent in Asia Pacific (44 percent at consistent translation rates), 26 percent in the Americas and 24 percent in Europe (27 percent at consistent translation rates). Higher sales and the resulting increase in production volume led to improvement in operating earnings as a percentage of sales.

Contractor segment sales increased 36 percent for the quarter and 23 percent for the year. Sales for the quarter increased 35 percent in the Americas, 42 percent in Europe (52 percent at consistent translation rates) and 28 percent in Asia Pacific (24 percent at consistent translation rates). For the year, sales increased 22 percent in the Americas and 24 percent in both Europe and Asia Pacific (29 percent in Europe and 18 percent in Asia Pacific at consistent translation rates). Operating margin percentages in this segment were held down by costs and expenses related to new product introductions and expanding distribution.

Lubrication segment sales increased 52 percent for the quarter and 35 percent for the year. Sales for the quarter increased 43 percent in the Americas, 63 percent in Europe and 92 percent in Asia Pacific. For the year, sales increased 23 percent in the Americas, 56 percent in Europe and doubled in Asia Pacific. Sales of industrial lubrication products contributed significantly to the strong growth for the segment. For both the quarter and the year, higher sales and the resulting increase in production volume led to improved operating earnings as a percentage of sales.

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Outlook

"We expect to build on momentum created in 2010," said Patrick J. McHale, President and Chief Executive Officer. "In 2011, we intend to expand our capital resources, make additional share repurchases and continue to evaluate acquisition prospects. We will continue to pursue our growth strategies including product development, international expansion, entering new markets and strategic acquisitions."

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 Tuesday, February 1, 2011, 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 February 1, 2011, by dialing 800.406.7325, Conference ID #4399746, 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 February 4, 2011.

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 31, 2010	Dec 25, 2009	Dec 31, 2010	Dec 25, 2009
Net Sales	$ 197,293	$ 146,312	$ 744,065	$ 579,212
Cost of products sold	89,621	68,973	340,620	286,396
Gross Profit	107,672	77,339	403,445	292,816
Product development	9,490	8,954	37,699	37,538
Selling, marketing and distribution	40,816	28,736	135,903	115,550
General and administrative	19,563	15,944	76,702	65,261
Operating Earnings	37,803	23,705	153,141	74,467
Interest expense	1,025	1,119	4,184	4,854
Other expense, net	270	57	417	946
Earnings Before Income Taxes	36,508	22,529	148,540	68,667
Income taxes	9,500	5,300	45,700	19,700
Net Earnings	$ 27,008	$ 17,229	$ 102,840	$ 48,967
Net Earnings per Common Share				
Basic	$ 0.45	$ 0.29	$ 1.71	$ 0.82
Diluted	$ 0.44	$ 0.28	$ 1.69	$ 0.81
Weighted Average Number of Shares				
Basic	59,944	59,980	60,209	59,865
Diluted	60,700	60,518	60,803	60,229

Segment Information (Unaudited)

	Quarter Ended		Year Ended	
	Dec 31, 2010	Dec 25, 2009	Dec 31, 2010	Dec 25, 2009
Net Sales				
Industrial	$ 113,080	$ 86,127	$ 409,569	$ 312,935
Contractor	61,647	45,331	256,588	208,544
Lubrication	22,566	14,854	77,908	57,733
Total	$ 197,293	$ 146,312	$ 744,065	$ 579,212
Operating Earnings				
Industrial	$ 35,032	$ 23,048	$ 126,266	$ 68,310
Contractor	5,113	4,532	36,952	28,952
Lubrication	2,571	441	8,897	(2,907)
Unallocated corporate (expense)	(4,913)	(4,316)	(18,974)	(19,888)
Total	$ 37,803	$ 23,705	$ 153,141	$ 74,467

More . . .

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

	Dec 31, 2010	Dec 25, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,591	$ 5,412
Accounts receivable, less allowances of $5,600 and $6,500	124,593	100,824
Inventories	91,620	58,658
Deferred income taxes	18,647	20,380
Other current assets	7,957	3,719
Total current assets	252,408	188,993
Property, Plant and Equipment		
Cost	344,854	334,440
Accumulated depreciation	(210,669)	(195,387)
Property, plant and equipment, net	134,185	139,053
Goodwill	91,740	91,740
Other Intangible Assets, net	28,338	40,170
Deferred Income Taxes	14,696	8,372
Other Assets	9,107	8,106
Total Assets	$ 530,474	$ 476,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 8,183	$ 12,028
Trade accounts payable	19,669	17,983
Salaries and incentives	34,907	14,428
Dividends payable	12,610	12,003
Other current liabilities	44,385	47,373
Total current liabilities	119,754	103,815
Long-term debt	70,255	86,260
Retirement Benefits and Deferred Compensation	76,351	73,705
Uncertain Tax Positions	-	3,000
Shareholders' Equity		
Common stock	60,048	59,999
Additional paid-in-capital	212,073	190,261
Retained earnings	44,436	11,121
Accumulated other comprehensive income (loss)	(52,443)	(51,727)
Total shareholders' equity	264,114	209,654
Total Liabilities and Shareholders' Equity	$ 530,474	$ 476,434

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GRACO INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Year Ended	
	Dec 31, 2010	Dec 25, 2009
Cash Flows From Operating Activities		
Net Earnings	$ 102,840	$ 48,967
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	33,973	35,140
Deferred income taxes	(4,248)	(69)
Share-based compensation	10,024	9,369
Excess tax benefit related to share-based payment arrangements	(1,988)	(375)
Change in		
Accounts receivable	(23,285)	28,420
Inventories	(32,997)	32,663
Trade accounts payable	1,670	(701)
Salaries and incentives	20,453	(2,893)
Retirement benefits and deferred compensation	(1,428)	(848)
Other accrued liabilities	(18)	(2,838)
Other	(3,873)	(303)
Net cash provided by operating activities	101,123	146,532
Cash Flows From Investing Activities		
Property, plant and equipment additions	(16,620)	(11,463)
Proceeds from sale of property, plant and equipment	257	770
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(907)	(602)
Net cash used in investing activities	(18,769)	(12,794)
Cash Flows From Financing Activities		
Borrowings on short-term lines of credit	10,584	10,824
Payments on short-term lines of credit	(13,789)	(17,209)
Borrowings on long-term line of credit	140,540	270,715
Payments on long-term line of credit	(156,545)	(364,455)
Excess tax benefit related to share-based payment arrangements	1,988	375
Common stock issued	12,794	6,571
Common stock repurchased	(24,218)	(187)
Cash dividends paid	(48,146)	(45,444)
Net cash provided by (used in) financing activities	(76,792)	(138,810)
Effect of exchange rate changes on cash	(1,383)	(1,635)
Net increase (decrease) in cash and cash equivalents	4,179	(6,707)
Cash and cash equivalents:		
Beginning of year	5,412	12,119
End of year	$ 9,591	$ 5,412

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GRACO INC (GGG)

8-K

Current report filing
Filed on 03/02/2011
Filed Period 02/28/2011

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): **February 28, 2011**

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 February 28, 2011, the Management Organization and Compensation Committee approved the grant of 20,000 shares of performance-based restricted stock to Patrick J. McHale, the Company's President and Chief Executive Officer. The restricted stock will vest in full at the end of fiscal 2013 if the Company achieves a certain net sales performance objective in fiscal 2013. If Mr. McHale's employment terminates for any reason other than death or disability, all shares of restricted stock will be forfeited. In the event of Mr. McHale's death or disability, he will be entitled to a pro-rated portion of the restricted shares. In the event of a change of control, vesting will be accelerated in full. Mr. McHale is entitled to dividends paid on the restricted stock; however, the dividends will be subject to the same vesting conditions as the underlying restricted stock. In connection with the grant, Mr. McHale agrees to retain the net shares acquired upon vesting until at least one year following his termination of employment for any reason other than death or following a change of control. The form of performance-based restricted stock agreement is filed as an exhibit to this Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

10.1 Chief Executive Officer Restricted Stock Agreement (Performance-Based). Form of agreement used to award performance-based restricted stock to the Chief Executive Officer.

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: March 2, 2011 By: /s/ Karen Park Gallivan
Karen Park Gallivan
Its: Vice President, General Counsel and Secretary

GRACO INC.
2010 STOCK INCENTIVE PLAN

CHIEF EXECUTIVE OFFICER
RESTRICTED STOCK AGREEMENT
(Performance-Based)

This Restricted Stock Agreement ("Agreement") is made as of the ___ day of _____, 20___, between Graco Inc., a Minnesota corporation (the "Company"), and _____ (the "Employee") pursuant to the Graco Inc. 2010 Stock Incentive Plan (the "Plan"). All capitalized terms have the meanings set forth in the Plan, as it may be amended from time to time, unless otherwise specifically provided. All references to specified sections pertain to sections in this Restricted Stock Agreement, unless otherwise specifically provided.

WHEREAS, the Management Organization and Compensation Committee (the "Committee") has been designated by the Board of Directors (the "Board") to administer the Plan and in this capacity is authorized to award to executive officers and key employees stock-based awards, including options and restricted stock;

WHEREAS, the Committee has determined that the Employee is eligible to receive an award under the Plan; and

WHEREAS, the Committee has determined that it would be in the best interest of the Company to make an award of restricted stock to the Employee to provide further incentive to the Employee to continue his service to the Company and to more closely align his interests with those of the shareholders.

NOW THEREFORE, the Company makes an award of restricted stock to Employee under the terms, conditions and restrictions set forth in this Agreement and the Plan.

1. Award.

a. The Company hereby grants to Employee, effective the date of this Agreement (the "Date of Grant") an award (the "Award") of _____ Common Shares, $1.00 par value, of the Company ("Shares"). These Shares are subject to the restrictions, terms and conditions set forth in this Agreement, and while subject to the restrictions and risk of forfeiture hereunder are referred to collectively as the "Restricted Shares," and each Share individually as a "Restricted Share."

b. Certificates representing the Restricted Shares and bearing the legend specified in Section 1d shall be issued in the name of the Employee and held by the Secretary of the Company until such Restricted Shares vest as provided herein. The Secretary will issue a receipt to Employee evidencing the certificates held by him/her. While the certificates representing the Restricted Shares are held by the Company, Employee will provide to the Company assignments separate from such certificates, in blank, signed by Employee to be held by the Company during the Period of Restriction, as defined in Section 2a below.

c. Except as otherwise provided in this Agreement, Employee shall be entitled to exercise all rights of a shareholder of the Company with respect to the Restricted Shares, including the right to vote the Restricted Shares and the right to receive cash dividends thereon (subject to applicable tax withholding), subject to the provisions of Section 7.

d. Each stock certificate evidencing Restricted Shares shall bear the following legend:

> *This Certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture, restrictions against transfer and rights of repurchase, if applicable) contained in the Restricted Stock Award Agreement (the "Agreement") between the registered owner of the shares and the Company. Release from such terms and conditions shall be made only in accordance with the provisions of the Agreement, a copy of which is on file in the office of the Company's secretary.*

e. As soon as practicable following the expiration of the Period of Restriction applicable to each Restricted Share, the Company shall cause a book entry to be made in the records of the Company's transfer agent to reflect the issuance of the Share to the Employee without any restriction. The Company shall provide notice to Employee that the applicable book entry adjustment has been made.

2. Vesting.

a. Subject to the forfeiture provisions of Sections 3 and 4 of this Agreement, any restrictions on the Restricted Shares shall lapse and the Restricted Shares shall vest in accordance with the Vesting

Schedule and Conditions below. The period from the Date of Grant until the vesting of each Share shall be known as the Period of Restriction. Notwithstanding this Section 2, any restrictions on the Restricted Shares shall lapse and all Restricted Shares granted herein shall vest immediately upon the occurrence of a Change in Control of the Company, as defined in Appendix A to this Agreement.

b. Vesting Schedule and Conditions:

Vesting Date and Performance Conditions	**Portion of Award Vested**

c. All restrictions set forth in this Agreement shall apply to each Restricted Share and to any other securities distributed with respect to that Restricted Share. Unless otherwise permitted by the Committee in accordance with the terms of the Plan, the Restricted Shares may not be assigned or transferred other than by will or the laws of descent and distribution and shall not be subject to pledge, hypothecation, execution, attachment or similar process. Each Restricted Share will remain restricted and subject to forfeiture to the Company, unless and until the Restricted Share has vested in Employee in accordance with all of the terms and conditions of this Agreement.

3. Effect of Termination of Employment.

a. If Employee's employment terminates for any reason other than Employee's gross and willful misconduct (as defined in Section 3b), death, or disability (as defined in Section 3d), then, subject to Section 3c, any Restricted Shares remaining unvested shall be forfeited.

b. If Employee's employment terminates by reason of Employee's gross and willful misconduct during employment, including, but not limited to, wrongful appropriation of Company funds, serious violations of Company policy, breach of fiduciary duty or the conviction of a felony, all Restricted Shares remaining unvested as of the time of the misconduct shall be forfeited. If between the time of the misconduct and such termination the Company's transfer agent has made a book entry reflecting the issuance without restriction of any Restricted Shares that are to be forfeited pursuant to this Section 3b, Employee shall either pay the Company in cash an amount equal to the Fair Market Value of such Restricted

Shares as of the time of the misconduct or cause such Shares to be reconveyed to the Company.

c. If Employee shall die while employed by the Company or an Affiliate, a pro-rated portion of the unvested Restricted Shares will vest immediately. The pro-rated portion shall be calculated by determining the number of full or partial months in the Period of Restriction prior to the Employee's death, divided by 36.

d. If Employee's termination of employment is due to disability, a pro-rated portion of the unvested Restricted Shares will vest immediately. The pro-rated portion shall be calculated by determining the number of full or partial months in the Restricted Period prior to the Employee's termination of employment due to disability, divided by 36. Employee shall be deemed to be disabled if the termination of employment occurs because Employee is unable to work due to an impairment which would qualify as a disability under the Company's long term disability program.

4. Forfeiture.

a. If Employee attempts to pledge, encumber, assign, transfer or otherwise dispose of any of the Restricted Shares, or the Restricted Shares become subject to attachment or similar involuntary process in violation of this Agreement, any Restricted Shares that have not previously vested shall be forfeited by Employee to the Company.

b. If the Restricted Shares do not vest in accordance with Section 2, the employment of Employee terminates under one or more of the circumstances described in Section 3, or if any of the events described in Section 4a occurs and forfeiture results as provided in such sections, the forfeiture shall have the following effects:

i. Upon forfeiture, Employee shall have no right, title or interest whatsoever in the Restricted Shares that have been forfeited.

ii. If the Company does not have custody of all certificates representing the Restricted Shares so forfeited, Employee shall immediately return the certificates representing such Restricted Shares to the Company.

iii. To the extent not already provided as set forth in Section 1b, Employee shall provide Company with an assignment applicable to certificates representing the Restricted Shares,

and the Company will cancel the certificates representing the Restricted Shares so forfeited.

5. No Rights To Employment.

This Agreement shall not create an employment relationship between Employee and the Company and shall not confer on Employee any right with respect to continuance of employment by the Company or any of its affiliates or subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time.

6. Post-Vesting Stock Ownership Requirement.

Employee agrees to hold the net Shares acquired upon vesting of the Restricted Shares, or, in the alternative, the Shares acquired upon vesting of the Restricted Shares net of the number of Shares having a Fair Market Value on the date of vesting equal to the amount of any tax liability that may arise as a result of the vesting of the Restricted Shares, until at least one year following his termination of employment from the Company for any reason other than death or following a Change of Control.

7. Tax Consequences and Withholding.

a. Employee acknowledges and agrees that:

i. Employee and not the Company shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement.

ii. Employee will not make an election pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended from time to time, with respect to the Award.

iii. Employee will pay, or make arrangements reasonably satisfactory to the Company to pay, any taxes that the Company is required by law to withhold with respect to the Award. The payment will be due on the date upon which the Company is obligated to withhold such taxes. If Employee does not make such tax payment when due, the Company shall have the right to do one or more of the following in order to have sufficient funds to satisfy the amount required to be withheld:

(a) retain, or sell within ten (10) days of written notice to Employee or such longer period as may be required by applicable law, a number of the Shares sufficient to

cover all or part of the amount required to be withheld; or

(b) deduct, to the extent permitted by law, from any payment of any kind otherwise due Employee from the Company all or a part of the amount required to be withheld; or

(c) to pursue any other remedy at law or in equity.

iv. On or before the date upon which any tax attributable to the Award is required to be withheld, Employee may satisfy his/her tax obligation, in whole or in part, by electing to:

(a) have the Company withhold the number of Shares otherwise to be delivered to Employee upon vesting with a then current Fair Market Value equal to the amount of such tax obligation; or

(b) surrender to the Company shares of Graco common stock currently owned by Employee with a then current Fair Market Value equal to the amount required to satisfy such tax obligation.

8. Dividends; Adjustments

Notwithstanding the foregoing, any dividends, whether in cash, stock or other property, declared and paid by the Company with respect to Restricted Shares that have not yet vested in accordance with Section 2 of this Agreement ("Accrued Dividends") shall vest and be paid to the Employee, without interest, only if and when such Restricted Shares vest. If Accrued Dividends consist of shares of capital stock, certificates for such shares will be issued and the unvested Accrued Dividends shall be held in the same manner as certificates for Restricted Shares are issued and held under Section 1(b) above. In the event that the Participant forfeits Restricted Shares as provided under Section 4 hereof, the Participant shall also forfeit Accrued Dividends, and all such unvested Accrued Dividends shall be cancelled by the Company. The Participant shall have no further rights with respect to any Accrued Dividends that are so forfeited. If the Accrued Dividends consist of shares of capital stock, such Accrued Dividends will be forfeited and cancelled in the same manner and under the same terms as forfeited Restricted Shares under Section 4.

9. Notices.

Any notice that either party or the Committee may be required or permitted to give to the others with respect to the Plan or this Agreement shall be in writing and may be delivered personally or by mail, postage prepaid, to the addresses set forth below or such other address as the person to whom the notice is directed shall have designated in writing to the others.

(a) To the Company:

By Mail	**Personal or Courier**
Graco Inc.	Graco Inc.
P.O. Box 1441	88 11th Avenue N.E.
Minneapolis, MN 55440-1441	Minneapolis, MN 55413
Attn: Vice President, Human Resources and Corporate Communications	Attn: Vice President, Human Resources and Corporate Communications

(b) To the Committee:

By Mail	**Personal or Courier**
Mgt Org & Comp Committee	Mgt Org & Comp Committee
c/o Vice President, Human Resources and Corporate Communications	c/o Vice President, Human Resources and Corporate Communications
Graco Inc.	Graco Inc.
P.O. Box 1441	88 11th Avenue N.E.
Minneapolis, MN 55440-1441	Minneapolis, MN 55413

(c) To Employee:

By Mail	**Personal or Courier**
_____	_____
Graco Inc.	Graco Inc.
P.O. Box 1441	88 11th Avenue N.E.
Minneapolis, MN 55440-1441	Minneapolis, MN 55413

10. Governing Law.

This Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted under such laws without regard to its conflict of laws provisions.

11. Binding Effect.

This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of Employee.

12. Miscellaneous.

a. This Award is issued 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. This Award has been granted to Employee as a purely discretionary benefit and shall not form part of Employee's salary or entitle Employee to receive similar Awards in the future. Benefits received under the Plan shall not be used in calculating severance payments, if any.

c. The authority to interpret this Agreement is vested in the Committee, and the Committee's conclusions with respect to any questions arising under this Agreement are binding on the Company and the Employee.

d. Employee hereby consents to the transfer by his/her 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 Award. Employee also consents to the storage and processing of such data by such persons for this purpose.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed and delivered, all as of the day and year first above written.

GRACO INC.

By: _____
_____
Chair, Management Organization
and Compensation Committee

EMPLOYEE

_____
_____

Appendix A

Change of Control

A. 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 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 (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.

GRACO INC (GGG)

8-K

Current report filing
Filed on 03/16/2011
Filed Period 03/11/2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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): March 11, 2011

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)	(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

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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Item 1.01. Entry into a Material Definitive Agreement.

On March 11, 2011, Graco Inc. (the "Company") entered into a Note Agreement (the "Note Agreement") with certain affiliates, investment funds or managed accounts of Prudential Investment Management, Inc. (the "Purchasers") and issued and sold $150 million in senior unsecured notes (the "Series A/B Notes") to the Purchasers in a private placement. The Note Agreement also provides for the issuance and sale of an additional $150 million in senior unsecured notes (together with the Series A/B Notes, the "Senior Notes") on or before July 26, 2011. The Company plans to use the proceeds for general corporate purposes.

The Senior Notes are in four series as follows:

Series	Aggregate Principal Amount	Interest Rate	Maturity Date
A	$75 million	4.00%	March 11, 2018
B	$75 million	5.01%	March 11, 2023
C	$75 million	4.88%	January 26, 2020
D	$75 million	5.35%	July 26, 2026

Interest on the Senior Notes is payable quarterly, starting on June 11, 2011 with respect to the Series A/B Notes. The Company is required to pay the entire unpaid principal amount of each series of Senior Notes on the maturity date set forth above for such series. The Company may make optional prepayments of the Senior Notes, subject to certain limitations and the requirement to pay an additional yield-maintenance amount in connection therewith. Upon a change of control, the holders of the Senior Notes have the right to require the Company to prepay the Senior Notes, including an additional yield-maintenance amount.

The Company is restricted in its borrowings and in general under the Note Agreement by certain financial covenants. The Company is required to maintain a cash flow leverage ratio of not more than 3.25 to 1.00 (unless a significant acquisition has been consummated during the period of the four quarters ending with such fiscal quarter, in which case, not more than 3.75 to 1.00) and an interest coverage ratio of not less than 3.00 to 1.00 (unless a significant acquisition has been consummated during the period of the four quarters ending with such fiscal quarter, in which case, not less than 2.50 to 1.00). The Note Agreement also contains covenants typical of unsecured credit facilities. The Note Agreement includes customary default provisions that includes a default for the Company's default on other debt exceeding $25 million. In the event that the Company refinances its existing senior credit facility and the financial covenants or the event of default for defaults on other debt are more restrictive on the Company than the existing senior credit facility, the Note Agreement shall be amended automatically to include such covenant or default. If an event of default occurs, all outstanding obligations may become immediately due and payable.

The foregoing description of the Note Agreement and the Senior Notes does not purport to be complete and is qualified in its entirety by reference to such documents, forms of which are filed as Exhibit 10.1 hereto and are incorporated by reference in this Current Report on Form 8-K.

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Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information described above under "Item 1.01. Entry into a Material Definitive Agreement" with respect to the Note Agreement is hereby incorporated by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

10.1	Note Agreement, dated March 11, 2011, between Graco Inc. and the Purchasers listed on the Purchaser Schedule attached thereto, which includes as exhibits the form of Senior Notes.

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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 hereunto duly authorized.

GRACO INC.

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

Date: March 16, 2011

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EXHIBIT INDEX

Exhibit	Description	Method of Filing
10.1	Note Agreement, dated March 11, 2011, between Graco Inc. and the Purchasers listed on the Purchaser Schedule attached thereto, which includes as exhibits the form of Senior Notes.	Filed Electronically

Exhibit 10.1

Execution Version

GRACO INC.

$75,000,000

4.00% SERIES A SENIOR NOTES DUE MARCH 11, 2018

$75,000,000

5.01% SERIES B SENIOR NOTES DUE MARCH 11, 2023

$75,000,000

4.88% SERIES C SENIOR NOTES DUE JANUARY 26, 2020

AND

$75,000,000

5.35% SERIES D SENIOR NOTES DUE JULY 26, 2026

NOTE AGREEMENT

Dated as of March 11, 2011

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(Not Part of Agreement)

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PURCHASER SCHEDULE

GRACO INC.
88 11th Avenue NE
Minneapolis, MN 55413

As of March 11, 2011

Each of the Persons named in the

Purchaser Schedule attached hereto

as Purchasers of the Series A Notes

(the "**Series A Purchasers**")

Each of the Persons named in the

Purchaser Schedule attached hereto

as Purchasers of the Series B Notes

(the "**Series B Purchasers**")

Each of the Persons named in the

Purchaser Schedule attached hereto

as Purchasers of the Series C Notes

(the "**Series C Purchasers**")

Each of the Persons named in the

Purchaser Schedule attached hereto

as Purchasers of the Series D Notes

(the "**Series D Purchasers**", and together

with the Series A Purchasers, the Series B Purchasers and the Series C Purchasers, the "**Purchasers**")

c/o Prudential Capital Group

Two Prudential Plaza, Suite 5600

Chicago, Illinois 60601

Ladies and Gentlemen:

The undersigned, Graco Inc., a Minnesota corporation (herein called the **"Company"**), hereby agrees with Purchasers as set forth below. Reference is made to paragraph 10 hereof for definitions of capitalized terms used herein and not otherwise defined herein.

1. AUTHORIZATION OF ISSUE OF NOTES.

1A. Authorization of Issue of Series A Notes. The Company will authorize the issue of its senior promissory notes (the **"Series A Notes"**) in the aggregate principal amount of

$75,000,000, to be dated the date of issue thereof, to mature March 11, 2018, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 4.00% per annum (provided that, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series A Notes the outstanding principal balance of the Series A Notes shall bear interest from and after the date of such Event of Default and until the date such Event of Default ceases to be in existence at the rate per annum from time to time equal to the Default Rate) and on overdue payments (other than overdue payments of principal if the Required Holders have elected to require the entire outstanding principal amount of the Series A Notes to bear interest at the Default Rate) at the rate per annum from time to time equal to the Default Rate, and to be substantially in the form of Exhibit A-1 attached hereto.

1B. Authorization of Issue of Series B Notes. The Company will authorize the issue of its senior promissory notes (the **"Series B Notes"**) in the aggregate principal amount of $75,000,000, to be dated the date of issue thereof, to mature March 11, 2023, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 5.01% per annum (provided that, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series B Notes the outstanding principal balance of the Series B Notes shall bear interest from and after the date of such Event of Default and until the date such Event of Default ceases to be in existence at the rate per annum from time to time equal to the Default Rate and on overdue payments (other than overdue payments of principal if the Required Holders have elected to require the entire outstanding principal amount of the Series B Notes to bear interest at the Default Rate) at the rate per annum from time to time equal to the Default Rate, and to be substantially in the form of Exhibit A-2 attached hereto.

1C. Authorization of Issue of Series C Notes. The Company will authorize the issue of its senior promissory notes (the **"Series C Notes"**) in the aggregate principal amount of $75,000,000, to be dated the date of issue thereof, to mature January 26, 2020, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 4.88% per annum (provided that, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series C Notes the outstanding principal balance of the Series C Notes shall bear interest from and after the date of such Event of Default and until the date such Event of Default ceases to be in existence at the rate per annum from time to time equal to the Default Rate) and on overdue payments (other than overdue payments of principal if the Required Holders have elected to require the entire outstanding principal amount of the Series C Notes to bear interest at the Default Rate) at the rate per annum from time to time equal to the Default Rate, and to be substantially in the form of Exhibit A-3 attached hereto.

1D. Authorization of Issue of Series D Notes. The Company will authorize the issue of its senior promissory notes (the **"Series D Notes"**) in the aggregate principal amount of $75,000,000, to be dated the date of issue thereof, to mature July 26, 2026, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 5.35% per annum (provided that, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series D Notes the outstanding principal balance of the Series D Notes shall bear interest from and after the date of

such Event of Default and until the date such Event of Default ceases to be in existence at the rate per annum from time to time equal to the Default Rate) and on overdue payments (other than overdue payments of principal if the Required Holders have elected to require the entire outstanding principal amount of the Series D Notes to bear interest at the Default Rate) at the rate per annum from time to time equal to the Default Rate, and to be substantially in the form of Exhibit A-4 attached hereto. The terms "**Note**" and **"Notes"** as used herein shall include each Series A Note, Series B Note, Series C Note and Series D Note delivered pursuant to any provision of this Agreement and each such senior promissory note delivered in substitution or exchange for any other Note pursuant to any such provision. Notes which have (i) the same final maturity, (ii) the same principal prepayment dates, (iii) the same principal prepayment amounts (as a percentage of the original principal amount of each Note), (iv) the same interest rate, (v) the same interest payment periods and (vi) the same date of issuance (which, in the case of a Note issued in exchange for another Note, shall be deemed for these purposes the date on which such Note's ultimate predecessor Note was issued), are herein called a "**Series**" of Notes.

2. PURCHASE AND SALE OF NOTES.

2A. Purchase and Sale of Series A and Series B Notes. The Company hereby agrees to sell to each Series A Purchaser and Series B Purchaser and, subject to the terms and conditions herein set forth, each Series A Purchaser and Series B Purchaser agrees to purchase from the Company the aggregate principal amount of Series A Notes and/or Series B Notes set forth opposite such Series A Purchaser's or Series B Purchaser's name in the Purchaser Schedule attached hereto at 100% of such aggregate principal amount. The Company will deliver to each Series A Purchaser and Series B Purchaser, at the offices of Schiff Hardin LLP at 233 S. Wacker Drive, Suite 6600, Chicago, IL one or more Series A Notes and/or Series B Notes registered in such Series A Purchaser's or Series B Purchaser's name (or, if specified in the Purchaser Schedule, in the name of the nominee(s) for such Series A Purchaser or Series B Purchaser specified in the Purchaser Schedule), evidencing the aggregate principal amount of Series A Notes and/or Series B Notes to be purchased by such Series A Purchaser or Series B Purchaser and in the denomination or denominations specified with respect to such Series A Purchaser or Series B Purchaser in the Purchaser Schedule against payment of the purchase price thereof by transfer of immediately available funds on the date of closing for the Series A Notes and the Series B Notes, which shall be March 11, 2011 or any other date on or before March 11, 2011 upon which the Company, the Series A Purchasers and the Series B Purchasers may mutually agree (the "**Series A/B Closing Day**"), for credit to the account or accounts as shall be specified in a letter signed by the Company (the "**Disbursement Direction Letter**"), in substantially the form of Exhibit B attached hereto, from the Company to the Purchasers delivered prior to the date of closing.

2B. Purchase and Sale of Series C and Series D Notes. The Company hereby agrees to sell to each Series C Purchaser and Series D Purchaser and, subject to the terms and conditions herein set forth, each Series C Purchaser and Series D Purchaser agrees to purchase from the Company the aggregate principal amount of Series C Notes and/or Series D Notes set forth opposite such Series C Purchaser's or Series D Purchaser's name in the Purchaser Schedule attached hereto at 100% of such aggregate principal amount. The Company will deliver to each Series C Purchaser and Series D Purchaser, at the offices of Schiff Hardin LLP at 233 S. Wacker Drive, Suite 6600, Chicago, IL one or more Series C Notes and/or Series D Notes registered in

such Series C Purchaser's or Series D Purchaser's name (or, if specified in the Purchaser Schedule, in the name of the nominee(s) for such Series C Purchaser or Series D Purchaser specified in the Purchaser Schedule), evidencing the aggregate principal amount of Series C Notes and/or Series D Notes to be purchased by such Series C Purchaser or Series D Purchaser in the denomination or denominations specified with respect to such Series C Purchaser or Series D Purchaser in the Purchaser Schedule against payment of the purchase price thereof by transfer of immediately available funds on the date of closing for the Series C Notes and Series D Notes, which shall be July 26, 2011 or any other date on or before July 26, 2011 upon which the Company, the Series C Purchasers and the Series D Purchasers may mutually agree (the "**Series C/D Closing Day**"), for credit to the account or accounts as shall be specified in the Disbursement Direction Letter.

3. CONDITIONS OF CLOSING. Each Purchaser's obligation to purchase and pay for the Notes of any Series to be purchased by such Purchaser hereunder on any Closing Day is subject to the satisfaction, on or before such Closing Day, of the following conditions:

3A. Documents. Such Purchaser shall have received original counterparts or, if satisfactory to such Purchaser, certified or other copies of all of the following, each duly executed and delivered by the party or parties thereto, in form and substance satisfactory to such Purchaser, dated such Closing Day unless otherwise indicated, and, on such Closing Day, in full force and effect with no event having occurred and being then continuing that would constitute a default thereunder or constitute or provide the basis for the termination thereof:

(i) the Note or Notes to be purchased by such Purchaser in the form of Exhibit A-1, A-2, A-3 or A-4, as applicable, attached hereto;

(ii) with respect to the Series A/B Closing Day, a Guaranty Agreement made by each Subsidiary which is liable under a Contingent Obligation with respect to, or is a co-borrower or co-obligator of, any Indebtedness under any Primary Credit Facility in favor of the holders of the Notes in the form of Exhibit C-1 attached hereto (together with any other guaranty pursuant to which the Notes are guarantied and which is entered into as contemplated hereby, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof, collectively called the **"Guaranty Agreements"** and individually called a **"Guaranty Agreement"**) and, with respect to the Series C/D Closing Day, a Confirmation of Guaranty Agreement in the form of Exhibit C-2 attached hereto (the "**Confirmation of Guaranty Agreement**");

(iii) a Secretary's Certificate signed by the Secretary or Assistant Secretary and one other officer of the Company certifying, among other things (a) as to the name, titles and true signatures of the officers of the Company authorized to sign this Agreement, the Notes and the other documents to be delivered in connection with this Agreement, (b) that attached thereto is a true, accurate and complete copy of the articles of incorporation or other formation document of the Company, certified by the Secretary of State of the state of organization of the Company as of a recent date, (c) that attached thereto is a true, accurate and complete copy of the by-laws, operating agreement or other organizational document of the Company which were duly adopted and are in effect as of such Closing Day and have been in effect immediately prior to and at all times since the adoption of

the resolutions referred to in clause (d) below, (d) that attached thereto is a true, accurate and complete copy of the resolutions of the board of directors or other managing body of the Company, duly adopted at a meeting or by unanimous written consent of such board of directors or other managing body, authorizing the execution, delivery and performance of this Agreement, the Notes and the other documents to be delivered in connection with this Agreement, and that such resolutions have not been amended, modified, revoked or rescinded, and are in full force and effect and are the only resolutions of the shareholders, partners or members of the Company or of such board of directors or other managing body or any committee thereof relating to the subject matter thereof, (e) that this Agreement, the Notes and the other documents executed and delivered to such Purchaser by the Company are in the form approved by its board of directors or other managing body in the resolutions referred to in clause (d), above, and (f) that no dissolution or liquidation proceedings as to the Company or any Guarantor have been commenced or are contemplated;

(iv) a Secretary's Certificate signed by the Secretary or Assistant Secretary and one other officer of each Guarantor certifying, among other things (a) as to the name, titles and true signatures of the officers of the Company authorized to sign the Guaranty Agreement or Confirmation of Guaranty Agreement on such Closing Day and the other documents to be delivered in connection with this Agreement to which such Guarantor is a party, (b) that attached thereto is a true, accurate and complete copy of the articles of incorporation or other formation document of such Guarantor, certified by the Secretary of State of the state of organization of such Guarantor as of a recent date, (c) that attached thereto is a true, accurate and complete copy of the by-laws, operating agreement or other organizational document of such Guarantor which were duly adopted and are in effect as of such Closing Day and have been in effect immediately prior to and at all times since the adoption of the resolutions referred to in clause (d) below, (d) that attached thereto is a true, accurate and complete copy of the resolutions of the board of directors or other managing body of such Guarantor, duly adopted at a meeting or by unanimous written consent of such board of directors or other managing body, authorizing the execution, delivery and performance of the Guaranty Agreement or the Confirmation of Guaranty Agreement and the other documents to be delivered in connection with this Agreement to which such Guarantor is a party, and that such resolutions have not been amended, modified, revoked or rescinded, and are in full force and effect and are the only resolutions of the shareholders, partners or members of such Guarantor or of such board of directors or other managing body or any committee thereof relating to the subject matter thereof, (e) that the Guaranty Agreement or Confirmation of Guaranty Agreement and the other documents executed and delivered to such Purchaser by such Guarantor are in the form approved by its board of directors or other managing body in the resolutions referred to in clause (d), above, and (f) that no dissolution or liquidation proceedings as to the Company or any Guarantor have been commenced or are contemplated;

(v) a certificate of corporate or other type of entity and, if applicable, tax good standing for the Company and each Guarantor from the Secretary of State of the state of organization of the Company and each such Guarantor, in each case dated as of a recent date;

(vi) certified copies of Requests for Information or Copies (Form UCC-11) or equivalent reports listing all effective financing statements which name the Company or any Subsidiary (under its present name and previous names used) as debtor and which are filed in the office of the Secretary of State (or such other office which is, under the Uniform Commercial Code as in effect in the applicable jurisdiction, the proper office in which to file a financing statement under Section 9-501(a)(2) of such Uniform Commercial Code) of the location (as determined under the Uniform Commercial Code) of the Company or such Subsidiary, as applicable, together with copies of such financing statements, and lien and judgment search reports from the county recorder of any county in which the Company or any Subsidiary maintains an office or in which any assets of the Company or any Subsidiary are located; and

(vii) such other certificates, documents and agreements as such Purchaser may reasonably request.

3B. Opinion of Purchasers' Special Counsel. Such Purchaser shall have received from Schiff Hardin LLP, who are acting as special counsel for the Purchasers in connection with this transaction, a favorable opinion satisfactory to such Purchaser as to such matters incident to the matters herein contemplated as it may reasonably request.

3C. Opinion of Company's and Guarantor's General Counsel and Special Counsel. Such Purchaser shall have received from (1) Karen Park Gallivan, General Counsel of the Company and the Guarantors a favorable opinion satisfactory to such Purchaser and substantially in the form of Exhibit D-1 attached hereto and (2) Faegre and Benson LLP, special counsel for the Company and Guarantors, a favorable opinion satisfactory to such Purchaser and substantially in the form of Exhibit D-2 attached hereto, and the Company, by its execution hereof, hereby requests and authorizes such general counsel and special counsel to render such opinions and to allow such Purchaser to rely on such opinions, and understands and agrees that each Purchaser receiving such an opinion will and is hereby authorized to rely on such opinion.

3D. Representations and Warranties; No Default; Satisfaction of Conditions. The representations and warranties contained in paragraph 8 and in the Guaranty Agreement shall be true in all material respects, except where such representations and warranties are qualified by materiality, in which case such representations and warranties shall be true in all respects, on and as of such Closing Day, both before and immediately after giving effect to the issuance of the Notes on such Closing Day and the consummation of any other transactions contemplated hereby; there shall exist on such Closing Day no Event of Default or Default, both before and immediately after giving effect to the issuance of the Notes on such Closing Day and the consummation of any other transactions contemplated hereby; the Company shall have performed all agreements and satisfied all conditions required under this Agreement to be performed or satisfied on or before such Closing Day; and the Company and each Guarantor shall have delivered to such Purchaser an Officer's Certificate, dated such Closing Day, to each such effect.

3E. Purchase Permitted By Applicable Laws; Approvals. The purchase of and payment for the Notes to be purchased by such Purchaser on such Closing Day on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company)

shall not violate any applicable law or governmental regulation (including, without limitation, section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may request to establish compliance with this condition. All necessary authorizations, consents, approvals, exceptions or other actions by or notices to or filings with any court or administrative or governmental body or other Person required in connection with the execution, delivery and performance of this Agreement and the Notes or the consummation of the transactions contemplated hereby or thereby shall have been issued or made, shall be final and in full force and effect and shall be in form and substance reasonably satisfactory to such Purchaser.

3F. Material Adverse Change. No material adverse change in the business, condition (financial or otherwise), operations or prospects of the Company and its Subsidiaries, taken as a whole, since December 31, 2010 shall have occurred or be threatened, as determined by such Purchaser in its sole judgment.

3G. Fees and Expenses. Without limiting the provisions of paragraph 11B hereof, the Company shall have paid the reasonable fees, charges and disbursements of special counsel to the Purchasers referred to in paragraph 3B hereof to the extent reflected in a statement of such counsel received by the Company at least one Business Day prior to the applicable Closing Day.

3H. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and such Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

4. PREPAYMENTS. The Notes shall be subject to prepayment only with respect to the required prepayments specified in paragraph 4E, the optional prepayments permitted by paragraph 4B and upon acceleration pursuant to paragraph 7A.

4A. No Scheduled Required Prepayments; Payment at Maturity. The Notes shall not be subject to any scheduled required prepayments. The outstanding principal amount of the Notes of each Series, together with any accrued and unpaid interest thereon, shall become due and payable on the maturity date of the Notes of such Series.

4B. Optional Prepayment With Yield-Maintenance Amount. The Notes of each Series shall be subject to prepayment in whole or part on any interest payment date specified in such Notes of such Series (in integral multiples of $1,000,000 and in an aggregate minimum amount of $1,000,000 on any single occurrence), at the option of the Company from time to time, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each Note; provided, however, that if at the time of such prepayment and after giving effect thereto, a Default under paragraph 7A(ii) or any Event of Default shall be in existence, then the Notes shall not be subject to prepayment unless the Company concurrently prepays the Notes of each Series pursuant to this paragraph 4B on a pro rata basis in accordance with the respective outstanding principal amounts thereof.

4C. Notice of Optional Prepayment. The Company shall give the holder of each Note to be prepaid pursuant to paragraph 4B irrevocable written notice of any prepayment pursuant to paragraph 4B not less than 10 Business Days prior to the prepayment date (which shall be a Business Day), specifying such prepayment date and the aggregate principal amount of the Notes, and of the Notes held by such holder, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 4B. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, with respect thereto, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to paragraph 4B, give telephonic or e-mail notice of the principal amount of the Notes to be prepaid and the prepayment date to each Significant Holder which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or by notice in writing to the Company.

4D. Partial Payments Pro Rata. In the case of each prepayment of less than the entire outstanding principal amount of all Notes of any Series pursuant to paragraph 4B, the principal amount so prepaid shall be allocated pro rata to all Notes of such Series at the time outstanding in proportion to the respective outstanding principal amounts thereof.

4E. Offer to Prepay Notes in the Event of a Change of Control.

4E(1). Notice of Change of Control. The Company will, at least 30 days prior to the anticipated date of any Change of Control (or, if the Company first becomes aware of a proposed transaction that would cause a Change of Control or of the occurrence of a Change of Control less than thirty days prior to the anticipated date of the Change of Control, within two (2) days after the Company first becomes aware of such proposed transaction or occurrence), give written notice of such Change of Control to each holder of the Notes. Such notice shall contain and constitute an offer to prepay the Notes as described in paragraph 4E(3) and shall be accompanied by the certificate described in paragraph 4E(6).

4E(2). Notice of Acceptance of Offer under Paragraph 4E(1). If the Company shall at any time receive an acceptance to an offer to prepay Notes under paragraph 4E(1) from some, but not all, of the holders of the Notes, then the Company will, within five Business Days after the receipt of such acceptance, give written notice of such acceptance to each other holder of the Notes.

4E(3). Offer to Prepay Notes. The offer to prepay Notes contemplated by paragraph 4E(1) shall be an offer to prepay, in accordance with and subject to this paragraph 4E, all, but not less than all, of the Notes held by each holder (for purposes of this paragraph only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) at the time of the occurrence of the Change of Control; provided, however, that, with the written consent of the applicable holder, such offer may be deemed an offer to prepay less than all of the Notes held by that holder.

4E(4). Rejection; Acceptance. A holder of Notes may accept or reject the offer to prepay made pursuant to this paragraph 4E by causing a notice of such acceptance or rejection to be delivered to the Company not more than 15 days after the offer given pursuant to Section 4E(1). A failure by a holder of Notes to so respond to an offer to prepay made pursuant to this paragraph 4E within the specified time shall be deemed to constitute an acceptance of such offer by such holder.

4E(5). Prepayment. Prepayment of the Notes to be prepaid pursuant to this paragraph 4E shall be at 100% of the principal amount of such Notes, together with interest on such Notes accrued to the date of prepayment and the Yield-Maintenance Amount, if any, with respect thereto. The prepayment shall be made at the time of occurrence of a Change of Control (or, if later, upon the date the offer is accepted or deemed accepted pursuant to paragraph 4E(4)). For the avoidance of doubt, if a Change of Control as to which notice was given hereunder does not occur, then such notice and any acceptances of the offer to prepay shall be deemed to be rescinded.

4E(6). Officer's Certificate. Each offer to prepay the Notes pursuant to this paragraph 4E shall be accompanied by a certificate, executed by a Responsible Employee of the Company and dated the date of such offer, specifying (i) the proposed prepayment date (which shall be the anticipated date of the Change of Control), (ii) that such offer is made pursuant to this paragraph 4E, (iii) the principal amount of each Note offered to be prepaid, (iv) the interest that would be due on each Note offered to be prepaid, accrued to the prepayment date, (v) the estimated Yield Maintenance Amount that would be due on each Note offered to be prepaid, (vi) that the conditions of this paragraph 4E have been fulfilled, and (vii) in reasonable detail, the nature and anticipated date of the Change of Control.

4F. No Acquisition of Notes. The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to paragraph 4B or upon acceptance of an offer to prepay pursuant to paragraph 4E or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes of any Series held by any holder unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Notes of such Series held by each other holder of Notes of such Series at the time outstanding upon the same terms and conditions. Any Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement.

5. AFFIRMATIVE COVENANTS.

5A. Financial Statements. The Company covenants that it will deliver to each Significant Holder:

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of income, shareholders' equity and cash flows of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end

of such quarterly period, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles applicable to quarterly financial statements and certified by an authorized financial officer of the Company as fairly presenting, in all material respects, the financial position of the Company and its Subsidiaries and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided, however, that delivery within the time period specified above pursuant to clause (iii) below of copies of the Quarterly Report on Form 10-Q of the Company for such quarterly period (including all financial statement exhibits and financial statements incorporated by reference therein) prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (i); and provided, further, that the Company shall be deemed to have made such delivery of such Form 10-Q if it shall have timely made such Form 10-Q available on "EDGAR" and on its home page on the worldwide web (at the date of this Agreement located at: http//www.graco.com) (such availability thereof being referred to as "**Electronic Delivery**");

(ii) as soon as practicable and in any event within 90 days after the end of each fiscal year, consolidated statements of income and cash flows and a consolidated statement of shareholders' equity of the Company and its Subsidiaries for such year, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail, prepared in accordance with generally accepted accounting principles and, as to the consolidated statements, accompanied by an unqualified opinion thereon of independent public accountants of recognized national standing selected by the Company and acceptable to the Required Holder(s), which unqualified opinion shall state that such financial statements present fairly, in all material respects, the financial position of the Company and its Subsidiaries and the results of their operations and cash flows and have been prepared in accordance with generally accepted accounting principles, that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in such circumstances, and shall be without limitation as to the scope of the audit provided, however, that delivery within the time period specified above pursuant to clause (iii) below of copies of the Annual Report on Form 10-K of the Company for such fiscal year (including all financial statement exhibits and all financial statements incorporated by reference therein) prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (ii); and provided, further, that the Company shall be deemed to have made such delivery of such Form 10-K if it shall have timely made Electronic Delivery thereof;

(iii) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of

administration of a bank facility, such as information relating to pricing and borrowing availability) or to its public shareholders and copies of all registration statements (without exhibits) and all reports which it files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission);

(iv) immediately upon a Responsible Employee becoming aware of the occurrence, with respect to any Plan, of any Reportable Event (other than a Reportable Event for which the reporting requirements have been waived by PBGC regulations Agreement) or any material "prohibited transaction" (as defined in Section 4975 of the Code), which, in either case, is material to the Company and its Subsidiaries, a notice specifying the nature thereof and what action the Company proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan;

(v) immediately upon a Responsible Employee becoming aware of the occurrence thereof, notice of the institution of any litigation, arbitration or governmental proceeding, or the rendering of a judgment or decision in such litigation or proceeding, which is material to the Company and its Subsidiaries as a consolidated enterprise, and the steps being taken by the Company or Subsidiary affected by such proceeding;

(vi) Immediately upon a Responsible Employee becoming aware of the occurrence thereof, notice of any violation as to any environmental matter by the Company or any Subsidiary and of the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters (i) in which an adverse determination or result would be reasonably likely to result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits or other permits held by the Company or any Subsidiary which are material to the operations of the Company or such Subsidiary as a consolidated enterprise, or (ii) which would be reasonably likely to impose a material liability on the Company or such Subsidiary to any Person or which will require a material expenditure by the Company or such Subsidiary to cure any alleged problem or violation; and

(vii) with reasonable promptness, such other information regarding the business, operations property, assets or financial condition of the Company and its Subsidiaries as such Significant Holder may reasonably request.

Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each Significant Holder an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Company and its Subsidiaries with the provisions of paragraphs 6A(1), 6A(2), 6C(vi), 6F and 6I(ix) and stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto. The Company also covenants that immediately after any Responsible Employee obtains knowledge of an Event of Default or Default, it will deliver to each Significant Holder an

Officer's Certificate specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

5B. Information Required by Rule 144A. The Company covenants that it will, upon the request of the holder of any Note, provide such holder, and any Qualified Institutional Buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to and in compliance with the reporting requirements of section 13 or 15(d) of the Exchange Act.

5C. Inspection of Property. The Company covenants that it will permit any Person designated by any Significant Holder in writing, at such Significant Holder's expense if no Default or Event of Default exists and at the Company's expense if a Default or an Event of Default exists, to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the corporate books and financial records of the Company and its Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Company and its independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries with any such Person), all at such reasonable times upon reasonable prior notice to the Company and as often as such Significant Holder may reasonably request.

5D. [Reserved].

5E. Compliance with Law. The Company covenants that it will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, environmental laws, and will obtain and maintain in full force and effect all licenses, certificates, permits, franchises, operating rights and other authorizations from federal, state, foreign, regional, municipal and other local regulatory bodies or administrative agencies or governmental bodies having jurisdiction over the Company and its Subsidiaries or any of their respective properties necessary to the ownership, operation or maintenance of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in full force and effect such licenses, certificates, permits, franchises, operating rights and other authorizations could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

5F. Maintenance of Insurance. The Company covenants that it will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

5G. Maintenance of Properties. The Company covenants that it will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), and from time to time make, or cause to be made, all needful and proper repairs, renewals and replacements thereto, so that the business carried on in connection therewith may be properly conducted at all times, provided that this paragraph 5G shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and such discontinuance could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

5H. Payment of Taxes. The Company covenants that it will, and will cause each of its Subsidiaries to, file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges or levies payable by any of them, and to pay and discharge all amounts payable for work, labor and materials, in each case to the extent such taxes, assessments, charges, levies and amounts payable have become due and payable and before they have become delinquent, provided that neither the Company nor any Subsidiary need pay any such tax, assessment, charge, levy or amount payable if (i) the amount, applicability or validity thereof is being actively contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or such Subsidiary has established adequate reserves therefor in accordance with generally accepted accounting principles on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes, assessments, charges, levies and amounts payable in the aggregate could not reasonably be expected to have a Material Adverse Effect.

5I. Corporate Existence. The Company will at all times preserve and keep in full force and effect its corporate existence. Except as permitted by paragraph 6B, the Company will at all times preserve and keep in full force and effect the corporate, limited liability company or partnership, as the case may be, existence of each of its Subsidiaries (unless merged into the Company or a Wholly-Owned Subsidiary), unless the termination of or failure to preserve and keep in full force and effect such corporate existence could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

5J. Ranking. The Company will ensure that, at all times, all liabilities of the Company under the Notes will rank in right of payment either pari passu or senior to all other Indebtedness of the Company except for Indebtedness which is preferred as a result of being secured , but only to the extent that such security is not prohibited hereby, and only to the extent of such security.

5K. Subsequent Guarantors. The Company covenants that if at any time any Subsidiary which is not then a Guarantor, shall become a co-borrower or co-obligor of, or become obligated under any Contingent Obligation with respect to, any Indebtedness under any Primary Credit Facility, the Company will cause such Subsidiary to execute and deliver to the holders of the Notes a Guaranty Agreement in the form of Exhibit C-1 hereto or a joinder to the Guaranty Agreement in the form of exhibit attached thereto. Each such Guaranty Agreement or joinder shall be accompanied by a certificate of the Secretary or Assistant Secretary of such Subsidiary certifying such Subsidiary's charter and by-laws (or comparable governing

documents), resolutions of the board of directors (or comparable governing body) of such Subsidiary authorizing the execution and delivery of such Guaranty Agreement or joinder and incumbency and specimen signatures of the officers of such Subsidiary executing such documents, certificates with respect to such Subsidiary of the type described in paragraph 3A(iv) and opinions of counsel for such Subsidiary with respect to such Guaranty Agreement of the type described in paragraph 3C. The holders of the Notes agree to discharge and release any Subsidiary from such Guaranty Agreement upon the written request of the Company, provided that (i) such Subsidiary has been released and discharged (or will be released and discharged concurrently with the release of such Subsidiary under such Guaranty Agreement) as an obligor and guarantor under and in respect of each Primary Credit Facility and the Company so certifies to the holders of the Notes in a certificate of a Responsible Employee, (ii) at the time of such release and discharge, the Company delivers a certificate of a Responsible Employee to the holders of the Notes stating that no Default or Event of Default exists, and (iii) if any release or similar fee is given to any holder of Indebtedness of the Company for the purpose of a release of such Subsidiary as a guarantor or obligor of such Indebtedness, the holders of the Notes shall receive consideration on a pro rata basis in proportion to the relative outstanding principal amounts of the Notes and the principal amount of such other Indebtedness (including, in the case of a revolving credit facility, the aggregate principal amount of additional loans that the lenders are legally committed to fund thereunder).

5L. Gusmer Corporation Assets and Operations. The Company shall not permit Gusmer Corporation to hold any assets or conduct any business on or after the date hereof.

6. NEGATIVE COVENANTS.

6A. Financial Covenants.

6A(1). Cash Flow Leverage Ratio. Subject to paragraph 11W, the Company will not permit the Cash Flow Leverage Ratio, as of the end of any fiscal quarter of the Company, to exceed (i) 3.75 to 1.00, if a Significant Acquisition has been consummated during the period of the four quarters ending with such fiscal quarter, or (ii) in all other cases, 3.25 to 1.00.

6A(2). Interest Coverage Ratio. Subject to paragraph 11W, the Company will not permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters ending on the last day of any fiscal quarter to be less than (i) 2.50 to 1.00, if a Significant Acquisition has been consummated during such period of four consecutive fiscal quarters, or (ii) in all other cases, 3.00 to 1.00.

6B. Merger. The Company covenants that it will not, and will not permit any Subsidiary to, merge or consolidate or enter into any analogous reorganization or transaction with any Person; provided, however, that:

(i) any Subsidiary may be merged with or liquidated into the Company (if the Company is the surviving corporation) or any other Wholly-Owned Subsidiary; and

(ii) any Subsidiary may be merged with any other Person in the conduct of a Permitted Acquisition, provided that the resulting Person is a Subsidiary, or in the

conduct of a disposition of such Subsidiary permitted under paragraph 6C of this Agreement.

6C. Sale of Assets. The Company covenants that it will not, and will not permit any Subsidiary to, sell, transfer, lease or otherwise convey any of its assets except for:

(i) sales, leases and other dispositions of assets in the ordinary course of business;

(ii) sales and other dispositions of equipment that is obsolete or not otherwise useful in the business of the Company or its Subsidiaries;

(iii) sales and other dispositions of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment of equivalent value, or the proceeds of such sale are applied with reasonable promptness to the purchase price of such replacement equipment;

(iv) subject to paragraph 5L, sales or other transfers by a Subsidiary to the Company or another Wholly-Owned Subsidiary;

(v) sale and leaseback transactions not otherwise prohibited hereby;

(vi) the endorsement of accounts receivable by Graco K.K. in the ordinary course of business; and

(vii) sales of assets of the Company or any Subsidiary or the Ownership Interests of any Subsidiary during any fiscal year the aggregate book value (net of reserves) for all such sales of which (determined, with respect to any such sale, in accordance with GAAP as of the end of the fiscal quarter or fiscal year most recently completed prior to the date of such sale for which financial statements have been delivered under clause (i) or (ii) of paragraph 5A hereof) does not exceed 10.00% of Consolidated Assets as of the end of the prior fiscal year (or, if financial statements for such prior fiscal year have not yet been delivered under paragraph 5A(i) hereof, the fiscal year immediately preceding such prior fiscal year).

6D. Liens. The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(i) Liens for taxes, assessments or other governmental levies or charges which are not yet due or which are being contested in good faith by the Company or any Subsidiary for which adequate reserves have been taken in accordance with GAAP;

(ii) statutory Liens of landlords and Liens of carriers, contractors, warehousemen, mechanics and materialmen incurred in the ordinary course of business

for sums not yet due or that are being contested in good faith by the Company or any Subsidiary and for which adequate reserves have been taken in accordance with GAAP;

(iii) Liens (other than any Lien imposed by ERISA) incurred, or deposits made, in the ordinary course of business (a) in connection with workers' compensation, unemployment insurance, old age benefit and other types of social security, (b) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety bonds, appeal bonds, bids, leases (other than Capitalized Leases), performance bonds, purchase, construction or sales contracts and other similar obligations or (c) otherwise to satisfy statutory or legal obligations; provided, that in each such case such Liens (1) were not incurred or made in connection with the incurrence or maintenance of Indebtedness, the borrowing of money or the obtaining of advances or credit, and (2) do not, in the aggregate, materially detract from the value of the property or assets so encumbered or materially impair the use thereof in the operation of the business of the Company or such Subsidiary;

(iv) any attachment or judgment Lien in connection with a judgment not constituting an Event of Default under paragraph 7A(xii);

(v) Liens incidental to the conduct of the business of the Company or any Subsidiary or the ownership of any property or assets of the Company or any Subsidiary that were not incurred in connection with the borrowing of money or the obtaining of advances or credit and that do not, in the aggregate, materially detract from the value of the property or assets so encumbered or materially impair the use thereof in the operation of the business of the Company or such Subsidiary;

(vi) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company or a Wholly-Owned Subsidiary;

(vii) Liens in existence on the date hereof as set forth on Schedule 6D hereto;

(viii) any Lien created to secure all or any part of the purchase price, or to secure Indebtedness incurred or assumed to pay all or any part of the purchase price or cost of construction, of tangible property (or any improvement thereon) acquired or constructed by the Company or a Subsidiary after the date hereof, provided that

(a) any such Lien shall extend solely to the item or items of such property (or improvement thereon) so acquired or constructed,

(b) the principal amount of the Indebtedness secured by any such Lien shall at no time exceed an amount equal to the lesser of (1) the cost to the Company or such Subsidiary of the property (or improvement thereon) so acquired or constructed and (2) the fair market value (as determined in good faith by the board of directors of the Company) of such property (or improvement thereon) at the time of such acquisition or construction, and

(c) any such Lien shall be created contemporaneously with, or within 360 days after, the acquisition or construction of such property;

(ix) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into the Company or a Subsidiary or its becoming a Subsidiary, or any Lien existing on any property acquired by the Company or any Subsidiary at the time such property is so acquired (whether or not the Indebtedness secured thereby shall have been assumed), provided that (a) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Subsidiary or such acquisition of property, and (b) each such Lien shall extend solely to the item or items of property so acquired;

(x) Permitted Foreign Stock Pledges;

(xi) any extensions, renewals or replacements of any Lien permitted by the preceding subparagraphs (vii), (viii) and (ix) of this paragraph 6(D), provided that (a) no additional property shall be encumbered by such Liens, and (b) the unpaid principal amount of the Indebtedness or other obligations secured thereby are not increased; and

(xii) Liens other than those described in clauses (i)-(xi) above that secure Indebtedness, provided that the Company is in compliance with paragraph 6F, provided, however, that (except as provided in clause (x)) the Company will not, and will not permit any Subsidiary to, create, incur or suffer to exist any Lien, in, of or on any assets or property under this clause (xii) to secure any Indebtedness under any Primary Credit Facility at any time unless (1) the Notes are secured by a Lien on such assets or property on a pari passu basis with any such Indebtedness pursuant to documentation reasonably satisfactory in form and substance to the Required Holder(s), and (2) all of the holders of such Indebtedness shall have entered into an intercreditor agreement with the holders of the Notes in form and substance satisfactory to the Required Holders.

6E. Subsidiary Indebtedness.. The Company will not permit any Subsidiary to, create, incur, assume or suffer to exist any Indebtedness, except

(i) Indebtedness of any Subsidiary to the Company or to a Wholly Owned Subsidiary; and

(ii) other Indebtedness of any Subsidiary, provided that the Company is in compliance with paragraph 6F.

6F. Priority Debt. The Company will not permit Priority Debt to exceed 25% of Consolidated Net Worth at any time.

6G. Change in Nature of Business. The Company covenants that it will not, and will not permit any Subsidiary to, make any material change in the nature of the core business of the Company and its Subsidiaries, as carried on at the date hereof.

6H. Other Agreements. The Company covenants that it will not, and will not permit any Subsidiary to, enter into any agreement, bond, note or other instrument with or for the

benefit of any Person other than the holders of the Notes which would be violated or breached by the Company's performance of its obligations under the Transaction Documents.

6I. Investments. The Company covenants that it will not, and will not permit any Subsidiary to, acquire for value, make, have or hold any Investments, except:

(i) Investments outstanding on the date hereof and listed on Schedule 6I;

(ii) travel advances to officers and employees in the ordinary course of business;

(iii) Investments complying with the Investment Policies;

(iv) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale of goods and services in the ordinary course of business;

(v) Ownership Interests, obligations or other securities received in settlement of claims arising in the ordinary course of business;

(vi) Investments in Subsidiaries by the Company and other Subsidiaries not involving an acquisition after the date hereof of the assets or Ownership Interests of a Person that is not a Subsidiary;

(vii) Permitted Acquisitions;

(viii) Arrangements giving rise to Rate Hedging Obligations, and other foreign exchange, interest or other hedging arrangements, so long as each such arrangement is entered into in connection with bona fide hedging operations and not for speculation;

and

(ix) any other Investments, if the aggregate costs thereof, net of any returns with respect thereto, does not exceed $50,000,000 for all such Investments in the aggregate at any time.

6J. Material Subsidiaries. The Company will not, and will not permit any Subsidiary to, fail to comply with the terms, conditions and requirements of the definition of "Material Subsidiaries" in paragraph 10B.

6K. Related Party Transactions. The Company covenants that it will not, and will not permit any Subsidiary to, enter into, or otherwise be a party to, directly or indirectly, any transaction (including, without limitation, the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Related Party, except pursuant to the reasonable requirements of the Company's or such Subsidiary's business and on fair and reasonable terms not materially less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's length transaction with a Person not a Related Party.

6L. Most Favored Lender.

(i) If the Company or any Subsidiary (a) amends, restates or otherwise modifies any Primary Credit Facility or (b) otherwise enters into, assumes or otherwise becomes bound or obligated under any Primary Credit Facility, which includes one or more Additional Covenants or Additional Defaults, the terms of this Agreement shall, without any further action on the part of the Company, any Subsidiary or any of the holders of the Notes, be deemed to be amended automatically and immediately to include each Additional Covenant and each Additional Default contained in such agreement (subject to clause (ii) below) and the Company shall provide written notice of such event to the holders of the Notes providing a fully executed copy of the Primary Credit Facility containing such Additional Covenant and Additional Default promptly upon becoming bound or obligated thereby. Upon written request of the Company or the Required Holders, the Company and the holders of the Notes shall promptly execute and deliver at the Company's expense (including the fees and expenses of counsel for the holders of the Notes) an amendment to this Agreement in form and substance reasonably satisfactory to the Company and the Required Holder(s) evidencing the amendment of this Agreement to include such Additional Covenants and Additional Defaults, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this paragraph 6L, but shall merely be for the convenience of the parties hereto.

(ii) If after the time this Agreement is amended pursuant to paragraph 6L(i) to include in this Agreement any Additional Covenant or Additional Default in any Primary Credit Facility and such Additional Covenant or Additional Default ceases to be in effect under such Primary Credit Facility or is amended by the requisite lenders under such Primary Credit Facility so as to be less restrictive with respect to the Company and its Subsidiaries, then, upon written request of the Company, Prudential and the holders of the Notes will release or similarly amend, as the case may be, such Additional Covenant or Additional Default as in effect in this Agreement, provided that (a) no Default or Event of Default shall be in existence, and (b) if any waiver or similar fees were paid or other concession given to any lender under such Primary Credit Facility with respect to causing such Additional Covenant or Additional Default to cease to be in effect or to be so amended, then the Company shall have paid or given to the holders of the Notes the same fees or other concessions on a pro rata basis in proportion to the relative outstanding principal amounts of the Notes and the principal amount of the Indebtedness outstanding under such Primary Credit Facility (plus, in the case of a revolving credit facility, the aggregate principal amount of additional loans that the lenders are legally committed to fund thereunder). Notwithstanding the foregoing, no release or amendment to this Agreement pursuant to this paragraph 6L(ii) as the result of any Additional Covenant or Additional Default in any Primary Credit Facility ceasing to be in effect or being amended shall cause the covenants or Events of Default in this Agreement to be less restrictive than the covenants or Events of Default as contained in this Agreement as amended as provided herein other than by the amendment to this Agreement under paragraph 6L(i) originally caused by such Additional Covenant or Additional Default.

(iii) If the provisions of paragraph 11W are applicable to any Additional Covenant or Additional Default, then the provision of paragraph 11W shall apply to such Additional Covenant or Additional Default in lieu of this paragraph 6L.

6M. Terrorism Sanctions Regulations. The Company covenants that it will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) engage in any dealings or transactions with any such Person.

7. EVENTS OF DEFAULT.

7A. Acceleration. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of or Yield-Maintenance Amount payable with respect to any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) the Company defaults in the payment of any interest on any Note for more than 5 Business Days after the date due; or

(iii) the Company or any Material Subsidiary defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or the Company or any Material Subsidiary fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due (or to be repurchased by the Company or any Material Subsidiary) prior to any stated maturity, provided that, subject to paragraph 11W the aggregate amount of all obligations as to which such a payment default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or resale to the Company or any Material Subsidiary) shall occur and be continuing exceeds $25,000,000; or

(iv) any representation or warranty made by the Company herein or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false or misleading in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement contained in paragraph 4E or paragraph 6; or

(vi) the Company fails to perform or observe any other agreement, term or condition contained herein and such failure shall not be remedied within 30 days after the date notice of such failure is given to the Company by any holder of any Note; or

(vii) the Company or any Material Subsidiary makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(viii) any decree or order for relief in respect of the Company or any Material Subsidiary is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the "Bankruptcy Law"), of any jurisdiction; or

(ix) the Company or any Material Subsidiary petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or any Material Subsidiary, or of any substantial part of the assets of the Company or any Material Subsidiary, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Material Subsidiary) relating to the Company or any Material Subsidiary under the Bankruptcy Law of any other jurisdiction; or

(x) any such petition or application described in clause (ix) of this paragraph 7A is filed, or any such case or proceedings described in clause (ix) of this paragraph 7A are commenced, against the Company or any Material Subsidiary and the Company or such Material Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) one or more final judgments in an aggregate amount in excess of $25,000,000 is rendered against the Company or any Material Subsidiary and either (a) enforcement proceedings have been commenced by any creditor upon any such judgment or (b) within 60 days after entry thereof, any such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiii) if (a) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (b) a notice of intent to terminate any Plan shall have been filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or

any ERISA Affiliate that a Plan may become a subject of any such proceedings, or (c) any Plan is in "at-risk status" (within the meaning of section 430(i)(4) of the Code) and the aggregate value of the liabilities of all Plans that are in at-risk status exceeds the aggregate value of the assets of all Plans that are in at-risk status by more than $50,000,000 (with liabilities and assets valued in the manner used to determine the funding target attainment percentage under Section 430 of the Code (disregarding the special rules contained in Section 430(i)(1)(B)), (d) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (e) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (f) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (a) through (f) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or

(xiv) except as contemplated by paragraph 11V hereof, any Transaction Document shall not be, or shall cease to be, binding on the Company or any Guarantor (as applicable), enforceable against the Company or such Guarantor in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to general principles of equity, or any Guarantor shall disavow, cancel or terminate, or attempt to disavow, cancel or terminate, any Guaranty Agreement;

then (a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, any holder of any Note (other than the Company or any of its Subsidiaries or Affiliates) may at its option, by notice in writing to the Company, declare all of the Notes held by such holder to be, and all of the Notes held by such holder shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, (b) if such event is an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A with respect to the Company, all of the Notes at the time outstanding shall automatically become immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, and (c) if such event is not an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A with respect to the Company, the Required Holder(s) may at its or their option, by notice in writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and without the occurrence of an Event of Default and that the provision for payment of Yield-Maintenance Amount by the Company in the event the Notes are prepaid or are accelerated as a

result of an Event of Default is intended to provide compensation for the deprivation of such right under such circumstances.

7B. Rescission of Acceleration. At any time after any or all of the Notes shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest on the Notes, the principal of and Yield-Maintenance Amount, if any, payable with respect to any Notes which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the Default Rate, (ii) the Company shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Notes or this Agreement. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. Notice of Acceleration or Rescission. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to the holder of each Note at the time outstanding.

7D. Other Remedies. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon the holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

8. REPRESENTATIONS, COVENANTS AND WARRANTIES. The Company represents, covenants and warrants as follows:

8A(1). Organization; Subsidiary Preferred Stock. The Company is a corporation duly organized and existing in good standing under the laws of the State of Minnesota and each Subsidiary is duly organized and existing in good standing under the laws of the jurisdiction in which it is organized. The Company and each of its Subsidiaries have duly qualified or been duly licensed, and are authorized to do business and are in good standing, in each jurisdiction in which the ownership of their respective properties or the nature of their respective businesses makes such qualification or licensing necessary and in which the failure to be so qualified or licensed could be reasonably likely to have a Material Adverse Effect. No Subsidiary has any outstanding shares of any class of capital stock or other equity interests which has priority over any other class of capital stock or other equity interests of such Subsidiary as to dividends or distributions or in liquidation except as may be owned beneficially and of record by the Company or a Wholly-Owned Subsidiary. No Subsidiary is a party to, or otherwise subject to,

any legal, regulatory, contractual or other restriction (other than this Agreement and customary limitations imposed by corporate or limited liability company law or similar statues) restricting the ability of such Subsidiary to pay dividends out of profits or make other distributions of profits to the Company or any of its other Subsidiaries that owns outstanding shares of capital stock or other equity interests of such Subsidiary. Schedule 8A(1) hereto sets forth a complete list of all Subsidiaries of the Company (except for any Subsidiary that conducts no operations and has no assets), the holders of the Ownership Interests in each such Subsidiary and whether or not such Subsidiary is liable under a Contingent Obligation with respect to, as a co-borrower or co-obligor of, any Indebtedness under any Primary Credit Facility. Gusmer Corporation does not currently hold assets or conduct business operations.

8A(2) Power and Authority. The Company and each Subsidiary has all requisite corporate, limited liability company or partnership, as the case may be, power to own or hold under lease and operate their respective properties which it purports to own or hold under lease and to conduct its business as currently conducted and as currently proposed to be conducted. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and the Notes. The execution, delivery and performance of this Agreement and the Notes have been duly authorized by all requisite corporate action on the part of the Company, and this Agreement and the Notes have been duly executed and delivered by authorized officers of the Company and are valid obligations of the Company, legally binding upon and enforceable against the Company in accordance with their terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

8B. Financial Statements. The Company has filed with the Securities and Exchange Commission the following financial statements: (i) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the years 2008 to 2010, inclusive, and consolidated statements of income, shareholders' equity and cash flows of the Company and its Subsidiaries for each such year, all reported on by Deloitte & Touche LLP or other independent public accountants of recognized national standing selected by the Company; and (ii) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the years 2009 and 2010 and consolidated statements of income, shareholders' equity and cash flows for the 12-month period ended on each such date, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, shareholders' equity and cash flows fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, property or assets, condition (financial or otherwise), operations or prospects of the Company and its Subsidiaries taken as a whole since December 31, 2010.

8C. Actions Pending. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body which, individually or in the aggregate, could reasonably be expected to result in any Material Adverse Effect.

8D. Outstanding Indebtedness. Neither the Company nor any of its Subsidiaries has outstanding any Indebtedness that would constitute a breach of paragraph 6F. There exists no default under the provisions of any instrument evidencing any material Indebtedness of the Company and its Subsidiaries or under agreement relating thereto.

8E. Title to Properties. The Company has and each of its Subsidiaries has good and sufficient title to its respective real properties (other than properties which it leases) and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as at December 31, 2010 referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business or as otherwise permitted hereunder), subject to no Lien of any kind except Liens not prohibited hereby, and subject to defects in title that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. All leases necessary in any material respect for the conduct of the respective business of the Company and its Subsidiaries are valid and subsisting and are in full force and effect in all material respects.

8F. Taxes. The Company has, and each of its Subsidiaries has, filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company and its Subsidiaries, are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being actively contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles.

8G. Conflicting Agreements and Other Matters. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter, by-law, limited liability company operating agreement, partnership agreement or other corporate, limited liability company or partnership restriction which materially and adversely affects its business, property or assets, condition (financial or otherwise) or operations. Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, the charter, by-laws, limited liability company operating agreement or partnership agreement of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with shareholders, members or partners), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its charter, by-laws, limited liability company operating agreement or partnership agreement) which limits the amount of, or otherwise imposes

restrictions on the incurring of, Indebtedness of the Company of the type to be evidenced by the Notes except as set forth in the agreements listed in Schedule 8G attached hereto.

8H. Offering of Notes. Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than Institutional Investors (including the Purchaser, each of which has been offered the Notes in connection with a private sale for investment), and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. Use of Proceeds. The aggregate market value of all margin stock as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "margin stock") owned by the Company and its Subsidiaries does not exceed 25% of the aggregate value of the assets thereof, as determined by any reasonable method. The proceeds of sale of the Notes will be used for general corporate purposes (which purposes may include the funding of Permitted Acquisitions). None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute the sale or purchase of any Notes a "purpose credit" within the meaning of such Regulation U. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or any Note to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8J. Compliance with ERISA.

(i) No event, transaction or condition has occurred or exists with respect to any Plan that could reasonably be expected to result in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA, other than such Liens as would not be individually or in the aggregate Material.

(ii) Either (a) no Plan is in "at-risk status" (within the meaning of Section 430(i)(4) of the Code), or (b) the aggregate present value of the liabilities of all Plans that are in at-risk status do not exceed the aggregate value of the assets of all Plans that are in at-risk status by more than $50,000,000 (with liabilities and assets valued in the manner used to determine the funding target attainment percentage under Section 430 of the Code (disregarding the special rules contained in Section 430(i)(1)(B)).

(iii) The Company and its ERISA Affiliates do not have any unsatisfied withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(iv) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(v) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this paragraph 8J is made in reliance upon and subject to the accuracy of such Purchaser's representation in paragraph 9B as to the sources of the funds to be used to pay the purchase price of the Notes to be purchased by such Purchaser.

8K. Governmental Consent. Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes.

8L. Compliance with Environmental and Other Laws. The Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all federal, state, local, foreign and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations, including, without limitation, those relating to protection of the environment except, in any such case, where failure to comply, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

8M. Regulatory Status. Neither the Company nor any of its Subsidiaries is (i) an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or an "investment adviser" within the meaning of the Investment Advisers Act of 1940, as amended, (ii) a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 2005, or (iii) a "public utility" within the meaning of the Federal Power Act, as amended. Neither the Company nor any Subsidiary is subject to regulation as a "public utility" (or any analogous term) under any state or local law or subject to regulation under the ICC Termination Act of 1995, as amended.

8N. Permits and Other Operating Rights. The Company and each Subsidiary has all such valid and sufficient certificates of convenience and necessity, franchises, licenses, permits, operating rights and other authorizations from federal, state, foreign, regional, municipal and other local regulatory bodies or administrative agencies or other governmental bodies having jurisdiction over the Company or any Subsidiary or any of its properties, as are necessary for the

ownership, operation and maintenance of its businesses and properties, as presently conducted and as proposed to be conducted while the Notes are outstanding, subject to exceptions and deficiencies which, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect, and such certificates of convenience and necessity, franchises, licenses, permits, operating rights and other authorizations from federal, state, foreign, regional, municipal and other local regulatory bodies or administrative agencies or other governmental bodies having jurisdiction over the Company, any Subsidiary or any of its properties are free from restrictions or conditions which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, and neither the Company nor any Subsidiary is in violation of any thereof in any material respect.

8O. Rule 144A. The Notes are not of the same class as securities of the Company, if any, listed on a national securities exchange, registered under Section 6 of the Exchange Act or quoted in a U.S. automated inter-dealer quotation system.

8P. Absence of Financing Statements, etc. Except with respect to Liens not prohibited hereby and any financing statements incorrectly filed against the Company, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future Lien on, or security interest in, any assets or property of the Company or any of its Subsidiaries or any rights relating thereto.

8Q. Foreign Assets Control Regulations, Etc.

(i) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(ii) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) to the knowledge of the Company, engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(iii) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

8R. Disclosure. Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in

order to make the statements contained herein and therein not misleading in light of the circumstances in which made. There is no fact or facts peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now reasonably foresee), individually or in the aggregate, reasonably be expected to materially adversely affect the business, property or assets, or financial condition of the Company or any of its Subsidiaries and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby. Any financial projections delivered to any Purchaser on or prior to the date hereof are reasonable based on the assumptions stated therein and the best information available to the officers of the Company, it being recognized by the Purchaser that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount. The Company has delivered to Prudential a correct and complete copy of the Credit Agreement in effect as of the date hereof.

9. REPRESENTATIONS OF EACH PURCHASER. Each Purchaser severally represents as follows:

9A. Nature of Purchase. Such Purchaser is not acquiring the Notes to be purchased by it hereunder with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, provided that the disposition of such Purchaser's property shall at all times be and remain within its control. Such Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

9B. Source of Funds. At least one of the following statements is an accurate representation as to each source of funds (a **"Source"**) to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(i) the Source is an "insurance company general account" (as that term is defined in the United States Department of Labor's Prohibited Transaction Exemption (**"PTE"**) 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the **"NAIC Annual Statement"**)) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(ii) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or

credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(iii) the Source is either (a) an insurance company pooled separate account, within the meaning of PTE 90-1, or (b) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (iii), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(iv) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the **"QPAM Exemption"**)) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a Person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (a) the identity of such QPAM and (b) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (iv); or

(v) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the **"INHAM Exemption"**)) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a Person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (a) the identity of such INHAM and (b) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (v); or

(vi) the Source is a governmental plan; or

(vii) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (vii); or

(viii) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this paragraph 9B, the terms **"employee benefit plan"**, **"governmental plan"**, and **"separate account"** shall have the respective meanings assigned to such terms in Section 3 of ERISA.

9C. Accredited Investor. Each Purchaser is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) acting for its own account (and not for the account of others) or as a fiduciary or agent for others (which others are also "accredited investors"). Each Purchaser has had the opportunity to ask questions of the Company and receive answers concerning the terms and conditions of the sale of the Notes.

10. DEFINITIONS; ACCOUNTING MATTERS. For the purpose of this Agreement, the terms defined in paragraphs 10A and 10B (or within the text of any other paragraph) shall have the respective meanings specified therein and all accounting matters shall be subject to determination as provided in paragraph 10C.

10A. Yield-Maintenance Terms.

"Called Principal" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B or paragraph 4E or is declared to be or otherwise becomes due and payable pursuant to paragraph 7A , as the context requires.

"Discounted Value" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (as converted to reflect the periodic basis on which interest on such Note is payable, if interest is payable other than on a semi-annual basis) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal for the most recent actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date on the display designated as "Page PX1" on Bloomberg Financial Markets (or such other display as may replace Page PX1 on Bloomberg Financial Markets or, if Bloomberg Financial Markets shall cease to report such yields or shall cease to be Prudential Capital Group's customary source of information for calculating yield-maintenance amounts on privately placed notes, then such source as is then Prudential Capital Group's customary source of such information), or (ii) if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable (including by way of interpolation), the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or (ii) of the preceding sentence, such implied yield shall be determined, if necessary, by (a)

converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to that number of decimal places as appears in the coupon of the applicable Note.

"Remaining Average Life" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"Settlement Date" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B or paragraph 4E or is declared to be or otherwise becomes due and payable pursuant to paragraph 7A , as the context requires.

"Yield-Maintenance Amount" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. Other Terms.

"Additional Covenant" shall mean any affirmative or negative covenant or similar restriction applicable to the Company or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant) the subject matter of which either (i) is similar to that of any covenant in paragraphs 5 or 6 of this Agreement, or related definitions in paragraph 10 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the lender under any Primary Credit Facility (and such covenant or similar restriction shall be deemed an Additional Covenant only to the extent that it is more restrictive or more beneficial) or (ii) is different from the subject matter of any covenants in paragraphs 5 or 6 of this Agreement, or related definitions in paragraph 10 of this Agreement.

"Additional Default" shall mean any provision contained in any agreement with respect to any Primary Credit Facility which permits the holders of such Indebtedness to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise

requires the Company or any Subsidiary to purchase the Indebtedness thereunder prior to the stated maturity thereof and which either (i) is similar to any Default or Event of Default contained in paragraph 7 of this Agreement, or related definitions in paragraph 10 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the lender under any Primary Credit Facility (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (ii) is different from the subject matter of any Default or Event of Default contained in paragraph 7 of this Agreement, or related definitions in paragraph 10 of this Agreement.

"Affiliate" shall mean (i) with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such first Person, except a Subsidiary of the Company shall not be an Affiliate of the Company, and (ii) with respect to any Purchaser, shall include any managed account, investment fund or other vehicle for which such Purchaser or any Affiliate of such Purchaser then acts as investment advisor or portfolio manager. A Person shall be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of voting securities, by contract or otherwise.

"Anti-Terrorism Order" means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

"Bankruptcy Law" shall have the meaning given in clause (viii) of paragraph 7A.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Capitalized Lease" shall mean any lease the obligations of the lessee under which constitute Capitalized Lease Obligations.

"Capitalized Lease Obligation" shall mean any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of the Company or any Subsidiary, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"**Cash Flow Leverage Ratio**" shall mean, as of the end of any fiscal quarter of the Company, the ratio of consolidated Indebtedness of the Company and its Subsidiaries as of the end of such fiscal quarter to EBITDA for the period of four fiscal quarters ending with such fiscal quarter.

"Change of Control" shall mean

(i), either (a) the acquisition by any "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Exchange Act, but excluding any employee benefit plan of the Company or its Subsidiaries, and any Person acting in its capacity as trustee, agent or other fiduciary or

administrator of any such plan) of beneficial ownership (as defined in Rules 13d-3 and 13d-4 of the Securities and Exchange Commission, except that a Person shall be deemed to have beneficial ownership of all securities that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 30% or more of the voting power of the then-outstanding voting capital stock of the Company; or (b) a change in the composition of the board of directors of the Company such that continuing directors cease to constitute more than 50% of such board of directors. As used in this definition, "continuing directors" means, as of any date, (1) those members of the board of directors of the Company who assumed office prior to such date, and (2) those members of the board of directors of the Company who assumed office after such date and whose appointment or nomination for election by the Company's shareholders was approved by a vote of at least 50% of the directors of the Company in office immediately prior to such appointment or nomination; or (ii) a "change of control" or any similar event shall occur under, and is defined in documents pertaining to, any Indebtedness in excess of, subject to paragraph 11W, $25,000,000 in the aggregate (other than the Notes) of the Company or any Material Subsidiary.

"Closing Day" shall mean the Series A/B Closing Day or the Series C/D Closing Day, as the case may be.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"**Competitor**" shall mean any Person principally engaged in the manufacture or sale of equipment for handling fluids or semi-solids; provided, however, that the term "Competitor" shall not include any Institutional Investor.

"Confirmation of Guaranty Agreement" shall have the meaning given in paragraph 3A(ii).

"Consolidated Assets" shall mean the book value of the assets, net of reserves, of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP (but after giving effect, without duplication, to the elimination of the asset component of minority interests, if any in such Subsidiaries).

"**Consolidated Net Worth**" shall mean at any time the total amount of shareholders' equity of the Company and its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

"Contingent Obligation" shall mean, with respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or otherwise: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any direct or indirect security therefor, (ii) to purchase property, securities, Ownership Interests or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (iii) to maintain working capital, equity capital or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (iv) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against

loss in respect thereof; provided, that the term "Contingent Obligation" shall not include endorsements for collection or deposit, in each case in the ordinary course of business, and shall not include earn-outs and similar obligations.

"Credit Agreement" shall mean that certain Credit Agreement date July 12, 2007, among the Company, the Subsidiaries of the Company listed on the signature pages thereto, the Banks named therein and U.S. Bank National Association as Agent, as amended, restated, supplemented or otherwise modified or extended, renewed or refinanced from time to time.

"Default" shall mean any of the events specified in paragraph 7A, whether or not any requirement for such event to become an Event of Default has been satisfied.

"Default Rate" shall mean, with respect to any Note, a rate per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law and (ii) 2.00% over the rate of interest specified in such Note.

"Domestic Subsidiary" shall mean a Subsidiary organized under the laws of the United States, one of the States of the United States or the District of Columbia.

"**EBITDA**" shall mean subject to paragraph 11W, for any period of determination, the consolidated net income of the Company and its Subsidiaries before provision for income taxes, plus, to the extent subtracted in determining consolidated net income, Interest Expense, depreciation and amortization, all as determined in accordance with GAAP, plus, to the extent deducted in determining consolidated net income for such period, the aggregate amount of extraordinary, non-operating or noncash charges for such period (including but not limited to noncash stock compensation expense, noncash pension expense, workforce reduction or other restructuring charges, and transaction costs, fees and charges incurred in connection with the acquisition of any substantial portion of the Ownership Interests or property of, or a line of business or division of, another Person, including any merger or consolidation with such other Person), and, minus, without duplication, the aggregate amount of extraordinary, non-operating or non-cash income during such period. For purposes of calculating EBITDA with respect to any period of determination (i) acquisitions that have been made by the Company and its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the period of determination shall be deemed to have occurred on the first day of the period of determination; provided that only the actual historical results of operations of the Persons so acquired, without adjustment for pro forma expense savings or revenue increases, shall be used for such calculation; and provided, further, that the EBITDA of the Person so acquired attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the end of such period of determination, shall be excluded.

"Electronic Delivery" shall have the meaning given in clause (i) of paragraph 5A.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(c) of the Code.

"Event of Default" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"**Foreign Subsidiary**" shall mean a Subsidiary other than a Domestic Subsidiary.

"Guarantor" shall mean any Subsidiary that is a party to a Guaranty Agreement as of the Series A/B Closing Day and each other Person which delivers a Guaranty Agreement or a joinder to a Guaranty Agreement pursuant to paragraph 5K hereof, together with the respective successors and assignee of each of the foregoing entities.

"Guaranty Agreement" and "**Guaranty Agreements"** shall have the same meaning given in paragraph 3A(ii) hereof.

"including" shall mean, unless the context clearly requires otherwise, "including without limitation", whether or not so stated.

"**Indebtedness**" shall mean, with respect to any Person at the time of any determination, without duplication: (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person upon which interest charges are customarily paid or accrued, (iv) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (v) all obligations of such Person issued or assumed as the deferred purchase price of property or services, except trade accounts payable and accrued expenses arising in the ordinary course of business and except earn- outs and similar obligations, (vi) all Indebtedness of others secured by any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (vii) all Capitalized Lease Obligations of such Person, (viii) all Rate Hedging Obligations of such Person, (ix) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or bankers' acceptances, except for letters of credit supporting purchase or sale of goods in the ordinary course of business, (x) all Indebtedness of any partnership or joint venture as to which such Person is or may become personally liable, (xi) all obligations of such Person under any Ownership Interests issued by such Person which cease to be considered Ownership Interests in such Person, and (l) all Contingent Obligations of such Person. Non- recourse Indebtedness of such Person shall be deemed Indebtedness, but only to the extent of the fair market value of the related property.

"Institutional Investor" shall mean any insurance company, commercial, investment or merchant bank, finance company, mutual fund, registered money or asset manager, savings and loan association, credit union, registered investment advisor, pension fund,

investment company, licensed broker or dealer, "Qualified Institutional Buyer" or "accredited investor" (as such term is defined in Regulation D promulgated under the Securities Act).

"Interest Coverage Ratio" shall mean the ratio, calculated for each consecutive period of four fiscal quarters on a consolidated basis for the Company and its Subsidiaries in accordance with GAAP, of (a) EBITDA for such period, to (b) Interest Expense for such period.

"Interest Expense" shall mean, for any period of determination, the aggregate consolidated amount, without duplication, of interest expense of the Company and its Subsidiaries for such period determined in accordance with GAAP, including (a) all but the principal component of payments in respect of conditional sale contracts, Capitalized Leases and other title retention agreements, (b) commissions, discounts and other fees and charges with respect to letters of credit and bankers' acceptance financings and (c) Rate Hedging Obligations, in each case determined in accordance with GAAP.

"Investment" shall mean the acquisition, purchase, making or holding of any stock or other security, any loan, advance, contribution to capital, extension of credit (except for trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms), any acquisitions of real or personal property (other than real and personal property acquired in the ordinary course of business) and any purchase or commitment or option to purchase stock or other debt or equity securities of or any interest in another Person or any integral part of any business or the assets comprising such business or part thereof. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"Investment Policies" shall mean the Company's Excess Cash Balances & Investment Policy, effective as of October 1, 2010, copies of which have been furnished to the Purchasers, without giving effect to any changes thereto unless such changes have been consented to in writing by the Required Holders.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, minimum or compensating balance arrangement, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof (including Capitalized Leases), or any other type of preferential arrangement consisting of a property right granted for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"Material" shall means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" shall mean a (i) material adverse effect on the business, assets, liabilities, operations, or condition, financial or otherwise, of the Company and its Subsidiaries, taken as a whole, (ii) impairment of the Company's or any Guarantor's ability to perform any of its material obligations under this Agreement, the Notes or any other Transaction Document to which it is a party or (iii) material impairment of the validity or enforceability of

the rights of, or the benefits available to, the holders of any of the Notes under this Agreement, the Notes or any other Transaction Document.

"**Material Subsidiary**" means any Subsidiary designated as such by the Company to the Required Holders from time to time, provided, that if, upon delivery of the annual or quarterly consolidated financial statements of the Company under paragraph 5A(i) or (ii), the book value (net of reserves) of the assets of all Subsidiaries that are not Material Subsidiaries (determined based on the consolidated quarterly or annual balance sheet of the Company and its Subsidiaries, but after giving effect, without duplication, to the elimination of the asset component of minority interests, if any in such Subsidiaries) shall exceed 10% of Consolidated Assets as determined based on such quarterly or annual balance sheet, the Company shall promptly designate an additional Material Subsidiary or additional Material Subsidiaries so that, after giving effect to such designation, such requirement shall have been met.

"Multiemployer Plan" shall mean any Plan which is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"Notes" shall have the meaning given in paragraph 1D. hereof.

"Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

"Ownership Interest" shall mean, for a Person that is (i) a corporation, its stock, (ii) a limited liability company, its membership interest and any other interest in profits, (iii) limited or general partnership, its partnership interests (limited or general) or partnership (limited or general) accounts, (iv) any other form of entity, the equivalent Ownership Interests of such Person.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor or replacement entity thereto under ERISA.

"Permitted Acquisition" shall mean the acquisition by the Company or a Subsidiary of all or substantially all of the Ownership Interest or assets of any other Person (including by merger) or of all or substantially all of the assets of a division, business unit, product line or line of business of any other Person, provided that (a) following such acquisition, the Company shall be in compliance with paragraph 6G hereof, (b) such acquisition shall occur at a time that no Event of Default shall have occurred and continued hereunder, (c) the Company shall cause such Person to comply with the provisions of paragraph 5K if required thereunder, and (d) such acquisition shall have been approved by the board of directors (or similar governing body) of any Person acquired.

"Permitted Foreign Stock Pledge" means any pledge of the stock of, or Ownership Interests in, any Foreign Subsidiary to secure Indebtedness under a Primary Credit Facility, provided, however, that such pledge shall cease to be a Permitted Foreign Stock Pledge on the earlier of (a) the date the Credit Agreement existing as of the date hereof is renewed, extended, refinanced or replaced and (b) July 12, 2012, unless (1) the Notes are secured by a Lien on such stock or Ownership Interests on a pari passu basis with any such Indebtedness

pursuant to documentation reasonably satisfactory in form and substance to the Required Holder(s), and (2) all of the holders of such Indebtedness shall have entered into an intercreditor agreement with the holders of the Notes in form and substance satisfactory to the Required Holders.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, a limited liability company, an unincorporated organization and a government or any department or agency thereof.

"Plan" shall mean any "employee pension benefit plan" (as such term is defined in section 3 of ERISA) that is subject to Title IV of ERISA and that is or has been established or maintained, or to which contributions are or have been made, by the Company or any ERISA Affiliate.

"Primary Credit Facility" shall mean (i) the Credit Agreement, or (ii) any other working capital facility of the Company providing for a revolving line of credit having a stated maximum outstanding amount greater than $20,000,000. In no event shall the credit provided pursuant to this Agreement and the Notes be deemed a Primary Credit Facility

"Priority Debt" shall mean, as of any date, the sum (without duplication) of (a) Indebtedness of the Company and its Subsidiaries secured by Liens (other than Permitted Foreign Stock Pledges), and (b) Indebtedness of Subsidiaries (including, without limitation, Indebtedness consisting of Contingent Obligations with respect to Indebtedness of the Company), other than Indebtedness of any Subsidiary which is a Guarantor.

"Prudential" means Prudential Investment Management, Inc. a Delaware corporation.

"Purchasers" shall have the meaning given in the address block hereof.

"Qualified Institutional Buyer" shall have the meaning specified in Rule 144A under the Securities Act.

"**Rate Hedging Obligations**" shall mean any and all obligations and exposure of the Company and its Subsidiaries under (i) any and all agreements, devices or arrangements designed to protect the Company or any Subsidiary from the fluctuations of interest rates, including interest rate exchange agreements, interest rate cap or collar protection agreements, and interest rate options, puts and warrants, determined on a net, mark-to-market basis, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing. The amount of any Rate Hedging Obligation shall be determined after netting out any related obligations owing to the Company and its Subsidiaries.

"Related Party" shall mean (i) any officer or director of the Company or any Subsidiary, (ii) any Person directly or indirectly owning more than 5% of the outstanding shares of capital stock of the Company, (iii) any member of the immediate family of any Person described in clause (i) or (ii), or (iv) any Affiliate of the Company or any Affiliate of any Person

described in clause (i), (ii) or (iii); provided, however, that the Company and any Subsidiary of the Company shall not be Related Parties.

"Reportable Event" means a reportable event (as defined in Section 4043 of ERISA), other than an event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the Pension Benefit Guaranty Corporation

"Required Holder(s)" shall mean the holder or holders of more than 50% of the aggregate principal amount of the Notes or Series of Notes, as the context may require, from time to time outstanding. Unless otherwise specified, "Required Holders" shall refer to the holders of more than 50% of the outstanding aggregate principal amount of all the Notes.

"Responsible Employee" shall mean the chief executive officer, chief financial officer, chief accounting officer or general counsel of the Company or any other executive officer of the Company involved principally in its financial administration or its controllership function.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Series" shall have the meaning given in paragraph 1D.

"Series A/B Closing Day" shall have the meaning given in paragraph 2A.

"Series C/D Closing Day" shall have the meaning given in paragraph 2B.

"Series A Note" shall have the meaning given in paragraph 1A.

"Series B Note" shall have the meaning given in paragraph 1B.

"Series C Note" shall have the meaning given in paragraph 1C.

"Series D Note" shall have the meaning given in paragraph 1D.

"Series A Purchaser" shall have the meaning given in the address block hereof.

"Series B Purchaser" shall have the meaning given in the address block hereof.

"Series C Purchaser" shall have the meaning given in the address block hereof.

"Series D Purchaser" shall have the meaning given in the address block hereof.

"Significant Acquisition" shall mean a Permitted Acquisition involving the payment by the Company or a Subsidiary of a total purchase price equal to or exceeding $350,000,000.

"Significant Holder" shall mean (i) each Purchaser, so long as such Purchaser or any of its Affiliates shall hold (or be committed under this Agreement to purchase) any Note, or (ii) any other Person which, together with its Affiliates, is the holder of at least 10% of the aggregate principal amount of the Notes of any Series from time to time outstanding.

"Subsidiary" shall mean, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Transaction Documents" shall mean this Agreement, the Notes, the Guaranty Agreement, the Confirmation of Guaranty Agreement, any pledge agreement entered into to satisfy the proviso in the definition of "Permitted Foreign Stock Pledge," and the other agreements, documents, certificates and instruments now or hereafter executed or delivered by the Company or any Subsidiary or Affiliate in connection with this Agreement.

"Transferee" shall mean any direct or indirect transferee of all or any part of any Note purchased by any Purchaser under this Agreement.

"USA Patriot Act" shall mean United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Wholly-Owned Subsidiary" shall mean any Subsidiary of the Company all of the outstanding capital stock or other equity interests of every class of which is owned by the Company or another Wholly-Owned Subsidiary of the Company, and which has outstanding no options, warrants, rights or other securities entitling the holder thereof (other than the Company or a Wholly-Owned Subsidiary) to acquire shares of capital stock or other equity interests of such Subsidiary.

10C. Accounting and Legal Principles, Terms and Determinations. All references in this Agreement to "generally accepted accounting principles" or "GAAP" shall be deemed to refer to generally accepted accounting principles in effect in the United States at the time of application thereof. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all unaudited financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with generally accepted accounting principles, applied on a basis consistent with the most recent audited consolidated financial statements of the Company and its Subsidiaries delivered pursuant to clause (ii) of paragraph 5A or, if no such statements have been so delivered, the most recent audited financial statements referred to in clause (i) of paragraph 8B. Any reference herein to any specific citation, section or form of law, statute, rule or regulation shall refer to such new, replacement or analogous citation, section or form should such citation, section or form be modified, amended or replaced. Notwithstanding the foregoing or any other provision of this Agreement providing for any amount to be determined in accordance with generally accepted accounting principles, for

purposes of determining compliance with the covenants contained in this Agreement, any election by the Company to measure an item of Indebtedness (other than of the type described in clause viii of the definition thereof) using fair value (as permitted by Accounting Standards Codification 825-10-25, formerly known as Statement of Financial Accounting Standards No. 159, or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made.

To the extent that any change in GAAP or the application thereof from the financial statements referred to in paragraph 8B hereof affects any computation or determination required to be made pursuant to this Agreement, such computation or determination shall be made as if such change in GAAP had not occurred unless the Company and the Required Holders agree in writing on an adjustment to such computation or determination to account for such change in GAAP or the application thereof. In the instance of such change, the Required Holders and the Company shall negotiate in good faith to promptly agree to such adjustment.

11. MISCELLANEOUS.

11A. Note Payments. The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to such Purchaser's account or accounts as specified in the Purchaser Schedule attached hereto, or such other account or accounts in the United States as such Purchaser may from time to time designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as each Purchaser has made in this paragraph 11A. No holder shall be required to present or surrender any Note or make any notation thereon, except that upon the written request of the Company made concurrently with or reasonably promptly after the payment or prepayment in full of any Note, the applicable holder shall surrender such Note for cancellation, reasonably promptly after such request, to the Company at its principal office.

11B. Expenses. Whether or not the transactions contemplated hereby shall be consummated, the Company shall pay, and save each Purchaser and any Transferee harmless against liability for the payment of, all out-of-pocket expenses arising in connection with such transactions, including:

(i) (a) all stamp and documentary taxes and similar charges, (b) costs of obtaining a private placement number from Standard and Poor's Ratings Group for the Notes and (c) fees and expenses of brokers, agents, dealers, investment banks or other intermediaries or placement agents not hired by Prudential or any Purchaser, in each case as a result of the execution and delivery of this Agreement or the issuance of the Notes;

(ii) document production and duplication charges and the fees and expenses of any special counsel engaged by such Purchaser or such Transferee in connection with (a) this Agreement and the transactions contemplated hereby and (b) any subsequent proposed waiver, amendment or modification of, or proposed consent under, this Agreement, whether or not such proposed waiver, amendment, modification or consent shall be effected or granted;

(iii) the costs and expenses, including attorneys' and financial advisory fees, incurred by such Purchaser or such Transferee in enforcing (or determining whether or how to enforce) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the transactions contemplated hereby or by reason of your or such Transferee's having acquired any Note, including without limitation costs and expenses incurred in any workout, restructuring or renegotiation proceeding or bankruptcy case; and

(iv) any judgment, liability, claim, order, decree, cost, fee, expense, action or obligation resulting from the consummation of the transactions contemplated hereby, including the use of the proceeds of the Notes by the Company.

The Company also will promptly pay or reimburse each Purchaser or holder of a Note (upon demand, in accordance with each such Purchaser's or holder's written instruction) for all fees and costs paid or payable by such Purchaser or holder to the Securities Valuation Office of the National Association of Insurance Commissioners in connection with the initial filing of this Agreement and all related documents and financial information, and all subsequent annual and interim filings of documents and financial information related to this Agreement, with such Securities Valuation Office or any successor organization acceding to the authority thereof.

The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or Transferee and the payment of any Note.

11C. Consent to Amendments. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) except that, without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to this Agreement shall (i) change the maturity of any Note, or change the principal of, or the rate, method of computation or time of payment of interest on or any Yield-Maintenance Amount payable with respect to any Note, or affect the time, amount or allocation of any prepayments, in each case in any manner detrimental to, or disproportionate with respect to, any holder of a Note, or (ii) change the proportion of the principal amount of the Notes required with respect to any consent, amendment, waiver or declaration. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a

waiver of any rights of any holder of any Note. Without limiting the generality of the foregoing, no negotiations or discussions in which any holder of any Note may engage regarding any possible amendments, consents or waivers with respect to this Agreement or the Notes shall constitute a waiver of any Default or Event of Default, any term of this Agreement or any Note or any rights of any such holder under this Agreement or the Notes. As used herein and in the Notes, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. Form, Registration, Transfer and Exchange of Notes; Lost Notes. The Notes are issuable as registered notes without coupons in denominations of at least $1,000,000 except as may be necessary to (i) reflect any principal amount not evenly divisible by $1,000,000 or (ii) enable the registration of transfer by a holder of its entire holding of Notes; provided, however, that no such minimum denomination shall apply to Notes issued upon transfer by any holder of the Notes to any other entity or group of Affiliates with respect to which the Notes so issued or transferred shall be managed by a single entity. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall promptly, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall promptly, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Company (provided that if the holder of such Note is, or is a nominee for, an original Purchaser, a Qualified Institutional Buyer or an Affiliate of an original Purchaser or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or in the case of any such mutilation upon surrender and cancellation of such Note, the Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note. Notwithstanding the foregoing, so long as no Event of Default shall be in existence, no holder of a Note will transfer such Note to any Person which is, to the actual knowledge of such holder, a Competitor. For purposes of the foregoing, the holder of a Note may rely upon a certificate of a proposed transferee as to when such proposed transferee is a Competitor.

11E. Persons Deemed Owners; Participations. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall

not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion.

11F. Confidential Information. For the purposes of this paragraph 11F, "Confidential Information" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under paragraph 5A that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, officers, employees, agents, attorneys, trustees and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this paragraph 11F, (iii) any other holder of any Note, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11F), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11F), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the National Association of Insurance Commissioners or any successor thereto (the **"NAIC"**) or the Securities Valuation Office of the NAIC or any successor to such Office or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this paragraph 11F as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this paragraph 11F. Notwithstanding the foregoing, each Purchaser agrees, so long as no Event of Default is then in existence, that it

shall not release Confidential Information to any Competitor without written consent of the Company.

11G. Survival of Representations and Warranties; Entire Agreement. All representations and warranties contained herein or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement, the Notes and the provisions of the Commitment Letters dated January 28, 2011, February 1, 2011 and February 3, 2011 from Prudential Investment Management, Inc. to the Company relating to the possible payment of a "Delayed Delivery Fee" or a "Cancellation Fee" as described therein, embody the entire agreement and understanding between the Purchasers and the Company with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

11H. Successors and Assigns. All covenants and other agreements in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee) whether so expressed or not.

11I. Independence of Covenants; Beneficiaries of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is prohibited by any one of such covenants, the fact that it would be permitted by an exception to, or otherwise be in compliance within the limitations of, another covenant shall not (i) avoid the occurrence of a Default or Event of Default if such action is taken or such condition exists or (ii) in any way prejudice an attempt by the holder of any Note to prohibit through equitable action or otherwise the taking of any action by the Company or any Subsidiary which would result in a Default or Event of Default. The covenants of the Company contained in this Agreement are intended to be only for the benefit of the Purchasers and the holders from time to time of the Notes, and their respective successors and assigns (including, without limitation, any Transferee), and are not intended to be for the benefit of, or enforceable by, any other Person.

11J. Notices. All written communications provided for hereunder shall be sent by first class mail or nationwide overnight delivery service (with charges prepaid) and (i) if to any Purchaser, addressed to such Purchaser at the address specified for such communications in the Purchaser Schedule attached hereto, or at such other address as such Purchaser shall have specified to the Company in writing, (ii) if to any other holder of any Note, addressed to such other holder at such address as such other holder shall have specified to the Company in writing or, if any such other holder shall not have so specified an address to the Company, then addressed to such other holder in care of the last holder of such Note which shall have so specified an address to the Company, and (iii) if to the Company, addressed to it at 88th 11th Avenue NE, Minneapolis, MN 55413, Attention: Karen Park Gallivan, General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing; provided, however, that any such communication to the Company may also, at the option of the holder of any Note, be delivered by any other means either to the Company at its address specified above or to any officer of the Company.

11K. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of, interest on or Yield-Maintenance Amount payable with respect to any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

11L. Satisfaction Requirement. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to any Purchaser, to any holder of a Note or to the Required Holder(s), the determination of such satisfaction shall be made by such Purchaser, such holder or the Required Holder(s), as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11M. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES UNDER THIS AGREEMENT OR IN CONNECTION WITH ANY CLAIMS OR DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT (WHETHER SOUNDING IN CONTRACT OR TORT) SHALL BE GOVERNED BY, THE LAW OF THE STATE OF ILLINOIS (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS AGREEMENT TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH, OR THE RIGHTS OF THE PARTIES TO BE GOVERNED BY, THE LAWS OF ANY OTHER JURISDICTION).

11N. SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR THE NOTES MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS IN COOK COUNTY, ILLINOIS, OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, THE COMPANY HEREBY IRREVOCABLY ACCEPTS, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. THE COMPANY AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION BY SUIT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER OF A NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE NOTES BROUGHT IN ANY OF THE AFORESAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT THE COMPANY HAS OR MAY HEREAFTER ACQUIRE IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER

THROUGH SERVICE OF NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION, EXECUTION OR OTHERWISE WITH RESPECT TO ITSELF OR ITS PROPERTY), THE COMPANY HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS AGREEMENT OR THE NOTES. THE COMPANY AND EACH PURCHASER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED THEREBY (INCLUDING IN CONNECTION WITH ANY CLAIMS OR DISPUTES RELATING THERETO, WHETHER SOUNDING IN CONTRACT OR TORT).

11O. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11P. Descriptive Headings; Advice of Counsel; Interpretation; Time of the Essence. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement. Each party to this Agreement represents to the other parties to this Agreement that such party has been represented by counsel in connection with this Agreement and the Notes, that such party has discussed this Agreement and the Notes with its counsel and that any and all issues with respect to this Agreement and the Notes have been resolved as set forth herein and therein. No provision of this Agreement or the Notes shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured, drafted or dictated such provision. Time is of the essence in the performance of this Agreement and the Notes.

11Q. Counterparts; Facsimile or Electronic Signatures. This Agreement may be executed in any number of counterparts (or counterpart signature pages), each of which counterparts shall be an original but all of which together shall constitute one instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

11R. Severalty of Obligations. The sales of Notes to the Purchasers are to be several sales, and the obligations of the Purchasers under this Agreement are several obligations. No failure by any Purchaser to perform its obligations under this Agreement shall relieve any other Purchaser or the Company of any of its obligations hereunder, and no Purchaser shall be responsible for the obligations of, or any action taken or omitted by, any other Purchaser hereunder.

11S. Independent Investigation. Each Purchaser represents to and agrees with each other Purchaser that it has made its own independent investigation of the condition (financial and otherwise), prospects and affairs of the Company and its Subsidiaries in connection with its purchase of the Notes hereunder and has made and shall continue to make its own appraisal of

the creditworthiness of the Company. No holder of Notes shall have any duties or responsibility to any other holder of Notes, either initially or on a continuing basis, to make any such investigation or appraisal or to provide any credit or other information with respect thereto. No holder of Notes is acting as agent or in any other fiduciary capacity on behalf of any other holder of Notes.

11T. Directly or Indirectly. Where any provision in this Agreement refers to actions to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

11U. Transaction References. The Company agrees that Prudential Capital Group may, following public disclosure by the Company of the arrangement contemplated hereby in accordance with applicable securities laws (a) refer to its role in originating the purchase of the Notes, from the Company, as well as the identity of the Company and the aggregate principal amount and issue date of the Notes, on its internet site or in marketing materials, press releases, published "tombstone" announcements or any other print or electronic medium and (b) display the Company's corporate logo in conjunction with any such reference, subject to such restrictions on usage as the Company may reasonably require.

11V. Guaranty or Pledge Agreement . Except at times that an Event of Default shall have occurred and continues, upon request of the Company, if a Subsidiary that is a Guarantor or a Subsidiary the Ownership Interests of which are pledged to satisfy the proviso in clauses (x) of paragraph 6D is sold in a manner permitted by this Agreement, the holders of the Notes shall release such Subsidiary from its Guaranty Agreement and shall release or terminate, or shall authorize any collateral agent to release or terminate, such pledge of the Ownership Interests of such Subsidiary, as requested by the Company, provided that (i) such Subsidiary shall have been simultaneously released from any Contingent Obligation with respect to, or as a co-borrower or co-obligor of, any Indebtedness under the Primary Credit Facility, (ii) any security interest in such Ownership Interests securing any Indebtedness under any Primary Credit Facility is simultaneously released and (iii) no holder of any Indebtedness outstanding under any Primary Credit Facility shall have received any release, waiver or similar fees for any of the foregoing releases, unless the holders of the Notes receive fees for their corresponding releases on a pro rata basis in proportion to the relative outstanding principal amounts of the Notes and the principal amount of the Indebtedness outstanding under such Primary Credit Facility (including, in the case of a revolving credit facility, the aggregate principal amount of additional loans that the lenders are legally committed to fund thereunder).

11W. Credit Agreement Renewal. If on the earlier of (i) the date the Credit Agreement existing as of the date hereof is renewed, extended, refinanced or replaced and (ii) July 12, 2012 (such earlier date being called the **"Credit Agreement Renewal Date"**), any of the covenants, defaults or definitions contained in the Credit Agreement which are similar to the covenants, defaults or definitions contained in paragraphs 6A(1), 6A(2) or 7A(iii) or the definitions of "Change of Control" and "EBITDA" in paragraph 10B are more restrictive with respect to the Company than such covenant, default or definition in this Agreement, then, effective as of the Credit Agreement Renewal Date, without any further action on the part of the Company, any Subsidiary or any of the holders of the Notes, this Agreement shall be deemed to be amended automatically and immediately to include such covenant, defaults and/or definitions contained in

the Credit Agreement and the Company shall provide written notice thereof to the holders of the Notes promptly thereafter. Upon written request of the Company or the Required Holders, the Company and the holders of the Notes shall promptly execute and deliver at the Company's expense (including the fees and expenses of counsel for the holders of the Notes) an amendment to this Agreement in form and substance reasonably satisfactory to the Required Holder(s) evidencing the amendment of this Agreement to include the covenants, defaults and definitions referenced in the foregoing sentence, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this paragraph 11W, but shall merely be for the convenience of the parties hereto.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.

SIGNATURES ON THE FOLLOWING PAGE.]

11X. Binding Agreement. When this Agreement is executed and delivered by the Company and each of the Purchasers it shall become a binding agreement between the Company and each of the Purchasers.

Very truly yours,

GRACO INC.

By: /s/ James A. Graner

Name: James A. Graner

Title: CFO and Treasurer

The foregoing Agreement

is hereby accepted as of the

date first above written

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Diana Carr
Vice President

GIBRALTAR LIFE INSURANCE CO., LTD.

THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD.

By: Prudential Investment Management (Japan), Inc., as Investment Manager

By: Prudential Investment Management, Inc., as Sub-Adviser

By: /s/ Diana Carr
Vice President

FORETHOUGHT LIFE INSURANCE COMPANY

RGA REINSURANCE COMPANY

MTL INSURANCE COMPANY

ZURICH AMERICAN INSURANCE COMPANY

By: Prudential Private Placement Investors, L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc. (as its General Partner)

By: /s/ Diana Carr
Vice President

PURCHASER SCHEDULE

4.00% Series A Senior Notes due March 11, 2018

	Aggregate Principal Amount of Series A Notes to be Purchased	Note Denominations
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	$ 20,750,000.00	$ 1,000,000.00
		$ 19,750,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account Name: Prudential Managed Portfolio

Account No.: P86188 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $1,000,000.00)

Account Name: The Prudential — Privest Portfolio

Account No.: P86189 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $19,750,000.00)

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, Security No. INV11352, PPN 384109 B*4" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America

c/o Investment Operations Group

Gateway Center Two, 10th Floor

100 Mulberry Street

	Newark, NJ 07102-4077
	Attention: Manager, Billings and Collections
(3)	Address for all other communications and notices:
	The Prudential Insurance Company of America
	c/o Prudential Capital Group
	Two Prudential Plaza
	180 North Stetson Avenue
	Suite 5600
	Chicago, IL 60601
	Attention: Managing Director, Corporate Finance
(4)	Recipient of telephonic prepayment notices:
	Manager, Trade Management Group
	Telephone: (973) 367-3141
	Facsimile: (888) 889-3832
(5)	Address for Delivery of Notes:
	Send physical security by nationwide overnight delivery service to:
	Prudential Capital Group
	Two Prudential Plaza
	180 North Stetson Avenue
	Suite 5600
	Chicago, IL 60601
	Attention: Scott Barnett
	Telephone: (312) 540-5428
(6)	Tax Identification No.: 22-1211670

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series A Notes to be Purchased	Note Denominations
GIBRALTAR LIFE INSURANCE CO., LTD.	$ 26,800,000.00	$ 19,500,000.00
		$ 7,300,000.00

(1) All principal, interest and Yield-Maintenance Amount payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Account Name: Gibraltar Private

Account No.: P86246 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $19,500,000.00)

Account Name: GIB Private Placement USD

Account No.: P86406 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $7,300,000.00)

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, Security No. INV11352, PPN 384109 B*4" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All payments, other than principal, interest or Yield-Maintenance Amount, on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No. 021-000-021

Account No. 304199036

Account Name: Prudential International

Insurance Service

Company

Each such wire transfer shall set forth the name

of the Company, a reference to "4.00% Series A Senior Notes

due 11 March 2018, Security No. INV11352, PPN 384109 B*4"

and the due date and application

(e.g., type of fee) of the payment being made.

(3) Address for all notices relating to payments:

The Gibraltar Life Insurance Co., Ltd.

2-13-10, Nagatacho

Chiyoda-ku, Tokyo 100-8953, Japan

E-mail: Mizuho.Matsumoto@gib-life.co.jp

Attention: Mizuho Matsumoto, Vice President of

Investment

Operations Team

(4) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight

delivery service to:

Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Scott Barnett

Telephone: (312) 540-5428

(6) Tax Identification No.: 98-0408643

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series A Notes to be Purchased	Note Denomination
THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD.	$ 9,700,000.00	$ 9,700,000.00

(1) All principal, interest and Yield-Maintenance Amount payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Account No.: P86291

Account Name: The Prudential Life Insurance Company, Ltd.

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, Security No. INV11352, PPN 384109 B*4" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All payments, other than principal, interest or Yield-Maintenance Amount, on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No. 021-000-021

Account No. 304199036

Account Name: Prudential International Insurance Service Co.

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, Security No. INV11352, PPN 384109 B*4" and the due date and application (e.g.,

type of fee) of the payment being made.

(3) Address for all notices relating to payments:

The Prudential Life Insurance Company, Ltd.

2-13-10, Nagatacho

Chiyoda-ku, Tokyo 100-0014, Japan

Telephone: 81-3-5501-5190

Facsimile: 81-03-5501-5037

E-mail: osamu.egi@prudential.com

Attention: Osamu Egi, Team Leader of Financial Reporting Team

(4) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Scott Barnett

Telephone: (312) 540-5428

(6) Tax Identification No.: 98-0433392

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series A Notes to be Purchased	Note Denomination
FORETHOUGHT LIFE INSURANCE COMPANY	$ 5,900,000.00	$ 5,900,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

State Street Bank

ABA # 01100-0028

DDA Account # 24564783

For Further Credit:

Forethought Life Insurance Company

Fund # 3N1H

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, PPN 384109 B*4" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All notices of payments and written confirmations of such wire transfers:

Forethought Life Insurance Company

Attn: Russell Jackson

300 North Meridian

Suite 1800

Indianapolis, IN 46204

with copy to:

State Street Bank

Attn: Deb Hartner

801 Pennsylvania

Kansas City, MO 64105

(3) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

DTC / New York Window

55 Water Street

New York, NY 10041

Attention: Robert Mendez

Please include in the cover letter accompanying the Notes a reference to SSB Fund # 3N1H.

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

and

Forethought Life Insurance Company

Attn: Eric Todd

300 North Meridian

Suite 1800

Indianapolis, IN 46204

(5) Tax Identification No.: 06-1016329

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series A Notes to be Purchased	Note Denomination
ZURICH AMERICAN INSURANCE COMPANY	$ 11,850,000.00	$ 11,850,000.00

Notes/Certificates to be registered in the name of:

Hare & Co.

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Hare & Co.

c/o The Bank of New York

ABA No.: 021-000-018

BNF: IOC566

Attn: William Cashman

Ref: ZAIC Private Placements #399141

Each such wire transfer shall set forth the name of the Company, a reference to "4.00% Series A Senior Notes due 11 March 2018, PPN 384109 B*4" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All notices of payments and written confirmations of such wire transfers:

Zurich North America

Attn: Treasury T1-19

1400 American Lane

Schaumburg, IL 60196-1056

Contact: Mary Fran Callahan, Vice President-Treasurer

Telephone: (847) 605-6447

Facsimile: (847) 605-7895

E-mail: mary.callahan@zurichna.com

(3) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

Bank of New York

Window A

One Wall Street, 3rd Floor

New York, NY 10286

Please include in the cover letter accompanying the Notes a reference to the Purchaser's account number (Zurich American Insurance Co.- Private Placements; Account Number: 399141).

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

(5) Tax Identification No.: 13-6062916

PURCHASER SCHEDULE

5.01% Series B Senior Notes due March 11, 2023

	Aggregate Principal Amount of Series B Notes to be Purchased	Note Denomination
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	$ 62,300,000.00	$ 62,300,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account Name: Prudential Managed Portfolio

Account No.: P86188 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $62,300,000.00)

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "5.01% Series B Senior Notes due 11 March 2023, Security No. INV11352, PPN 384109 B@2" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America

c/o Investment Operations Group

Gateway Center Two, 10th Floor

100 Mulberry Street

Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

(3) Address for all other communications and notices:

The Prudential Insurance Company of America

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141

Facsimile: (888) 889-3832

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight

delivery service to:

Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Scott Barnett

Telephone: (312) 540-5428

(6) Tax Identification No.: 22-1211670

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series B Notes to be Purchased	Note Denomination
GIBRALTAR LIFE INSURANCE CO., LTD.	$ 12,700,000.00	$ 12,700,000.00

(1) All principal, interest and Yield-Maintenance Amount payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Account Name: GIB Private Placement USD

Account No.: P86406 (please do not include spaces)

(in the case of payments on account of the Note originally issued in the principal amount of $12,700,000.00)

Each such wire transfer shall set forth the name of the Company, a reference to "5.01% Series B Senior Notes due 11 March 2023, Security No. INV11352, PPN 384109 B@2" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All payments, other than principal, interest or Yield-Maintenance Amount, on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank

New York, NY

ABA No. 021-000-021

Account No. 304199036

Account Name: Prudential International Insurance Service Company

Each such wire transfer shall set forth the name of the Company, a reference to "5.01% Series B Senior Notes

due 11 March 2023, Security No. INV11352, PPN 384109 B@2" and the due date and application (e.g., type of fee) of the payment being made.

(3) Address for all notices relating to payments:

The Gibraltar Life Insurance Co., Ltd.
2-13-10, Nagatacho
Chiyoda-ku, Tokyo 100-8953, Japan
E-mail: Mizuho.Matsumoto@gib-life.co.jp
Attention: Mizuho Matsumoto, Vice President of Investment Operations Team

(4) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.
c/o Prudential Capital Group
Two Prudential Plaza
180 North Stetson Avenue
Suite 5600
Chicago, IL 60601
Attention: Managing Director, Corporate Finance

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:
Prudential Capital Group
Two Prudential Plaza
180 North Stetson Avenue
Suite 5600
Chicago, IL 60601
Attention: Scott Barnett
Telephone: (312) 540-5428

(6) Tax Identification No.: 98-0408643

PURCHASER SCHEDULE

4.88% Series C Senior Notes due January 26, 2020

	Aggregate Principal Amount of Series C Notes to be Purchased	Note Denomination
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	$ 75,000,000.00	$ 75,000,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account Name: Prudential Managed Portfolio

Account No.: P86188 (please do not include spaces) (in the case of payments on account of the Note originally issued in the principal amount of $75,000,000.00)

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "4.88% Series C Senior Notes due 26 January 2020, Security No. INV11352, PPN _____" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America

c/o Investment Operations Group

Gateway Center Two, 10th Floor

100 Mulberry Street

Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

(3) Address for all other communications and notices:

The Prudential Insurance Company of America

c/o Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141

Facsimile: (888) 889-3832

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group

Two Prudential Plaza

180 North Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Scott Barnett

Telephone: (312) 540-5428

(6) Tax Identification No.: 22-1211670

PURCHASER SCHEDULE

5.35% Series D Senior Notes due July 26, 2026

	Aggregate Principal Amount of Series D Notes to be Purchased	Note Denominations
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	$ 61,700,000.00	$ 37,500,000.00
		$ 24,200,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account Name: Prudential Managed Portfolio

Account No.: P86188 (please do not include spaces) (in the case of payments on account of the Note originally issued in the principal amount of $37,500,000.00)

Account Name: The Prudential — Privest Portfolio

Account No.: P86189 (please do not include spaces) (in the case of payments on account of the Note originally issued in the principal amount of $24,200,000.00)

JPMorgan Chase Bank

New York, NY

ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "5.35% Series D Senior Notes due 26 July 2026, Security No. INV11352, PPN _____" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America

c/o Investment Operations Group

Gateway Center Two, 10th Floor

100 Mulberry Street

Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

(3) Address for all other communications and notices:

The Prudential Insurance Company of America

c/o Prudential Capital Group

Two Prudential Plaza

180 N. Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141

Facsimile: (888) 889-3832

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group

Two Prudential Plaza

180 N. Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Scott Barnett

Telephone: (312) 540-5428

(6) Tax Identification No.: 22-1211670

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series D Notes to be Purchased	Note Denomination
RGA REINSURANCE COMPANY	$ 7,250,000.00	$ 7,250,000.00

Notes/Certificates to be registered in the name of: **Hare & Co.**

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

The Bank of New York Mellon

ABA No.: 021-000-018

BNF Account No. IOC566

Credit to: RGA Reinsurance Company

Each such wire transfer shall set forth the name of the Company, a reference to "5.35% Series D Senior Notes due 26 July 2026, PPN ____" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All notices of payments and written confirmations of such wire transfers:

RGA Reinsurance Company

Attn: Banking Dept.

1370 Timberlake Manor Parkway

Chesterfield, MO 63017-6039

(3) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 N. Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

The Bank of New York Mellon

One Wall Street

3rd Floor Window A

New York, NY 10256

Attn: Anthony V. Saviano (212-635-6742)

Please include in the cover letter accompanying the Notes a reference to the Purchaser (RGA Private Placement Prudential Financial Account No. 0000128863).

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

(5) Tax Identification No.: 43-1235868

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series D Notes to be Purchased	Note Denomination
ZURICH AMERICAN INSURANCE COMPANY	$ 3,050,000.00	$ 3,050,000.00

Notes/Certificates to be registered in the name of: **Hare & Co.**

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Hare & Co.

c/o The Bank of New York

ABA No.: 021-000-018

BNF: IOC566

Attn: William Cashman

Ref: ZAIC Private Placements #399141

Each such wire transfer shall set forth the name of the Company, a reference to "5.35% Series D Senior Notes due 26 July 2026, PPN ____" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All notices of payments and written confirmations of such wire transfers:

Zurich North America

Attn: Treasury T1-19

1400 American Lane

Schaumburg, IL 60196-1056

Contact: Mary Fran Callahan, Vice President-Treasurer

Telephone: (847) 605-6447

Facsimile: (847) 605-7895

E-mail: mary.callahan@zurichna.com

(3) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 N. Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

Bank of New York

Window A

One Wall Street, 3rd Floor

New York, NY 10286

Please include in the cover letter accompanying the Notes a reference to the Purchaser's account number (Zurich American Insurance Co.-Private Placements; Account Number: 399141).

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

(5) Tax Identification No.: 13-6062916

PURCHASER SCHEDULE

	Aggregate Principal Amount of Series D Notes to be Purchased	Note Denomination
MTL INSURANCE COMPANY	$ 3,000,000.00	$ 3,000,000.00

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

The Northern Trust Company

ABA # 071000152

Credit Wire Account # 5186061000

FFC: 26-32065/MTL Insurance Company — Prudential

Each such wire transfer shall set forth the name of the Company, a reference to "5.35% Series D Senior Notes due 26 July 2026, PPN ____" and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) All notices of payments and written confirmations of such wire transfers:

MTL Insurance Company

1200 Jorie Blvd.

Oak Brook, IL 60522-9060

Attention: Margaret Culkeen

(3) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.

c/o Prudential Capital Group

Two Prudential Plaza

180 N. Stetson Avenue

Suite 5600

Chicago, IL 60601

Attention: Managing Director, Corporate Finance

(4) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

The Northern Trust Company of New York

Harborside Financial Center 10, Suite 1401 3 Second Street

Northern Acct. # 26-32065 / Acct.

Name: MTL

Insurance Company — Prudential

Jersey City, NJ 07311

Attn: Jose Mero & Rubie Vega

Please include in the cover letter accompanying the Notes a reference to the Purchaser's account number (MTL Insurance Company-Prudential; Account Number: 26-32065).

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

(5) Tax Identification No.: 36-1516780

SCHEDULE 6D

LIENS

None.

SCHEDULE 6I

INVESTMENTS

Investment in Corporate Owned Life Insurance (COLI) through establishment of a Rabbi (Grantor) Trust ("Trust") with Wilmington Trust on June 27, 2007.

The Trust is intended to provide informal funding for the Company's deferred compensation and executive excess benefit retirement plans. The funding schedule anticipates the payment of a premium of $1,498,626 each year for a five year period which began in 2007.

SCHEDULE 8A(1)

SUBSIDIARIES

Subsidiary	Jurisdiction	Holders of Ownership Interests	Liable under a Contingent Obligation, or as a Co-Borrower or Co-Obligor, under a Primary Credit Facility
GlasCraft, Inc.	Indiana	100% by Graco Indiana Inc.	No
Graco Australia Pty Ltd.	Australia	100% by the Company	No
Graco California Inc.	Minnesota	100% by the Company	No
Graco Canada Inc.	Canada	100% by the Company	No
Graco do Brasil Lmtda	Brazil	100% by the Company[1]	No
Graco Fluid Equipment (Shanghai) Co., Ltd.	People's Republic of China	100% by the Company	No
Graco Fluid Equipment (Suzhou) Co., Ltd.	People's Republic of China	100% by Graco Minnesota Inc.	No
Graco GmbH	Germany	100% by the Company	No
Graco Hong Kong Ltd.	People's Republic of China (Special Adm Region)	100% by the Company	No
Graco Indiana Inc.	Delaware	100% by the Company	No
Graco K.K.	Japan	100% by the Company	No
Graco Korea Inc.	Korea	100% by the Company	No
Graco Ltd.	United Kingdom	100% by the Company	No
Graco Minnesota Inc.	Minnesota	100% by the Company	Guarantor under the Credit Agreement
Graco N.V.	Belgium	100% by the Company[2]	No
Graco Ohio Inc.	Ohio	100% by the Company	Guarantor under the Credit Agreement
Graco S.A.S.	France	100% by the Company	No
Graco Trading (Suzhou) Co., Ltd.	People's Republic of China	100% by Graco Minnesota Inc.	No
Gusmer Corporation	Delaware	100% by the Company	Guarantor under the Credit Agreement
Gusmer Canada Ltd.	Canada	100% by Gusmer Corporation	No
Gusmer Sudamerica S.A.	Argentina	100% by the Company[3]	No

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

[2] Includes shares held by executive officers of the Company or the relevant subsidiary to satisfy the requirements of local law.

[3] Shares held by executive officers of the Company to satisfy the requirements of local law.

SCHEDULE 8G

LIST OF AGREEMENTS RESTRICTING INDEBTEDNESS

1. Section 9.8 of the Credit Agreement prohibits the Company from permitting a Lien on the Ownership Interests of Foreign Subsidiaries that are Material Subsidiaries.

EXHIBIT A-1

[FORM OF SERIES A NOTE]

GRACO INC.

4.00% SERIES A SENIOR NOTE DUE MARCH 11, 2018

No. A-__ [Date]
$_____ PPN:_____

FOR VALUE RECEIVED, the undersigned, **GRACO INC.**, a corporation organized and existing under the laws of the State of Minnesota (herein called the "Company"), hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on March 11, 2018 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 4.00% per annum (or, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series A Notes at the Default Rate (as defined below)) from the date hereof, payable quarterly on the 11th day of June, September, December and March in each year, commencing with the June 11, September 11, December 11 or March 11 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment of principal (unless the Required Holders have elected to require the entire outstanding principal amount of the Series A Notes to bear interest at the Default Rate), any overdue payment of Yield-Maintenance Amount and, to the extent permitted by applicable law, any overdue payment of interest, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate. The "Default Rate" shall mean a rate per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law, and (ii) 6.00%.

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of JPMorgan Chase Bank in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Series A Senior Notes (herein called the "Notes") issued pursuant to a Note Agreement, dated as of March 11, 2011 (herein called the "Agreement"), among the Company and the original purchasers of the Notes named in the Purchaser Schedule attached thereto and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 11F of the Agreement and (ii) made the representations set forth in Sections 9A, 9B and 9C of the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of

transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

Except to the extent required in the Agreement, the Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration, protest and diligence in collecting in connection with this Note, whether now or hereafter required by applicable law.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used herein which are defined in the Agreement and not otherwise defined herein shall have the meanings as defined in the Agreement.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF ILLINOIS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS NOTE TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH THE LAWS OF ANY OTHER JURISDICTION).

GRACO INC.

By: _____

Title: _____

EXHIBIT A-2

[FORM OF SERIES B NOTE]

GRACO INC.

5.01% SERIES B SENIOR NOTE DUE MARCH 11, 2023

No. B-__ [Date]

$_____ PPN:_____

FOR VALUE RECEIVED, the undersigned, **GRACO INC.**, a corporation organized and existing under the laws of the State of Minnesota (herein called the "Company"), hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on March 11, 2023, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.01% per annum (or, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series B Notes at the Default Rate (as defined below)) from the date hereof, payable quarterly on the 11th day of June, September, December and March in each year, commencing with the June 11, September 11, December 11 or March 11 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment of principal (unless the Required Holders have elected to require the entire outstanding principal amount of the Series B Notes to bear interest at the Default Rate), any overdue payment of Yield-Maintenance Amount and, to the extent permitted by applicable law, any overdue payment of interest, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate. The "Default Rate" shall mean a rate per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law, and (ii) 7.01%.

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of JPMorgan Chase Bank in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Series B Senior Notes (herein called the "Notes") issued pursuant to a Note Agreement, dated as of March 11, 2011 (herein called the "Agreement"), among the Company and the original purchasers of the Notes named in the Purchaser Schedule attached thereto and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 11F of the Agreement and (ii) made the representations set forth in Sections 9A, 9B and 9C of the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of

transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

Except to the extent required in the Agreement, the Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration, protest and diligence in collecting in connection with this Note, whether now or hereafter required by applicable law.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used herein which are defined in the Agreement and not otherwise defined herein shall have the meanings as defined in the Agreement.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF ILLINOIS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS NOTE TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH THE LAWS OF ANY OTHER JURISDICTION).

GRACO INC.

By: _____

Title: _____

EXHIBIT A-3

[FORM OF SERIES C NOTE]

GRACO INC.

4.88% SERIES C SENIOR NOTE DUE JANUARY 26, 2020

No. C-__ [Date]

$_____ PPN:_____

FOR VALUE RECEIVED, the undersigned, **GRACO INC.**, a corporation organized and existing under the laws of the State of Minnesota (herein called the "Company"), hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on January 26, 2020, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 4.88% per annum (or, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series C Notes at the Default Rate (as defined below)) from the date hereof, payable quarterly on the 26th day of October, January, April and July in each year, commencing with the October 26, January 26, April 26 or July 26 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment of principal (unless the Required Holders have elected to require the entire outstanding principal amount of the Series C Notes to bear interest at the Default Rate), any overdue payment of Yield-Maintenance Amount and, to the extent permitted by applicable law, any overdue payment of interest, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate. The "Default Rate" shall mean a rate per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law, and (ii) 6.88%.

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of JPMorgan Chase Bank in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Series C Senior Notes (herein called the "Notes") issued pursuant to a Note Agreement, dated as of March 11, 2011 (herein called the "Agreement"), among the Company and the original purchasers of the Notes named in the Purchaser Schedule attached thereto and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 11F of the Agreement and (ii) made the representations set forth in Sections 9A, 9B and 9C of the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of

transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

Except to the extent required in the Agreement, the Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration, protest and diligence in collecting in connection with this Note, whether now or hereafter required by applicable law.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used herein which are defined in the Agreement and not otherwise defined herein shall have the meanings as defined in the Agreement.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF ILLINOIS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS NOTE TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH THE LAWS OF ANY OTHER JURISDICTION).

GRACO INC.

By: _____

Title: _____

EXHIBIT A-4

[FORM OF SERIES D NOTE]

GRACO INC.

5.35% SERIES D SENIOR NOTE DUE JULY 26, 2026

No. D-__ [Date]

$_____ PPN:_____

FOR VALUE RECEIVED, the undersigned, **GRACO INC.**, a corporation organized and existing under the laws of the State of Minnesota (herein called the "Company"), hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on July 26, 2026, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.35% per annum (or, during any period when an Event of Default shall be in existence, at the election of the Required Holder(s) of the Series D Notes at the Default Rate (as defined below)) from the date hereof, payable quarterly on the 26th day of October, January April and July in each year, commencing with the October 26, January 26, April 26 or July 26 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment of principal (unless the Required Holders have elected to require the entire outstanding principal amount of the Series D Notes to bear interest at the Default Rate), any overdue payment of Yield-Maintenance Amount and, to the extent permitted by applicable law, any overdue payment of interest, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate. The "Default Rate" shall mean a rate per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law, and (ii) 7.35%.

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of JPMorgan Chase Bank in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Series D Senior Notes (herein called the "Notes") issued pursuant to a Note Agreement, dated as of March 11, 2011 (herein called the "Agreement"), among the Company and the original purchasers of the Notes named in the Purchaser Schedule attached thereto and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 11F of the Agreement and (ii) made the representations set forth in Sections 9A, 9B and 9C of the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of

transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

Except to the extent required in the Agreement, the Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration, protest and diligence in collecting in connection with this Note, whether now or hereafter required by applicable law.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used herein which are defined in the Agreement and not otherwise defined herein shall have the meanings as defined in the Agreement.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF ILLINOIS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS NOTE TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH THE LAWS OF ANY OTHER JURISDICTION).

GRACO INC.

By: _____

Title: _____

EXHIBIT B

[FORM OF DISBURSEMENT DIRECTION LETTER]

[On Company Letterhead — place on one page]

[Closing Day]

[Names and Addresses of Purchasers]

Re: ___% Series __ Senior Notes due _____, _____ (the "Series __ Notes")

___% Series __ Senior Notes due _____, _____ (together with the Series __ Notes, the Notes)

Ladies and Gentlemen:

Reference is made to that certain Note Agreement (the "Note Agreement"), dated _____, 2011 among Graco Inc., a Minnesota corporation (the "Company"), you and the other Purchasers named in the Purchaser Schedule attached thereto. Capitalized terms used herein shall have the meanings assigned to such terms in the Note Agreement.

You are hereby irrevocably authorized and directed to disburse the $150,000,000 purchase price of the Notes by wire transfer of immediately available funds to_____, for credit to the account of the Graco Inc., account no._____ .

Disbursement when so made shall constitute payment in full of the purchase price of the Notes and shall be without liability of any kind whatsoever to you.

Very truly yours,

Graco Inc.

By: _____

Title: _____

EXHIBIT C-1

[FORM OF GUARANTY AGREEMENT]

GUARANTY AGREEMENT

Dated as of _____, 2011

Re: Graco Inc.

$75,000,000

4.00% SERIES A SENIOR NOTES DUE MARCH 11, 2018

$75,000,000

5.01% SERIES B SENIOR NOTES DUE MARCH 11, 2023

$75,000,000

4.88% SERIES C SENIOR NOTES DUE JANUARY 26, 2020

AND

$75,000,000

5.35% SERIES D SENIOR NOTES DUE JULY 26, 2026

TABLE OF CONTENTS

(Not a part of the Agreement)

GUARANTY AGREEMENT

This GUARANTY AGREEMENT dated as of March 11, 2011 (the or this *"Guaranty"*) is entered into on a joint and several basis by each of the undersigned, Graco Minnesota Inc., a Minnesota corporation and Graco Ohio Inc., an Ohio corporation (which parties, together with any Additional Guarantor (as defined in the Joinder to Guaranty Agreement attached hereto) which executes and delivers a Joinder to Guaranty Agreement (as defined hereinafter), are hereinafter referred to individually as a *"Guarantor"* and collectively as the *"Guarantors"*).

RECITALS

A. Each Guarantor is presently a direct or indirect wholly-owned Subsidiary of Graco Inc., a Minnesota corporation (the *"Company"*).

B. In order to raise funds for general corporate purposes, the Company has entered into the Note Agreement dated as of March 11, 2011 (as amended, supplemented, restated or otherwise modified from time to time, the *"Note Agreement"*) between the Company, on the one hand, and the purchasers named in the Purchaser Schedule attached thereto (the *"Purchasers"*), providing for, among other things, the issue and sale by the Company of the Company's 4.00% Series A Senior Notes due March 11, 2018 in the aggregate principal amount of $75,000,000, 5.01% Series B Senior Notes due March 11, 2023 in the aggregate principal amount of $75,000,000, 4.88% Series C Senior Notes due January 26, 2020 in the aggregate principal amount of $75,000,000 and 5.35% Series D Senior Notes due July 26, 2026 in the aggregate principal amount of $75,000,000 (collectively, in each case as amended, restated, supplemented or otherwise modified from time to time, the *"Notes"*). The Purchasers, together with their successors and assigns, including any subsequent holders of the Notes in accordance with the terms of the Note Agreement, are hereinafter individually referred to as a *"Holder"* and collectively referred to as the *"Holders."*

C. The Purchasers have required as a condition of their purchase of the Notes to be purchased by them that the Company cause each of the undersigned to enter into this Guaranty and as provided in Section 5K of the Note Agreement, to cause certain other Subsidiaries of the Company to execute and deliver a Joinder to Guaranty Agreement in substantially the form set forth as Exhibit A hereto (the *"Joinder to Guaranty Agreement"*), in each case as security for the Notes, and the Company has agreed to cause each of the undersigned to execute this Guaranty and as provided in Section 5K of the Note Agreement, to cause certain other Subsidiaries of the Company to execute and deliver a Joinder to Guaranty Agreement, in each case in order to induce the Purchasers to purchase the Notes and thereby benefit the Company and its Subsidiaries by providing funds to the Company for general corporate purposes.

D. Each Guarantor is engaged in related businesses with the Company and recognizes that by entering into the Note Agreement and purchasing the Notes, the Purchasers will have conferred substantial financial and other benefits to each such Guarantor.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, each Guarantor does hereby covenant and agree, jointly and severally, as follows:

SECTION 1. DEFINITIONS.

Capitalized terms used herein shall have the meanings set forth in the Note Agreement unless herein defined or the context shall otherwise require.

SECTION 2. GUARANTY OF NOTES AND NOTE AGREEMENT.

(a) Each Guarantor jointly and severally does hereby irrevocably, absolutely and unconditionally guarantee unto the Holders of Notes, whether such Notes are issued and outstanding on the date hereof or issued from time to time after the date hereof: (1) the full and prompt payment of the principal of, Yield Maintenance Amount, if any, and interest on the Notes from time to time outstanding, as and when such payments shall become due and payable, whether by lapse of time, upon redemption or prepayment, by extension or by acceleration or declaration or otherwise (including (to the extent legally enforceable) interest due on overdue payments of principal, Yield Maintenance Amount, if any, or interest at the rates set forth in the Notes and interest accruing at the then applicable rates provided in the Notes after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) in Federal or other immediately available funds of the United States of America which at the time of payment or demand therefor shall be legal tender for the payment of public and private Indebtedness, (2) the full and prompt performance and observance by the Company of each and all of the obligations, covenants and agreements required to be performed or owed by the Company under the terms of the Notes and the Note Agreement and (3) the full and prompt payment, upon demand by any Holder, of all reasonable costs and expenses, legal or otherwise (including reasonable attorneys' fees), if any, as shall have been expended or incurred in the protection or enforcement of any rights, privileges or liabilities in favor of the Holders under or in respect of the Notes, the Note Agreement or under this Guaranty or in any action in connection therewith or herewith and in each and every case irrespective of the validity, regularity, or enforcement of any of the Notes or Note Agreement or any of the terms thereof or any other like circumstance or circumstances.

(b) The liability of each Guarantor under this Guaranty shall not exceed an amount equal to a maximum amount as will, after giving effect to such maximum amount and all other liabilities of such Guarantor, contingent or otherwise, result in the obligations of such Guarantor hereunder not constituting a fraudulent transfer, obligation or conveyance.

SECTION 3. GUARANTY OF PAYMENT AND PERFORMANCE.

This is a guarantee of payment and performance and each Guarantor hereby waives, to the fullest extent permitted by law, any right to require that any action on or in respect of any Note or the Note Agreement be brought against the Company or any other Person or that resort be had to any direct or indirect security for the Notes or this Guaranty or to any other remedy. Any Holder may, at its option, proceed hereunder against any Guarantor in the first instance to collect monies when due, the payment of which is guaranteed hereby, without first proceeding against the Company or any other Person and without first resorting to any direct or indirect security for the Notes or this Guaranty or to any other remedy. The liability of each Guarantor hereunder shall in no way be affected or impaired by any acceptance by any Holder of any direct or indirect security for, or other guaranties of, any Indebtedness, liability or obligation of the Company or any other Person to any Holder or by any failure, delay, neglect or omission by any Holder to realize upon or protect any such guaranties, Indebtedness, liability or obligation or any notes or other instruments evidencing the same or any direct or indirect security therefor or by any approval, consent, waiver, or other action taken, or omitted to be taken by any such Holder.

The covenants and agreements on the part of the Guarantors herein contained shall be joint and several covenants and agreements, and references to the Guarantors shall be deemed references to each of them and none of them shall be released from liability hereunder by reason of this Guaranty ceasing to be binding as a continuing security on any other of them.

SECTION 4. GENERAL PROVISIONS RELATING TO THE GUARANTY.

(a) Each Guarantor hereby consents and agrees that any Holder or Holders, subject to the terms of the Note Agreement and the Notes, from time to time, with or without any further notice to or assent from any other Guarantor may, without in any manner affecting the liability of any Guarantor under this Guaranty, and upon such terms and conditions as any such Holder or Holders may deem advisable:

(1) extend in whole or in part (by renewal or otherwise), modify, change, compromise, release or extend the duration of the time for the performance or payment of any Indebtedness, liability or obligation of the Company or of any other Person secondarily or otherwise liable for any Indebtedness, liability or obligations of the Company on the Notes, or waive any Default or Event of Default with respect thereto, or waive, modify, amend or change any provision of any other agreement; or

(2) sell, release, surrender, modify, impair, exchange or substitute any and all property, of any nature and from whomsoever received, held by, or for the benefit of, any such Holder as direct or indirect security for the payment or performance of any Indebtedness, liability or obligation of the Company or of any other Person secondarily or otherwise liable for any Indebtedness, liability or obligation of the Company on the Notes; or

(3) settle, adjust or compromise any claim of the Company against any other Person secondarily or otherwise liable for any Indebtedness, liability or obligation of the Company on the Notes.

Each Guarantor hereby ratifies and confirms any such extension, renewal, change, sale, release, waiver, surrender, exchange, modification, amendment, impairment, substitution, settlement, adjustment or compromise and that the same shall be binding upon it, and hereby waives, to the fullest extent permitted by law, any and all defenses, counterclaims or offsets which it might or could have by reason thereof, it being understood that such Guarantor shall at all times be bound by this Guaranty and remain liable hereunder.

(b) Each Guarantor hereby waives, to the fullest extent permitted by law:

(1) notice of acceptance of this Guaranty by the Holders or of the creation, renewal or accrual of any liability of the Company, present or future, or of the reliance of such Holders upon this Guaranty (it being understood that every Indebtedness, liability and obligation described in Section 2 hereof shall conclusively be presumed to have been created, contracted or incurred in reliance upon the execution of this Guaranty);

(2) demand of payment by any Holder from the Company or any other Person indebted in any manner on or for any of the Indebtedness, liabilities or obligations hereby guaranteed; and

(3) presentment for the payment by any Holder or any other Person of the Notes or any other instrument, protest thereof and notice of its dishonor to any party thereto and to such Guarantor.

The obligations of each Guarantor under this Guaranty and the rights of any Holder to enforce such obligations by any proceedings, whether by action at law, suit in equity or otherwise, shall not be subject to any reduction, limitation, impairment or termination (other than by indefeasible payment in full of the Notes and the obligations of the Company under the Note Agreement), whether by reason of any claim of any character whatsoever or otherwise and shall not be subject to any defense, set-off, counterclaim (other than any compulsory counterclaim), recoupment or termination whatsoever.

(c) The obligations of each Guarantor hereunder shall be binding upon such Guarantor and its successors and assigns, and shall remain in full force and effect until the entire principal, interest and Yield Maintenance Amount, if any, on the Notes and all other sums due pursuant to Section 2 shall have been indefeasibly paid, and such obligations shall not be affected, modified or impaired irrespective of:

(1) the genuineness, validity, regularity or enforceability of the Notes, the Note Agreement or any other agreement or any of the terms of any thereof, the continuance of any obligation on the part of the Company, any other Guarantor or any other Person on or in respect of the Notes or under the Note Agreement or any other agreement or the power or authority or the lack of power or authority of the Company to

issue the Notes or the Company to execute and deliver the Note Agreement or any other agreement or of any other Guarantor to execute and deliver this Guaranty or to perform any of its obligations hereunder or the existence or continuance of the Company, any other Guarantor or any other Person as a legal entity; or

(2) any default, failure or delay, willful or otherwise, in the performance by the Company, any other Guarantor or any other Person of any obligations of any kind or character whatsoever under the Notes, the Note Agreement, this Guaranty or any other agreement; or

(3) any creditors' rights, bankruptcy, receivership or other insolvency proceeding of the Company, any other Guarantor or any other Person or in respect of the property of the Company, any other Guarantor or any other Person or any merger, consolidation, reorganization, dissolution, liquidation, the sale of all or substantially all of the assets of or winding up of the Company, any other Guarantor or any other Person; or

(4) impossibility or illegality of performance on the part of the Company, any other Guarantor or any other Person of its obligations under the Notes, the Note Agreement, this Guaranty or any other agreements; or

(5) in respect of the Company, any other Guarantor or any other Person, any change of circumstances, whether or not foreseen or foreseeable, whether or not imputable to the Company, any other Guarantor or any other Person, or other impossibility of performance through fire, explosion, accident, labor disturbance, floods, droughts, embargoes, wars (whether or not declared), civil commotion, acts of God or the public enemy, delays or failure of suppliers or carriers, inability to obtain materials, action of any federal or state regulatory body or agency, change of law or any other causes affecting performance, or any other *force majeure*, whether or not beyond the control of the Company, any other Guarantor or any other Person and whether or not of the kind hereinbefore specified; or

(6) any attachment, claim, demand, charge, Lien, order, process, encumbrance or any other happening or event or reason, similar or dissimilar to the foregoing, or any withholding or diminution at the source, by reason of any taxes, assessments, expenses, Indebtedness, obligations or liabilities of any character, foreseen or unforeseen, and whether or not valid, incurred by or against the Company, any Guarantor or any other Person or any claims, demands, charges or Liens of any nature, foreseen or unforeseen, incurred by any Person, or against any sums payable in respect of the Notes or under the Note Agreement or this Guaranty, so that such sums would be rendered inadequate or would be unavailable to make the payments herein provided; or

(7) any order, judgment, decree, ruling or regulation (whether or not valid) of any court of any nation or of any political subdivision thereof or any body, agency, department, official or administrative or regulatory agency of any thereof or any other action, happening, event or reason whatsoever which shall delay, interfere with, hinder or prevent, or in any way adversely affect, the performance by the Company, any Guarantor

or any other Person of its respective obligations under or in respect of the Notes, the Note Agreement, this Guaranty or any other agreement; or

(8) the failure of any Guarantor to receive any benefit from or as a result of its execution, delivery and performance of this Guaranty; or

(9) any failure or lack of diligence in collection or protection, failure in presentment or demand for payment, protest, notice of protest, notice of default and of nonpayment, any failure to give notice to any Guarantor of failure of the Company, any other Guarantor or any other Person to keep and perform any obligation, covenant or agreement under the terms of the Notes, the Note Agreement, this Guaranty or any other agreement or failure to resort for payment to the Company, any other Guarantor or to any other Person or to any other guaranty or to any property, security, Liens or other rights or remedies; or

(10) the acceptance of any additional security or other guaranty, the advance of additional money to the Company or any other Person, the renewal or extension of the Notes or amendments, modifications, consents or waivers with respect to the Notes, the Note Agreement or any other agreement, or the sale, release, substitution or exchange of any security for the Notes; or

(11) any merger or consolidation of the Company, any Guarantor or any other Person into or with any other Person or any sale, lease, transfer or other disposition of any of the assets of the Company, any Guarantor or any other Person to any other Person, or any change in the ownership of any shares of the Company, any Guarantor or any other Person; or

(12) any defense whatsoever that: (i) the Company or any other Person might have to the payment of the Notes (principal, Yield Maintenance Amount, if any, or interest), other than indefeasible payment thereof in full in Federal or other immediately available funds, or (ii) the Company or any other Person might have to the performance or observance of any of the provisions of the Notes, the Note Agreement or any other agreement, whether through the satisfaction or purported satisfaction by the Company, any other Guarantor or any other Person of its debts due to any cause such as bankruptcy, insolvency, receivership, merger, consolidation, reorganization, dissolution, liquidation, winding-up or otherwise; or

(13) any act or failure to act with regard to the Notes, the Note Agreement, this Guaranty or any other agreement or anything which might vary the risk of any Guarantor or any other Person; or

(14) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Guarantor or any other Person in respect of the obligations of any Guarantor or other Person under this Guaranty or any other agreement;

provided that the specific enumeration of the above-mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, though not specifically mentioned above, it being the purpose and intent of this Guaranty that the obligations of each Guarantor shall be absolute and unconditional and shall not be discharged, impaired or varied except by the indefeasible payment in full of the principal of, Yield Maintenance Amount, if any, and interest on the Notes in accordance with their respective terms whenever the same shall become due and payable as in the Notes provided and all other sums due and payable under the Note Agreement, at the place specified in and all in the manner and with the effect provided in the Notes and the Note Agreement, as each may be amended or modified from time to time. Without limiting the foregoing, it is understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, the Company shall default under or in respect of the terms of the Notes or the Note Agreement and that notwithstanding recovery hereunder for or in respect of any given default or defaults by the Company under the Notes or the Note Agreement, this Guaranty shall remain in full force and effect and shall apply to each and every subsequent default.

(d) All rights of any Holder hereunder may be transferred or assigned at any time and shall be considered to be transferred or assigned at any time or from time to time upon the transfer of any Note whether with or without the consent of or notice to the Guarantors under this Guaranty or to the Company, except as required by the Note Agreement.

(e) To the extent of any payments made under this Guaranty, each Guarantor shall be subrogated to the rights of the Holder upon whose Notes such payment was made, but such Guarantor covenants and agrees that such right of subrogation shall be subordinate in right of payment to the prior indefeasible final payment in cash in full of all amounts due and owing by the Company with respect to the Notes and the Note Agreement and by the Guarantors under this Guaranty, and the Guarantors shall not take any action to enforce such right of subrogation, and the Guarantors shall not accept any payment in respect of such right of subrogation, until all amounts due and owing by the Company under or in respect of the Notes and the Note Agreement and all amounts due and owing by the Guarantors hereunder have been indefeasibly paid in cash in full. If any amount shall be paid to any Guarantor in violation of the preceding sentence at any time prior to the indefeasible payment in cash in full of the Notes and all other amounts payable under the Notes, the Note Agreement and this Guaranty, such amount shall be held in trust for the benefit of the Holders and shall forthwith be paid to the Holders to be credited and applied to the amounts due or to become due with respect to the Notes and all other amounts payable under the Note Agreement and this Guaranty, whether matured or unmatured. Each Guarantor acknowledges that it has received direct and indirect benefits from the financing arrangements contemplated by the Note Agreement and that the agreements set forth in this paragraph (e) are knowingly made as a result of the receipt of such benefits.

(f) Each Guarantor hereby agrees that, to the extent that a Guarantor shall have paid an amount hereunder to any Holder that is greater than the net value of the benefit received, directly or indirectly, by such paying Guarantor as a result of the issuance and sale of the Notes (such net value, its **"Proportionate Share**"), such paying Guarantor shall, subject to Section 4(e), be entitled to contribution from any Guarantor that has not paid its Proportionate Share of the obligations arising under this Guaranty. Any amount payable as a contribution under this

Section 4(f) shall be determined as of the date on which the related payment is made by such Guarantor seeking contribution and each Guarantor acknowledges that the right to contribution hereunder shall constitute an asset of such Guarantor to which such such contribution is owed. Notwitshstanding the foregoing, the provisions of this Section 4(f) shall in no respect limit the obligations and liabilities of any Guarantor to the Holders or under the Notes, the Note Agreement or any other document, instrument or agreement executed in connection therewith, and each Guarantor shall remain jointly and severally liable for the full payment and performance of the obligations hereunder.

(g) Each Guarantor agrees that, to the extent the Company, any other Guarantor or any other Person makes any payment on any Note, which payment or any part thereof is subsequently invalidated, voided, declared to be fraudulent or preferential, set aside, recovered, rescinded or is required to be retained by or repaid to a trustee, receiver, or any other Person under any bankruptcy code, common law, or equitable cause, then and to the extent of such payment, the obligation or the part thereof intended to be satisfied shall be revived and continued in full force and effect with respect to the Guarantors' obligations hereunder, as if said payment had not been made. The liability of the Guarantors hereunder shall not be reduced or discharged, in whole or in part, by any payment to any Holder from any source that is thereafter paid, returned or refunded in whole or in part by reason of the assertion of a claim of any kind relating thereto, including, but not limited to, any claim for breach of contract, breach of warranty, preference, illegality, invalidity, or fraud asserted by any account debtor or by any other Person.

(h) No Holder shall be under any obligation: (1) to marshal any assets in favor of the Guarantors or in payment of any or all of the liabilities of the Company under or in respect of the Notes or the obligations of the Guarantors hereunder or (2) to pursue any other remedy that the Guarantors may or may not be able to pursue themselves and that may lighten the Guarantors' burden, any right to which each Guarantor hereby expressly waives.

(i) The obligations of each Guarantor under this Guaranty rank *pari passu* in right of payment with all other Indebtedness of such Guarantor which is not secured or which is not expressly subordinated in right of payment to any other Indebtedness of such Guarantor.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE GUARANTORS.

Each Guarantor represents and warrants to each Holder that:

(a) Such Guarantor is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on (1) the ability of such Guarantor to perform its obligations under this Guaranty, or (2) the validity or enforceability of this Guaranty (herein in this Section 5, a *"Material Adverse Effect"*). Such Guarantor has the power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts

and proposes to transact, to execute and deliver this Guaranty and to perform the provisions hereof.

(b) This Guaranty has been duly authorized by all necessary corporate or other similar organizational action on the part of such Guarantor, and this Guaranty constitutes a legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms, except as such enforceability may be limited by (1) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer, obligation or conveyance or other similar laws affecting the enforcement of creditors' rights generally and (2) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) The execution, delivery and performance by such Guarantor of this Guaranty will not (1) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of such Guarantor or any of its Subsidiaries under its corporate or other legal entity charter or by-laws, operating agreement or other organizational document, or under any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, or any other agreement or instrument to which such Guarantor or any of its subsidiaries is bound or by which such Guarantor or any of its subsidiaries or any of their respective properties may be bound or affected, except, in each case, for contraventions, breaches or defaults which could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (2) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to such Guarantor or any of its Subsidiaries, or (3) violate any provision of any law, statute or other rule or regulation of any Governmental Authority applicable to such Guarantor or any of its Subsidiaries.

(d) No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by such Guarantor of this Guaranty.

(e) Such Guarantor is solvent, has capital not unreasonably small in relation to its business or any contemplated or undertaken transaction and has assets having a value both at fair valuation and at present fair salable value greater than the amount required to pay its debts as they become due and greater than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. Such Guarantor does not intend to incur, or believe that it will incur, debts beyond its ability to pay such debts as they become due. Such Guarantor will not be rendered insolvent by the execution and delivery of, and, subject to Section 2(b) hereof, performance of its obligations under, this Guaranty. Such Guarantor does not intend to hinder, delay or defraud its creditors by or through the execution and delivery of, or performance of its obligations under, this Guaranty.

SECTION 6. AMENDMENTS, WAIVERS AND CONSENTS.

(a) This Guaranty may be amended, and the observance of any term hereof may be waived (either retroactively or prospectively), with (and only with) the written consent of each Guarantor and the Required Holders, except that (1) no amendment or waiver of any of the provisions of Section 2, 3 or 4, or any defined term (as it is used therein), will be effective as to any Holder unless consented to by such Holder in writing, (2) no such amendment or waiver may, without the written consent of each Holder, (i) change the percentage of the principal amount of the Notes the Holders of which are required to consent to any such amendment or waiver, or (ii) amend this Section 6, and (3) this Guaranty may be amended by the addition of additional Guarantors pursuant to a Joinder to Guaranty Agreement.

(b) Any amendment or waiver consented to as provided in this Section 6 applies equally to all Holders and is binding upon them and upon each future holder and upon the Guarantors. No such amendment or waiver will extend to or affect any obligation, covenant or agreement not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Guarantors and any Holder nor any delay in exercising any rights hereunder shall operate as a waiver of any rights of any Holder. As used herein, the term "this Guaranty" and references thereto shall mean this Guaranty as it may from time to time be amended or supplemented.

SECTION 7. SUBMISSION TO JURISDICTION.

ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS GUARANTY MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS IN COOK COUNTY, ILLINOIS, OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS AND, BY EXECUTION AND DELIVERY OF THIS GUARANTY, EACH GUARANTOR HEREBY IRREVOCABLY ACCEPTS, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. EACH GUARANTOR AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION BY SUIT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANY GUARANTOR IN ANY OTHER JURISDICTION. EACH GUARANTOR HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS GUARANTY OR ANY OTHER TRANSACTION DOCUMENT BROUGHT IN ANY OF THE AFORESAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT ANY GUARANTOR HAS OR MAY HEREAFTER ACQUIRE IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY

LEGAL PROCESS (WHETHER THROUGH SERVICE OF NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION, EXECUTION OR OTHERWISE WITH RESPECT TO ITSELF OR ITS PROPERTY), SUCH GUARANTOR HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS GUARANTY OR THE OTHER TRANSACTION DOCUMENTS. EACH GUARANTOR HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY (INCLUDING IN CONNECTION WITH ANY CLAIMS OR DISPUTES RELATING THERETO, WHETHER SOUNDING IN CONTRACT OR TORT).

SECTION 8. NOTICES.

All written communications provided for hereunder shall be sent by first class mail or nationwide overnight delivery service (with charges prepaid) and (1) if to any Purchaser, addressed to such Purchaser at the address specified for such communications in the Purchaser Schedule attached to the Note Agreement, or at such other address as such Purchaser shall have specified to the Company in writing, (2) if to any other Holder of any Note, addressed to such other Holder at such address as such other Holder shall have specified to the Company in writing or, if any such other Holder shall not have so specified an address to the Company, then addressed to such other Holder in care of the last Holder of such Note which shall have so specified an address to the Company, and (iii) if to any Guarantor, addressed to such Guarantor c/o the Company at 88th 11th Avenue NE, Minneapolis, MN 55413, Attention: Karen Park Gallivan, General Counsel, or at such other address as such Guarantor shall have specified to each Holder in writing; provided, however, that any such communication to a Guarantor may also, at the option of any Holder, be delivered by any other means either to the such Guarantor at its address specified above or to any officer of such Guarantor.

SECTION 9. MISCELLANEOUS.

(a) No remedy herein conferred upon or reserved to any Holder is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle any Holder to exercise any remedy reserved to it under the Guaranty, it shall not be necessary for such Holder to physically produce its Note in any proceedings instituted by it or to give any notice, other than such notice as may be herein expressly required.

(b) The Guarantors will pay all sums becoming due under this Guaranty by the method and at the address specified for such purpose in the Note Agreement, or by such other reasonable method or at such other address as any Holder shall have from time to time specified to the

Guarantors in writing for such purpose, without the presentation or surrender of this Guaranty or any Note.

(c) Any provision of this Guaranty that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

(d) If the whole or any part of this Guaranty shall be now or hereafter become unenforceable against any one or more of the Guarantors for any reason whatsoever or if it is not executed by any one or more of the Guarantors, this Guaranty shall nevertheless be and remain fully binding upon and enforceable against each other Guarantor as if it had been made and delivered only by such other Guarantors.

(e) This Guaranty shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of each Holder and its successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not, so long as such Holder's Notes remain outstanding and unpaid. The obligations of any Guarantor under this Guaranty shall not be assigned without the prior written consent of each Holder.

(f) This Guaranty may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

(g) This Guaranty shall be construed and enforced in accordance with, and the rights of the parties shall be governed by the law of the State of Illinois.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has caused this Guaranty Agreement to be duly executed by an authorized representative as of this first date written above.

GRACO MINNESOTA INC.

By _____
Name:
Title:

GRACO OHIO INC.

By _____
Name:
Title:

JOINDER TO GUARANTY AGREEMENT

Re: Graco Inc.
$75,000,000 4.00% Series A Senior Notes due March 11, 2018
$75,000,000 5.01% Series B Senior Notes due March 11, 2023
$75,000,000 4.88% Series C Senior Notes due January 26, 2020
$75,000,000 5.35% Series D Senior Notes due July 26, 2026 .

This JOINDER TO GUARANTY AGREEMENT dated as of _____, _____ (the or this *"Joinder to Guaranty Agreement"*) is entered into [on a joint and several basis] by [each of] the undersigned _____, a _____ corporation [and _____, a _____ corporation] ([which parties are hereinafter referred to individually as] an *"Additional Guarantor"* [and collectively as the *"Additional Guarantors"*]), as a supplement to the Guaranty referred to below. Words and phrases used and not otherwise defined herein shall have the respective meaning as set forth in the Guaranty (as hereinafter defined).

RECITALS

A. [Each] Additional Guarantor is presently a direct or indirect wholly-owned Subsidiary of Graco Inc., a Minnesota corporation (the *"Company"*).

B. In order to raise funds for general corporate purposes, the Company has entered into the Note Agreement dated as of March __, 2011 (as amended, supplemented, restated or otherwise modified from time to time, the *"Note Agreement"*) between the Company, on the one hand, and the purchasers named in the Purchaser Schedule attached thereto (the *"Purchasers"*), providing for, among other things, the issue and sale by the Company of the Company's 4.00% Series A Senior Notes due March 11, 2018 in the aggregate principal amount of $75,000,000, 5.01% Series B Senior Notes due March 11, 2023 in the aggregate principal amount of $75,000,000, 4.88% Series C Senior Notes due January 26, 2020 in the aggregate principal amount of $75,000,000 and 5.35% Series D Senior Notes due July 26, 2026 in the aggregate principal amount of $75,000,000 (collectively, in each case as amended, restated, supplemented or otherwise modified from time to time, the *"Notes"*). The Purchasers, together with their successors and assigns, including any subsequent holders of the Notes in accordance with the terms of the Note Agreement, are hereinafter individually referred to as a *"Holder"* and collectively referred to as the *"Holders."*

C. The Purchasers required as a condition of their purchase of the Notes to be purchased by them that the Company cause certain Subsidiaries of the Company to enter into the Guaranty Agreement dated as of March __, 2011 (as amended, restated, joined, supplemented or otherwise modified from time to time, the *"Guaranty"*), and, as provided in Section 5K of the Note Agreement, that the Company cause each Person which becomes a co-borrower or co-obligator of any Indebtedness under any Primary Credit Facility after the date of the Guaranty to execute and deliver a Joinder to Guaranty Agreement to this Guaranty, in each case as security for the Notes.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, **[**each/the**]** Additional Guarantor does hereby covenant and agree, jointly and severally with the existing Guarantors, as follows:

In accordance with the requirements of the Guaranty, the Additional Guarantor**[**s**]** desire**[**s**]** to amend the definition of Guarantor (as the same may have been heretofore amended) set forth in the Guaranty attached hereto so that at all times from and after the date hereof, the Additional Guarantor**[**s**]** shall be jointly and severally liable as set forth in the Guaranty for the obligations of the Company under the Note Agreement and Notes to the extent and in the manner set forth in the Guaranty.

The undersigned is the duly elected _____ of the Additional Guarantor**[**s**]** and is duly authorized to execute and deliver this Joinder to Guaranty Agreement on behalf of such Additional Guarantor[s] for the benefit of all Holders of the Notes. The execution by the undersigned of this Joinder to Guaranty Agreement shall evidence its consent to and acknowledgment and approval of the terms set forth herein and in the Guaranty. By such execution the Additional Guarantor**[**s**]** shall be deemed to have made the representations and warranties set forth in Section 5 of the Guaranty in favor of the Holders as of the date of this Joinder to Guaranty Agreement.

Upon execution of this Joinder to Guaranty Agreement, the Guaranty shall be deemed to be amended as set forth above. Except as amended herein, the terms and provisions of the Guaranty are hereby ratified, confirmed and approved in all respects.

Any and all notices, requests, certificates and other instruments (including the Notes) may refer to the Guaranty without making specific reference to this Joinder to Guaranty Agreement, but nevertheless all such references shall be deemed to include this Joinder to Guaranty Agreement unless the context shall otherwise require.

[NAME OF ADDITIONAL GUARANTOR**[**S**]]**

By _____

Its

[Form of Confirmation of Guaranty Agreement]

CONFIRMATION OF GUARANTY AGREEMENT

THIS CONFIRMATION OF GUARANTY AGREEMENT (this "*Confirmation*") is entered into on a joint and several basis by each of the undersigned (which parties are hereinafter referred to individually as a "*Guarantor*" and collectively as the "*Guarantors*") in favor of the holders of the Notes (as defined below) from time to time (together with their successors and assigns, including any subsequent holders of the Notes in accordance with the terms of the Note Agreement, referred to individually as a *"Holder"* and collectively, as the *"Holders"*).

WHEREAS, each of the Guarantors is a direct or indirect wholly-owned Subsidiary of Graco Inc. (the "*Company*");

WHEREAS, in order to raise funds for general corporate purposes, the Company has entered into the Note Agreement dated as of March 11 2011 (as amended, supplemented, restated or otherwise modified from time to time, the *"Note Agreement"*) between the Company, on the one hand, and the purchasers named in the Purchaser Schedule attached thereto (the *"Purchasers"*), providing for, among other things, the issue and sale by the Company of the Company's 4.00% Series A Senior Notes due March 11, 2018 in the aggregate principal amount of $75,000,000, 5.01% Series B Senior Notes due March 11, 2023 in the aggregate principal amount of $75,000,000, 4.88% Series C Senior Notes due January 26, 2020 in the aggregate principal amount of $75,000,000 and 5.35% Series D Senior Notes due July 26, 2026 in the aggregate principal amount of $75,000,000 (collectively, in each case as amended, restated, supplemented or otherwise modified from time to time, the *"Notes"*);

WHEREAS, the Guarantors have guarantied the obligations of the Company under the Note Agreement and the Notes pursuant to that certain Guaranty Agreement, dated as of March 11, 2011, made by [certain of] the undersigned[, and joined by certain of the undersigned pursuant to that certain Joinder Agreement dated as of _____], in favor of each Holder (as amended, supplemented or otherwise modified, the "*Guaranty*"). Capitalized terms used herein and not otherwise defined shall have the meanings given in the Note Agreement;

WHEREAS, each Guarantor will benefit from the proceeds of the issuance of the Series C Notes and the Series D Notes; and

WHEREAS, the Holders have required as a condition to the effectiveness of the Series C Purchasers' and Series D Purchasers' obligation to purchase the Series C Notes and Series D Notes to be purchased by such Purchaser that each of the Guarantors execute and deliver this Confirmation and reaffirm that the Guaranty secures and guarantees the liabilities and obligations of the Company under the Notes.

NOW, THEREFORE, in order to induce, and in consideration of, the purchase of the Series C Notes by the Series C Purchasers and the Series D Notes by the Series D Purchasers, each Guarantor hereby, jointly and severally, covenants and agrees with, and

represents and warrants to, each of the Series C Purchasers and Series D Purchasers and each Holder from time to time of the Notes as follows:

1. Confirmation. Each Guarantor, hereby ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under the Guaranty, and confirms and agrees that each reference in the Guaranty to the Notes (as defined in the Guaranty) is construed to hereafter include the Series C Notes and the Series D Notes. Each Guarantor acknowledges that the Guaranty remains in full force and effect and is hereby ratified and confirmed. Without limiting the generality of the foregoing, each Guarantor hereby acknowledges and confirms that it intends that the Guaranty will continue to secure, to the fullest extent provided thereby, the payment and performance of all obligations guarantied under the Guaranty, including, without limitation, the payment and performance of the Series C Notes and the Series D Notes. Each Guarantor confirms and agrees that, with respect to the Guaranty, each and every covenant, condition, obligation, representation (except those representations which relate only to a specific date, which are confirmed as of such date only), warranty and provision set forth therein is, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

2. Successors and Assigns. All covenants and other agreements contained in this Confirmation by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent Holder of a Note) whether so expressed or not.

3. No Waiver. The execution of this Confirmation shall not operate as a novation, waiver of any right, power or remedy of any Holder, nor constitute a waiver of any provision of the Note Agreement or any Note.

4. Governing Law. This Confirmation shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

5. Severability. Any provision of this Confirmation that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

6. Counterparts; Facsimile Signatures. This Confirmation may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto. Delivery of an executed counterpart of a signature page to this Confirmation by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this Confirmation.

7. Section Headings. The section headings herein are for convenience of reference only, and shall not affect in any way the interpretation of any of the provisions hereof.

8. Authorization. Each Guarantor is duly authorized to execute and deliver this Confirmation, and, is and will continue to be duly authorized to perform its obligations under the Guaranty.

9. No Defenses. Each Guarantor hereby represents and warrants to, and covenants that, as of the date hereof, (a) such Guarantor has no defenses, offsets or counterclaims of any kind or nature whatsoever against Prudential or any Holder with respect to any of its obligations guarantied under the Guaranty, or any action previously taken or not taken by any Holder with respect thereto except as provided in the Guaranty, and (b) that each Holder has fully performed all obligations to such Guarantor which it may have had or has on and as of the date hereof.

[signature page follows]

EXHIBIT D-1

[FORM OF OPINION OF COMPANY'S AND GUARANTORS' GENERAL COUNSEL]

[Date]

To the Purchasers Listed on

Schedule A attached to the below defined Note Agreement

Ladies and Gentlemen:

I am General Counsel of Graco Inc., a Minnesota corporation (the "Company" and, together with each of its Domestic Subsidiaries who are Guarantors, collectively, the "Loan Parties" and individually, a "Loan Party"). I am delivering to you this opinion letter upon which you may rely in connection with that certain Note Agreement (the "Note Agreement") dated as of March 11, 2011 among the Company and the Purchasers listed on the Purchaser Schedule thereto. This opinion letter is being delivered to you pursuant to Section 3C of the Note Agreement. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to those terms in the Note Agreement.

I have made such examination of law and facts as I have deemed necessary as a basis for my opinions set forth below. In connection with such examination, I have reviewed originals or facsimile or electronic copies of the following documents, each, to the extent applicable, dated as of the date hereof:

(i) the Note Agreement;

(ii) the Company's _.__% Series __ Senior Notes in the aggregate principal amount of $75,000,000 (the "Series __ Notes");

(iii) the Company's _.__% Series __ Senior Notes in the aggregate principal amount of $75,000,000 (the "Series __ Notes" and, together with the Series __ Notes, the "Notes"); and

(iv) the Guaranty Agreement.

The documents referred to in clauses (i) through (iv) above are hereinafter collectively called the "Note Documents" and individually called a "Note Document".

Based upon and subject to the foregoing and the assumptions, qualifications and exceptions set forth below, I am of the opinion that:

(1) Each of the Company and Graco Minnesota Inc. (the "Minnesota Guarantor") is a corporation validly existing and in good standing under the laws of the State of Minnesota. Each

of the other Loan Parties is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation.

(2) Each of the Company and the Minnesota Guarantor has full corporate power and authority to own and operate its properties and assets, carry on its business as presently conducted, and enter into and perform its obligations under the Note Documents to which it is a party.

(3) The execution and delivery by each of the Company and the Minnesota Guarantor of each of the Note Documents to which it is a party, the performance by each of the Company and the Minnesota Guarantor of its obligations thereunder, and, in the case of the Company, the offering, the issuance and the sale of the Notes, have been duly authorized by all necessary corporate action on the part of such Loan Party, and the Note Documents to which either the Company or the Minnesota Guarantor is a party have been duly executed and delivered on behalf of such Loan Party.

(4) The execution and delivery by the Loan Parties of each of the Note Documents to which it is a party, the performance by each Loan Party of its obligations thereunder, and, in the case of the Company, the offering, the issuance and the sale of the Notes, do not (a) violate or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any property of the Company or any other Loan Party pursuant to the provisions of the charter, bylaws or any other organizational document of any Loan Party or any material indenture, mortgage, contract or agreement to which any Loan Party is a party or by which it or its properties may be bound and of which I have Actual Knowledge, or in any writ, order or decision of any court or governmental instrumentality binding on any Loan Party and of which I have Actual Knowledge, or (b) violate any provisions of statutory law or regulation of the United States of America or the State of Minnesota applicable to such Loan Party.

(5) To my Actual Knowledge, there are no actions, suits or proceedings pending or threatened against any Loan Party before any court or arbitrator or by or before any administrative agency either (a) with respect to the Note Agreement, the Notes or any Note Document, or (b) which are reasonably likely to constitute an Material Adverse Effect.

(6) Neither the Company nor any Guarantor is (a) a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 2005, or (b) a "public utility" within the meaning of the Federal Power Act, as amended.

ASSUMPTIONS, QUALIFICATIONS AND EXCEPTIONS

In rendering the foregoing opinions, I wish to advise you of the following additional assumptions, qualifications and exceptions to which such opinions are subject:

A. I have relied solely on certificates of public officials as to the opinions set forth in paragraph (1) above regarding valid existence and good standing, and such opinions are given as of the respective dates of such certificates. As to certain relevant facts, I have relied on representations made by the Loan Parties in the Note Documents, the assumptions set forth below, and certificates of officers of the Loan Parties reasonably believed by me to be appropriate sources of information, as to the accuracy of factual matters, in each case without independent verification thereof or other investigation; provided, however, that I have no Actual Knowledge concerning the factual matters upon which reliance is placed which would render such reliance unreasonable. For purposes hereof, the term "Actual Knowledge" means the conscious awareness by me at the time this opinion letter is delivered of facts or other information without any other investigation.

B. This opinion letter is limited to the laws of the State of Minnesota and the federal laws of the United States of America.

C. I have relied, without investigation, upon the following assumptions: (i) natural persons who are involved on behalf of any Loan Party have sufficient legal capacity to enter into and perform the transaction or to carry out their role in it; (ii) each document submitted to me for review is accurate and complete, each such document that is an original is authentic, each such document that is a copy conforms to an authentic original, and all signatures on each such document are genuine; (iii) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of any of the Note Documents; (iv) all statutes, judicial and administrative decisions, and rules and regulations of governmental agencies, constituting the law of any relevant jurisdiction are generally available (*i.e.*, in terms of access and distribution following publication or other release) to lawyers practicing in such jurisdiction, and are in a format that makes legal research reasonably feasible; (v) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the relevant jurisdiction has specifically addressed but not resolved, or has established, its unconstitutionality or invalidity; (vi) documents reviewed by me (including the Note Documents) would be enforced as written and would be interpreted in accordance with the laws of the State of Minnesota; and (vii) each Loan Party will obtain all permits and governmental approvals required in the future, and will make all filings and take all actions similarly required, relevant to subsequent consummation of the transactions contemplated by the Note Documents or performance of the Note Documents.

D. The opinions expressed above are limited to the specific issues addressed and to laws existing on the date hereof. By rendering my opinions, I do not undertake to advise you with respect to any other matter or of any change in such laws or in the interpretation thereof which may occur after the date hereof.

E. I express no opinions as to the effect of any document or instrument that is not itself a Note Document, notwithstanding any provision in a Note Document requiring that any Loan Party perform or cause any other Person to perform its obligations under, or stating that any action will be taken as provided in or in accordance with, or otherwise incorporating by reference, such document or instrument.

F. In rendering the opinions expressed herein, I have only considered the applicability of statutes, rules and regulations that a lawyer in the State of Minnesota exercising customary professional diligence would reasonably recognize as being directly applicable to the Loan Parties, the transaction or both.

G. The opinions expressed above do not address any of the following legal issues: (i) securities laws and regulations, the rules and regulations of securities exchanges, and laws and regulations relating to commodity (and other) futures and indices and other similar instruments; (ii) Federal Reserve Board margin regulations; (iii) pension and employee benefit laws and regulations (*e.g.*, ERISA); (iv) antitrust and unfair competition laws and regulations; (v) laws and regulations concerning filing and notice requirements (*e.g.*, the Hart-Scott-Rodino Antitrust Improvements Act, as amended, other than requirements applicable to charter-related documents such as certificates of merger; (vi) laws, regulations, directives and executive orders restricting transactions with, or freezing or otherwise controlling assets of, designated foreign persons or governing investments by foreign persons in the United States (*e.g.*, the Trading with the Enemy Act, as amended, regulations of the Office of Foreign Asset Control of the United States Treasury Department, and the Foreign Investment and National Security Act of 2007); (vii) compliance with fiduciary duty and conflict of interest requirements; (viii) the statutes and ordinances, administrative decisions and the rules and regulations of counties, towns, municipalities and special political subdivisions (whether created or enabled through legislative action at the federal, state or regional level) and judicial decisions to the extent that they deal with the foregoing; (ix) fraudulent transfer and fraudulent conveyance laws; (x) environmental laws and regulations; (xi) land use and subdivision laws and regulations; (xii) tax laws and regulations; (xiii) intellectual property laws and regulations; (xiv) racketeering laws and regulations (*e.g.*, RICO); (xv) health and safety laws and regulations (*e.g.*, OSHA); (xvi) labor laws and regulations; (xvii) laws, regulations and policies concerning national and local emergency (*e.g.*, the International Emergency Economic Powers Act, as amended), possible judicial deference to acts of sovereign states, and criminal and civil forfeiture laws; and (xviii) other statutes of general application to the extent they provide for criminal prosecution (*e.g.*, mail fraud and wire fraud statutes).

This opinion letter is being furnished to the Purchasers in connection with the consummation of the transactions effected pursuant to the Note Documents, and may not be used for any other purpose or relied on by or assigned, published or communicated to any Person

other than the Purchasers and permitted transferees of the Notes without my prior written consent in each instance, except that each Purchaser and its successors and permitted assigns may furnish a copy hereof (i) to its independent auditors and counsel, (ii) to any U.S. state or U.S. federal authority or independent banking, insurance board or body having regulatory jurisdiction over the such Purchaser (including, without limitation, the National Association of Insurance Commissioners), (iii) pursuant to order or legal process of any court or governmental agency and (iv) in connection with any legal action to which it is a party arising out of or in respect of any Note Document; provided that in each case the persons referenced in (i)-(iv) above shall not be entitled to rely upon this opinion letter in whole or in part.

Very truly yours,

Karen Park Gallivan
Vice President, General Counsel and Secretary

EXHIBIT D-2

[FORM OF OPINION OF COMPANY'S AND GUARANTORS' SPECIAL COUNSEL]

[Date]

To the Purchasers Listed on

The Purchaser Schedule attached to the below defined Note Agreement

Ladies and Gentlemen:

We have acted as special counsel for Graco Inc., a Minnesota corporation (the "Company" and, together with its Domestic Subsidiaries who are Guarantors, collectively, the "Loan Parties" and individually, a "Loan Party"), in connection with that certain Note Agreement (the "Note Agreement") dated as of March 11, 2011 among the Company and the Purchasers listed on the Purchaser Schedule thereto. This opinion letter is being delivered to you pursuant to Section 3C of the Note Agreement. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to those terms in the Note Agreement.

We have made such examination of law and facts as we have deemed necessary as a basis for our opinions set forth below. In connection with such examination, we have reviewed originals or facsimile or electronic copies of the following documents, each, to the extent applicable, dated as of the date hereof:

(i) the Note Agreement;

(ii) the Company's _.__% Series __ Senior Notes in the aggregate principal amount of $75,000,000 (the "Series __ Notes");

(iii) the Company's _.__% Series __ Senior Notes in the aggregate principal amount of $75,000,000 (the "Series __ Notes", and together with the Series __ Notes, the "Notes"); and

(iv) the Guaranty Agreement (the "Guaranty").

The documents referred to in clauses (i) through (iv) above are hereinafter collectively called the "Note Documents" and individually called a "Note Document".

Based upon and subject to the foregoing and the assumptions, qualifications and exceptions set forth below, we are of the opinion that:

(1) The execution and delivery by each of the Loan Parties of the Note Documents to which it is a party, and the performance by each of the Loan Parties of its payment obligations

thereunder, do not require the Company to obtain the consent or approval of, or make any filing with, the government of the United States of America or the State of Minnesota or any department, commission or agency thereof under any provision of statutory law or regulation of the United States of America or the State of Minnesota applicable to such Loan Party, except for the filing after the date hereof by the Company of a Form D under the Securities Act and a Form 8-K under the Exchange Act.

(2) Each of the Note Documents to which any of the Loan Parties is a party constitutes a valid and binding obligation of such Loan Party enforceable against such Loan Party in accordance with its terms.

(3) It is not necessary in connection with the sale by the Company of the Notes under the circumstances contemplated by the Note Agreement to register the offer or sale of the Notes under Section 5 of the Securities Act. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Agreement do not require the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

(4) Neither the Company nor any Loan Party is required to be registered as an "investment company" under the Investment Company Act of 1940, as amended.

(5) Neither the issuance of the Notes nor the application of the proceeds of the sale of the Notes will violate or result in a violation of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

ASSUMPTIONS, QUALIFICATIONS AND EXCEPTIONS

In rendering the foregoing opinions, we wish to advise you of the following additional assumptions, qualifications and exceptions to which such opinions are subject:

A. As to certain relevant facts, we have relied on representations made by the Company and by the Purchasers in the Note Documents, the assumptions set forth below, and certificates of officers of the Company reasonably believed by us to be appropriate sources of information, as to the accuracy of factual matters, in each case without independent verification thereof or other investigation; provided, however, that our Primary Lawyers have no Actual Knowledge concerning the factual matters upon which reliance is placed which would render such reliance unreasonable. For purposes hereof, the term "Primary Lawyers" means lawyers in this firm who have given substantive legal attention to representation of the Company in connection with this matter, and the term "Actual Knowledge" means the conscious awareness by such Primary Lawyers at the time this opinion letter is delivered of facts or other information without any other investigation.

B. This opinion letter is limited to the laws of the State of Minnesota and the federal laws of the United States of America. We express no opinion as to whether, or the extent to which, the laws of any particular jurisdiction apply to the subject matter hereof, including without limitation the enforceability of the governing law

provisions contained in the Note Documents. In addition, because the governing law provisions of the Note Documents relate to the law of a jurisdiction as to which we express no opinion, the opinion set forth in paragraph (2) above is given as if the substantive law of the State of Minnesota governed such Note Documents.

C. We have relied, without investigation, upon the following assumptions: (i) natural persons who are involved on behalf of any Loan Party have sufficient legal capacity to enter into and perform the transaction or to carry out their role in it; (ii) each party to a Note Document (other than the Loan Parties to the extent expressly addressed in paragraphs (1) through (4) above) has satisfied those legal requirements that are applicable to it to the extent necessary to make such Note Document enforceable against it; (iii) each party to a Note Document (other than the Loan Parties) has complied with all legal requirements pertaining to its status (such as legal investment laws, foreign qualification statutes and business activity reporting requirements, including without limitation, to the extent applicable, the provisions of Minnesota Statute Section 290.371) as such status relates to its rights to enforce such Note Document against the Loan Parties; (iv) each document submitted to us for review is accurate and complete, each such document that is an original is authentic, each such document that is a copy conforms to an authentic original, and all signatures on each such document are genuine; (v) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (vi) the Purchasers and any representative acting for any of them in connection with the Note Documents have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as a part of, any of the Note Documents; (vii) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of any of the Note Documents; (viii) all statutes, judicial and administrative decisions, and rules and regulations of governmental agencies, constituting the law of any relevant jurisdiction are generally available (*i.e.*, in terms of access and distribution following publication or other release) to lawyers practicing in such jurisdiction, and are in a format that makes legal research reasonably feasible; (ix) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a published decision in the relevant jurisdiction has specifically addressed but not resolved, or has established, its unconstitutionality or invalidity; and (x) documents reviewed by us (other than the Note Documents) would be enforced as written and would be interpreted in accordance with the laws of the State of Minnesota.

D. In rendering the opinions set forth herein, we have also assumed, without investigation, that (i) the Loan Parties are duly organized, validly existing and in good standing under the laws of their respective jurisdictions of organization; (ii) except to the extent expressly opined to under paragraph (1) above, each of the Loan Parties has the power and authority to execute, deliver and perform the Note Documents to which such Loan Party is a party and to consummate the

transactions contemplated by such Note Documents; (iii) the Note Documents to which any of the Loan Parties is a party have been duly authorized, executed and delivered by such Loan Party; and (iv) except to the extent expressly opined to under paragraph (2) above, the execution, delivery and performance by each of the Loan Parties of the Note Documents to which such Loan Party is a party and the consummation by each of the Loan Parties of the transactions contemplated by the Note Documents to which such Loan Party is a party did not and will not (A) violate or conflict with or require any consent under any statute, rule or regulation or any judgment, order, writ, injunction or decree of any court or governmental authority, or (B) violate or result in a breach of or constitute a default or require any consent under any charter, by-laws or other organizational document of such Loan Party or any other agreement, contract, instrument or obligation to which such Loan Party is a party or by which such Loan Party or any of its assets is bound. We note that you have, to the extent you deemed advisable, received opinions with respect to certain of the foregoing matters from Karen Park Gallivan, Vice President, General Counsel and Secretary of the Company.

E. The opinions expressed above are limited to the specific issues addressed and to laws and facts existing on the date hereof. By rendering our opinions, we do not undertake to advise you with respect to any other matter or of any change in such laws or in the interpretation thereof, or of any changes in facts, which may occur after the date hereof.

F. The opinions expressed in paragraph (2) above are limited by the effect of bankruptcy, reorganization, insolvency, moratorium, fraudulent transfer, fraudulent conveyance, receivership and other similar laws now or hereafter in effect relating to or affecting creditors' rights generally, and by general principles of equity.

G. Without limiting any other qualifications set forth herein, the opinion expressed in paragraph (2) above is subject to the effect of generally applicable laws (including without limitation common law) that (i) provide for the enforcement of oral waivers or modifications where a material change of position in reliance thereon has occurred or provide that a course of performance may operate as a waiver; (ii) limit the enforcement of provisions of a contract that purport to require waiver of the obligations of good faith, fair dealing, diligence and reasonableness; (iii) limit the availability of a remedy under certain circumstances where another remedy has been elected; (iv) limit the enforceability of provisions releasing, exculpating or exempting a party from, or requiring indemnification of or contribution to a party for, liability for its own action or inaction, to the extent the action or inaction involves gross negligence, recklessness, willful misconduct or unlawful conduct; (v) may, where less than all of a contract may be unenforceable, limit the enforceability of the balance of the contract to circumstances in which the unenforceable portion is not an essential part of the agreed exchange; (vi) govern and afford judicial discretion regarding the determination of damages and entitlement to attorneys' fees and other costs; (vii) may permit a party who has materially failed to render or offer performance

required by a contract to cure that failure unless either permitting a cure would unreasonably hinder the aggrieved party from making substitute arrangements for performance or it is important under the circumstances to the aggrieved party that performance occur by the date stated in the contract; (viii) may limit the enforceability of provisions restricting competition, the solicitation of customers or employees, the use or disclosure of information or other activities in restraint of trade; (ix) may require mitigation of damages; (x) limit the right of a creditor to use force or cause a breach of the peace in enforcing rights; or (xi) provide a time limitation after which a remedy may not be enforced (*i.e.*, statutes of limitation).

H. We express no opinion as to the enforceability or effect in the Note Documents of (i) any provision that provides for the payment of premiums upon mandatory prepayment or acceleration or of liquidated damages (whether or not denominated as such); (ii) any "usury savings" provision; (iii) any provision that authorizes one party to act as attorney-in-fact for another party; (iv) any agreement to submit to the jurisdiction of any particular court or other governmental authority that lacks subject matter jurisdiction, any provision restricting access to courts (including without limitation agreements to arbitrate disputes), any waivers of the right to jury trial, any waivers of service of process requirements that would otherwise be applicable, any provision relating to evidentiary standards, any agreement that a judgment rendered by a court in one jurisdiction may be enforced in another jurisdiction, or any provision otherwise affecting the jurisdiction or venue of courts; (v) any provision waiving legal or equitable defenses or other procedural, judicial or substantive rights, such as rights to damages, rights to counterclaim or set off, the application of statutes of limitations and rights to notice; (vi) any provision that provides for set-off or similar rights; or (vii) any provision that purports to impose increased interest rates or late payment charges upon overdraft, delinquency in payment or default, or to provide for the compounding of interest or the payment of interest on interest.

I. We express no opinion as to the enforceability or effect of any agreement, instrument or undertaking (including without limitation any statutory undertaking) that is not itself a Note Document, solely as a result of any provision in a Note Document requiring that a Loan Party perform or cause any other Person to perform its obligations under, or stating that any action will be taken as provided in or in accordance with, or otherwise incorporating by reference, such agreement, instrument or undertaking.

J. With respect to our opinion in paragraph (2) above, we hereby advise you that (i) in the absence of an effective waiver or consent, a guarantor may be discharged from its guaranty to the extent the guaranteed obligations are modified or other action or inaction by a creditor increases the scope of the guarantor's risk or otherwise detrimentally affects the guarantor's interests (such as by impairing the value of collateral securing the guaranteed obligations, negligently administering the guaranteed obligations, or releasing the borrower or a co-guarantor of the guaranteed obligations); and (ii) a guarantor may have the right to revoke a guaranty with respect to obligations incurred after the

revocation, notwithstanding the absence of an express right of revocation in the guaranty.

K. In rendering the opinions expressed herein, we have only considered the applicability of statutes, rules and regulations that a lawyer in the relevant jurisdiction exercising customary professional diligence would reasonably recognize as being directly applicable to the Loan Parties, the transaction, or both.

L. Except for our opinions in paragraph (3) and (4) above with respect to clause (i) of paragraph (L) and our opinion in paragraph (5) with respect to clause (ii) of this paragraph (L), the opinions expressed above do not address any of the following legal issues: (i) securities laws and regulations, the rules and regulations of securities exchanges, and laws and regulations relating to commodity (and other) futures and indices and other similar instruments; (ii) Federal Reserve Board margin regulations; (iii) pension and employee benefit laws and regulations (*e.g.*, ERISA); (iv) antitrust and unfair competition laws and regulations; (v) laws and regulations concerning filing and notice requirements (*e.g.*, the Hart-Scott-Rodino Antitrust Improvements Act, as amended, other than requirements applicable to charter-related documents such as certificates of merger; (vi) laws, regulations, directives and executive orders restricting transactions with, or freezing or otherwise controlling assets of, designated foreign persons or governing investments by foreign persons in the United States (*e.g.*, the Trading with the Enemy Act, as amended, regulations of the Office of Foreign Asset Control of the United States Treasury Department, and the Foreign Investment and National Security Act of 2007); (vii) compliance with fiduciary duty and conflict of interest requirements; (viii) the statutes and ordinances, administrative decisions and the rules and regulations of counties, towns, municipalities and special political subdivisions (whether created or enabled through legislative action at the federal, state or regional level) and judicial decisions to the extent that they deal with the foregoing; (ix) fraudulent transfer and fraudulent conveyance laws; (x) environmental laws and regulations; (xi) land use and subdivision laws and regulations; (xii) tax laws and regulations; (xiii) intellectual property laws and regulations; (xiv) racketeering laws and regulations (*e.g.*, RICO); (xv) health and safety laws and regulations (*e.g.*, OSHA); (xvi) labor laws and regulations; (xvii) laws, regulations and policies concerning national and local emergency (*e.g.*, the International Emergency Economic Powers Act, as amended), possible judicial deference to acts of sovereign states, and criminal and civil forfeiture laws; and (xviii) other statutes of general application to the extent they provide for criminal prosecution (*e.g.*, mail fraud and wire fraud statutes).

This opinion letter is being furnished to the Purchasers in connection with the consummation of the transactions effected pursuant to the Note Documents, and may not be used for any other purpose or relied on by or assigned, published or communicated to any Person other than the Purchasers and permitted transferees of the Notes without our prior written consent in each instance, except that each Purchaser and its successors and permitted assigns

may furnish a copy hereof (i) to its independent auditors and counsel, (ii) to any U.S. state or U.S. federal authority or independent banking, insurance board or body having regulatory jurisdiction over such Purchaser (including without limitation, the National Association of Insurance Commissioners), (iii) pursuant to order or legal process of any court or governmental agency and (iv) in connection with any legal action to which it is a party arising out of or in respect of any Note Document; provided that in each case the persons referenced in (i)-(iv) above shall not be entitled to rely upon this opinion letter in whole or in part.

Very truly yours,

FAEGRE & BENSON LLP

By _____
James M. Pfau

GRACO INC (GGG)

8-K

Current report filing
Filed on 04/15/2011
Filed Period 04/14/2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 14, 2011**

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)	(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**

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))

Item 1.01. Entry into a Material Definitive Agreement.

On April 14, 2011, Graco Inc. (the "Registrant"), Graco Holdings Inc. and Graco Minnesota Inc. (collectively, the "Purchasers") and Illinois Tool Works Inc. and ITW Finishing LLC (together, the "Sellers") entered into an Asset Purchase Agreement (the "Agreement"). Under the Agreement, the Purchasers will acquire the operations of the finishing businesses of the Sellers in a $650 million cash transaction. The transaction is expected to close in June 2011, at the earliest, pending regulatory reviews and other customary conditions.

The above description of the Agreement in the attached release is qualified in its entirety by reference to the Agreement, which is filed as Exhibit 2.1 hereto and incorporated by reference in this Current Report on Form 8-K. The Registrant issued a press release on April 14, 2011 announcing the acquisition, a copy of which is filed as Exhibit 99.1 hereto and incorporated by reference in this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

2.1 Asset Purchase Agreement, dated April 14, 2011, by and among Graco Inc., Graco Holdings Inc., Graco Minnesota Inc., Illinois Tool Works Inc. and ITW Finishing LLC (excluding schedules and exhibits, which the Registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request).

99.1 Press Release dated April 14, 2011.

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 hereunto duly authorized.

GRACO INC.

Date: April 15, 2011 By /s/ Karen Park Gallivan
Karen Park Gallivan
Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit	Description	Method of Filing
2.1	Asset Purchase Agreement, dated April 14, 2011, by and among Graco Inc., Graco Holdings Inc., Graco Minnesota Inc., Illinois Tool Works Inc. and ITW Finishing LLC (excluding schedules and exhibits, which the Registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request).	Filed Electronically
99.1	Press Release dated April 14, 2011.	Filed Electronically

Exhibit 2.1

ASSET PURCHASE AGREEMENT

by and among

Graco Inc.,

Graco Holdings Inc.,

Graco Minnesota Inc.,

Illinois Tool Works Inc.,

and

ITW Finishing LLC,

dated as of April 14, 2011

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (including all schedules, exhibits and other agreements attached hereto or made a part hereof, and all amendments hereto, this "*Agreement*") is made and entered into as of April 14, 2011, by and among Graco Inc., a Minnesota corporation ("*Purchaser Parent*"), Graco Holdings Inc., a Minnesota corporation ("*Purchaser Holdco*"), Graco Minnesota Inc., a Minnesota corporation ("*IP Purchaser*"), Illinois Tool Works Inc., a Delaware corporation ("*Seller Parent*"), and ITW Finishing LLC, a Delaware limited liability company ("*U.S. Seller*").

WITNESSETH:

WHEREAS, Sellers and the Acquired Subsidiaries are engaged in the business of developing, manufacturing, distributing, selling, and servicing liquid and powder finishing and coating systems and products (the "*Finishing Business*"); and

WHEREAS, Purchasers desire to purchase from Sellers, and Sellers desire to sell to Purchasers, all of the assets of Sellers relating to the Finishing Business, upon the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of and in reliance upon the representations, warranties and obligations contained herein, the parties agree as follows:

ARTICLE 1
DEFINITIONS

The capitalized terms referred to in this Agreement have the meanings indicated below (and other capitalized terms are defined elsewhere in this Agreement):

"*Acquired Assets*" has the meaning provided in Section 2.1.

"*Acquired Contracts*" has the meaning provided in Section 2.1(e).

"*Acquired Subsidiaries*" has the meaning provided in Section 2.1(k).

"*Acquisition Proposal*" has the meaning provided in Section 6.1(f).

"*Affiliate*" means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" for purposes of this definition means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"*Allocation*" has the meaning provided in Section 3.3.

"*Agreement*" has the meaning provided in the Preamble to this Agreement.

"*Ancillary Agreements*" means any Contract (including the Bill of Sale, the Designated Acquired Assets Transfer Documents, the Non-U.S. Subsidiary Purchase Agreements, and the Transition Services Agreement) which is or is to be entered into at Closing or otherwise pursuant to this Agreement. The Ancillary Agreements executed by a specified Person shall be referred to as "such Person's Ancillary Agreements," "its Ancillary Agreements" or another similar expression.

"*Applicable Law*" means all laws, statutes, constitutions, treaties, rules, codes, ordinances, regulations, rulings, whether federal, state, local, foreign, international, or other, and all orders, judgments, injunctions, decrees, permits, certificates and licenses of any Governmental Authority, and all interpretations of any of the foregoing by a Governmental Authority having jurisdiction or any arbitrator or other judicial or quasi-judicial tribunal.

"*Assumed Benefit Plans/Schemes*" has the meaning provided in Section 6.3(a).

"*Assumed Liabilities*" has the meaning provided in Section 2.3.

"*Audited Financial Statements*" has the meaning provided in Section 7.1(f)(i).

"*Bill of Sale*" means the Assignment and Assumption Agreement and Bill of Sale to be entered into at the Closing by and among the applicable Purchasers and Sellers (other than Sellers who execute a Non-U.S. Subsidiary Purchase Agreement), in a customary form reasonably acceptable to Purchaser Parent and Seller Parent.

"*Books and Records*" means all books, records, data, ledgers, files, documents, Tax Returns, instruments, papers, computer files (including files stored on a computer's hard drive or on other storage media), electronic files, correspondence, lists (including all customer and supplier lists and other information relating to customers and suppliers), drawings, and specifications, creative materials, advertising, merchandising, and promotional materials, sales materials, studies, reports, and other printed materials and records in any other medium.

"*Bulk-Transfer Laws*" has the meaning provided in Section 3.4.

"*Business Day*" means any day of the week other than (i) Saturday and Sunday and (ii) any day which banks located in Minneapolis, Minnesota or Chicago, Illinois are generally closed for business.

"*Business Intellectual Property*" means all Intellectual Property that is either (i) owned by any Seller and is related primarily to the Finishing Business; or (ii) owned by any Acquired Subsidiary and specifically excluding any and all Excluded Domain Names.

"*Business Registered Intellectual Property*" has the meaning provided in Section 4.10(a).

"*Cash and Cash Equivalents*" means the sum of all cash and the fair market value (expressed in U.S. dollars) of all cash equivalents of any kind in accordance with GAAP

(including bank account balances and money market accounts, net of outstanding checks issued by any Acquired Subsidiary) of the Acquired Subsidiaries, in each case as of the Closing Date.

"*Closing*" means the actual delivery of the instruments for conveyance of the Acquired Assets and the exchange and delivery by the parties of the other documents and instruments contemplated by this Agreement and the consummation of the transactions contemplated hereby, which shall take place at the offices of Faegre & Benson LLP, at 2200 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota or at such other place as the parties may mutually agree on: (i) June 1, 2011; (ii) if the conditions set forth in Sections 7.1 and 7.2 hereof have not been satisfied or waived on or before June 1, 2011, the date that is the first Business Day of the month immediately following the month in which all of the conditions precedent in Sections 7.1 and 7.2 have been satisfied or waived (other than conditions with respect to actions that are to be taken at the Closing), unless such date is less than five Business Days before the last day of a fiscal quarter of Purchaser Parent, in which case the Closing shall occur on first Business Day after the last day of such fiscal quarter; or (iii) such other date as the parties may mutually agree on. The effective time of the Closing shall be the close of business on the Closing Date.

"*Closing Date*" means the date on which the Closing occurs.

"*Code*" means the U.S. Internal Revenue Code of 1986, and the rules and regulations promulgated thereunder.

"*Computer Systems*" has the meaning provided in Section 4.10(h).

"*Confidential Information*" means any information concerning the Finishing Business that is not generally available to the public.

"*Contract*" means with respect to the Finishing Business any contract, agreement, lease, indenture, purchase order, sales order, mortgage, note, bond or other binding commitment, whether written or oral.

"*Damages*" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, Liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses but excluding any punitive, exemplary, special, consequential damages and diminution in value claims which result from or arise out of (i) breach of any representation or warranty made in Article 4 or Article 5 or (ii) breach by any party of any of the covenants or agreements contained herein or to be performed before the Closing Date, except to the extent any such excluded damages are awarded to a third party pursuant to a Third Party Claim.

"*Debt*" means, without duplication: (i) indebtedness for borrowed money; (ii) indebtedness secured by any Lien on property owned, whether or not the indebtedness secured thereby has been assumed; (iii) indebtedness evidenced by notes, bonds, debentures or other similar instruments; (iv) capital leases, including all amounts representing the capitalization of rentals in accordance with GAAP; (v) "earnouts" or similar payment obligations; (vi) all

guarantees, endorsements and other contingent obligations with respect to liabilities of a type described in any of clauses (i) through (v) above; and (vii) interest, penalties, premiums, fees and expenses related to any of the foregoing.

"*Designated Acquired Assets*" has the meaning provided in Section 2.1.

"*Designated Acquired Assets Transfer Documents*" means such documents and instruments of transfer and assignment (including intellectual property assignments) to transfer and assign to IP Purchaser or its designee(s) all of the Business Registered Intellectual Property, in a customary form reasonably acceptable to Purchaser Parent and Seller Parent.

"*Disclosure Schedules*" means the disclosure schedules attached to and made part of this Agreement.

"*Employee Benefit Plan/Scheme*" means any employee benefit plan, scheme, program or arrangement of any kind (including any stock option or ownership plan, stock appreciation rights plan, stock purchase plan, bonus, incentive compensation, pension, superannuation, deferred compensation or profit-sharing plan, or any arrangement regarding any vacation, holiday, sick leave, fringe benefit, pre-Tax premium or flexible spending account plan or any plan providing benefits on or in anticipation of retirement or death) applicable to any Employees.

"*Employees*" means the employees of Seller Parent and its Affiliates who are engaged in the Finishing Business and the employees of each Acquired Subsidiary, including the individuals whose names are set forth on Schedule 4.12(n).

"*Environmental Laws*" means any Applicable Law or other legal requirement pertaining to pollution, the environment and/or the health or safety of the public or employees, including: the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601, *et seq.* ("*CERCLA*"); the Solid Waste Disposal Act, also known as the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901, *et seq.*; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11011, *et seq.*; the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1801, *et seq.*; the Clean Air Act, 42 U.S.C. §§ 7401, *et seq.*; the Clean Water Act, 33 U.S.C. §§ 1251, *et seq.*; the Occupational Safety and Health Act, 29 U.S.C. §§ 651, *et seq.*; the Toxic Substances Control Act, 15 U.S.C. §§ 2602, *et seq.*; the Rivers and Harbors Act of 1899, 33 U.S.C. § 401, *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. § 2701, *et seq.*; any foreign, international, state, or local Applicable Law similar to the foregoing; all regulations issued pursuant to the foregoing; all Permits issued to any Seller pursuant to the foregoing; all common law decisions and any other state, federal, foreign, international, or local Applicable Law pertaining to: (i) the existence, cleanup and/or remedy of contamination on property; (ii) the emission or release of any Hazardous Material into the environment, including into sewer systems or within buildings; (iii) the control of hazardous wastes; (iv) the use, generation, transport, treatment, storage, disposal, removal or recovery of Hazardous Materials, including hazardous building materials; or (v) worker or community protection.

"*Exchange Act*" means the U.S. Securities and Exchange Act of 1934, and the rules and regulations promulgated pursuant thereto.

"*Excluded Assets*" has the meaning provided in Section 2.2.

"*Excluded Domain Names*" means Internet domain names used in the Finishing Business by the Sellers prior to the Closing Date which include ITW' or any other trademarks of Sellers which are excluded from Business Intellectual Property.

"*Excluded Liabilities*" has the meaning provided in Section 2.4.

"*FCPA*" means the U.S. Foreign Corrupt Practices Act of 1977, 15 U.S.C. §§ 78m and 78dd-1, et seq.

"*Final Adjustment Amount*" has the meaning provided in Section 3.2(a).

"*Final Closing Balance Sheet*" has the meaning provided in Section 3.2(a).

"*Final Closing Statement*" has the meaning provided in Section 3.2(a).

"*Finishing Business*" has the meaning provided in the Recitals to this Agreement.

"*GAAP*" means generally accepted accounting principles as in effect in the United States on the date of this Agreement.

"*Governmental Authority*" means any supranational, national, federal, state, departmental, county, municipal, regional or other governmental or quasi-governmental authority, agency, board, body, instrumentality, commission, tribunal, court, or arbitrator, whether U.S. or foreign.

"*Hazardous Materials*" means any "hazardous substance," "pollutant," or "contaminant" as defined at 42 U.S.C. §9601, as well as any extremely hazardous substances, toxic substances, hazardous waste, pollutant, contaminant and any other substance, material or waste regulated by an Environmental Law. Hazardous Materials shall include petroleum products, agricultural chemicals, asbestos, urea formaldehyde and polychlorinated biphenyls, regardless of whether specifically listed or designated as a hazardous material under any Environmental Law.

"*Hired Employees*" has the meaning provided in Section 6.3(d).

"*HSR Act*" has the meaning provided in Section 4.1(d).

"*Inactive Employee*" has the meaning provided in Section 6.3(b).

"*Indemnification Cap*" has the meaning provided in Section 8.4(a).

"*Indemnified Party*" has the meaning provided in Section 8.5(a).

"*Indemnifying Party*" has the meaning provided in Section 8.5(a).

"*Independent Firm*" has the meaning provided in Section 3.2(b).

"*Initial Purchase Price*" has the meaning provided in Section 3.1(b).

"*Intellectual Property*" means all of the following in any jurisdiction throughout the world: (i) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof; (ii) all trademarks, service marks, trade dress, logos, slogans, trade names, corporate names, Internet domain names and rights in telephone numbers, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith; (iii) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith; (iv) all mask works and all applications, registrations, and renewals in connection therewith; (v) all trade secrets and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals); (vi) all computer software (including source code, executable code, data, databases and related documentation); (vii) all advertising and promotional materials; (viii) all other proprietary rights; and (ix) all copies and tangible embodiments thereof (in whatever form or medium).

"*IP Purchaser*" has the meaning provided in the Preamble to this Agreement.

"*ITW Executive Incentive Program*" has the meaning provided in Schedule 6.3(i).

"*Leased Real Property*" has the meaning provided in Section 4.9(a).

"*Liability*" means any liability or obligation of any kind or nature (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due).

"*Lien*" means any mortgage, pledge, lien, encumbrance, charge, assessment, deed of trust, lease, adverse claim, levy or other security interest.

"*Management Financial Statements*" has the meaning provided in Section 4.5(a).

"*March 2011 Management Financial Statements*" has the meaning provided in Section 4.5(a).

"*Material Adverse Effect*" means a material adverse effect, whether individually or in the aggregate, on the business, operations, properties, assets, condition (financial or otherwise), Liabilities, or results of operations of the Finishing Business; *provided*, *however*, that none of the following (individually or in the aggregate) shall be deemed to constitute, or shall be taken into account in determining whether there has been, a Material Adverse Effect: (a) conditions

generally affecting the United States or world economy or generally affecting one or more industries in which the Finishing Business operates; (b) national or international political or social conditions, including acts of terrorism or the engagement in or escalation of hostilities or acts of war involving the United States; (c) any natural disaster; (d) financial, banking or securities markets conditions and changes therein (including any disruption thereof, any decline in the price of any security or any market index or change in interest rates); (e) any increase in competition, whether from new entrants or existing competitors in any market in which the Finishing Business operates; or (f) any failure, in and of itself, by the Finishing Business to meet any internal or disseminated projections, forecasts or revenue or earnings predictions for any period (it being understood that the facts and circumstances giving rise or contributing to such failure may be taken into account in determining whether there has been a Material Adverse Effect), shall not be taken into account in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur with respect to the Finishing Business; provided that, in each case, such changes, events, occurrences or states of facts do not disproportionately affect the Finishing Business in any material respect.

"*Net Operating Assets*" means the net operating assets of the Finishing Business as of the Closing Date, calculated in accordance with methodologies used to calculate net operating assets on Schedule 3.1(b).

"*Non-U.S. Employees*" means Employees engaged or employed immediately prior to the Closing wholly or primarily outside the United States, including those individuals identified on Schedule 4.12(n) as having a primary residence outside the United States.

"*Non-U.S. Subsidiary Purchase Agreements*" means all of the purchase agreements relating to (a) the applicable Purchaser's acquisition of all of the equity interests in each Acquired Subsidiary, to be entered into at the Closing by and between such Purchaser and the applicable Seller, or (b) the applicable Purchaser's acquisition of the Acquired Assets (other than ownership interests in any Acquired Subsidiaries) held by any Subsidiary of Seller Parent that is not a U.S. entity, to be entered into at the Closing by and between the applicable Purchaser and each such Subsidiary; each such agreement to be based on (and reflect the substantive terms contained in) the form attached to this Agreement as Exhibit A, with such revisions as are mutually agreed upon by Purchasers and Sellers as necessary or appropriate to reflect the laws, regulations, and other requirements of any jurisdiction in which the applicable Acquired Subsidiary or foreign Seller is organized.

"*Notice of Objection*" has the meaning provided in Section 3.2(b).

"*Owned Real Property*" has the meaning provided in Section 4.9(a).

"*Permits*" means all approvals, permits, licenses, orders, registrations, certificates, authorizations, consents, variances, and similar rights obtained from any Governmental Authority.

"*Permitted Lien*" means (a) any Lien for Taxes not yet due or delinquent or being contested in good faith by appropriate proceedings, (b) any mechanic's, materialmen's, landlord's or similar Lien arising or incurred in the ordinary course of business that secures any

amount that is not overdue, (c) any Lien securing any Debt that is an Assumed Liability, (d) any easement, covenant, condition or restriction that does not materially impair the use, operation, or value of any asset to which it relates and as to which no material violation or encroachment exists, (e) any zoning or other governmentally established Lien that does not materially interfere with the operation of the Finishing Business, (e) purchase money liens securing rental payments under capital lease arrangements or (f) any other imperfections of title, if any, that do not materially impair the use, operation, or value of any asset to which it relates.

"*Person*" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, joint-stock company, or Governmental Authority.

"*Pre-Closing Tax Period*" means (a) any Tax period ending on or before the Closing Date and (b) with respect to a Straddle Period, any portion thereof ending on, and including, the Closing Date.

"*Pre-Closing Taxes*" has the meaning provided in Section 6.4(a).

"*Preliminary Closing Statement*" means an unaudited summary balance sheet of the Finishing Business as of the Closing Date, in the form attached hereto as Schedule 3.1(b), prepared by Sellers in good faith in accordance with the methodologies used to prepare Schedule 3.1(b).

"*Product*" means any products and services provided by the Finishing Business.

"*Purchase Price*" has the meaning provided in Section 3.1(a).

"*Purchaser Group*" has the meaning provided in Section 8.2.

"*Purchaser Holdco*" has the meaning provided in the Preamble to this Agreement.

"*Purchasers*" means IP Purchaser, Purchaser Holdco, and any other Subsidiaries of Purchaser Parent that become Purchasers pursuant to Section 6.1(j), and each of them individually is referred to herein as a "*Purchaser*."

"*Real Property*" has the meaning provided in Section 4.9(a).

"*Real Property Lease*" has the meaning provided in Section 4.9 (a).

"*Scheduled Contracts*" has the meaning provided in Section 4.11(a).

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Sellers*" means Seller Parent, U.S. Seller, and any other Subsidiaries of Seller Parent that become Sellers pursuant to Section 6.1(j), and each of them individually is referred to herein as a "*Seller*."

"*Seller Group*" has the meaning provided in Section 8.3.

"*Seller Owned Real Property*" has the meaning provided in Section 4.9(a).

"*Seller Parent*" has the meaning provided in the Preamble to this Agreement.

"*Seller Transaction Expenses*" means any and all costs, expenses and fees incurred by Sellers in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, including the fees and expenses of their respective legal, accounting and financial advisors.

"*Sellers' Knowledge*," "*the Knowledge of Sellers*" or any similar expression means (i) the actual knowledge after reasonable investigation, including reasonable investigation of records of the Finishing Business and with Employees, of Jane Warner, David Livingston, Claudio Merengo, Thomas White, Barry Holt, and Diane Delventhal, and (ii) the actual knowledge (with respect to such individual's area of expertise) after reasonable investigation, including reasonable investigation of records of the Finishing Business and with Employees, of Bob Simitz, Mark Duff, Katie Weems, Joanna Pasek, Steve Micatka, Brian Clucas, Mark Croll, Lisa Guijt, Ken Ng, Bob Hank, Ken Brown, and Marge O'Connell.

"*Straddle Period*" means any Tax period that includes (but does not end on) the Closing Date.

"*Subsidiary*" means, with respect to any Person, any other Person of which at least a majority of the securities or other interests, having by their terms ordinary voting power to elect a majority of the board of directors of such other Person (or others performing similar functions with respect to such other Person), is directly or indirectly owned or controlled by such first Person or by any one or more of such first Person's Subsidiaries.

"*Tax*" or "*Taxes*" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, goods and services, alternative or add-on minimum, estimated, or other tax of any kind, including any interest, penalty or addition thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the Tax liability of any other Person.

"*Tax Return*" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"*Termination Date*" has the meaning provided in Section 9.1(a)(vi).

"*Third Party Claim*" has the meaning provided in Section 8.5(a).

"*Transaction Support Award Program*" means the transaction support award letters by and between Seller Parent and any of its Subsidiaries and Affiliates and certain employees and

executives of the Finishing Business described on Schedule 1.1.

"*Transition Services Agreement*" means a transition services agreement, mutually acceptable to Purchaser Parent and Seller Parent, to be entered into at the Closing by and among the applicable Purchasers and Sellers, providing for Sellers' provision of the transition services set forth on Schedule 1.2 (along with such other services as are mutually acceptable to Purchaser Parent and Seller Parent).

"*UK Employees*" means those Employees exclusively employed by ITW Limited in the Finishing Business as carried out in the United Kingdom immediately before the Closing Date, each of whom is listed in Schedule 4.12(o).

"*Unresolved Items*" has the meaning provided in Section 3.2(b).

"*U.S. Seller*" has the meaning provided in the Preamble to this Agreement.

"*Valence Facility*" means that certain real property and improvements located in Valence, France, and currently owned by ITW Surfaces & Finitions SAS, one of the Acquired Subsidiaries, and described by street address on Schedule 4.9.

ARTICLE 2
PURCHASE AND SALE OF ASSETS

2.1 Acquired Assets. On the terms and subject to the conditions of this Agreement, at the Closing, Sellers shall sell, convey, transfer and deliver to Purchasers, and Purchasers shall purchase from Sellers, free and clear of any Liens (except for Permitted Liens), all of the assets, properties, rights, claims, privileges, and interests of Seller Parent and its Subsidiaries of every kind and character and wherever located, in each case relating to, used in, or arising out of the Finishing Business (including the equity ownership interests in certain of Seller Parent's Subsidiaries through which the Finishing Business is conducted), except for the Excluded Assets (collectively, the "*Acquired Assets*"); *provided*, *however*, that Sellers shall sell, convey, transfer and deliver to IP Purchaser (or its designee(s)) the Acquired Assets described in and subject to the terms of subsection (f) below (the "*Designated Acquired Assets*") at the Closing free and clear of all Liens, except for Permitted Liens. Without limiting the generality of the foregoing, the Acquired Assets include all of Sellers' right, title and interest in and to the following:

(a) the Seller Owned Real Property, together with all buildings, structures, installations, fixtures and other improvements situated thereon and all easements, rights of way and other rights, interests and appurtenances of any Seller therein or thereunto pertaining;

(b) the Real Property Leases to which any Seller is a party and all interests of any Seller therein, including real estate fixtures, leasehold improvements, security and other deposits, common-area-maintenance refunds, adjustments, and other amounts now or hereafter payable to any Seller under or in respect of such leases;

(c) accounts receivable, notes receivable, prepaid expenses, prepayments by customers, and deposits held by any Seller relating to the Finishing Business;

(d) all tangible personal property (including machinery, equipment, parts, goods, furniture, furnishings, hardware, computers, automobiles, trucks, tractors, trailers and tools) of any Seller used in the Finishing Business;

(e) all Contracts of any Seller relating to the Finishing Business (the "*Acquired Contracts*"), including the Contracts set forth on Schedule 4.10(e), but excluding any Contract not disclosed in Section 4.11 of the Disclosure Schedules if (i) such non-disclosure constitutes a misrepresentation under Section 4.11 and (ii) the assumption of such Contract by any Purchaser would, in such Purchaser's reasonable determination, materially and adversely affect such Purchaser, unless Purchaser Parent gives written notice to Seller Parent that it deems such Contract to constitute an Acquired Contract;

(f) all Business Intellectual Property, goodwill associated therewith, licenses and sublicenses granted and obtained with respect thereto, and rights thereunder, remedies against infringements thereof, and rights to protection of interests therein under the laws of all jurisdictions, in each case relating to the Finishing Business including the Business Registered Intellectual Property listed on Schedule 4.10(a), which shall be assigned, or caused to be assigned, by Sellers, or their designees, to IP Purchaser, or its designee, by assignment, at Closing, whereby the payment of any fees or expenses in connection with the recordation, certification and/or any other document or process related to such transfer of ownership (but excluding any Taxes relating to any pre-closing transfer of Business Intellectual Property by Seller Parent or any of its Affiliates) shall be the sole responsibility and at the sole expense of IP Purchaser or Purchaser Parent;

(g) all Permits issued to or held by any Seller and relating to the Finishing Business, to the extent transferable;

(h) all Books and Records of any Seller relating to the Finishing Business (except for the Books and Records identified as Excluded Assets);

(i) all claims, prepayments, prepaid expenses, refunds, causes of action, choses in action, rights of recovery, rights of set off, and rights of recoupment (including any such item relating to the payment of Taxes) of any Seller relating to the Finishing Business, except for the Excluded Assets described in Sections 2.2(g) and 2.2(h);

(j) all inventory (including finished products, work in process, raw materials, supplies, spare parts, and packaging materials) in the possession of any Seller (including inventory at customer locations or in transit or otherwise owned by any Seller) relating to the Finishing Business;

(k) all of the equity and ownership interests in the entities listed on Schedule 2.1(k) (collectively, the "*Acquired Subsidiaries*"), each of which is a wholly-owned direct

or indirect subsidiary of Seller Parent; and

(l) all assets of the Finishing Business held by ITW Australia Pty Ltd, as a going concern;

(m) all assets of the Finishing Business held by ITW Limited, as a going concern; and

(n) all goodwill of any Seller relating to the Finishing Business.

For the avoidance of doubt, as used herein, "Acquired Assets" includes all Designated Acquired Assets.

2.2 Excluded Assets. Notwithstanding anything to the contrary herein, the Acquired Assets do not include any of Sellers' right, title and interest in the following (the "*Excluded Assets*"):

(a) any cash and cash equivalents of Sellers;

(b) the charter, qualifications to conduct business, arrangements with registered agents, taxpayer and other identification numbers, seals, minute books and other documents relating to the organization, maintenance, and existence of each Seller as a corporation or limited liability company, as applicable;

(c) any Contract relating to the issuance of securities or governance of any Seller;

(d) any Contract not disclosed in Section 4.11 of the Disclosure Schedules if (i) such non-disclosure constitutes a misrepresentation under Section 4.11 and (ii) the assumption of such Contract by any Purchaser would, in such Purchaser's reasonable determination, materially and adversely affect such Purchaser, unless Purchaser Parent gives written notice to Seller Parent that it deems such Contract to constitute an Acquired Contract;

(e) Sellers' books or records relating primarily to internal corporate matters, Tax Returns and associated work papers through the Closing Date, and any other Books and Records to the extent not primarily related to the Acquired Assets or the Finishing Business;

(f) all books, documents, records and files prepared in connection with or relating in any way to the transaction covered by this Agreement or the Ancillary Agreement, including bids received from other parties and analyses relating in any way to the Finishing Business

(g) reimbursements or refunds owed to any Seller for Taxes for which any Seller is responsible under this Agreement;

(h) any Seller's rights under any policies of insurance purchased by Sellers, or any benefits, proceeds, or premium refunds payable or paid thereunder or with respect thereto (except as provided in Section 6.1(h));

(i) all assets held with respect to Sellers' Employee Benefit Plans/Schemes (other than those Employee Benefit Plans/Schemes listed on Schedule 6.3(a));

(j) all personnel, payroll, benefits, work authorization, and other associated necessary records related to any Hired Employee that Sellers are not legally permitted to transfer to Purchasers;

(k) all intercompany accounts between any Sellers or between any Seller and any Acquired Subsidiary or any other Affiliate of any Seller, which accounts are subject to Section 6.1(i);

(l) the Valence Facility;

(m) the operations of ITW Industry Co. Ltd, currently a subsidiary of Ransburg Industrial Finishing KK (Japan/US);

(n) the equity interest (one share of capital stock) in Syspack Industria e Comercio de Sistemas de Embalagens Industriais Ltda. held by DeVilbiss Equipamentos para Pintura Industrial Ltda;

(o) all Excluded Domain Names; and

(p) the rights of any Seller under this Agreement and the Ancillary Agreements.

2.3 Assumed Liabilities. On the terms and subject to the conditions of this Agreement, Purchasers agree to assume only the following Liabilities of Sellers (the "*Assumed Liabilities*") and no others, at the Closing:

(a) Sellers' liabilities and obligations under any Acquired Contract that is assigned or transferred to Purchasers, but not including any Liability arising out of any breach or default of such Acquired Contract, or relating to portions performed or to be performed, on or before the Closing Date;

(b) all liabilities of Sellers that appear on the Final Closing Balance Sheet, as finally determined in accordance with Section 3.2(b), except for the Liabilities described in Section 2.4;

(c) all Liabilities of Sellers with respect to any Owned Real Property or any Leased Real Property or current Finishing Business operations at any Owned or Leased Real Property arising under any Environmental Law (except as provided in Section

2.4(c));

(d) Sellers' payment obligations under the Transaction Support Award Program to the extent provided in Section 6.3(j);

(e) all Liabilities under any purchase orders with suppliers and vendors of Sellers with respect to the Finishing Business outstanding at the Closing Date;

(f) all Liabilities of Sellers assumed by Purchasers under Section 6.3(i);

(g) all Liabilities of Sellers with respect to any Business Intellectual Property arising under any intellectual property law at any time, including laws relating to patent infringement and including Liabilities arising out of the matters set forth on Schedule 2.3(g); and

(h) all Liabilities of Seller Parent and its Affiliates arising under the pension plans relating to the Employees or retirees of the Finishing Business located in Germany and Switzerland.

2.4 Excluded Liabilities. Notwithstanding anything to the contrary in this Agreement, neither Purchaser Parent nor any Purchaser nor any other Affiliate of Purchaser Parent shall have any responsibility for any Liabilities of any Seller of any nature whatsoever which are not specifically included in the Assumed Liabilities (any Liabilities which are not specifically included in the Assumed Liabilities being the "*Excluded Liabilities*"), including any of the following:

(a) Liabilities, including Liabilities arising under any Environmental Laws, with respect to any real properties that are not included in the definition of Owned Real Property or Leased Real Property;

(b) Liabilities arising out of the operation of the Finishing Business on or prior to the Closing Date, except to the extent included as Assumed Liabilities under Section 2.3;

(c) Liabilities (including Liabilities arising under Environmental Laws) arising out of or related to (i) the operations of Eagle Industries, Inc., including but not limited to any operations at the Owned Real Property in Toledo, Ohio, and (ii) any releases of Hazardous Materials into the Ottawa River and Maumee Bay, including but not limited to releases described in or disclosed by the Preassessment Screen for the Ottawa River and Maumee Bay dated November 3, 2004, prepared by the United States Fish and Wildlife Service/United States Department of the Interior;

(d) Liabilities arising under or relating to any Employee Benefit Plan/Schemes currently or formerly applicable to Employees engaged or employed immediately prior to Closing wholly or primarily in the United States, United Kingdom (including Liabilities under Section 75 of the UK Pensions Act of 1995), or Australia, and any other Liabilities under any Employee Benefit Plan/Scheme that are not Assumed Liabilities;

(e) any indebtedness for borrowed money of any Seller or any Liability related thereto;

(f) any Seller Transaction Expenses; and

(g) any Liabilities of any Seller relating to or arising from any workers' compensation claims for employees in the United States for claims occurring prior to the Closing Date.

ARTICLE 3
PURCHASE PRICE

3.1 Purchase Price and Preliminary Purchase Price Adjustment.

(a) The purchase price for the Acquired Assets is $650 million, plus any Cash or Cash Equivalents, less any Debt of any Seller (to the extent constituting Assumed Liabilities) and any Debt of any Acquired Subsidiaries as of the Closing Date, and plus or minus any Net Operating Asset adjustment determined pursuant to this Section 3.1 and Section 3.2 (the "*Purchase Price*").

(b) No later than three Business Days prior to the Closing Date, Sellers shall deliver to Purchaser Parent a draft Preliminary Closing Statement in the form of Schedule 3.1(b) setting forth a good faith estimate of the Cash and Cash Equivalents, the Debt of Sellers (to the extent constituting Assumed Liabilities) and any Debt of the Acquired Subsidiaries, the Net Operating Assets, and the resulting Preliminary Net Operating Asset Adjustment (calculated in accordance with Section 3.1(c)). The amounts shown on the Preliminary Closing Statement shall be prepared in accordance with the policies used in deriving the Management Financial Statements consistently applied in accordance with past practice and calculated consistent with Schedule 3.1(b). Purchaser Parent shall promptly provide any comments it has to Sellers on such Preliminary Closing Statement following receipt from Sellers, and Purchaser Parent and Sellers shall, taking Sellers' draft and Purchaser Parent's comments thereto into consideration, agree to a final draft of the Preliminary Closing Statement and shall calculate the estimated Purchase Price to be delivered by Purchaser Parent to Sellers at the Closing based thereon, in accordance with Sections 3.1(a) and (c) (the "*Initial Purchase Price*").

(c) The Purchase Price to be paid at Closing shall be adjusted to the extent that the Net Operating Assets (as shown on the Preliminary Closing Statement) as of the Closing Date (i) exceed $94 million, in which case an upward adjustment will be made to the Purchase Price for the excess above $94 million or (ii) are less than $86 million, in which case a downward adjustment will be made to the Purchase Price of the deficit below $86 million. The amount of such adjustment is referred to herein as the "*Preliminary Net Operating Asset Adjustment*." Net Operating Assets shall be calculated consistently with the Divisional Investment presented in the Management Financial Statements, except that consistent translation rates will be used to convert foreign currencies into United States Dollars, which shall be the 2011 PEG Rates utilized by Sellers and indicated in Schedule 3.1(b) and pension liabilities shall be revalued in accordance

with FAS 158 and fully reflected in the calculation of Net Operating Assets.

(d) At the Closing, Purchaser Parent shall pay to Seller Parent, by wire transfer of immediately available funds to a bank account designated in writing by Seller Parent no later than three Business Days prior to the Closing Date, an amount equal to the Initial Purchase Price.

3.2 Post-Closing Purchase Price Adjustment.

(a) Within 60 days after the Closing Date, Purchaser Parent shall prepare and deliver to Seller Parent: (i) an unaudited consolidated balance sheet of the Finishing Business (the "*Final Closing Balance Sheet*") as of and at the close of business on the Closing Date (but before consummation of the transactions contemplated by this Agreement), prepared in good faith in accordance with GAAP and the books and records of the Finishing Business (except that, for the avoidance of doubt, any Excluded Assets and Excluded Liabilities shall be excluded from such balance sheet), and (ii) an accompanying statement, prepared in accordance with Schedule 3.1(b) (the "*Final Closing Statement*") showing Purchaser Parent's calculation, as of the Closing Date, of: (1) Net Operating Assets, Cash and Cash Equivalents, and Debt of the Sellers (to the extent constituting Assumed Liabilities) plus Debt of any Acquired Subsidiaries, each based upon the Final Closing Balance Sheet and in accordance with the methodologies used to prepare Schedule 3.1(b); (2) the resulting adjustment to the Purchase Price, determined in accordance with Sections 3.1(a) and (c) (calculated by substituting the Operating Assets, Cash and Cash Equivalents, and Debt amounts shown on the Final Closing Balance Sheet for those previously appearing on the Preliminary Closing Statement); (3) the resulting final Purchase Price, calculated in accordance with Sections 3.1(a) and (c) and the Final Closing Balance Sheet; and (4) the Final Adjustment Amount due to Seller Parent or Purchaser Parent (if any), such "*Final Adjustment Amount*" being the difference between the Initial Purchase Price paid at Closing and the final Purchase Price shown on the Final Closing Statement.

(b) Seller Parent may dispute Purchaser Parent's calculation of the Final Closing Balance Sheet or the Final Closing Statement (collectively, the "*Final Closing Documents*") (or any element thereof) by notifying Purchaser Parent in writing, setting forth in reasonable detail the particulars of such disagreement (the "*Notice of Objection*"), within 30 days after Seller Parent's receipt of the Final Closing Balance Sheet. In the event that Seller Parent does not deliver a Notice of Objection to Purchaser Parent within such 30 day period, Seller Parent shall be deemed to have accepted Purchaser Parent's calculation of the Final Adjustment Amount set forth in the Final Closing Documents. In the event that a Notice of Objection is timely delivered, Purchaser Parent and Seller Parent shall use their respective commercially reasonable efforts and exchange any information reasonably requested by the other Party for a period of 30 days after Purchaser Parent's receipt of the Notice of Objection, or such longer period as the Parties may agree in writing, to resolve any disagreements set forth in the Notice of Objection. If Purchaser Parent and Seller Parent are unable to resolve such disagreements within such 30-day period and if (x) the items that remain in dispute at the end of such period (the "*Unresolved Items*") total less than $100,000, then the Unresolved Items shall be deemed to have been resolved by Seller Parent and Purchaser Parent by splitting equally the amount of such Unresolved Items, and the calculations of the Final Closing Documents shall be finally modified so as to reflect such resolution of the Unresolved Items; or (y) the Unresolved Items total at least $100,000, then, within 30 days thereafter, either Seller Parent or Purchaser Parent may require that an

independent accounting firm of recognized national standing as may be mutually selected by Purchaser Parent and Seller Parent (the "Independent Firm") shall resolve the Unresolved Items; provided that if the parties are unable to agree on an Independent Firm, the parties agree that Ernst & Young LLP shall serve as the Independent Firm. Purchaser Parent and Seller Parent shall instruct the Independent Firm to determine as promptly as practicable, and in any event within 30 days after the date on which such dispute is referred to the Independent Firm, based solely on the provisions of this Agreement, and the written presentations by Seller Parent and Purchaser Parent, and not on an independent review, whether and to what extent (if any) the calculations of Final Closing Documents require adjustment; *provided, however*, that in resolving any Unresolved Item, the Independent Firm (A) may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party, (B) may not take oral testimony from the parties hereto or any other Person, and (C) shall not consider any facts that have occurred after the Closing Date. Seller Parent and Purchaser Parent shall give each other copies of any written submissions at the same time as they are submitted to the Independent Firm. The fees and expenses of the Independent Firm shall be allocated between the Parties based upon the percentage which the portion of the contested amount not awarded to each Party bears to the amount actually contested by such Party. The determination of the Independent Firm shall be set forth in a written statement delivered to Seller Parent and Purchaser Parent and shall be final, conclusive and binding on the parties, absent fraud or manifest error.

(c) If the Final Closing Statement shows that an amount is due Purchaser Parent (because the Initial Purchase Price is greater than the final Purchase Price shown on the Final Closing Statement), Seller Parent shall promptly pay such difference to Purchaser Parent, in cash. If the Final Closing Statement shows that an amount is due Seller Parent (because the Initial Purchase Price is less than the final Purchase Price shown on the Final Closing Statement), Purchaser Parent shall promptly pay such excess to Seller Parent, in cash.

(d) Capitalized terms used in this Section 3.2, but not defined herein shall be as defined or used in Schedule 3.1(b).

3.3 Allocation of Purchase Price. Purchaser Parent, Purchasers, and Sellers will (and will cause their applicable Affiliates to) allocate the Purchase Price substantially in accordance with Schedule 3.3 (the "*Allocation*") and Applicable Law. The parties agree to work together after the date hereof to reach a mutual agreement with respect to a final allocation; *provided*, that such final allocation shall be consistent with the methodologies set forth on Schedule 3.3. Following the Closing, Purchaser Parent, Purchasers, and each Seller will, and will cause their respective Affiliates to, make consistent use of such Allocation as adjusted to reflect any adjustment pursuant to Section 3.2, if any. With respect to such Allocation, each of Purchaser Parent, Purchasers, and Sellers (1) will be bound by such Allocation, (2) will (and will cause its respective Affiliates to) act in accordance with such Allocation in the preparation of all financial statements and the filing of all Tax Returns and in the course of any Tax audit, Tax review or other Tax proceeding relating thereto, (3) will (and will cause its respective Affiliates to) take no position inconsistent with such Allocation for Tax purposes (including in connection with any proceeding), unless in each case otherwise required pursuant to a "determination" within the meaning of section 1313(a) of the Code, and (4) not later than 30 days before the filing of its IRS

Forms 8594 (whether initial or supplemental) relating to the transactions contemplated herein, will deliver to each other a true, correct and complete copy of such IRS Forms.

3.4 Bulk Sales Compliance. Purchasers and Purchaser Parent hereby waive, to the fullest extent permitted by Applicable Law, compliance by Sellers with the provisions of all laws based on the Uniform Commercial Code relating to bulk transfers (the "*Bulk-Transfer Laws*") in connection with the sale of the Acquired Assets.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF SELLERS

To induce Purchasers and Purchaser Parent to enter into this Agreement, Sellers jointly and severally represent and warrant as follows:

4.1 Authority; Consents.

(a) Except as set forth in Schedule 4.1(a), the execution, delivery and performance of this Agreement and the Ancillary Agreements by Sellers and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements have been duly authorized by all necessary organizational action on the part of Sellers and the Acquired Subsidiaries and do not and shall not (i) conflict with or violate any provision of the organizational documents of any Seller or any Acquired Subsidiary, (ii) conflict with or result in a violation or breach of any provision of any Applicable Law to which any Seller or any Acquired Subsidiary or any of their respective assets may be subject, (iii) conflict with, result (with or without notice or the lapse of time, or both) in a default of, constitute a default under, require the consent of any Person under, or create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under, or impose any material penalty or material additional payment obligations under any Scheduled Contract or any Real Property Lease, or (iv) result in an imposition or creation of any Lien on any Acquired Asset.

(b) Each Seller has full power and authority and has taken all actions necessary to enter into this Agreement and the Ancillary Agreements to which it is or will be a party and to carry out the transactions contemplated hereby and thereby.

(c) This Agreement has been duly and validly executed and delivered by each Seller and is, and each Ancillary Agreement contemplated hereby when executed and delivered shall be, the legal, valid and binding obligation of each Seller that is a party hereto or thereto, as the case may be, enforceable in accordance with their respective terms, except as such may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, and by general equitable principles.

(d) Other than the filings required by the pre-merger notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "*HSR Act*") and similar foreign statutes and regulations, and except as listed in Schedule 4.1(d), no material consent, authorization, order, or approval of or filing with any Governmental Authority is required in

connection with the execution and delivery of this Agreement and the Ancillary Agreements by Sellers and the consummation by Sellers of the transactions contemplated by this Agreement and the Ancillary Agreements.

4.2 Organization and Qualification. Each Seller and each Acquired Subsidiary is an organization duly organized, lawfully existing and in good standing under the laws of the jurisdiction of its organization (as listed in Schedule 4.2) with full power and authority to own or lease its properties and to conduct its business in the manner and in the places where such properties are owned or leased or such business is conducted. Except as would not reasonably be expected to have a Material Adverse Effect, each Seller and each Acquired Subsidiary is duly qualified to transact business in, and is in good standing under the laws of, each jurisdiction in which it is so required by Applicable Law. Sellers have made available to Purchasers correct and complete copies of the organizational documents, as amended to date, of each Seller and each Acquired Subsidiary.

4.3 Acquired Subsidiaries.

(a) Schedule 4.3 sets forth, with respect to each Acquired Subsidiary, the number of equity interests thereof issued and outstanding, the names of all owners of such equity interests, and the amount of equity owned by each such equity owner.

(b) The outstanding equity interests of each Acquired Subsidiary are validly issued, fully paid, and non-assessable, and all such equity interests are owned by the applicable Sellers listed on Schedule 4.3, free and clear of any Liens, other than Permitted Liens. Seller Parent owns, directly or indirectly, 100% of the outstanding equity ownership interests of each Seller. There are no existing options, warrants, calls, rights, or Contracts or arrangements of any nature requiring, and there are no securities of any Acquired Subsidiary outstanding that upon conversion or exchange would require, the issuance of any equity interests of any Acquired Subsidiary or other securities convertible into, exchangeable for, or evidencing the right to subscribe for or purchase any equity interests in any Acquired Subsidiary. Except as set forth in Schedule 4.3, neither Seller Parent nor any of its Affiliates nor, to Sellers' Knowledge, any other Person is a party to any voting trust or other Contract with respect to the voting, redemption, sale, transfer, or other disposition of the ownership interests of any Acquired Subsidiary. Schedule 4.3 lists all Contracts relating in any way to the ownership interests of any Acquired Subsidiary. All of the equity interests of the Acquired Subsidiaries have been issued in compliance with all Applicable Law.

(c) Except for Sellers and the Acquired Subsidiaries, no other Affiliates of Seller Parent are engaged in the Finishing Business. The Acquired Subsidiaries are not primarily engaged in any business other than the Finishing Business.

4.4 Good Title; Sufficiency of Assets.

(a) Sellers and the Acquired Subsidiaries are in possession of and have good and marketable title to, or (so long as the Management Financial Statements do not purport to treat such assets as owned by the Sellers or the Acquired Subsidiaries) a valid leasehold interest in or

valid rights under written agreements to use, all personal property, equipment, plants, buildings, structures, facilities and all other assets and properties used in the conduct of the Finishing Business, including all assets reflected on the Management Financial Statements and any assets acquired since the date of the March 2011 Management Financial Statements, other than assets disposed of since such date in the ordinary course of business consistent with past practice. Sellers have, and Purchasers (or, in the case of the Designated Acquired Assets, IP Purchaser or its designee(s)) shall receive at Closing, good and marketable title to, or, (so long as the Management Financial Statements do not purport to treat such assets as owned by the Sellers or the Acquired Subsidiaries) a valid leasehold interest in or valid rights under written agreements to use, the Acquired Assets, free and clear of all Liens except for Permitted Liens.

(b) Except for the Excluded Assets, the Acquired Assets constitute all of the assets used by Sellers in the Finishing Business.

4.5 Financial Statements; Internal Controls.

(a) Attached as Schedule 4.5 are the following consolidated and consolidating financial statements of the Finishing Business (the following financial statements, collectively, the "*Management Financial Statements*"): (i) unaudited financial statements as of December 31, 2008, December 31, 2009, and December 31, 2010 and for the years then ended, and (ii) unaudited financial statements as of March 31, 2011 and for the three months then ended (the "*March 2011 Management Financial Statements*"). Except as disclosed in Schedule 4.5, all of the Management Financial Statements have been prepared from the books and records of Sellers and the Acquired Subsidiaries in accordance with GAAP consistently applied and fairly present in all material respects the financial condition of the Finishing Business as of their respective dates and the results of its operations for the periods covered thereby. The income statements included in the Management Financial Statements do not contain any items of special or nonrecurring income or any other income not earned in the ordinary course of business except as expressly specified therein, and the Management Financial Statements include all adjustments, which consist only of normal recurring accruals, necessary for such fair presentation, subject, in the case of the March 2011 Management Financial Statements, to normal year-end adjustments (the effect of which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect).

(b) The Sellers' system of internal controls over financial reporting with respect to the Finishing Business and the Acquired Subsidiaries' system of internal controls over financial reporting are sufficient in all material respects to provide reasonable assurance (i) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP; (ii) that receipts and expenditures are executed in accordance with the authorization of management; and (iii) regarding prevention or timely detection of the unauthorized acquisition, use, or disposition of their assets that would materially affect their financial statements.

4.6 No Material Change. Since December 31, 2010, except as set forth on Schedule 4.6:

(a) there has been no change, event or occurrence which has had or would reasonably be expected to have a Material Adverse Effect;

(b) Sellers and the Acquired Subsidiaries have conducted the Finishing Business only in the ordinary course of business consistent with past practice; and

(c) no Seller (with respect to the Finishing Business or the Acquired Assets) nor any Acquired Subsidiary has:

(i) mortgaged or pledged any of its assets or properties or subjected them to any Lien (except for Permitted Liens);

(ii) had any Contract involving more than $500,000 accelerated, terminated, modified, or cancelled;

(iii) incurred any Liability involving more than $500,000 individually or $1,000,000 in the aggregate, except liabilities incurred in the ordinary course of business consistent with past practice;

(iv) canceled or compromised any Debt or claim outside the ordinary course of business consistent with past practice, or waived or released any right having an aggregate value of more than $500,000;

(v) suffered any material damage, destruction or casualty loss, whether or not covered by insurance having an aggregate value of more than $500,000;

(vi) granted any license, sublicense, or waiver of, or any covenant not to sue based on, any rights under or with respect to any Business Intellectual Property, other than licenses, sublicenses, waivers, or covenants granted under Contracts with customers in the ordinary course of business consistent with past practice;

(vii) made any capital expenditures or capital additions or betterments in excess of an aggregate of $1,000,000 or outside the ordinary course of business;

(viii) other than pursuant to the Transaction Support Award Program, made or granted any bonus or any wage or compensation increase to any director, manager, officer, agent or Employee or changed any other material term of employment of any Employee, in each case except in the ordinary course consistent with past practice;

(ix) adopted, amended or terminated any Employee Benefit Plan/Scheme, in each case except in the ordinary course consistent with past practice;

(x) any actual employee strikes, work-stoppages, slowdowns or lock-outs relating to Employees, entered into any collective bargaining agreement or other union or works council Contract with respect to Employees or modified the terms of any such existing agreement, or had any material change in its relations with its Employees, agents, customers or suppliers or materially changed its number of Employees;

(xi) made any change in its selling, pricing, advertising or personnel practices outside the ordinary course of business consistent with past practice;

(xii) made any material change in accounting methods or practices;

(xiii) made or changed any Tax election or the Acquired Assets or settled or compromised any material federal, state, local, or foreign Tax liability;

(xiv) other than in the ordinary course of business, entered into any compromise or settlement of any suit, action, claim or proceeding; or

(xv) entered into a written agreement to do any of the things described in the preceding paragraphs of this Section.

4.7 Inventory. Since December 31, 2010, the inventory relating to the Finishing Business has been maintained in the ordinary course of business consistent with past practice. All of the inventory relating to the Finishing Business is of a quality and quantity normally maintained by Sellers and the Acquired Subsidiaries in the ordinary course of business consistent with past practice, subject only to the reserve for slow and obsolete inventory reflected on the March 2011 Management Financial Statements. All of the inventory relating to the Finishing Business is in good and merchantable condition and is usable or salable in the ordinary course of business, subject only to the reserve for slow and obsolete inventory reflected on the March 2011 Management Financial Statements.

4.8 Tax Matters.

(a) Each Seller has timely filed with the appropriate Governmental Authorities all Tax Returns and Tax reports relating to the Finishing Business or the Acquired Assets required to be filed on or prior to the Closing Date. Each Acquired Subsidiary has timely filed with the appropriate Governmental Authorities all Tax Returns and Tax reports required to be filed on or prior to the Closing Date. All such Tax Returns and reports are correct and complete in all material respects. Sellers have paid all Taxes relating to or arising from the Finishing Business or the Acquired Assets and each Acquired Subsidiary has paid all Taxes, in each case which are due and payable (whether or not shown or required to be shown on any Tax Return). No Seller (relating to or arising from the Finishing Business or the Acquired Assets) nor any Acquired Subsidiary has agreed to the extension of the periods for the assessment or collection of any Taxes. No Seller has waived any statute of limitations in respect of Taxes relating to or arising from the Finishing Business or the Acquired Assets, and no Acquired Subsidiary has waived any statute of limitations in respect of any Taxes.

(b) Except as set forth on Schedule 4.8(b), no Seller is currently the subject of any Tax audit relating to the Finishing Business or the Acquired Assets nor is any Acquired Subsidiary currently the subject of any Tax audit, nor has any Seller or Acquired Subsidiary received notice of any such audit. Except as set forth on Schedule 4.8(b), there is no material dispute or claim concerning any Tax Liability of any Seller relating to or arising from the Finishing Business or the Acquired Assets or of any Acquired Subsidiary, either (A) claimed or raised by any authority in writing, or (B) as to which Sellers have Knowledge.

(c) Except for Ransburg Industrial Finishing KK, no Acquired Subsidiary has ever been a member of an affiliated group (within the meaning of Section 1504 of the Code) filing a consolidated federal Tax Return. No Seller is a party to any Tax allocation or sharing agreement relating to the Finishing Business or the Acquired Assets, and no Acquired Subsidiary is a party to any Tax allocation or sharing agreement. No Acquired Subsidiary has any Liability for the Taxes of any other Person (i) under Treasury Regulation §1.1502-6 (or any similar provision of state, local or foreign law), (ii) as a transferee or successor, (iii) by Contract, or (iv) otherwise. No Acquired Subsidiary has made any material payments, is obligated to make any material payments, or is a party to any agreement that under any circumstances could obligate it to make any material payments that are not deductible under Code Section 280G or similar provision of Applicable Law.

(d) No Acquired Subsidiary shall be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of (A) a change in method of accounting for a taxable period (or portion thereof) ending on or prior to the Closing Date, (B) any "closing agreement" as described in Code Section 7121 (or any corresponding provision of state, local or foreign income Tax law), (C) any installment sale or open transaction made on or prior to the Closing Date, or (D) as a result of any prepaid amount received on or prior to the Closing Date.

(e) No Seller nor any Acquired Subsidiary has distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Code Sections 355 or 361.

(f) There are no Liens for Taxes upon the Acquired Assets, except for Permitted Liens.

(h) No claim has been made by any Governmental Authority in a jurisdiction in which any Seller or any Acquired Subsidiary does not currently file a Tax Return that the Finishing Business, the Acquired Assets, any Acquired Subsidiary or any of the Sellers (with respect to the Finishing Business or the Acquired Assets) may be subject to a Tax by that jurisdiction.

(i) Except for DeVilbiss Equipamentos para Pintura Industrial Ltda or Ransburg Industrial Finishing KK, no Acquired Subsidiary is classified as other than a disregarded entity for United States federal income tax purposes.

(j) To Sellers' Knowledge, the Cash and Cash Equivalents held by each Acquired Subsidiary at the Closing Date represent fully distributable earnings of each Acquired Subsidiary as calculated under local law.

4.9 Real Property.

(a) Schedule 4.9 sets forth (i) the street address of all real property and all interests in real property, in each case that is owned in fee by any Seller in connection with the Finishing Business or by any Acquired Subsidiary (collectively, the "*Owned Real Property*"; the Owned Real Property owned by any Seller is referred to herein collectively as the "*Seller Owned Real Property*"), and indicates the Seller or Acquired Subsidiary that is the owner thereof; and (ii) the street address of all real property and all interests in real property, in each case that is leased or occupied by any Seller in connection with the Finishing Business or by any Acquired Subsidiary or that any Seller (in connection with the Finishing Business) or any Acquired Subsidiary has the right to lease or occupy, now or in the future (each such agreement, whether written or oral, being a "*Real Property Lease*" and any real property leased or occupied under a Real Property Lease being "*Leased Real Property*"), and indicates the Seller or Acquired Subsidiary that is the tenant or holds the future right to occupy under such Real Property Lease. The Owned Real Property and the Leased Real Property are collectively referred to herein as the "*Real Property*."

(b) All of the land, buildings, structures and other improvements used by any Seller or any Acquired Subsidiary in the conduct of the Finishing Business are included in the Real Property. Except for the Real Property Leases, there is no lease (including sublease) or occupancy agreement in effect with respect to any Real Property. There is no pending or, to Sellers' Knowledge, threatened condemnation or other eminent domain proceeding affecting any Real Property or any sale or other disposition of any Real Property in lieu of condemnation. No Real Property has suffered any material damage by fire or other casualty that has not been completely repaired and restored.

(c) Each Seller and each Acquired Subsidiary has a valid leasehold interest under its respective Real Property Leases. No Seller nor any Acquired Subsidiary is in default or otherwise in breach under any Real Property Lease and, to Sellers' Knowledge, no other party is in default or otherwise in breach thereof, except where such default or breach would not have a Material Adverse Effect. No Seller nor any Acquired Subsidiary, and to Sellers' Knowledge no other party, has exercised any termination right with respect to any Real Property Lease. Seller Parent has provided to Purchaser Parent a true, correct and complete copy of each Real Property Lease. Each Real Property Lease is in full force and effect and constitutes the entire agreement between the parties thereto, and to Sellers' Knowledge there are no other agreements, whether oral or written, between such parties. All rent and other sums and charges payable by any Seller or any Acquired Subsidiary as tenant under any Real Property Lease are current. No Seller nor any Acquired Subsidiary has, and to Sellers' Knowledge no other party has, repudiated any provision of any Real Property Lease, and there is no dispute, oral agreement or forbearance program in effect with respect to any Real Property Lease. The applicable Seller or Acquired Subsidiary has good title to the leasehold estate and other rights of the tenant with respect to the property affected by each Real Property Lease, free and clear of all Liens, except any (i) Permitted Liens, or (ii) Liens on the applicable fee title, the payment or performance of which

is not the responsibility of any Seller or any Acquired Subsidiary as tenant under the applicable Real Property Lease. No Seller nor any Acquired Subsidiary has received written or, to Sellers' Knowledge, oral notice from any insurance company that such insurance company will require any alteration to any Leased Real Property for continuance of a policy insuring such property or the maintenance of any rate with respect thereto (other than any notice of alteration that has been completed), to the extent that such alteration is the responsibility of any Seller or any Acquired Subsidiary under the applicable Real Property Lease.

(d) Except as listed in Schedule 4.9(d): (i) there is no purchase option, right of first refusal, first option or other right held by any Seller or any Acquired Subsidiary with respect to, or any real estate or building affected by, any Real Property Lease that is not contained within such Real Property Lease; and (ii) no Seller nor any Acquired Subsidiary has exercised any option or right to terminate, renew or extend or otherwise affect any right or obligation of the tenant under any Real Property Lease or to purchase the real property subject to any Real Property Lease.

(e) Each Seller and Acquired Subsidiary has good, marketable and valid fee title to its respective Owned Real Property, free and clear of all Liens except Permitted Liens. No Seller nor any Acquired Subsidiary has received written or, to Sellers' Knowledge, oral notice from any insurance company that such insurance company will require any alteration to any Owned Real Property for continuance of a policy insuring any Owned Real Property or the maintenance of any rate with respect thereto (other than any notice of alteration that has been completed).

(f) There is no development agreement or other Contract that limits the ability to protest any real property Tax, fix any minimum real property Tax or require any continued business operation with respect to any Owned Real Property or, to Sellers' Knowledge, any Leased Real Property. The use and occupancy of all Owned Real Property, and, to Sellers' Knowledge, all Leased Real Property, are in material compliance with all Applicable Laws and all applicable insurance requirements, including those pertaining to zoning matters and the Americans with Disabilities Act, and conform to all such Applicable Laws on a current basis without reliance on any variance or other special limitation or conditional or special use permit.

(g) No portion of any Owned Real Property relies on any facility (other than a facility of a public utility or community water and sewer company) not located on such Owned Real Property to fulfill any zoning, building code or other requirement under Applicable Law, except where such reliance would not have a Material Adverse Effect. To Sellers' Knowledge, there is no material defect in any structural component of any improvement on any Real Property or any of the electrical, plumbing, HVAC, life safety or other building systems of any Real Property.

4.10 Intellectual Property.

(a) Schedule 4.10(a) lists: (i) all patents owned by any Seller and related to the Finishing Business or owned by any Acquired Subsidiary and all applications for patents that have been filed by or for any Seller relating to the Finishing Business or that have been filed by or for any Acquired Subsidiary, (ii) all registered copyrights that are owned by any Seller and related to the Finishing Business or owned by any Acquired Subsidiary, and all applications for copyright registration that have been filed by or for any Seller relating to the Finishing Business

or that have been filed by or for any Acquired Subsidiary, and (iii) all registered trademarks and trade names, and registered Internet domain names, except Excluded Domain Names that are owned by any Seller and related to the Finishing Business or are owned by any Acquired Subsidiary, and all applications for trademark registration that have been filed or prepared for filing by or for any Seller relating to the Finishing Business or that have been filed or prepared for filing by or for any Acquired Subsidiary (the "*Business Registered Intellectual Property*"). To Sellers' Knowledge, Sellers and the Acquired Subsidiaries have taken all reasonable actions necessary to maintain the Business Registered Intellectual Property, including compliance with any statutes requiring payments to inventors. All registration, maintenance and renewal fees, payments and other similar actions required to maintain the foregoing applications and registrations in effect have been paid in full and, except as set forth in Schedule 4.10(a), no renewal fee, payment or other similar actions are required to be paid or made by any Seller or any Acquired Subsidiary within the six months following the date hereof with respect to such maintenance, renewals, applications or registrations of the Business Registered Intellectual Property. Each such registration was properly registered and is in good standing.

(b) Sellers and the Acquired Subsidiaries have the right to bring actions for infringement, misappropriation, misuse, or other violation of any Business Intellectual Property, including the right to sue for past damages. Except as set forth on Schedule 4.10(b), all Business Registered Intellectual Property is owned and transferrable by Sellers and the Acquired Subsidiaries, free and clear of all Liens, other than Permitted Liens. Except as set forth on Schedule 4.10(b), no actions for annulment or cancellation are pending or, to the Knowledge of Sellers, threatened with respect to the Business Registered Intellectual Property and no actions for recovery have been made or threatened. To Sellers' Knowledge and except as set forth on Schedule 4.10(b), all Business Registered Intellectual Property is valid and enforceable.

(c) To Sellers' Knowledge and except as set forth on Schedule 4.10(c), since April 15, 2008, no Person is infringing upon any rights of any Seller or any Acquired Subsidiary with respect to any Business Intellectual Property. Except as set forth on Schedule 4.10(c), since April 15, 2008, no Seller nor any Acquired Subsidiary is infringing on any Intellectual Property rights of any Person with respect to the conduct of the Finishing Business. Since April 15, 2008, no Seller nor any Acquired Subsidiary has received any written communication relating to the Finishing Business that requests or offers a license or grant of immunity from any Person with respect to any Intellectual Property. Except as set forth on Schedule 4.10(c), since April 15, 2008, no Seller nor any Acquired Subsidiary has been and or is a party to, or is the subject of any, pending or, to the Knowledge of Sellers, threatened suit, action, investigation or proceeding by or before any Governmental Authority that involves any claim (a) against any Seller or any Acquired Subsidiary of infringement, unauthorized use, misappropriation or violation of any Intellectual Property of any Person with respect to the Finishing Business, or challenging the ownership, use, validity or enforceability of any Business Intellectual Property or (b) contesting the right of any Seller or any Acquired Subsidiary to use, sell, exercise, license, transfer or dispose of any Products. Except as set forth on Schedule 4.10(c), there is no order or judgment from any Governmental Authority restricting the use, transfer or licensing by any Seller or any Acquired Subsidiary of, or affecting the validity of, any Business Intellectual Property, or that restricts the operation of the Finishing Business as currently conducted.

(d) To Sellers' Knowledge, no director, manager, officer, or employee of any Seller or any Acquired Subsidiary owns, directly or indirectly, in whole or in part, any Intellectual Property rights which any Seller or any Acquired Subsidiary uses or has used in the conduct of the Finishing Business. Each Seller (with respect to the Finishing Business) and Acquired Subsidiary employs a process to obtain all rights to Intellectual Property created by employees and consultants and to ensure the protection of confidential or proprietary information. During the period after the date hereof and prior to the Closing Date, Sellers will use commercially reasonable efforts to obtain from each Employee a valid agreement regarding assignment of intellectual property rights to the applicable Seller or Acquired Subsidiary and the protection of proprietary information executed by such Employee.

(e) Schedule 4.10(e) lists all non-confidential material Contracts relating to or affecting the use or ownership of any Intellectual Property used in the Finishing Business, including licenses, Seller Parent's form confidentiality and non-disclosure agreement, assignments or agreements to assign, development agreements, settlement agreements, and other similar agreements. All material Contracts relating to or affecting the use or ownership of Intellectual Property used in the Finishing Business are the valid and binding obligation of the parties thereto, enforceable against such parties in accordance with its terms, except as such may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, and by general equitable principles. No Seller nor any Acquired Subsidiary is in material violation or breach of or material default under any material Contract relating to or affecting the use or ownership of any Intellectual Property used in the Finishing Business and, to the Sellers' Knowledge, no other party to any such Contract is in material violation or breach thereof or material default thereunder. under any material Contract relating to or affecting the use or ownership. Except as noted in Schedule 4.10(e), the transactions contemplated by this Agreement do not require the consent of any party to any such Contract, shall not result in a violation or breach of or default under any such Contract, and shall not otherwise cause any such Contract to cease to be legal, binding, enforceable and in full force and effect on the same terms following the Closing.

(f) To Sellers' Knowledge, no government funding, facilities or resources of a university, college, other educational institution or research center or funding from third parties was used in the development of any Business Intellectual Property or any Products, and no governmental entity, university, college, other educational institution or research center has any claim or right in or to any Business Intellectual Property or any Products.

(g) Each Seller (with respect to the Finishing Business) and Acquired Subsidiary is in material compliance with all Applicable Laws, contractual requirements, privacy policies or statements, and all other applicable policies concerning data security requirements, privacy policy notice requirements, data security breach requirements, and requirements regarding the use, storage, disclosure or transfer of personally identifiable information. No Seller nor any Acquired Subsidiary is the subject of any investigation, claim or lawsuit relating to the information privacy or data security practices (including collection, transfer, or use) of any Seller (with respect to the Finishing Business) or any Acquired Subsidiary. There has been no data security breach of any computer systems or networks, or unauthorized use of any personally identifiable information that is owned, used, stored, received, or controlled by or on behalf of

any Seller (with respect to the Finishing Business) or any Acquired Subsidiary. The consummation of the transactions contemplated by this Agreement will not breach or otherwise cause any violation of any Applicable Laws relating to privacy or any privacy policies or procedures of any Seller or any Acquired Subsidiary.

(h) Sellers and the Acquired Subsidiaries own, lease or license software, hardware, databases, computer equipment and other material information technology (collectively, "*Computer Systems*") that were used for the operations of the Finishing Business prior to Closing. Sellers and the Acquired Subsidiaries have purchased the number of licenses for all Computer Systems necessary to conduct the Finishing Business as it was conducted prior to Closing. Notwithstanding the above, except as otherwise expressly provided in this Agreement, no representations and/or warranties are made with respect to the accuracy, completeness and/or transferability of any Computer Systems.

4.11 Material Contracts.

(a) Schedule 4.11(a) lists all of the following Contracts to which any Seller or any Acquired Subsidiary is a party or by which any Seller or any Acquired Subsidiary is bound, or to which any Acquired Assets or any assets of any Acquired Subsidiary are subject (the "*Scheduled Contracts*"):

(i) all employment agreements (a) involving any Employee with an annual base salary in excess of $150,000 and not terminable at will or (b) with any Employee participating in the Transaction Support Award Program and not terminable at will, or (c) providing for the possibility of severance benefits in excess of $100,000 beyond the requirements of Applicable Law;

(ii) any collective bargaining or other union or works council Contract relating to Employees;

(iii) any loan or advance to, or investment in any Person, or any Contract relating to the making of any such loan, advance or investment, in each case relating to the Finishing Business or any Acquired Subsidiary, other than ordinary course advances for travel expenses or any loan or advance for an amount less than $10,000;

(iv) any Contract containing any guarantee or other Liability by any Seller (with respect to the Finishing Business) or any Acquired Subsidiary with respect of any indebtedness of any other Person;

(v) any management, service, independent contractor or consulting agreement involving any Person with a historical annual cost in excess of $150,000 that is not terminable within one year or any other similar Contract relating to the Finishing Business or to which any Acquired Subsidiary is a party;

(vi) any Contract that materially limits the freedom of any Seller (with respect to the Finishing Business) or any Acquired Subsidiary to engage in any line of business or to compete with any Person;

(vii) any Contract (or groups of related Contracts with the same party or any group of affiliated parties) relating to the Finishing Business which require or may in the future require payment of aggregate consideration to or by Sellers and the Acquired Subsidiaries in excess of $500,000, except for any Contracts for the purchase of raw materials or supplies in the ordinary course at normal market prices that are terminable without penalty within 90 days;

(viii) any Contract for the purchase of raw materials or supplies for, or the furnishing of services to, the Finishing Business, (A) for which, to the Knowledge of Sellers, comparable goods or services are not readily available in the ordinary course of business, at prices at or similar to those which the applicable Seller or Acquired Subsidiary has agreed to pay under such Contract, or (B) the quantities of which are in excess of the normal operating practices of the Finishing Business, in each case involving aggregate payments in excess of $500,000;

(ix) any distributor, sales representative or agency Contract relating to the Finishing Business or to which any Acquired Subsidiary is a party involving aggregate payments in excess of $500,000;

(x) any joint venture or partnership Contract relating to the Finishing Business or to which any Acquired Subsidiary is a party;

(xi) any Contract for the sale or license of, or grant of any third-party interest in, any Acquired Assets or any assets of any Acquired Subsidiary, other than in the ordinary course of business, except as already listed in Schedule 4.10(e);

(xii) any note, debenture, mortgage, indenture, deed of trust, security agreement, purchase money agreement, capital lease or other Contract evidencing or securing indebtedness relating to the Finishing Business or to which any Acquired Subsidiary is a party, or any sale-leaseback arrangement pertaining to any Acquired Assets or any assets of any Acquired Subsidiary;

(xiii) any Contract providing for the payment of any cash or other compensation or benefits upon consummation of the transactions contemplated by this Agreement (other than Contracts described in clause (i) of this Section 4.11(a)) (other than pursuant to the Transaction Support Award Program);

(xiv) any lease, conditional sales or other Contract pursuant to which any Seller (in connection with the Finishing Business) or Acquired Subsidiary leases, has purchased or sold or holds possession of, but not title to, any real or personal property, whether as lessor, lessee, purchaser, seller, bailee, pledgee or the like, in each case involving aggregate payments in excess of $500,000, in each case except for any Real Property Lease; and

(xv) any Contract for the acquisition of a business by any Acquired Subsidiary

or any Seller (in connection with the Business) containing provisions that are currently operative (including ongoing earn-out or indemnity obligations).

(b) Each Scheduled Contract is a valid and binding obligation of the parties thereto, enforceable against such parties in accordance with its terms, except as such may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, and by general equitable principles. No Seller nor any Acquired Subsidiary is in material violation or breach of or default under (either with or without the lapse of time, giving of notice, or both) any Scheduled Contract. To the Sellers' Knowledge, no other party to any Scheduled Contract is in material violation or breach of or default under (either with or without the lapse of time, giving of notice, or both) any Scheduled Contract.

(c) Sellers have made available to Purchaser Parent a true, correct and complete (in all material respects) copy of each written Scheduled Contract, and a true, correct and complete (in all material respects) written description of each oral Scheduled Contract.

4.12 Employee Matters.

(a) Except as disclosed in Schedule 4.12(a) since January 1, 2008, none of the Employees is represented by any union or subject to any collective bargaining agreement or other union or works council agreement with any union or labor organization or employee group, and, to the Knowledge of Sellers, no Employees are engaged in any union, labor organization or employee group to organize any Employees.

(b) Except as set forth on Schedule 4.12(b) and to the Knowledge of Sellers, none of the Employees has suffered or is suffering from any illness or disease caused directly or indirectly by any employment-related condition or by contact with any materials within the scope of such Employee's employment.

(c) Except as disclosed in Schedule 4.12(c), to Sellers' Knowledge there has been no complaint, grievance, or unfair labor practice charge filed with any union, labor organization, employee group, Governmental Authority or other body against Seller Parent or any of its Affiliates alleging unfair labor practices, human rights violations, employment discrimination charges, or similar matters relating to the Finishing Business or any Employee.

(d) Since January 1, 2008, neither Seller Parent nor any of its Affiliates (with respect to the Finishing Business) nor any Acquired Subsidiary has experienced any work stoppages, slowdowns, walkouts or strikes.

(e) Except as disclosed in Schedule 4.12(e), Seller Parent and its Affiliates (with respect to the Finishing Business) and each Acquired Subsidiary has complied with all Applicable Laws relating to the employment of the Employees, including Applicable Laws relating to wages, hours, working time, equal opportunity, occupational health and safety, workers' compensation, collective bargaining, equal pay or treatment, discrimination on the grounds of any class protected by Applicable Law, information and consultation, maternity, paternity and parental leave and pay, immigration control, information and data privacy and

security, and the withholding and payment of social security and other Taxes, and continuation coverage with respect to group health plans, except where the failure to comply would not have a Material Adverse Effect.

(f) To the Knowledge of Sellers, no management-level or higher Employee has any plans to terminate employment with Seller Parent or its applicable Affiliates (with respect to the Finishing Business) or Acquired Subsidiary or not accept employment with Purchaser Parent or the applicable Purchaser following the Closing, and, to the Knowledge of Sellers, none of the executive officers of any Seller (with respect to the Finishing Business) or any Acquired Subsidiary intends to resign within one year after the Closing.

(g) To Sellers' Knowledge, no Employee is subject to any secrecy or noncompetition agreement or any other agreement or restriction of any kind that would impede in any way the ability of such Employee to carry out fully all activities of such Employee in furtherance of the Finishing Business, in each case either before or after the Closing.

(h) The qualifications of each Employee for employment under Applicable Law have been reviewed by Seller Parent or its applicable Affiliates (with respect to the Finishing Business) or Acquired Subsidiary that employs such Employee and a properly completed Form I-9 is on file with respect to each Employee for whom such Form I-9 is required under Applicable Law. Seller Parent and its applicable Affiliates (with respect to the Finishing Business) and each Acquired Subsidiary has complied in all material respects with the U.S. Immigration and Nationality Act, as amended from time to time, and the rules and regulations promulgated thereunder.

(i) To Sellers' Knowledge, neither Seller Parent nor any of its Affiliates (with respect to the Finishing Business) nor any Acquired Subsidiary has classified or treated any of its common-law employees as an independent contractor

(j) To Sellers' Knowledge, no variation in any Contract of employment has been agreed to for the future in respect of any Employee other than in the ordinary course of business.

(k) Except as listed in Schedule 4.12(k), and except for normal pay raises in the ordinary course of business consistent with past practices, neither Seller Parent nor any of its Affiliates has altered the terms and conditions of employment of any management-level or higher Non-U.S. Employee in the 12 months immediately prior to Closing.

(l) No material Liability has been incurred by Seller Parent or any of its Affiliates (with respect to the Finishing Business) or any Acquired Subsidiary for breach of any contract of employment with any Non-U.S. Employee, including in respect of redundancy payments, protection awards, compensation for wrongful dismissal, unfair dismissal, sex, race or disability discrimination or failure to comply with any order for the reinstatement or re-engagement in relation to or for or on behalf of any of any Non-U.S. Employee.

(m) Neither Seller nor any of its Affiliates (with respect to the Finishing Business) nor any Acquired Subsidiary has engaged in any workforce reduction or other action related to any

Employee that has resulted in any unsatisfied liability or which could result in liability under the Worker Adjustment and Retraining Notification Act of 1988 or the Trade Union and Labour Relations (Consolidation) Act of 1992 or under any similar or comparable Applicable Laws, and neither Seller nor any of its Affiliates (with respect to the Finishing Business) nor any Acquired Subsidiary has issued any notice that any such action is to occur in the future.

(n) Schedule 4.12(n) (the "*Employee List*") contains a complete and accurate list identifying all Employees as of the date hereof and specifying with respect to each such Employee, as of March 1, 2011, the Employee's:

(i) date of hire or initial service;

(ii) job title;

(iii) status as full-time or part-time(with "full-time" being defined as at least 40 hours per week or such number of hours per week as allowed by Applicable Law to be classified as full-time), or on disability or other leave of absence;

(iv) classification as exempt or non-exempt under the Fair Labor Standards Act (as applicable);

(v) current annual salary, draw, or hourly-rate of compensation (as applicable);

(vi) primary work location, including city and country, and whether such Employee primarily performs services from a home office; and

(vii) all other information required to be provided to Purchasers by Seller Parent or any of its Affiliates under Applicable Law in connection with the transfer of any Non-U.S. Employees (as applicable).

(o) The UK Employees, as identified in Schedule 4.12(o), are employed exclusively in the Finishing Business as carried on in the United Kingdom and, other than the UK Employees, there are no employees, workers, agency workers or independent contractors employed or engaged by or in respect of the Finishing Business as carried on in the United Kingdom, whether by ITW Limited or any other Affiliate of Seller Parent or any other Seller, or any of its or their respective contractors or agents or otherwise. No later than 10 Business Days prior to the Closing Date, Sellers will deliver to Purchaser Parent an updated Schedule 4.12(o) identifying all UK Employees as of 10 Business Days prior to the Closing Date, rather than as of March 1, 2011.

4.13 Litigation. Except for any ordinary course of business customer claims or employment related claims, including claims related to injuries or accidents, in each case that do not seek damages in excess of $500,000 (for any such claim or series of related claims), criminal penalties, or relief other than money damages (such claims, the "*Minor Claims*"), or except as set

forth in Schedule 4.13, as of the date hereof, there are no lawsuits, actions, arbitrations, proceedings or investigations relating to the Finishing Business or any Acquired Subsidiary for which any Seller or Acquired Subsidiary has received written notice. Except for any Minor Claims, or except as set forth in Schedule 4.13, to Sellers' Knowledge, there are no claims or complaints by or before any Governmental Authority pending or threatened against any Seller or any Acquired Subsidiary (i) relating to the Finishing Business or its business or properties, or (ii) seeking to enjoin the transactions contemplated hereby. Except as set forth in Schedule 4.13, as of the date hereof, the Finishing Business is not subject to any order, writ, judgment, investigation or decree of any court or Governmental Authority.

4.14 Compliance with Laws; FCPA.

(a) Each Seller is and for the past five years has been in material compliance with all Applicable Laws with respect to the operation of the Finishing Business and the Acquired Assets, and each Acquired Subsidiary is and for the past five years has been in material compliance with all Applicable Laws. No action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand or notice has been filed or commenced against any Seller (with respect to the Finishing Business) or against any Acquired Subsidiary alleging any failure to so comply. No Seller nor any Acquired Subsidiary has received written notice at any time in the past five years to the effect that any Seller (with respect to the Finishing Business) or any Acquired Subsidiary is not in material compliance with any Applicable Laws.

(b) Each Seller (with respect to the Finishing Business) and each Acquired Subsidiary is and at all times has been in material compliance with all applicable export-control, trade and economic sanctions laws, rules, and regulations (whether federal, state, foreign, or other), including the U.S. Commerce Department's Export Administration Regulations and all sanctions laws, rules and regulations maintained by the U.S. Treasury Department's Office of Foreign Assets Control, as well as all applicable export-control and sanctions laws, rules and regulations maintained by other jurisdictions, to the extent that no such laws, rules, regulations, or sanctions programs of any other jurisdiction are in contravention of any U.S. law, rule or regulation.

(c) No Seller (with respect to the conduct of the Finishing Business) nor any Acquired Subsidiary (i) has engaged, directly or indirectly, in any violation of the FCPA, or any other applicable anti-bribery or anti-corruption laws (collectively, the "*Anti-Corruption Laws*"), or any anti-boycott, anti-terrorism, or arms-control laws, rules, or regulations or sanctions programs; (ii) has conducted business with any restricted party identified in writing by the U.S. government as a Person with whom or with which conducting business would constitute a violation of U.S. Applicable Law; or (iii) has ever been the subject of any bribery, money laundering or anti-kick-back investigation by any Governmental Authority. Without limiting the foregoing, (1) no Seller (with respect to the conduct of the Finishing Business) nor any Acquired Subsidiary, nor any of their respective directors, officers, agents, distributors, employees or other Persons acting on their behalf has, directly or indirectly, taken any action, or failed to act, in a manner that would be a violation of any Anti-Corruption Laws; (2) each Seller (with respect to the Finishing Business) and each Acquired Subsidiary maintains its books and records in a manner that, in reasonable detail, accurately and fairly reflects the transactions and disposition of their assets, and maintains a system of adequate internal accounting controls; (3) no portion of the Purchase Price will be used to fund payments in connection with securing improperly any

approvals or any other improper advantages from any Governmental Authority; and (4) none of the officers, directors, employees or agents of any Seller or any Acquired Subsidiary are Government Officials. For purposes of this Agreement, "*Government Official*" means any (i) officer or employee of a Governmental Authority or instrumentality thereof (including any state-owned or state-controlled enterprise) or of a public international organization, (ii) candidate for political office or official of any political party, (iii) person acting for or on behalf of any Governmental Authority or instrumentality thereof, or (iv) a member of a royal family.

4.15 Permits and Licenses. Except as disclosed on Schedule 4.15 Sellers and the Acquired Subsidiaries have all material Permits used in the operation of the Finishing Business as currently conducted. All such Permits are currently effective and valid and are sufficient to enable Sellers and the Acquired Subsidiaries to conduct the Finishing Business in material compliance with all Applicable Laws. The execution, delivery or performance of this Agreement by the parties shall not have any effect on the continued validity or sufficiency of such Permits, nor to Sellers' Knowledge shall any additional material Permits be required by virtue of the execution, delivery or performance of this Agreement by the parties hereto to enable Purchasers to conduct the Finishing Business after Closing in the same manner in which it is currently being conducted. To Sellers' Knowledge, except as disclosed on Schedule 4.15, each Permit that is included in the Acquired Assets is transferable to Purchasers. The Sellers and the Acquired Subsidiaries have all material Permits necessary for the operation of the Finishing Business as currently conducted and have procured each such item in a manner that complies in all material respects with all Applicable Laws. There is no pending or, to the Knowledge of Sellers, threatened action, suit, proceeding, hearing, investigation, arbitration, or other proceedings by any Governmental Authority that would reasonably be expected to adversely affect any of the Permits.

4.16 Environmental Matters.

(a) The operations of the Finishing Business and the operations of the Acquired Subsidiaries have at all times been conducted in material compliance with, and are in material compliance with, all Environmental Laws and, to Sellers' Knowledge, there are no circumstances which may prevent or interfere with such material compliance in the future. Except as set forth in Schedule 4.16(a), no Seller (with respect to the Finishing Business) nor any Acquired Subsidiary has received any written or oral notice, report or other information regarding any actual or alleged violation of any Environmental Laws, or any Liabilities, including any investigatory, remedial or corrective obligations, arising under Environmental Laws, in each case which has not been cured.

(b) Except as set forth in Schedule 4.16(b), there are no pending or, to Sellers' Knowledge, threatened suits, proceedings, claims, encumbrances, or other restrictions of any nature, resulting from, arising under or pursuant to any Environmental Laws, relating to or affecting any Seller (with respect to the Finishing Business), any Acquired Subsidiary, the Finishing Business, any Owned Real Property, any other Acquired Assets, or any other assets of any Acquired Subsidiary.

(c) No Seller nor any Acquired Subsidiary has installed, used, generated, treated, disposed of or arranged for the disposal of any Hazardous Materials in any manner so as to

create any material Liability under any Environmental Law or any other material Liability for any Seller with respect to the Finishing Business, for any Acquired Subsidiary, or for any Purchaser or Purchaser Parent. Except as set forth in Schedule 4.16(c), no material contamination from any Hazardous Material has been created, exacerbated or exists on or under any of the Owned Real Property or any other real property currently used in connection with the Finishing Business or by any Acquired Subsidiary. There has been no treatment, storage, release or threatened release of any Hazardous Material at or from any of the Owned Real Property or any other real property currently used in connection with the Finishing Business or by any Acquired Subsidiary, except in material compliance with applicable Environmental Laws. There has been no disposal of any Hazardous Materials at any of the Owned Real Property or any other real property currently used in connection with the Finishing Business or by any Acquired Subsidiary so as to create any material Liability under any Environmental Law or any other material Liability. To Sellers' Knowledge, there has been no arrangement for disposal of any Hazardous Material by any Seller (in connection with the Finishing Business) or any Acquired Subsidiary on any property or facility not owned by a Seller or an Acquired Subsidiary, except in accordance with Environmental Laws. To Sellers' Knowledge, no Seller (with respect to the Finishing Business) nor any Acquired Subsidiary has sent any Hazardous Material to any site that, pursuant to any Environmental Law, has been placed on the National Priorities List or any similar federal, state or other list.

(d) Neither this Agreement nor the consummation of the transactions contemplated hereby shall result in any obligations for site investigation or cleanup, or notification to or consent of any Governmental Authority or other Person, pursuant to any Environmental Laws.

(e) None of the Sellers (with respect to the Finishing Business) nor any of the Acquired Subsidiaries, nor any of their respective predecessors or Affiliates, has, either expressly or by operation of law, assumed or undertaken any Liability associated with any Owned or Leased Real Property or the current Finishing Business operations at any Owned or Leased Real Property, including any obligation for corrective or remedial action, of any other Person relating to Environmental Laws.

(f) Except as set forth on Schedule 4.16(f), there are no underground storage tanks or related piping or surface impoundments located on or at any of the Owned Real Property or any other real property currently used in connection with the Finishing Business or by any Acquired Subsidiary, and no such tank, piping or impoundments has been removed from any Owned Real Property or any other real property currently used in connection with the Finishing Business or by any Acquired Subsidiary, except in compliance with all applicable Environmental Laws.

(g) Seller Parent has delivered to Purchaser Parent all known environmental audits, surveys, reports and other material environmental documents relating to the operation of the Finishing Business at any past or current properties, facilities and operations of any Seller or any Acquired Subsidiary.

4.17 Insurance. The Acquired Assets, the operation of the Finishing Business, and the assets and operations of the Acquired Subsidiaries are insured under insurance policies of the types, and providing coverage of the scope and magnitude, as are reasonable and customary for a business of a similar size operating in the industry in which the Finishing Business operates. All

such policies are in full force and effect and all premiums due and payable with respect to such policies have been timely paid. Schedule 4.17 sets forth an accurate and complete list of all claims in excess of $500,000 (for any single claim or series of related claims) which have been made by any Seller (with respect to the Finishing Business) or any Acquired Subsidiary within the past two years under any insurance policy, including any workmen's compensation, general liability or property insurance policy. Except as set forth on Schedule 4.17, there are no pending or threatened claims in excess of $500,000 (for any single claim or series of related claims) under any insurance policy with respect to the Finishing Business or by any Acquired Subsidiary. Purchaser Parent acknowledges that all such policies listed on Schedule 4.17 will not be available to Purchasers or Purchaser Parent after the Closing Date.

4.18 Benefit Plans/Schemes.

(a) Schedule 4.18(a) lists each Employee Benefit Plan/Scheme that any Seller or Acquired Subsidiary maintains that will be assumed or continued by Purchaser Parent, Purchaser or Acquired Subsidiary, to which any Seller or Acquired Subsidiary contributes or has any obligation to contribute that will be assumed or continued by Purchaser Parent, Purchaser or Acquired Subsidiary, or with respect to which any Acquired Subsidiary has any Liability.

(i) For each Employee Benefit Plan/Scheme maintained by an Acquired Subsidiary or with respect to which Purchaser Parent or any Purchaser will be assuming liabilities, each such Employee Benefit Plan/Scheme (and each related trust, insurance contract, or fund) has been maintained, funded and administered in all material respects in accordance with the terms of such Employee Benefit Plan/Scheme, the terms of any applicable collective bargaining agreement and Applicable Law.

(ii) For each Employee Benefit Plan/Scheme maintained by an Acquired Subsidiary or with respect to which Purchaser Parent or any Purchaser will be assuming liabilities, all material required reports and descriptions (including annual reports (such as IRS Form 5500 in the United States), summary annual reports, and summary plan descriptions) have been timely filed and distributed in accordance with the requirements of Applicable Law with respect to each such Employee Benefit Plan/Scheme.

(iii) All contributions (including all employer contributions and employee contributions) that are due have been made within the time periods prescribed by Applicable Law to each such Employee Benefit Plan/Scheme, and all contributions for any period ending on or before the Closing Date which are not yet due have been made to each such Employee Benefit Plan/Scheme or accrued in accordance with the past custom and practice of the applicable Seller or Acquired Subsidiary and applicable accounting standards. With respect to each such Employee Benefit Plan/Scheme, all premiums or other payments for all periods ending on or before the Closing Date have been paid or will be paid within 30 days of Seller Parent's receipt of a valid invoice for such premiums with respect to each such Employee Benefit Plan/Scheme.

(iv) Each such Employee Benefit Plan/Scheme which is intended to meet the requirements of Applicable Law regarding qualification or registration for tax-favored

status is so qualified or registered, and nothing has occurred since the date of such qualification or registration that would reasonably be expected to materially adversely affect the tax-favored status of any such Employee Benefit Plan/Scheme. Each such Employee Benefit Plan/Scheme has been timely amended to reflect in all material respects the provisions of Applicable Law in effect for any period prior to the Closing, and there are no material plan document failures, operational failures, demographic failures or employee eligibility failures which have not been corrected in accordance with Applicable Law with respect to any such Employee Benefit Plan/Scheme.

(v) There have been no transactions engaged in with respect to any such Employee Benefit Plan/Scheme that are prohibited by Applicable Law. Further, no fiduciary has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such Employee Benefit Plan/Scheme. No action, suit, proceeding, hearing, or investigation with respect to the administration or the investment of the assets of any such Employee Benefit Plan/Scheme (other than routine claims for benefits) is pending or, to the Knowledge of Sellers, threatened.

(vi) For each Employee Benefit Plan/Scheme maintained by an Acquired Subsidiary or with respect to which Purchaser Parent or any Purchaser will be assuming liabilities, Seller Parent has delivered to Purchaser Parent correct and complete copies of all plan governing documents and current employee booklets and all related trust agreements, insurance contracts, and other funding arrangements which implement each such Employee Benefit Plan/Scheme.

(vii) For each Employee Benefit Plan/Scheme maintained by an Acquired Subsidiary or with respect to which Purchaser Parent or any Purchaser will be assuming liabilities, any Employee Benefit Plan/Scheme that is a "nonqualified deferred compensation plan" within the meaning of Section 409A of the Code is in full documentary and operational compliance with Section 409A of the Code.

(viii) For each Employee Benefit Plan/Scheme maintained by an Acquired Subsidiary or with respect to which Purchaser Parent or any Purchaser will be assuming liabilities, no Employee Benefit Plan/Scheme is subject to Section 457A of the Code.

(b) Except as disclosed in Schedule 4.18(b), no Seller (with respect to any Employee) nor any Acquired Subsidiary nor any Affiliate of any Seller (with respect to any Employee) or any Acquired Subsidiary maintains, contributes to, has any obligation to contribute to, or has any Liability under or with respect to any defined benefit or superannuation plan or scheme or any plan sponsored by or affiliated with a collective bargaining unit. Except as disclosed in Schedule 4.18(b), with respect to any defined benefit or superannuation plan or scheme that any Seller (with respect to any Employee) or Acquired Subsidiary maintains, to which any Seller (with respect to any Employee) or Acquired Subsidiary contributes or has any obligation to contribute, or with respect to which any Seller (with respect to any Employee) or Acquired Subsidiary has any Liability, the fair market value of the assets of such plan or scheme is at least equal to the present value of the Liability with respect to such plan or scheme, as determined in accordance

with GAAP (or in accordance with comparable generally accepted standards in effect in the country in which such plan or scheme is located).

(c) No Seller nor any Acquired Subsidiary maintains, contributes to or has any obligation to contribute to, or has any Liability with respect to, any Employee Benefit Plan/Scheme (excluding any Employee Benefit Plan/Scheme maintained by any Seller with respect to which Purchaser Parent or any Purchaser is not assuming liabilities) which provides medical, health, or life insurance or other welfare-type benefits for current or future retired or terminated directors, managers, officers or Employees (or any spouse or other dependent thereof) other than in accordance with Applicable Law.

(d) Except as set forth in Schedule 4.18(d), the consummation of the transactions contemplated by this Agreement will not (either alone or upon the occurrence of any additional or further act or events, including, without limitation, the termination of employment of any directors, managers, officers or Employees) result in (i) any payments or acceleration of any payments, (ii) any additional vesting, or (iii) any benefit accruals to or with respect to any current or former director, manager, officer or Employee.

(e) No Seller or any Acquired Subsidiary has made any legally enforceable agreement to modify the terms, or not modify the terms, of any Employee Benefit Plan/Scheme, other than such changes or amendments as may be required by Applicable Law. No restriction on the ability of any Seller or any Acquired Subsidiary to amend or terminate any Employee Benefit Plan/Scheme has been contractually assumed by any Seller or Acquired Subsidiary that is not required to have been assumed by Applicable Law.

(f) Prior to Closing, Seller Parent shall deliver to Purchaser Parent the material terms of any Employee Benefit Plan/Scheme maintained by Sellers in which Employees participated immediately prior to Closing and with respect to which the Purchaser Parent and Purchasers are not assuming any liabilities.

4.19 Books and Records. The Books and Records of the Finishing Business and the Acquired Subsidiaries are true and complete in all material respects.

4.20 Transactions with Related Parties. No director, manager, officer, employee, agent, equity holder, or Affiliate of any Seller or any Acquired Subsidiary (or any individual related by blood, marriage, or adoption to any such Person or any entity in which any such Person owns any beneficial interest) (i) has any material interest in any material property (whether real, personal, or mixed and whether tangible or intangible), used in or relating to the Finishing Business or any material property (whether real, personal, or mixed and whether tangible or intangible) of any Acquired Subsidiary; (ii) owns, of record or as a beneficial owner, any material equity interest or any other material financial or profit interest in any Person that (A) has any material business dealings, or a material financial interest in any transaction, with any Seller relating to the Finishing Business or with any Acquired Subsidiary, or (B) engages in competition with the Finishing Business; or (iii) is a party to any Contract with any Seller (relating to the Finishing Business) or any Acquired Subsidiary, in each case involving amounts in excess of $500,000.

4.21 No Undisclosed Liabilities. Except for such Liabilities which would not have a Material Adverse Effect, no Seller has any Liability relating to the Finishing Business and no Acquired Subsidiary has any Liability, except for (i) Liabilities disclosed in Schedule 4.21 or on the balance sheet included in the March 2011 Management Financial Statements; (ii) Liabilities (other than Debt) arising or incurred in the ordinary course of business since the date of the March 2011 Management Financial Statements, consistent with the past practice; (iii) in the case of Sellers, Liabilities under Acquired Contracts that constitute Assumed Liabilities, and in the case of the Acquired Subsidiaries, Liabilities under Contracts entered into in the ordinary course of business consistent with past practice (none of which Liabilities results from, arises out of, or relates to any material breach thereof or default thereunder); and (iv) Liabilities incurred in connection with the transactions contemplated by this Agreement.

4.22 Major Customers and Suppliers. Schedule 4.22 contains a list of the 10 largest customers and the 10 largest suppliers of the Finishing Business for the year ended December 31, 2010, and includes the net sales or purchases by the Finishing Business attributable to each such customer or supplier for such period. No customer or supplier listed in Schedule 4.22, nor any other material customer or supplier of the Finishing Business, has cancelled or otherwise terminated (or to Sellers' Knowledge threatened to cancel or terminate) its relationship with the Finishing Business or notified any Seller or any Acquired Subsidiary in writing of any potential material change to its arrangements with the Finishing Business. To the Knowledge of Sellers, no customer or supplier listed in Schedule 4.22, nor any other material customer or supplier of the Finishing Business, intends to cease doing business with the Finishing Business or decrease the amount or nature of business it does with the Finishing Business in any material respect.

4.23 Product Warranties. Each product manufactured, sold, leased or delivered by Sellers in connection with the Finishing Business or by the Acquired Subsidiaries was at all times when such actions occurred in material conformance with all applicable Contractual obligations, including all applicable express and implied warranties. No Seller nor any Acquired Subsidiary has any Liability for replacement or repair of any such products or other damages in connection therewith, subject only to the reserve for product warranty claims shown on the balance sheet included in the March 2011 Management Financial Statements. No Product is subject to any guarantee, warranty or other indemnity beyond the applicable terms and conditions of sale or lease for such Product.

4.24 Brokers or Agents. No Seller nor any Acquired Subsidiary has employed or dealt with any brokers, consultants or investment bankers in connection with the transactions contemplated hereby, other than brokers, consultants or investment bankers, the fees, commissions and expenses of which shall be payable by Sellers.

4.25 Scope of Representations and Warranties of Sellers. For the avoidance of doubt, the parties acknowledge and agree that it is their intent that the representations and warranties set forth in this Article 4 cover all of the operations of the Finishing Business regardless of which Subsidiaries of Seller Parent conduct the Finishing Business as of the date hereof or as of the Closing Date, and that references to Sellers and Acquired Subsidiaries in this Article 4 should be read broadly to include all Subsidiaries of Seller Parent that engage in the Finishing Business or

through which the Finishing Business is conducted or that own assets used in the Finishing Business.

4.26 No Additional Representations. Except for the representations and warranties set forth in this Agreement, none of the Sellers or any Acquired Subsidiary or any other Person acting on any such entity's behalf, makes any representation or warranty with respect to the Finishing Business. Seller Parent (for itself and on behalf of its Affiliates) hereby disclaims any implied warranty, including, without limitation, any implied warranty of merchantability or fitness for a particular purpose. **EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, SELLERS MAKE NO REPRESENTATIONS OR WARRANTIES REGARDING PAST OR FUTURE FINANCIAL PERFORMANCE OF THE ACQUIRED ASSETS OR AS TO ANY FINANCIAL INFORMATION, INCLUDING BUT NOT LIMITED TO BALANCE SHEET OR PROFORMA FINANCIALS OR FINANCIAL PROJECTIONS MADE AVAILABLE TO BUYER REGARDING THE ACQUIRED ASSETS.**

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF PURCHASER

To induce Sellers to enter into this Agreement, Purchaser Parent and Purchasers jointly and severally represent and warrant as follows:

5.1 Authority; Consents.

(a) The execution, delivery and performance of this Agreement and the Ancillary Agreements by Purchasers and Purchaser Parent and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements have been duly authorized by all necessary organizational action on the part of Purchasers and Purchaser Parent and do not and shall not (i) conflict with or violate any provision of the Articles of Incorporation, Bylaws or other organizational documents of any Purchaser or Purchaser Parent, (ii) conflict with or result in a violation or breach of any provision of any Applicable Law to which any Purchaser or Purchaser Parent or any of their respective assets may be subject; or (iii) conflict with, result (with or without notice or the lapse of time, or both) in a default of, constitute a default under, or create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under, or impose any material penalty or material additional payment obligations under any material Contract to which any Purchaser or Purchaser Parent is a party or by which it is bound or to which any of its assets is subject.

(b) Each of Purchasers and Purchaser Parent has full power and authority to enter into this Agreement and the Ancillary Agreements to which it is or will be a party and to carry out the transactions contemplated hereby and thereby.

(c) This Agreement has been duly and validly executed and delivered by Purchaser Holdco, IP Purchaser, and Purchaser Parent and is, and each Ancillary Agreement contemplated hereby when executed and delivered by it shall be, the legal, valid and binding obligation of Purchasers and Purchaser Parent, enforceable in accordance with its respective terms, except as

such may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, and by general equitable principles.

(d) Other than the filings required by the pre-merger notification requirements of the HSR Act and similar non-U.S. statutes and regulations, and except as listed on Schedule 5.1(d), no material consent, authorization, order, or approval of or filing with any Governmental Authority or other Person is required in connection with the execution and delivery of this Agreement and the Ancillary Agreements by Purchasers and Purchaser Parent and the consummation by Purchasers and Purchaser Parent of the transactions contemplated by this Agreement and the Ancillary Agreements.

5.2 Organization and Qualification. Each of Purchaser Holdco, IP Purchaser, and Purchaser Parent is, and at Closing each other Purchaser will be, an entity lawfully existing and in good standing under the laws of the jurisdiction of its formation with full power and authority to own or lease its properties and to conduct its business in the manner and in the places where such properties are owned or leased or such business is conducted.

5.3 Financial Ability. At the Closing, Purchaser Parent will have sufficient funds to permit Purchasers and Purchaser Parent to consummate the transactions contemplated by this Agreement, including payment of the Initial Purchase Price. Purchaser Parent's obligations under this Agreement are not subject to any conditions regarding Purchaser Parent's ability to obtain financing for the consummation of the transactions contemplated by this Agreement.

5.4 Brokers or Agents. No Purchaser nor Purchaser Parent has employed or dealt with any brokers, consultants or investment bankers in connection with the transactions contemplated hereby, other than brokers, consultants or investment bankers, the fees, commissions and expenses of which shall be payable by Purchasers or Purchaser Parent.

ARTICLE 6
COVENANTS

6.1 Pre-Closing Covenants. The parties agree as follows with respect to the period prior to the Closing:

(a) General. Each of the parties shall use its commercially reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the closing conditions set forth in Article 7); *provided*, *however*, that nothing in this Section 6.1(a) shall require any party to commence or participate in litigation.

(b) Consents. Sellers shall, and shall cause the Acquired Subsidiaries to, use commercially reasonable efforts to obtain all third-party consents necessary or desirable in connection with the consummation of the transactions contemplated by this Agreement.

(c) Access. Sellers shall, and shall cause the Acquired Subsidiaries to, provide Purchaser Parent and its representatives: (i) reasonable access to Sellers' and the Acquired

Subsidiaries' employees, accountants, lenders, attorneys, insurers and other third-party representatives engaged with respect to the Finishing Business, (ii) reasonable access to Sellers' and the Acquired Subsidiaries' properties, Contracts, Books and Records, and other documents and information in each case relating to the Finishing Business; (iii) copies of all such Contracts, Books and Records, and other documents and information relating to the Finishing Business as they may reasonably request; and (iv) such additional financial, operating, and other data and information relating to the Finishing Business as they may reasonably request. Sellers shall, and shall cause the Acquired Subsidiaries to, cooperate and assist, to the extent reasonably requested by Purchaser Parent and its representatives, with Purchaser Parent's investigation of the properties, assets, and financial condition of the Finishing Business.

(d) Conduct of Finishing Business. Sellers shall, and shall cause the Acquired Subsidiaries to: (i) conduct the Finishing Business in the ordinary course and in substantially the same manner as the Finishing Business has been conducted prior to the date of this Agreement, including maintaining in full force and effect all insurance policies applicable to the Finishing Business or the Acquired Subsidiaries or substantially equivalent replacements therefor; (ii) use their reasonable best efforts to preserve the current business organization of the Finishing Business, keep available the services of Sellers' and the Acquired Subsidiaries' current officers, employees and agents engaged in the Finishing Business, and maintain the relations and goodwill with all suppliers, customers, distributors, landlords, creditors, and other Persons having business relationships with the Finishing Business; (iii) not enter into any Tax closing agreement, surrender any right to claim a refund of Taxes, waive any statute of limitations regarding any Tax, agree to any extension of time regarding the assessment of any Tax deficiency or take any other similar action relating to any Tax, if any of the foregoing would have the effect of increasing the Tax Liability of any Seller (with respect to the Finishing Business or the Acquired Assets) or any Acquired Subsidiary for any period ending after the Closing Date or decreasing any Tax attribute of any Seller (with respect to the Finishing Business or the Acquired Assets) or any Acquired Subsidiary; and (iv) cause ITW Oberflächentechnik GmbH to take all necessary actions such that its taxable year ends on the Closing Date.

(e) Notice of Developments. Sellers shall promptly notify Purchaser Parent in writing of (i) any breach of or inaccuracy in any representation or warranty made by Sellers in this Agreement, (ii) any event, change, or development occurring after the date of this Agreement that would cause or constitute a breach of any representation or warranty made by Sellers in this Agreement if such representation or warranty had been made after the time of such event, change, or development, and (iii) any material breach of any covenant or agreement made herein by Sellers; *provided*, *however*, that any such notice or any additional disclosure related thereto shall have no effect on the determination of the satisfaction of any conditions to the obligation of the other parties to consummate the transaction contemplated by this Agreement set forth in Article 7 or on the determination of the presence of a breach of any representation or warranty in this Agreement or any party's right to indemnification under this Agreement. Sellers shall promptly provide Purchaser Parent with such additional information in Sellers' possession as Purchaser Parent may reasonably request relating to any notice provided in accordance with the preceding sentence.

(f) Exclusivity. No Seller shall, or shall permit any Acquired Subsidiary or any

representative of any Seller or any Acquired Subsidiary to, directly or indirectly: (i) solicit, initiate, seek, or encourage any inquiry, proposal or offer from any Person (other than Purchaser Parent and Purchasers) relating to any transaction involving the sale of the Finishing Business or any assets relating to the Finishing Business (other than sales of inventory and the disposal of obsolete equipment in the ordinary course of business) or any of the ownership interests of any Acquired Subsidiary, whether by merger, tender offer, purchase, share exchange, joint venture, business combination, or otherwise (such inquiry, proposal or offer being an "*Acquisition Proposal*"); (ii) participate in any discussions or negotiations or enter into any agreement with, or provide any non-public information to, any Person (other than Purchaser Parent and Purchasers) relating to or in connection with an Acquisition Proposal; (iii) consider, entertain or accept any Acquisition Proposal from any Person (other than Purchaser Parent and Purchasers); or (iv) take any other action that would reasonably be expected to prevent, impede or delay the consummation of the transactions contemplated by this Agreement. Sellers shall promptly notify Purchaser Parent in writing of any Acquisition Proposal.

(g) Competition Approvals. In connection with the transactions contemplated by this Agreement, after the date hereof, the parties shall as promptly as practicable comply with the notification and reporting requirements of the HSR Act and any other similar non-U.S. antitrust or competition laws. The parties shall comply with any additional requests for information, including requests for production of documents and production of witnesses for interviews or depositions, by any U.S. or non-U.S. antitrust authority. Sellers and Purchaser Parent shall cooperate with each other and use their respective reasonable best efforts to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any Governmental Authority in order to satisfy the conditions in Article 7 and to consummate the transactions contemplated by this Agreement; *provided*, *however*, that, notwithstanding anything to the contrary in this Agreement, neither Parent nor any of its Subsidiaries shall be required to agree to any divestitures, licenses, hold separate arrangements or similar matters (including agreeing to any limitations on the ability of any Purchaser, Purchaser Parent, or any of their Affiliates to acquire, hold, or exercise full rights of ownership of the Finishing Business and the Acquired Assets) in order to obtain approval of the transactions contemplated by this Agreement under applicable competition laws; and *provided further* that nothing in this Section 6.1(g) shall require any party to commence or participate in litigation. Each party, to the extent permitted by Applicable Law and the appropriate Governmental Authority, shall promptly notify the other parties of any written communication to that party from any Governmental Authority relating to antitrust or competition laws in connection with the transactions contemplated by this Agreement and, subject to Applicable Law, shall cooperate with the other parties in connection with all matters contemplated by this Section 6.1(g); *provided*, *however*, that information shared among the parties in the course of such cooperation shall be subject to a confidentiality or joint defense agreement mutually agreed upon by the parties. Purchaser Parent shall pay all filing fees in connection with any filings made by the parties under the HSR Act and any other similar non-U.S. antitrust or competition laws.

(h) Damages to Acquired Assets. To the extent Sellers have in force any policies of insurance insuring any of the Acquired Assets or any properties or assets of any Acquired Subsidiary, any proceeds of any insurance payable in respect of any event that occurs from and

after the date of this Agreement and before the Closing shall be received by Sellers in trust for the applicable Purchaser and, to the extent the damage to the properties or assets to which the proceeds pertain has not been repaired or restored prior to the Closing, such proceeds shall be paid over to such Purchaser at the Closing or, if no proceeds have been received before the Closing, Sellers shall assign any of their claims thereto to such Purchaser at the Closing. In addition to paying over or assigning to the applicable Purchaser proceeds of any policy of property and casualty insurance as provided above, Sellers shall pay to such Purchaser at the Closing any related deductible amount provided under any such policy of insurance, *provided* that Purchasers shall in no event be entitled to receive any payments from Sellers pursuant to this Section 6.1(h) in excess of the economic value of such damaged properties or assets. Nothing in this Section 6.1(h) limits the conditions set forth in Section 7.1.

(i) Intercompany Accounts. On or before the Closing Date, Sellers shall settle or cause to be settled all intercompany accounts between any Sellers relating to the Finishing Business or the Acquired Assets or between any Seller and any Acquired Subsidiary or any other Affiliate of any Seller relating to the Finishing Business or the Acquired Assets. For the avoidance of doubt, Tangible Net Assets shall be determined without giving effect to any intercompany accounts or the cancellation thereof.

(j) Non-U.S. Subsidiary Purchases.

(i) Seller Parent will (at its sole cost and expense) cause the organization structure of its Subsidiaries involved in the Finishing Business (including the Acquired Subsidiaries) and the ownership of the Acquired Assets, immediately prior to the Closing, to be as set forth on Schedule 6.1(j)(i).

(ii) As soon as reasonably practicable following the date hereof, (1) Seller Parent will notify Purchaser Parent of the identity of each Subsidiary of Seller Parent that will execute a Non-U.S. Subsidiary Purchase Agreement, and (2) Purchaser Parent will notify Seller Parent of the identity of each Subsidiary of Purchaser Parent that will execute a Non-U.S. Subsidiary Purchase Agreement. Each of Seller Parent and Purchaser Parent shall cause its applicable Subsidiaries (whether existing as of the date hereof or formed after the date hereof) to duly execute and deliver the Non-U.S. Subsidiary Purchase Agreements at Closing, or in the case of the Acquired Subsidiaries located in China, as soon as reasonably practicable following the date hereof to facilitate the government approval necessary to transfer the shares of such Acquired Subsidiaries. Each Subsidiary of Seller Parent that executes a Non-U.S. Subsidiary Purchase Agreement shall be deemed to be and shall be a Seller for all purposes under this Agreement (including for purposes of the representations and warranties set forth in Article 4), and, if such Subsidiary is formed after the date hereof, such Subsidiary shall nonetheless be deemed to be a Seller for all purposes under this Agreement as if such Subsidiary existed and owned the Acquired Assets to which its Non-U.S. Subsidiary Purchase Agreement relates as of the date hereof. Seller Parent shall ensure that its Subsidiaries that execute the Non-U.S. Subsidiary Purchase Agreements are the appropriate entities necessary to transfer, convey and assign to Purchasers all of the Acquired Assets (including all of the outstanding ownership interests in the Acquired Subsidiaries). Each Subsidiary of Purchaser Parent that executes a Non-U.S. Subsidiary

Purchase Agreement shall be deemed to be a Purchaser for all purposes under this Agreement (including for purposes of the representations and warranties set forth in Article 5), and, if such Subsidiary is formed after the date hereof, such Subsidiary shall nonetheless be deemed to be and shall be a Purchaser for all purposes under this Agreement as if such Subsidiary existed as of the date hereof.

(iii) On or before the Closing Date, Seller Parent shall cause the Acquired Subsidiary that owns the Valence Facility to convey the Valence Facility to a different Subsidiary of Seller Parent, at Seller Parent's sole cost and expense.

(k) Disclosure Schedules; Supplemental Disclosure.

(i) With respect to the disclosure schedules of Sellers referenced herein as "Schedules" or "Disclosure Schedules": (i) the inclusion of any information in any Schedule shall not be deemed to be an admission of any liability or obligation of the Sellers to any third Person, or an admission against the interest of the Finishing Business or the Sellers to any third Person; (ii) no disclosure in the Schedules relating to any possible breach or violation of any contract, laws or order shall be construed as an admission or indication that any such breach or violation exists or has actually occurred; (iii) the contents of all documents and written contracts referred to in the Schedules are incorporated by reference into the Schedules as though fully set forth therein, if (and only if) Seller Parent has provided or made available true, correct, and complete (in all material respects) copies of such documents and contracts (except those listed on Schedule 4.10(b)) to Purchaser Parent prior to the date of this Agreement; (iv) to the extent an item is disclosed therein with respect to a particular Section (or sub-section) of this Agreement, the applicable portions of such Section (or sub-section) herein shall be deemed to be modified by such disclosure, regardless of whether such Section (or sub-section) specifically refers to a Schedule; (v) disclosure of any fact or item in any Schedule shall not necessarily mean that such fact or item is material to the Finishing Business; and (vi) any item or matter disclosed on any Schedule shall be deemed to be disclosed for all purposes on all other Schedules to the extent the applicability of such item or matter is reasonably apparent on the face of such disclosure.

(ii) Sellers shall give prompt notice to Purchaser Parent in writing of any event which would reasonably be expected to cause any representation or warranty regarding the Finishing Business or contained in the Disclosure Schedule to be untrue or inaccurate in any material respect at any time from the date hereof to the Closing Date or that will result in the failure to satisfy any of the conditions specified in Article 7. From the date hereof until the Closing, Sellers may update or supplement the Disclosure Schedule to account for: (1) any event, circumstance or change that first arises after the execution and delivery of this Agreement that would make any representation or warranty in this Agreement inaccurate if such representation or warranty were given at Closing, and (2) any additional information needed to correct any inaccuracy in the Disclosure Schedule solely with respect to the Acquired Subsidiaries listed on Schedule 6.1(k); *provided*, *however*, that the delivery of a supplemented or amended Schedule/Disclosure Schedule pursuant to this Section 6.1(k)(ii) shall not constitute a failure by Sellers to satisfy the condition to Purchasers' obligations to consummate the Closing set forth in

Section 7.1; *provided*, *further*, that, notwithstanding anything to the contrary set forth in this Agreement, no such update, supplement or amendment shall affect or in any way limit Purchasers', Purchaser Parent's or the Purchaser Group's right to indemnification under Article 8 or the determination of the presence of a breach of any representation or warranty made on the date hereof or on the Closing Date for purposes of Article 8.

(iii) Seller Parent shall promptly (but in no event less than five days prior the Closing Date) upon becoming aware of any change or development described in clause (1) or (2) of Section 6.1(k)(ii) notify Purchaser Parent in writing of any such change in the information contained in any of the Schedules required by Article 4 or any such development causing a breach of any of the representations and warranties in Article 4 that arises prior to the Closing Date. Purchaser Parent's sole remedy for any Damages uncovered by such supplemental disclosure shall be Purchaser Parent's right to indemnification under Article 8, in accordance with Section 6.1(k)(ii).

(iv) From the date of execution of this Agreement and prior to Closing, in the event that any patents, patent applications, trademarks and/or trademark applications are listed on Schedule 4.10(b) due to Sellers' questions related to ownership, transferability or maintenance, Sellers shall use their best efforts to confirm in good faith ownership, transferability or maintenance of such patents, patent applications, trademarks and/or trademark applications, and if applicable, move such patents, patent applications, trademarks and/or trademark applications to Schedule 4.10(a).

(l) Public Announcements. Except as otherwise provided in Section 9.9, the timing and content of all announcements regarding any aspect of this Agreement or the transactions contemplated hereby to the financial community, government agencies, employees or the general public shall be mutually agreed upon in advance by Seller Parent and Purchaser Parent; *provided* that each party may make any such announcement which it in good faith believes, based on advice of counsel, is required by law. Notwithstanding the foregoing, each party shall use its reasonable best efforts to consult with and agree on the language of any announcement with the other party prior to any such announcement to the extent practicable, and shall in any event promptly provide the other party with copies of any such announcement.

(m) Prorations. On the Closing Date, annual rents under assumed Real Property Leases, property Taxes (including any special assessments due and payable on or prior to the Closing Date) and other similar annual obligations to third parties shall be prorated between Sellers and Purchasers as of the Closing Date. Property Taxes for Owned Real Property of Sellers shall be prorated as of the Closing Date based upon the year with respect to which such Taxes are assessed, as determined in accordance with local law.

(n) Assumption of Contracts. Notwithstanding anything otherwise set forth herein, Purchasers' rights under Contracts of the Finishing Business including the Scheduled Contracts and any Acquired Contracts assumed hereunder are assumed subject to the rights of third parties to the extent such third parties have contractual rights that require prior approval or consent in connection with the transfer or assignment of the Contracts pursuant to the terms of any such Contracts. In the event that any such consent, approval or waiver shall not have been obtained

prior to the Closing Date, and thereafter if any other party to a contract objects to the transfer of an Acquired Contract as a breach of such Contract, then as of the Closing, this Agreement, to the extent permitted by Applicable Law and such Contract, shall constitute full and equitable assignment by Sellers to Purchasers of all of Sellers' right, title and interest in, to and under such assumed contracts (*provided*, *however*, that, except as otherwise expressly set forth in Article 4, Sellers make no representation or warranty with respect to the transfer or assignability of any such contract). Upon request, Sellers shall use commercially reasonable efforts to assist Purchasers in obtaining consents or approvals from third parties as may be necessary to complete any transfer of any such contract. To the extent that any such requested consents and waivers are not obtained, (i) until the impediments to any such assignment are resolved, Sellers shall use commercially reasonable efforts to (a) provide to Purchasers the benefits of any such contract, (b) hold all monies and other consideration received by Sellers thereunder on and after the Closing Date in trust for the account of Purchasers, (c) remit such money or other consideration to Purchasers reasonably promptly and (d) enforce, at the request of and for the account of Purchasers, at Purchasers' sole expense, any rights of Sellers arising from any such contract against any third Person. From and after the Closing Date, Sellers authorize Purchasers to receive all the benefits of Sellers under any such contracts, and appoint Purchasers their attorney-in-fact to act in its name on its behalf with respect thereto. The provisions of this Section 6.1(n) shall not limit, modify or otherwise affect any representation or warranty of Sellers under this Agreement.

(o) Draft Audited Financials. No later than 15 days prior to the Closing Date, Sellers shall provide to Purchaser Parent drafts of the Audited Financial Statements.

6.2 Post-Closing Covenants. The parties agree as follows with respect to the period from and after the Closing:

(a) Litigation Support. In the event and for so long as any party is actively contesting or defending against any action, suit, proceeding, hearing, investigation, audit, charge, complaint, claim, or demand in connection with (i) any transaction contemplated by this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving any Seller or any Acquired Subsidiary, each of the parties shall cooperate in the contest or defense, make available their personnel, and provide such testimony and access to their books and records as may be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending party (unless the contesting or defending party is entitled to indemnification therefor under this Agreement).

(b) Access and Information. After the Closing, Purchaser Parent shall make available and shall cause the Finishing Business to make available to Seller Parent and its accountants, agents and representatives, at reasonable times and upon prior written request, any and all books, records, contracts and other information of the Finishing Business existing at the Closing to the extent reasonably requested by Sellers for tax or accounting purposes. Purchaser Parent will cause the Finishing Business to hold all material books and records of the Finishing Business on the Closing Date and will retain and not destroy such records in accordance with Purchaser Parent's standard record retention policy.

(c) Transition. At the reasonable request of Purchasers, Sellers shall provide reasonable assistance to Purchaser Parent and Purchasers with the transition of the Finishing Business to Purchasers, particularly with respect to key customers and suppliers of the Finishing Business. No Seller shall take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of the Finishing Business from maintaining the same business relationships with Purchasers after the Closing as it maintained with the Finishing Business prior to the Closing. Sellers shall refer all customer inquiries relating to the Finishing Business to Purchasers from and after the Closing.

(d) Financial Reporting. Within six (6) days following the Closing Date, Purchaser Parent shall provide to Seller Parent the normal quarter and/or month end balance sheet and other financial information of the type that the Finishing Business provided to Seller Parent via its financial reporting system for past reporting periods, covering the period ending as of the Closing Date.

(e) Transitional Trademark License. Subject to the restrictions set forth below, Purchaser Parent and Purchasers shall have the right to continue using, for up to 12 months after the Closing Date, any brands, co-brands, trademarks, trade names, or trade dress retained by any Seller (the "Seller Retained Marks") that, as of the Closing Date appear on any inventory (including finished products, work in process, and packaging materials) of the Finishing Business; provided, however, that (i) the right to use the Seller Retained Marks is non-exclusive, (ii) the scope of the right is limited to selling or distributing such inventory without modifying such Seller Retained Marks, (iii) Purchaser Parent and Purchasers shall maintain the current quality standards of the Finishing Business for all Products on which the Seller Retained Marks appear; and (iv) Purchaser Parent and Purchasers shall not use such Seller Retained Marks in any other manner without the prior written consent of Seller Parent. Seller Parent will, at Purchaser Parent's request, make available to Purchasers all photography files, merchandising materials, and sales materials for the Products for Purchasers to prepare support materials to assist in a professional transition of branding from Seller Retained Marks to Purchaser Parent's trademarks.

(f) Confidentiality.

(i) Purchasers and Purchaser Parent acknowledge that the information provided to them in connection with this Agreement and the transactions contemplated hereby is subject to the terms of the Confidentiality Agreement, originally dated February 25, 2010, between Purchaser Parent and Seller Parent, as amended. Effective upon Closing, such confidentiality agreement shall terminate.

(ii) Sellers shall treat and hold as confidential all, and shall not disclose any, of the Confidential Information and refrain from using any of the Confidential Information except in connection with performance of Sellers' obligations under this Agreement. In the event that any Seller is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, such Seller shall notify Purchaser Parent promptly of the request or requirement so that

Purchasers may seek an appropriate protective order or waive compliance with the provisions of this Section. If, in the absence of a protective order or a duly given waiver by Purchaser Parent, such Seller is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, such Seller may disclose such Confidential Information to the tribunal; provided, however, that the disclosing Seller shall use its reasonable best efforts to obtain, at the request of Purchaser Parent, an order or other assurance that confidential treatment shall be accorded to the Confidential Information required to be disclosed.

(g) Non-Competition and Non-Solicitation.

(i) To further ensure that Purchasers and Purchaser Parent receive the expected benefits of acquiring the Finishing Business, Seller Parent agrees that, throughout the period that begins on the Closing Date and ends on the fifth anniversary of the Closing Date (the "*Non-Compete Period*"), Seller Parent will not, and will cause each of its Affiliates not to, directly or indirectly,

(1) own, operate, be a partner, stockholder, co-venturer or otherwise invest in, lend money to, consult with, manage or render services to, act as agent for, or acquire or hold any interest in, any Person that engages in the Finishing Business anywhere in the world, except that nothing herein prohibits Seller Parent or any of its Affiliates from owning or holding less than 1% of the outstanding shares of any class of stock that is regularly traded on a recognized U.S. or non-U.S. securities exchange or over-the-counter market; *provided, further,* that nothing in this Section 6.2(e) shall (x) prohibit Seller Parent or any of its Affiliates from acquiring an entity or business that engages in the Finishing Business, so long as (A) the revenue from such Finishing Business operations is no more than 20% of the total revenue of such entity or business (as applicable) and (B) Seller Parent or the applicable acquiring Affiliate sells or otherwise divests such Finishing Business operations within 18 months following such acquisition or (y) prohibit Sellers and their Affiliates from operating their Dynatec and SprayCore businesses as currently operated as of the date hereof;

(2) employ, attempt to employ, or solicit for employment any individual who on the Closing Date is an Employee or otherwise interfere with or disrupt the employment relationship (contractual or other) of any such Employee with any Purchaser or any Affiliate of any Purchaser, *provided*, *however*, that (except with respect to the individuals listed on Schedule 6.2(g)) nothing herein prohibits any Seller or any Affiliate of any Seller from any (A) general solicitation for employment (including in any newspaper or magazine, over the internet or by any search or employment agency) if not specifically directed towards any Employee, (B) hiring of any individual where the initial contact with such individual regarding such hiring arose from any such general solicitation, or (C) soliciting for employment or hiring any individual who at the time of such solicitation and hiring is not employed by any Purchaser, Purchaser Parent, or any Affiliate of any Purchaser or Purchaser Parent, *provided* that (i) such individual's employment with such Purchaser, Purchaser Parent, or such Affiliate was not

terminated voluntarily by such individual within 12 months after the Closing Date and (ii) such individual did not decline Purchaser Parent's offer of employment under Section 6.3(b); or

(3) solicit, request, advise or induce any then-current or potential customer of the Finishing Business to cancel, curtail or otherwise adversely change its actual or potential business or relationship with Purchaser Parent or any of its Affiliates.

(ii) For a period of two years from and after the Closing Date, each Seller shall, and shall cause its Affiliates to, use its commercially reasonable best efforts to refer to Purchaser Parent all customer and other third-party inquiries relating to the Finishing Business.

(iii) The Sellers acknowledge and agree that (1) this Section 6.2(g) is reasonable and necessary to ensure that Purchaser Parent and Purchasers receive the expected benefits of acquiring the Finishing Business, (2) Purchaser Parent and Purchasers have refused to enter into this Agreement in the absence of this Section 6.2(g) and (3) breach of this Section 6.2(g) will harm Purchaser Parent and Purchasers to such an extent that monetary damages alone would be an inadequate remedy and Purchaser Parent and Purchasers would not have an adequate remedy at law. Therefore, in the event of a breach by any Seller of this Section 6.2(g), Purchaser Parent and Purchasers (in addition to all other remedies they may have) will be entitled to seek an injunction and other equitable relief (without posting any bond or other security) restraining such Seller from committing or continuing such breach and to enforce specifically this Agreement and its terms.

(h) License and Covenant Not to Sue. Each Seller hereby grants to Purchasers, Purchaser Parent, and their respective affiliated entities (whether or not presently existing) a non-exclusive, transferable (but only with a sale of all or substantially all of the assets of, or a stock sale or merger of, the relevant business), fully paid-up license under the Intellectual Property owned by or licensed to the Sellers to the extent necessary to make, have made, use, sell and offer for sale, import, copy, modify, distribute, publicly display and publicly perform the Products, only as such Products are offered or sold by the Finishing Business as of the Closing Date and to the extent any such licenses are sublicensable. In further consideration of the terms herein, each Seller, on behalf of itself and its Affiliates (whether or not presently existing), covenants not to sue any Persons directly or indirectly licensed under this Section 6.1(h), in connection with the Products.

6.3 Employee Matters.

(a) The applicable Purchaser shall adopt and assume at and as of the Closing each of the Employee Benefit Plan/Schemes, and each trust, insurance contract, annuity contract or other funding arrangement with respect thereto, of the Sellers or the Acquired Subsidiaries set forth on Schedule 6.3(a) as such plans relate to Employees employed immediately prior to Closing or retirees of the Finishing Business (the "*Assumed Benefit Plans/Schemes*"), and shall assume and exercise any and all rights, authorities, discretions and obligations as sponsor, named fiduciary

and plan administrator of the Assumed Benefit Plans/Schemes. Such Purchaser shall cause the Assumed Benefit Plans/Schemes to be amended, as applicable, to treat employment with Sellers or the Acquired Subsidiaries prior to the Closing the same as employment with such Purchaser from and after the Closing Date for purposes of eligibility and vesting and the respective Assumed Benefit Plans/Schemes shall be responsible for group health plan continuation coverage required under Applicable Law for any qualified beneficiary under such Assumed Benefit Plans/Schemes as of the Closing Date.

(b) No later than 10 Business Days prior to the Closing Date, Sellers will deliver to Purchaser Parent an updated Employee List setting forth the information required by Section 4.12(n) as of 10 Business Days prior to the Closing Date, rather than as of March 1, 2011. At least five Business Days before the Closing Date, Purchaser Parent or the applicable Purchaser will offer employment to each Employee identified on the updated Employee List who is an Employee immediately prior to the Closing (other than UK Employees, who will be transferred in accordance with Section 6.3(e)), with such employment to be effective immediately following, and contingent upon the occurrence of, the Closing (or, in the case of any Employee on long-term disability or other leave of absence as disclosed in Schedule 4.12(n) as disclosed on Schedule 4.12(n) (each, an "*Inactive Employee*"), effective upon the date such Inactive Employee is able to return to active employment as determined by Purchaser Parent or the applicable Purchaser provided that such return occurs within one year following the Closing Date, except in the case of any Inactive Employee disclosed on Schedule 6.3(b) as of the date of this Agreement, effective immediately following, and contingent upon the occurrence of, the Closing).

(c) With respect to each Employee who Purchaser Parent or the applicable Purchaser offers employment to under Section 6.3(b), such offer shall include base salary compensation substantially comparable to such Employee's base salary compensation immediately prior to Closing and medical benefits through December 31, 2011 that are substantially comparable to such Employee's medical benefits immediately prior to Closing, provided that Purchaser Parent or the applicable Purchaser retains the discretion to cover Hired Employees currently covered under the medical plan option referred to by Sellers as PPO2 under another medical plan option currently offered by the current employer of such Hired Employees. Nothing in this Section 6.3(c) or this Agreement shall be deemed to interfere with Purchaser Parent's or the applicable Purchaser's ability to classify the Hired Employees as employees "at will."

(d) Sellers, Purchasers and their Affiliates shall, as applicable, exercise commercially reasonable efforts to persuade all Employees offered employment with Purchaser Parent or any Purchaser under Section 6.3(b) to accept such offers of employment. Neither Seller Parent nor any of its Affiliates will seek to induce any Employee to reject any offer of employment from Purchaser Parent or any Purchaser. Employees who accept offers of employment from Purchaser Parent or any Purchaser shall become employees of Purchaser Parent or such Purchaser (as applicable) immediately following the Closing (or, in the case of any Inactive Employee not identified on Schedule 6.3(b), upon the date each such Inactive Employee is able to return to active employment as determined by Purchaser Parent or the applicable Purchaser subject to such limitation as identified in Section 6.3(b)) and shall then cease to be employees of Seller Parent or its applicable Affiliates (provided that, in the case of Inactive Employees, Seller Parent

or its applicable Affiliates retains discretion to terminate employment of Inactive Employees at any date it deems appropriate which is no later than the date of hire by Purchaser Parent or any Purchaser). Such Employees who accept offers of employment from Purchaser Parent or any Purchaser and who complete all necessary documents in order to commence employment with Purchaser Parent or such Purchaser (as applicable), and commence employment with Purchaser Parent or any Purchaser immediately following the Closing (or, in the case of any Inactive Employee not identified on Schedule 6.3(b), immediately following the date each such Inactive Employee is able to return to active employment), all employees of any Acquired Subsidiary as of the Closing Date, and all UK Employees who are transferred to the applicable Purchaser under Applicable Law shall be the "*Hired Employees*." Neither Seller Parent nor any of its Affiliates shall state or represent to any Employees not identified on the Employee List (as updated in accordance with the first sentence of Section 6.3(b)) that Purchaser Parent or any Purchaser is obligated to continue such Employees' employment or will offer such Employees employment.

(e) Seller Parent, Purchaser Parent and each of their applicable Affiliates acknowledge that certain employee transfer regulations will apply to the transfer of certain Non-U.S. Employees under Applicable Law, including without limitation the Transfer of Undertakings (Protection of Employment) regulations 2006, as amended, which applies to the transfer of the UK Employees to the applicable Purchaser, together with ITW Limited's rights, duties and obligations under the contracts of employment of the UK Employees, and Seller Parent, Purchaser Parent and each of their applicable Affiliates agree to satisfy and comply with any employee transfer regulations that apply to the transfer of Non-U.S. Employees in accordance with and subject to Applicable Law.

(f) Purchaser Parent or the applicable Purchaser hereby agrees to continue to be bound by and comply with the terms of any written employment agreements between any Employee and any Seller or Acquired Subsidiary for each Employee who becomes a Hired Employee, subject to and only to the extent required under Applicable Law; *provided* that nothing in this Section 6.3(f)shall obligate Purchaser Parent or any Purchaser to continue to be bound by or comply with the terms of any such employment agreement for any period longer than as required under such employment agreement or under Applicable Law.

(g) Purchaser Parent or the applicable Purchaser hereby agrees that, from and after the Closing Date, Purchaser Parent or Purchaser shall grant all Hired Employees credit for any service with the Seller Parent or its Affiliates earned prior to the Closing Date (i) for eligibility and vesting purposes (but for no other purpose) under any employee benefit plan, program or arrangement established or maintained by Purchaser Parent or the applicable Purchaser in which such Hired Employees participate on or after the Closing Date, whether or not such plan, program or arrangement is an Employee Benefit Plan/Scheme, (ii) for purposes of vacation and severance benefits, and (iii) for any other purpose as required under Applicable Law.

(h) On and after the Closing Date, to the extent legally applicable, Seller Parent shall (or cause each of its applicable Affiliates to) have all responsibility and liability for meeting all requirements under "COBRA" with respect to each Person who is or becomes an "M & A qualified beneficiary," within the meaning of Treas. Reg. Sec. 54.4980B-9, Q/A-4(b), with

respect to the Finishing Business (including any individual who has a qualifying event as a result of the transactions contemplated by this Agreement).

(i) Seller Parent shall (or cause each of its applicable Affiliates to) pay all salary, wages, pro rata bonus amounts under the ITW Executive Incentive Program to those Employees listed on Schedule 1.1, and other employment-related benefits, excluding all amounts owed for accrued vacation or other paid leave (which amounts shall be assumed by Purchasers, but only to the extent such amounts are included in the Final Closing Balance Sheet) and amounts owed under the Transaction Support Award Program and identified in Schedule 1.1, which are subject to Section 6.3(j), earned or accrued through the Closing Date for all Employees not employed by an Acquired Subsidiary, including for all Hired Employees (other than Employees employed by an Acquired Subsidiary) in accordance with Applicable Law and Sellers' past practices. Seller Parent shall (or cause each of its applicable Affiliates to) pay all severance that may due and payable as a result loss or deemed on constructive termination of employment in connection with the transactions contemplated by this Agreement. Seller Parent or its applicable Affiliates shall make any payments required to be made by under this Section 6.3(i) either by making such payments directly to such Employees or, in the event Purchaser Parent or any Purchaser pays any Employee any such amount, by reimbursing Purchaser Parent or the applicable Purchaser for such payment to the degree such payment was not reflected on the Final Closing Balance Sheet. No later than five Business Days after the Closing Date, Seller Parent shall provide to Purchaser Parent the gross pro rata bonus amount under the ITW Executive Incentive Program paid to each Employee under this Section 6.3(i).

(j) Transaction Support Award Program.

(i) As soon as practicable following the Closing Date, Purchaser Parent shall pay the payments then due and owing under the Transaction Support Award Program in accordance with the terms of such program, as described on Schedule 1.1. No later than five Business Days after Sellers receive an invoice from Purchaser Parent setting forth in reasonable detail the amount of such payments made by Purchaser Parent pursuant to this Section 6.3(j)(i), Sellers shall reimburse Purchaser Parent for the amount by which such payments exceeds $500,000, by wire transfer of immediately available funds to an account or accounts designated by Purchaser Parent.

(ii) On the date that is six months following the Closing Date, Purchaser Parent shall pay the payments then due and owing under the Transaction Support Award Program in accordance with the terms of such program, as described on Schedule 1.1. No later than five Business Days after Sellers receive an invoice from Purchaser Parent setting forth in reasonable detail the amount of such payments made by Purchaser pursuant to this Section 6.3(j)(ii), Sellers shall reimburse Purchaser Parent for the amount by which such payments exceeds $500,000, by wire transfer of immediately available funds to an account or accounts designated by Purchaser Parent.

(iii) The parties shall treat any payments from Sellers to Purchaser Parent pursuant to this Section 6.3(j) as an adjustment to the Purchase Price for all federal, state,

local, and foreign Tax purposes (unless otherwise required by a Governmental Authority).

(k) Employee Matters. With respect to any Hired Employees, as applicable:

(i) Sellers and Purchaser Parent or the applicable Purchaser shall treat the applicable Purchaser employer as a "successor employer" and Sellers as a "predecessor employer" within the meaning of Sections 3121(a)(1) and 3306(b)(1) of the Code for purposes of Taxes imposed under the United States Federal Unemployment Tax Act or the United States Federal Insurance Contributions Act; and

(ii) Sellers will utilize, or will cause their respective Affiliates to utilize, the standard procedure set forth in Revenue Procedure 2004-53 with respect to wage reporting.

(l) Seller Parent and its Affiliates shall use commercially reasonable efforts, before and after the Closing, to provide such information as Purchaser Parent or any Purchaser may reasonably request for purposes of fulfilling their obligations under this Section 6.3.

6.4 Tax Matters.

(a) Payment of Taxes. Sellers, jointly and severally, will satisfy (or cause to be satisfied) in full when due all Taxes with respect to (1) any Seller or any Acquired Subsidiary with respect to any Pre-Closing Tax Period, (2) the Finishing Business with respect to any Pre-Closing Tax Period, (3) any member of an affiliated, consolidated, combined or unitary group of which any Seller (or any predecessor thereto) or Acquired Subsidiary is or was a member before Closing, including Taxes pursuant to Treasury Regulation 1.1502-6 or any similar Applicable Law, and (4) any Person (other than a Seller) imposed on any Seller or any Acquired Subsidiary or with respect to the Finishing Business for any period as a transferee or successor with respect to any transaction occurring on or before the Closing Date, by Applicable Law, Contract or otherwise (all of such Taxes being the "*Pre-Closing Taxes*"). Purchaser Parent will satisfy (or cause to be satisfied) in full when due all Taxes attributable to the Finishing Business with respect to any period that is not a Pre-Closing Tax Period, including Taxes of each Acquired Subsidiary that are not Pre-Closing Taxes. If Purchaser Parent is required under Section 6.4(b) to file a Tax Return that involves Pre-Closing Taxes, then no later than five Business Days before the filing of any such Tax Return, Seller Parent will pay to Purchaser Parent an amount equal to the amount of Taxes shown due on such Tax Return for which any Seller is obligated under this Section 6.4(a) with respect to such Tax Return.

(b) Filing Responsibility. Sellers will prepare and timely file (or cause to be prepared and timely filed) all (1) Tax Returns of any Seller or any Acquired Subsidiary required to be filed on or before the Closing Date (after taking into account extensions therefor) and (2) all Tax Returns with respect to the Finishing Business or the Acquired Assets with respect to any Pre-Closing Tax Period that are required to be filed on or after the Closing Date. To the extent that any such Tax Returns filed by Sellers relate to any Acquired Subsidiary, such Tax Returns shall be prepared in accordance with past practice (unless a contrary position is required by Applicable Law). Purchaser Parent will prepare and timely file (or cause to be prepared and timely filed) all

Tax Returns that Sellers and the Acquired Subsidiaries are not obligated to file (or cause to be filed) pursuant to this Section 6.4(b). Purchaser Parent and Sellers will discharge all Tax liabilities shown on any Tax Return based on the assumption and allocation of Tax liabilities provided in this Agreement without regard to the party that has prepared the Tax Return, and the party responsible for payment of any amount of Taxes shown due on a Tax Return shall pay such unpaid amount to the party filing the Tax Return no later than one Business Day prior to the filing of such Tax Return.

(c) Straddle Periods. In the case of a Straddle Period, the amount of any Pre-Closing Taxes based on income, gain, or profits shall be determined based on an interim closing of the books as of the close of business on the Closing Date (and for such purpose, the taxable period of any Acquired Subsidiary that is a partnership or other pass-through entity shall be deemed to terminate at such time), and the amount of other Taxes for the Straddle Period that are treated as Pre-Closing Taxes shall be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction, the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in such Straddle Period.

(d) Transfer Taxes. Seller Parent and Purchaser Parent each shall pay one-half of all transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with the consummation of the transactions contemplated by this Agreement (collectively, "*Transfer Taxes*"); *provided*, *however*, that if the aggregate amount of all such Transfer Taxes exceeds $1,000,000, Seller Parent shall pay all Transfer Taxes to the extent they exceed $1,000,000. Sellers shall, at their own expense, file all necessary Tax Returns, reports, forms, and other documentation with respect to all such Taxes, fees and charges.

(e) Tax-Sharing Agreements. Each Seller and each Acquired Subsidiary will terminate all Tax-sharing agreements and similar arrangements with respect to any Acquired Subsidiary or the Finishing Business before or as of the Closing Date to the extent required to cause no Acquired Subsidiary to be bound therefor or have any Liability thereunder after the Closing Date.

(f) Audits and Contests Regarding Taxes.

(i) Any party that receives any notice of a pending or threatened Tax audit, assessment, or adjustment relating to an Acquired Subsidiary or the Finishing Business that may give rise to a liability of another party (a "*Tax Proceeding*"), shall promptly notify the other party within ten Business Days of the receipt of such notice; *provided*, *however*, that failure to give such notice shall not affect the indemnification obligations under Article 8 unless (and only to the extent that) such failure prejudices the indemnifying party. The parties each agree to consult with and to keep each other informed on a regular basis regarding the status of any Tax Proceeding to the extent that such Tax Proceeding could affect such other party (including indemnity obligations hereunder).

(ii) Sellers shall have the right to represent their interests in any Tax Proceeding and to employ counsel of their choice and at their expense, to the extent such

Tax Proceeding pertains to a Pre-Closing Tax Period of an Acquired Subsidiary, and no such Tax Proceeding shall be closed, settled, or otherwise terminated without the prior written consent of the Sellers, which consent will not be unreasonably withheld.

(g) Cooperation on Tax Matters. Purchasers and Sellers shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Section 6.4 and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's reasonable request) access to the records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available as reasonably requested on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Sellers shall retain all books and records with respect to Tax matters pertinent to the Finishing Business relating to any Tax period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Purchasers, any extensions thereof) of the respective Tax periods, and abide by all record-retention agreements entered into with any Governmental Authority.

(h) 338(g) Election. Purchasers shall not, and shall not permit any Acquired Subsidiary to, file an election under section 338(g) of the Code (or any corresponding provision of state, local or non-U.S. law) with respect to any Acquired Subsidiary without the prior written consent of Seller Parent.

(i) Survival of Obligations. The obligations of the parties set forth in this Section 6.4 shall be unconditional and absolute and shall remain in effect until the expiration of the applicable period of limitations on assessments.

6.5 Environmental Investigation and Remediation. Seller Parent shall not be responsible for any investigation or remediation costs if such investigation or remediation is not required to comply with relevant Environmental Law. Purchasers and Purchaser Parent shall conduct any required environmental investigation of the Owned Real Property or any Leased Real Property in a commercially reasonable manner consistent with the American Society for Test and Measurement ("ASTM") "E1527-05 Standard Practice for Environmental Site Assessments; Phase I Environmental Site Assessment Process" and, if intrusive investigation is prudent, ASTM "E1903-97 (2002) Standard Guide for Environmental Site Assessments; Phase II Environmental Site Assessment Process" or substantially equivalent consensus standards. When intrusive investigation is prudent, analytical results for environmental media samples shall be compared to relevant screening and cleanup standards consistent with commercial-industrial land use. Seller Parent shall not be responsible for costs to delineate contamination or remediate soil or groundwater to comply with unrestricted land use standards (including but not limited to residential standards). Purchasers and Purchaser Parent shall, where applicable, utilize site-specific risk assessment, engineered barriers, and environmental land use restrictions in lieu of active *in situ* or *ex situ* remediation techniques to satisfy requirements of relevant Environmental Law. Purchasers and Purchaser Parent shall (1) keep Seller Parent informed of the commencement and progress of any required investigation or remediation of the Owned Real Property or any Leased Real Property and provide Seller Parent with copies of analytical results for environmental media samples from investigation or remediation and copies of reports submitted to any Governmental Authority; and (2) provide reasonable advance notice to Seller

Parent of meetings with any Governmental Authority or affected third party regarding investigation or remediation of the Owned Real Property or any Leased Real Property and allow Seller Parent's representative to attend such meetings.

ARTICLE 7
CONDITIONS TO CLOSING AND CLOSING DELIVERIES

7.1 Conditions of Purchaser's Obligations. Purchasers' and Purchaser Parent's obligations to effect the transactions contemplated by this Agreement are subject to fulfillment at or prior to the Closing of each of the following conditions precedent, unless waived in writing by Purchaser Parent:

(a) Representations and Warranties. Each of the representations and warranties made by Sellers in this Agreement shall be true and correct in all material respects as of the Closing Date (except for those representations that speak as of an earlier date, which shall be true in all material respects as of such earlier date). Solely for purposes of this Section 7.1(a), any representation or warranty made by Sellers herein (other than the representation in Section 4.6(a)) that is qualified by materiality or Material Adverse Effect will be read as if each such qualifier were not present.

(b) Covenants. Sellers shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed and complied with by them prior to or as of the Closing Date.

(c) No Material Adverse Effect. Since the date of this Agreement, there shall not have been any change, event, or occurrence that has had or would reasonably be expected to have a Material Adverse Effect.

(d) Approvals; Absence of Certain Legal Proceedings. The parties shall have received all approvals, authorizations, and consents of all Governmental Authorities required in connection with the consummation of the transactions contemplated by this Agreement and the applicable waiting period (and any extension thereof) under the HSR Act and any waiting period or comparable period under similar non-U.S. antitrust or competition laws applicable to the transactions contemplated by hereby shall have expired or shall have been duly terminated, and all approvals and clearances required under similar non-U.S. antitrust or competition laws applicable to the transactions contemplated hereby shall have been received. No suit or other legal proceeding shall be pending or shall have been commenced that seeks to restrict or prohibit the transactions contemplated by this Agreement.

(e) Consents. The third-party consents and approvals necessary to consummate the transactions contemplated by this Agreement and listed on Schedule 7.1(e) shall have been obtained, in form and substance reasonably satisfactory to Purchaser Parent, and delivered to Purchaser Parent.

(f) Financial Statements.

(i) Sellers shall have delivered to Purchaser Parent audited consolidated

balance sheets of the Finishing Business as of December 31, 2009 and December 31, 2010 and audited statements of operations, cash flows, stockholders' equity and other comprehensive income for the years ended December 31, 2008, December 31, 2009, and December 31, 2010 (such audited balance sheets and statements, collectively, the "*Audited Financial Statements*"), along with unqualified audit reports from Deloitte & Touche LLP with respect to the Audited Financial Statements to enable Purchaser Parent to satisfy its post-Closing reporting obligations under the Exchange Act with respect to the transactions contemplated by this Agreement. Except as set forth on Schedule 4.5, the Audited Financial Statements shall not, individually or in the aggregate, be inconsistent in any material respect with the Management Financial Statements for the periods to which the Audited Financial Statements relate.

(ii) Sellers shall have delivered to Purchaser Parent unaudited consolidated financial statements of the Finishing Business as of and for such interim periods as are necessary to enable Purchaser Parent to satisfy its post-Closing reporting obligations under the Exchange Act with respect to the transactions contemplated by this Agreement.

(g) Sellers' Closing Deliveries. Sellers shall have delivered to Purchaser Parent (or such other party as appropriate) the following:

(i) a certificate, dated as of the Closing Date, duly executed by the Secretary of Sellers, certifying as to (1) true and complete copies of the organizational documents of each Seller, (2) true and complete copies of the resolutions of the boards of directors of each Seller approving this Agreement and the Ancillary Agreements, and (3) setting forth the names of each of the officers of each Seller authorized to execute this Agreement and all documents, certificates and agreements ancillary hereto, together with their specimen signatures;

(ii) a certificate, dated as of the Closing Date, from Sellers, duly executed by an officer of Sellers, certifying that the conditions specified in Sections 7.1(a), (b), and (c) have been satisfied as of the Closing Date;

(iii) a Certificate of Good Standing of each Seller and each Acquired Subsidiary from the applicable Governmental Authority, dated no more than ten days prior to the Closing Date;

(iv) the Bill of Sale, duly executed by Sellers;

(v) certificates evidencing all of the outstanding ownership interests in the Acquired Subsidiaries, duly endorsed for transfer or accompanied by duly executed assignments separate from certificates in form suitable for transfer;

(vi) the Non-U.S. Subsidiary Purchase Agreements, duly executed by the applicable Sellers;

(vii) the Designated Acquired Assets Transfer Documents, duly executed by

the applicable Sellers;

(viii) the Transition Services Agreement, duly executed by Sellers;

(ix) assignments to the applicable Purchaser of each of the Real Property Leases to which any Seller is a party, duly executed by the applicable Sellers, together with any consents required in connection with such assignments (and any consents required pursuant to any Real Property Lease to which any Acquired Subsidiary is a party in connection with the consummation of the transactions contemplated by this Agreement);

(x) special or limited warranty deeds, duly executed by the applicable Sellers and in recordable form, conveying the Owned Real Property of Sellers to the applicable Purchaser free and clear of all Liens, except for (1) Permitted Liens and (2) such matters as are acceptable to Purchaser Parent in its sole and absolute discretion, together with all documents or instruments that may be required under Applicable Law or reasonably required by Purchaser Parent's title insurance company to transfer the Owned Real Property of Sellers to the applicable Purchasers subject only to Permitted Liens, including any Seller's affidavits, title affidavits, "gap undertakings" or non-imputation affidavits required by such title insurance company and any revenue or tax certificates or statements, or any certifications related to the environmental condition of such Owned Real Property;

(xi) binding title insurance policies (which may be in the form of marked-up title insurance commitments) covering each parcel of the Owned Real Property, issued on a current form of ALTA owner's title insurance policy by a title insurance company reasonably acceptable to Purchaser Parent, and insuring fee simple title to each parcel of the Owned Real Property in the applicable Purchaser or its designee as of the Closing Date (including all recorded appurtenant easements insured as separate legal parcels), with gap coverage from the Closing through the date of recording, subject to no exceptions to coverage that are not reasonably acceptable to Purchaser Parent, providing coverage in such amount as Purchaser Parent reasonably determines to be the value of each such parcel of Owned Real Property, and including an extended coverage endorsement (insuring over the general or standard exceptions) and ATLA Form 3.1 zoning or its equivalent (with parking and loading docks) and all other endorsements reasonably requested by Purchaser Parent, all in form and substance reasonably satisfactory to Purchaser Parent;

(xii) releases, termination statements or satisfactions, as appropriate, as to all Liens on the Acquired Assets (other than Permitted Liens);

(xiii) the third-party consents identified on Schedule 7.1(e), in form and substance reasonably satisfactory to Purchaser Parent;

(xiv) a certificate dated as of the Closing Date from each Seller that is conveying any interest in real property in the United States, in the applicable form set forth in Section 1.1445-2(b)(2)(iii) of the United States Treasury Regulations, so that

Purchaser Parent is exempt from withholding any portion of the Purchase Price thereunder; and

(xv) all other documents, instruments or writings required to be delivered to Purchaser Parent or any Purchase at or prior to Closing pursuant to this Agreement, and such other certificates of authority and documents as Purchaser Parent may reasonably request.

7.2 Conditions of Sellers' Obligations. Sellers' obligations to effect the transactions contemplated by this Agreement are subject to fulfillment at or prior to the Closing of each of the following conditions precedent, unless waived in writing by Seller Parent:

(a) Representations and Warranties. Each of the representations and warranties made by Purchaser Parent and Purchasers in this Agreement shall be true and correct in all material respects when made and as of the Closing Date (except for those representations that speak as of an earlier date, which shall be true in all material respects as of such earlier date). Solely for purposes of this Section 7.2(a), any representation or warranty made by Purchaser Parent or any Purchaser herein that is qualified by materiality or will be read as if each such qualifier were not present.

(b) Covenants. Purchasers and Purchaser Parent shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed and complied with by Purchasers and Purchaser Parent prior to or as of the Closing Date.

(c) Approvals; Absence of Certain Legal Proceedings. The parties shall have received all approvals, authorizations, and consents of all Governmental Authorities required in connection with the consummation of the transactions contemplated by this Agreement and the applicable waiting period (and any extension thereof) under the HSR Act and any waiting period or comparable period under similar non-U.S. antitrust or competition laws applicable to the transactions contemplated by hereby shall have expired or shall have been duly terminated, and all approvals and clearances required under similar non-U.S. antitrust or competition laws applicable to the transactions contemplated hereby shall have been received. No suit or other legal proceeding shall be pending or shall have been commenced that seeks to restrict or prohibit the transactions contemplated by this Agreement.

(d) Purchaser's Closing Deliveries. Purchaser Parent shall have delivered to Sellers (or such other party as appropriate) the following:

(i) the Initial Purchase Price, payable in accordance with Section 3.1;

(ii) a certificate, dated as of the Closing Date, from Purchaser Parent, duly executed by an officer of Purchaser Parent, certifying that the conditions specified in Sections 7.2(a) and (b) have been satisfied as of the Closing Date;

(iii) the Bill of Sale, duly executed by the applicable Purchasers;

(iv) the Non-U.S. Subsidiary Purchase Agreements, duly executed by the applicable Purchasers;

(v) the Designated Acquired Assets Transfer Documents, duly executed by IP Purchaser or its designee(s);

(vi) the Transition Services Agreement, duly executed by Purchasers;

(vii) assignment agreements relating to each of the Real Property Leases to which any Seller is a party, as necessary; and

(viii) all other documents, instruments or writings required to be delivered to Sellers at or prior to Closing pursuant to this Agreement.

ARTICLE 8
INDEMNIFICATION

8.1 Survival.

(a) The representations and warranties of the parties contained in this Agreement shall survive the Closing and continue in full force and effect for a period of 18 months thereafter, except that (i) the representations and warranties set forth in Sections 4.1(a), 4.1(b), 4.1(c), 4.2, 4.3, 4.4(a), 5.1(a), 5.1(b), 5.1(c), and 5.2 shall survive the Closing and continue in full force and effect indefinitely, (ii) the representations and warranties set forth in Sections 4.8, 4.24 and 5.4 shall survive the Closing and continue in full force and effect until 90 days following the expiration of the applicable statute of limitations, and (iii) the representations and warranties set forth in Section 4.16 shall survive the Closing and continue in full force and effect for a period of five years thereafter. The expiration of the applicable survival period for the representations and warranties provided herein shall not affect the rights of a party in respect of any claim made by such party in a notice, given in compliance with Section 8.5 or Section 8.6 (as applicable), to the indemnifying party before the expiration of the applicable survival period.

(b) No claim for indemnity may be made under Section 8.2(c)(2) unless notice thereof shall have been given to Sellers on or before the tenth anniversary of the Closing Date.

(c) No claim for indemnity may be made under Section 8.2(j) unless notice thereof shall have been given to Sellers on or before the third anniversary of the Closing Date.

8.2 Indemnification by Sellers. Seller Parent will indemnify Purchaser Parent, Purchasers and their affiliates (including, after the Closing, the Acquired Subsidiaries) and their respective directors, managers, officers, members, employees, agents, representatives, successors and assigns (collectively, the "*Purchaser Group*") from and against any and all Damages that are incurred by the Purchaser Group arising from or related to:

(a) any breach of or inaccuracy in any representation or warranty made by Sellers in

this Agreement or in any certificate delivered by Sellers pursuant to this Agreement (except that any breaches of and inaccuracies in the representations and warranties in Section 4.16 shall be subject to Section 8.2(c)(1));

(b) any breach of or failure by any Seller to perform any covenant or obligation set out or contemplated in this Agreement;

(c) (1) any breach of or inaccuracy in any representation or warranty contained in Section 4.16, or (2) any Liability with respect to any Owned Real Property or any Leased Real Property arising under any Environmental Law, except to the extent first arising out of acts first occurring after the Closing Date;

(d) any Liability arising under or relating to any Environmental Law or relating to Hazardous Materials with respect to any real property formerly owned, leased, or occupied by any Seller or any Acquired Subsidiary;

(e) any Excluded Assets or Excluded Liabilities;

(f) Any liability incurred by Purchaser Parent related to obligations arising out of redacted information in the Settlement Agreement, dated as of October 23, 2008 between Seller Parent, U.S. Seller, 3M Company, and 3M Innovative Properties Company and made available to Purchaser Parent prior to the date hereof;

(g) any Liability of any Seller or Acquired Subsidiary (including Liabilities for Taxes, but excluding any Liability of any Acquired Subsidiary under the executory portion of any Contract (except for any Contract not disclosed in Section 4.11 of the Disclosure Schedules if (i) such non-disclosure constitutes a misrepresentation under Section 4.11 and (ii) the assumption of such Contract by any Purchaser would, in such Purchaser's reasonable determination, materially and adversely affect Purchaser)) that does not appear on the Final Closing Balance Sheet or exceeds the amount of such liability shown on the Final Closing Balance Sheet, except to the extent arising out of acts of the Purchaser Group or any Acquired Subsidiary first occurring after the Closing Date;

(h) any Liability of any Acquired Subsidiary arising under or relating to any pension or other retirement benefit plan for any Employees engaged or employed immediately prior to Closing wholly or primarily in the United States, the United Kingdom (including Liabilities under Section 75 of the UK Pensions Act 1995), or Australia, except to the extent arising out of acts of the Purchaser Group or any Acquired Subsidiary first occurring after the Closing Date;

(i) any of the matters set forth on Schedule 2.3(g), except to the extent arising out of acts of the Purchaser Group or any Acquired Subsidiary first occurring after the Closing Date;

(j) any Liability of any Seller or any Acquired Subsidiary with respect to any Business Intellectual Property arising under any intellectual property law at any time, including, without limitation, laws relating to patent infringement, but excluding any of the matters set forth on Schedule 2.3(g); or

(k) any noncompliance with any Bulk-Transfer Laws or any Liability under any Tax laws as a result of Purchasers succeeding to Sellers as the owners of the Acquired Assets (except to the extent any such Liabilities are Assumed Liabilities).

8.3 Indemnification by Purchaser. Purchasers and Purchaser Parent will, jointly and severally, indemnify Sellers and Sellers' affiliates (other than, after the Closing, the Acquired Subsidiaries) and their respective directors, managers, officers, shareholders, members, agents, representatives, successors and assigns (collectively, the "*Seller Group*") harmless from and against any and all Damages that are incurred by the Seller Group arising from or related to:

(a) any breach of or inaccuracy in any representation or warranty made by Purchasers or Purchaser Parent in this Agreement or in any certificate delivered by Purchasers or Purchaser Parent pursuant to this Agreement;

(b) any breach of or failure by any Purchaser or Purchaser Parent to perform any covenant or obligation set out or contemplated in this Agreement; or

(c) any Assumed Liability (except to the extent that Purchaser Group is entitled to indemnification with respect to such Assumed Liability under Section 8.2 or would be so entitled but for the limitations set forth in Section 8.1 and Section 8.4).

8.4 Limitations on Indemnification.

(a) The maximum amount of indemnification payments the Purchaser Group shall be entitled to receive from Seller Parent for Damages under Section 8.2(a) (and not Sections 8.2(b) through (k), which shall not be subject to the limitations described in this Section 8.4(a)) shall be $97.5 million in the aggregate (the "*Indemnification Cap*"); provided, however, that the foregoing limitation shall not apply to, and Damages arising out of any of the following shall not be taken into consideration for purposes of determining whether the Indemnification Cap has been reached in respect of Damages under Section 8.2(a): (i) any breach of the representations and warranties made by Sellers in Section 4.1(a), 4.1(b), 4.1(c), 4.2, 4.3, 4.4(a), 4.8, or 4.24; or (ii) any breach of any representation or warranty made by Sellers in this Agreement which constitutes fraud or intentional misrepresentation.

(b) The maximum amount of indemnification payments the Purchaser Group shall be entitled to receive from Seller Parent for Damages under Section 8.2(a) with respect to breaches of the representations and warranties made by Sellers in Section 4.1(a), 4.1(b), 4.1(c), 4.2, 4.3, 4.4(a), 4.8, or 4.24 in the aggregate, shall be the amount of the Purchase Price.

(c) Seller Parent shall have no liability under Section 8.2(a) (other than for any breach of or inaccuracy in any representation or warranty set forth in Section 4.1(a), 4.1(b), 4.1(c), 4.2, 4.3, 4.4(a), 4.8, or 4.24 for which indemnification shall be available on a first-dollar basis) until the aggregate of all Damages arising out of all matters set forth in Section 8.2(a) exceeds $2 million, and then only to the extent of the excess.

(d) Seller Parent shall have no liability under Section 8.2(c) until the aggregate of all Damages arising out of all matters set forth in Section 8.2(c) exceeds $5 million, and then only to the extent of the excess.

(e) Notwithstanding anything herein to the contrary, for purposes of indemnification pursuant to Section 8.2(i), Damages shall include only one-half (rather than all) of any court costs and reasonable attorneys' fees and expenses.

(f) The maximum amount of indemnification payments the Purchaser Group shall be entitled to receive from Seller Parent for Damages under Section 8.2(j) shall be $10 million in the aggregate.

(g) For purposes of this Article 8, in determining the amount of Damages arising from or relating to any breach of or inaccuracy in any representation or warranty in this Agreement (but not for purposes of determining whether such a breach or inaccuracy occurred), all materiality and Material Adverse Effect qualifiers will be ignored and each such representation and warranty will be read and interpreted without regard to such qualifier.

(f) Limitations on Indemnification Obligations.

(i) The Purchaser Group shall not have a right to assert claims under any provision of this Agreement for any Damages to the extent that such Damages arise out of actions taken by or omitted to be taken by Purchaser or the Finishing Business after the Closing Date.

(ii) The rights of the Purchaser Group to indemnification pursuant to the provisions of Section 8.2(a) are subject to the following limitations: the amount of any and all Damages will be determined net of any (1) applicable accruals or reserves included in the calculation of the Net Operating Assets on the Final Closing Statement; (2) amounts actually recovered by the Purchaser Group under indemnification agreements or arrangements with third parties or under insurance policies with respect to such Damages (and no right of subrogation shall accrue to any such third party indemnitor or insurer hereunder), and (3) an amount equal to the Tax savings or benefits actually realized by the Purchaser Group that is attributable to any deduction, loss, credit or other Tax benefit resulting from or arising out of such Damages. An Indemnified Party shall use commercially reasonable efforts to collect any applicable insurance proceeds (including (A) an assignment to the Indemnifying Party of its right to pursue claims thereto (to the extent freely assignable) and (B) providing the Indemnifying Party with reasonable assistance in pursuing any such assigned claim (at the Indemnifying Party's sole cost and expense).

(iii) Notwithstanding anything to the contrary contained herein, upon any Indemnified Party's becoming aware of any claim as to which indemnification may be sought by such Indemnified Party pursuant to this Article 8, such Indemnified Party shall utilize all reasonable efforts, consistent with normal practices and policies and good commercial practice, to mitigate such Losses.

(g) Exclusive Remedy. Notwithstanding anything else contained in this Agreement to the contrary, after the Closing, indemnification pursuant to the provisions of this Article 8 shall be the sole and exclusive remedy for Damages (but not for injunctive or other non-monetary relief) with respect to any and all claims (whether in contract or tort) relating to this Agreement, including any breach of the covenants, agreements, representations or warranties set forth herein, the subject matter of this Agreement and the transactions contemplated hereby, except to the extent of fraud or willful misconduct by any Person.

8.5 Procedure for Indemnification of Third Party Claims.

(a) Notice of Third Party Claims. If any action, claim, suit, proceeding, arbitration, order, or governmental investigation or audit is filed or initiated by any third party (a "*Third Party Claim*") against any party entitled to the benefit of indemnity under this Agreement (an "*Indemnified Party*"), written notice of such Third Party Claim shall be given to the party owing indemnity (an "*Indemnifying Party*") as promptly as practicable (and in any event within 30 days after the service of the citation or summons, or on such earlier date as is required to comply with legal process); provided, however, that the failure of any Indemnified Party to give timely notice shall not affect any rights to indemnification hereunder except to the extent that the Indemnifying Party demonstrates actual damage caused by such failure.

(b) Defense and Settlement. If any Third Party Claim is brought against an Indemnified Party, the Indemnifying Party shall be entitled to participate in the defense of such Third Party Claim and, at its option (unless (i) the Indemnifying Party is also a party to such Third Party Claim and the Indemnified Party has been advised by counsel that a reasonable likelihood exists of a conflict of interest between the Indemnified Party and the Indemnifying Party or (ii) the Indemnified Party has failed to assume the defense of the Third Party Claim within 15 days after receipt of notice thereof), to assume the defense of such Third Party Claim with counsel reasonably satisfactory to the Indemnified Party; *provided*, *however*, that notwithstanding the foregoing, the Indemnifying Party shall not be entitled to assume the defense of any Third Party Claim for which the Indemnifying Party may have an indemnification obligation pursuant to Section 8.2(i) or (j). If the Indemnifying Party assumes the defense of a Third Party Claim, (i) no compromise or settlement of such Third Party Claim may be effected by the Indemnifying Party without the Indemnified Party's consent unless (A) there is no finding or admission of any violation of Applicable Law or the rights of any Person by the Indemnified Party (or any of its affiliates or their respective directors, managers, officers, shareholders, members, agents, or representatives) and no effect on any other claims that may be made against the Indemnified Party, and (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (ii) the Indemnified Party shall have no Liability with respect to any compromise or settlement of such Third Party Claim effected without its consent. If the Indemnifying Party assumes the defense of any Third Party Claim, then the Indemnifying Party will keep the Indemnified Party reasonably informed of the progress of the defense and any compromise or settlement of such claim and will consult with, when appropriate, and consider any reasonable advice from, the Indemnified Party with respect to any such defense, compromise, or settlement. If notice is given to an Indemnifying Party of the commencement of any Third Party Claim and the Indemnifying Party does not, within 15 days after the Indemnified

Party's notice is given, elect to assume the defense of such Third Party Claim, the Indemnifying Party shall be bound by any determination made in such Third Party Claim or any compromise or settlement effected by the Indemnified Party. If the Indemnifying Party assumes the defense of any Third Party Claim, the Indemnified Party may participate at its own expense in such defense (including in any proceedings regarding such Third Party Claim) and will have the right to receive copies of all notices, pleadings or other similar submissions regarding such defense.

(c) Non-Monetary Claims. Notwithstanding the foregoing, if an Indemnified Party determines in good faith that there is a reasonable probability that a Third Party Claim would adversely affect it or its Affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the Indemnified Party may, by notice to the Indemnifying Party, assume the exclusive right to defend, compromise, or settle such Third Party Claim, but the Indemnifying Party shall not be bound by any determination of a Third Party Claim so defended or any compromise or settlement effected without its consent (which may not be unreasonably withheld).

8.6 Procedure for Indemnification of Other Claims. A claim for indemnification for any matter not involving a Third Party Claim may be asserted by notice to the party from whom indemnification is sought.

8.7 Tax Treatment of Indemnity Payments. The parties shall treat any indemnity payments made pursuant to this Article 8 as an adjustment to the Purchase Price for all federal, state, local, and foreign Tax purposes (unless otherwise required by a Governmental Authority).

ARTICLE 9
MISCELLANEOUS

9.1 Termination.

(a) This Agreement may be terminated:

(i) at any time prior to the Closing by mutual written agreement of Purchaser Parent and Seller Parent;

(ii) by Purchaser Parent, at any time prior to the Closing in the event that any Seller is in breach, in any material respect, of any of the representations, warranties or covenants made by Sellers in this Agreement; *provided*, *however*, that such condition is not the result of any breach of any representation, warranty or covenant of any Purchaser or Purchaser Parent set forth in this Agreement;

(iii) by Seller Parent, at any time prior to the Closing in the event that any Purchaser or Purchaser Parent is in breach, in any material respect, of any of the representations, warranties or covenants made by any Purchaser or Purchaser Parent in this Agreement; *provided*, *however*, that such condition is not the result of any breach of any covenant representation, warranty or covenant of Sellers set forth in this Agreement;

(iv) by Purchaser Parent, if any condition in Section 7.1 becomes incapable of fulfillment at Closing; *provided* that Purchaser Parent has not waived such condition;

(v) by Seller Parent, if any condition in Section 7.2 becomes incapable of fulfillment at Closing; *provided* that Seller Parent has not waived such condition; or

(vi) by Seller Parent, on the one hand, or Purchaser Parent, on the other hand, at any time after October 31, 2011 (the "*Termination Date*"), if the Closing shall not have occurred by such date, unless the failure or delay resulted primarily from the breach of any representation, warranty or covenant contained in this Agreement by the party or parties initiating such termination; *provided*, *however*, that if all of the conditions set forth in Article 7, other than any of the conditions set forth in Section 7.1(d) and Section 7.2(c) and those conditions that by their terms cannot be satisfied until the Closing, have been waived or satisfied prior to October 31, 2011, the Termination Date shall be April 1, 2012.

(b) Any termination of this Agreement pursuant to Section 9.1(a)(ii), (iii) or (iv) shall be effected by written notice from Seller Parent to Purchaser Parent (if Seller Parent is the terminating party) or Purchaser Parent to Seller Parent (if Purchaser Parent is the terminating party), which notice shall specify the basis therefor. Any termination of this Agreement pursuant to Section 9.1(a)(ii), (iii) or (iv) shall not terminate the liability of any party for any breach or default of any representation, warranty, covenant or other agreement set forth in this Agreement which exists at the time of such termination, and the provisions of Articles 8 and 9 shall survive any termination of this Agreement pursuant to Section 9.1(a)(ii), (iii) or (iv).

(c) In the event that this Agreement shall be terminated by Purchaser Parent pursuant to Section 9.1(a)(iv) (but for purposes of Section 9.1(a)(iv) only if the incapability of fulfillment of a condition in Section 7.1 is attributable to the HSR Act or any similar foreign statute and regulations promulgated under such laws (collectively, "*Antitrust Laws*")) and all of the conditions to Closing set forth in Section 7.1 (other than (i) the conditions set forth in Section 7.1(d), but for purposes of Section 7.1(d) only if the failure of such condition to be satisfied is attributable to Antitrust Laws, and (ii) those other conditions that, by their nature, cannot be satisfied until the Closing Date, but, in the case of clause (ii), which conditions would be satisfied if the Closing Date were the date of such termination) have been satisfied or waived on or prior to the date of such termination, then Purchaser Parent shall pay to Seller Parent, within five Business Days of such termination, a termination fee equal to $20,000,000 (the "*Termination Fee*"). Receipt by Seller Parent of such Termination Fee shall constitute an election of remedies and shall preclude Sellers and their Affiliates from any other remedy against Purchaser Parent and its Affiliates to which any Seller or any of its Affiliates may otherwise be entitled under this Agreement (notwithstanding anything to the contrary herein), at law, or in equity.

9.2 Expenses. Except as otherwise expressly provided herein, each party to this Agreement shall pay all expenses incurred by it in connection with this Agreement and the transactions contemplated hereby, including the fees and expenses of its legal, accounting and financial advisors.

9.3 Governing Law; Venue; Waiver of Jury Trial. This Agreement shall be construed under and governed by the laws of the State of Delaware without regard to the conflicts of law principles of any jurisdiction. Any action brought to enforce any provision of this Agreement shall be brought in the Delaware court of Chancery, and the parties hereto hereby consent to the jurisdiction of such court. TO THE FULL EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST IT IN RESPECT OF ITS OBLIGATIONS HEREUNDER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

9.4 Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be deemed given (i) when delivered in person, (ii) three Business Days after being deposited in the United States mail, postage prepaid, registered or certified mail addressed as set forth below, (iii) on the next Business Day after being deposited with a nationally recognized overnight courier service addressed as set forth below, or (iv) upon dispatch if sent by facsimile with confirmation of receipt from the intended recipient to the facsimile number set forth below (or to such other respective addresses as may be designated by notice given in accordance with the provisions of this Section, except that any notice of change of address shall not be deemed given until actually received by the party to whom directed):

If to any Seller:

Illinois Tool Works Inc.

Attention: Jane Warner, Executive Vice President

3600 West Lake Avenue

Glenview, Illinois 60026

Fax: 847-657-4600

with a copy to its counsel at:

Illinois Tool Works Inc.

Attention: Corporate Secretary

3600 West Lake Avenue

Glenview, Illinois 60026

Fax: 847-657-4600

If to Purchaser Parent or any Purchaser:

Graco Inc.

88 Eleventh Avenue N.E.

Minneapolis, Minnesota 55413

Attn: General Counsel

Tel. No.: 612-623-6604

Fax No.: 612-623-6944

with a copy to:

Faegre & Benson LLP

2200 Wells Fargo Center

90 South Seventh Street

Minneapolis, Minnesota 55402

Attn: Michael A. Stanchfield

Tel. No.: 612-766-7764

Fax No.: 612-766-1600

9.5 Entire Agreement; Amendment. This Agreement, including the schedules and exhibits, constitutes the entire agreement between the parties and supersedes all prior discussions, negotiations and understandings relating to the subject matter hereof, whether written or oral (including any letter of intent, term sheet, or memorandum of understanding). This Agreement may not be amended, altered, enlarged, supplemented, abridged, modified, or any provisions waived, except by a writing duly signed by the party to be bound thereby.

9.6 Waiver. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving the term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

9.7 Benefit; Assignability. This Agreement is enforceable by, and inures to the benefit of, the parties to this Agreement and their respective successors and assigns. Neither this Agreement nor any right, interest or obligation under this Agreement may be assigned by any party to this Agreement without the prior written consent of the other parties hereto and any attempt to do so shall be void; provided, however, that Purchaser Parent or any Purchaser may assign any or all of its rights and interests hereunder (i) to one or more of its Affiliates, (ii) for collateral security purposes to any lender providing financing to Purchaser Parent or its Affiliates and any such lender may exercise all of the rights and remedies of Purchasers hereunder, and (iii) to any subsequent purchaser of Purchaser Parent, or any Purchaser or any material portion of their respective assets (whether such sale is structured as a sale of stock or membership interests, a sale of assets, a merger or otherwise).

9.8 Counterparts. This Agreement may be executed in any number of counterparts and delivered via facsimile or other form of electronic transmission (including .pdf transmission), each of which shall be deemed an original and all of which shall constitute one agreement.

9.9 Publicity and Disclosures. Sellers acknowledge that Purchaser Parent may be required to file this Agreement and related disclosures with the SEC and the New York Stock Exchange.

9.10 No Third-Party Rights. Except as expressly contemplated by this Agreement,

nothing in this Agreement is intended, nor may be construed, to confer upon or give any Person, other than the parties hereto and the Persons entitled to indemnification under Article 8, any rights or remedies under or by reason of this Agreement.

9.11 Headings. The descriptive headings of the Articles and Sections of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

9.12 Remedies. The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive and are in addition to any and all rights, remedies, powers and privileges granted by law, rule, regulation or instrument. The parties agree that, in addition to any other relief afforded under the terms of this Agreement or by Applicable Law, the parties may enforce this Agreement by injunctive or mandatory relief to be issued by or against the other parties, it being understood that both damages and specific performance shall be proper modes of relief and are not to be understood as alternative remedies.

9.13 Further Assurances. At the Closing and from time to time after the Closing, at the request of Purchaser Parent and without further consideration, Seller Parent shall, and shall cause its Subsidiaries to, promptly execute and deliver to Purchaser Parent or the applicable Purchaser such documents, certificates, and other instruments (including instruments of sale, conveyance, assignment and transfer) and take such other action, as may reasonably be requested by Purchaser Parent to sell, convey, assign and transfer to and vest in Purchasers, or to put Purchasers in possession of, the Acquired Assets and all benefits related thereto and to carry out the purposes of this Agreement.

9.14 Disclosure Schedules. The Disclosure Schedules set forth the exceptions to the representations and warranties contained in Article 4 under headings referencing the sections and subsections (if any) of this Agreement to which such exceptions apply. The disclosures in the Disclosure Schedules relate only to the representations and warranties in the sections or subsections of the Agreement so indicated in the Disclosure Schedules and not to any other representation or warranty in this Agreement.

9.15 Severability of Invalid Provision. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement shall remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree shall remain in full force and effect to the extent not held invalid or unenforceable.

9.16 Interpretation; Construction. In this Agreement: (a) the words "herein," "hereunder," "hereby" and similar words refer to this Agreement as a whole (and not to the particular sentence, paragraph or Section where they appear); (b) terms used in the plural include the singular, and vice versa, unless the context clearly requires otherwise; (c) unless expressly stated herein to the contrary, reference to any document means such document as amended or modified and as in effect from time to time in accordance with the terms thereof; (d) unless expressly stated herein to the contrary, reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, in whole or in part, and as in effect from time to time, including any rule or regulation promulgated thereunder; (e) the

words "including," "include" and variations thereof are deemed to be followed by the words "without limitation"; (f) "or" is used in the sense of "and/or"; "any" is used in the sense of "any or all"; (g) unless expressly stated herein to the contrary, reference to a document, including this Agreement, will be deemed to also refer to each annex, addendum, exhibit, schedule or other attachment thereto; (h) unless expressly stated herein to the contrary, reference to an Article, Section, Schedule or Exhibit is to an article, section, schedule or exhibit, respectively, of this Agreement; and (j) all dollar amounts are expressed in United States dollars unless otherwise expressly indicated.

9.17 Seller Parent Guaranty.

(a) Seller Parent (i) absolutely, unconditionally and irrevocably guarantees, as a principal and not as a surety, to the Purchaser Group the due and timely performance by Sellers of Sellers' covenants, agreements, obligations, commitments, undertakings, and indemnities given or undertaken or expressed to be given or undertaken under this Agreement (collectively, the "*Guaranteed Obligations*"), and (ii) shall indemnify the Purchaser Group and hold the Purchaser Group harmless against any Damages which the Purchaser Group may suffer, sustain or become subject to as a result of any Seller's failure to perform any such Guaranteed Obligations or enforcing this Section 9.17.

(b) The guarantee provided by Seller Parent in this Section 9.17 shall be a continuing guarantee, shall be independent of any other remedy any Purchaser or Purchaser Parent may have to enforce the Guaranteed Obligations, and shall be operative and binding notwithstanding that at any time or times the Guaranteed Obligations shall cease or terminate, and the guarantee herein provided will not be considered as wholly or partially satisfied by the intermediate payment or satisfaction at any time of all or any part of the Guaranteed Obligations. The liability of Seller Parent under this Section 9.17 will not be discharged, diminished or in any way affected by any circumstance which might otherwise constitute, in whole or in part, a defense available to, or a discharge of, any Seller in respect of the Guaranteed Obligations; *provided*, *however*, that the obligations and liability of Seller Parent under this Section 9.17 shall be subject to the same express limitations and conditions as apply to the Sellers' obligations in respect of the Guaranteed Obligations under this Agreement.

* * * * *

IN WITNESS WHEREOF, this Asset Purchase Agreement has been duly executed by the parties hereto as of the day and year first above written.

GRACO INC.

/s/ Patrick J. McHale
Name: Patrick J. McHale
Its: President & CEO

GRACO HOLDINGS INC.

/s/ James A. Graner
Name: James A. Graner
Its: CFO & Treasurer

GRACO MINNESOTA INC.

/s/ Patrick J. McHale
Name: Patrick J. McHale
Its: CEO

ILLINOIS TOOL WORKS INC.

/s/ Jane L. Warner
Name: Jane L. Warner
Its: Executive Vice President

ITW FINISHING LLC

/s/ Jane L. Warner
Name: Jane L. Warner
Its: President

Exhibit 99.1

News Release

GRACO INC.

P.O. Box 1441

Minneapolis, MN

55440-1441

NYSE: GGG

FOR IMMEDIATE RELEASE:

Thursday, April 14, 2011

FOR FURTHER INFORMATION:
Investors: James A. Graner
(612) 623-6635
Media: Jodi Ehlers Swanson
(612) 623-6217

GRACO TO ACQUIRE THE FINISHING BUSINESSES OF ITW
A GLOBAL MANUFACTURER OF LIQUID AND POWDER FINISHING TECHNOLOGIES

Advances Graco's Core Growth Strategies

Gives Graco a Leading Position in Industrial Powder Paint Equipment

Brings Several Widely Recognized Premium Brands to Graco

MINNEAPOLIS, MN (April 14, 2011) — Graco Inc. **(NYSE: GGG)** announced today that it has entered into a definitive agreement to purchase the operations of the finishing businesses of Illinois Tool Works Inc. (NYSE: ITW) in a $650 million cash transaction. The ITW businesses manufacture and distribute equipment for industrial liquid finishing, powder coating and automotive refinishing, worldwide. Key attributes of the businesses include:

- 2010 revenues of $305 million, of which 40 percent were in the Americas and 60 percent elsewhere.
- Significant operations are located in the United States, Switzerland, United Kingdom, Japan, Brazil and Mexico with sales offices and distribution capabilities in several additional countries.
- Leading equipment technologies and brands, such as Gema® powder finishing equipment, Binks® industrial pumping solutions, DeVilbiss® auto refinish guns and accessories, Ransburg® electrostatic guns and accessories and BGK curing technology.
- Professional management and 900 employees worldwide.
- Global manufacturing capabilities/capacity.

Graco plans to finance the transaction through a new committed $450 million revolving credit facility (U.S. Bank National Association and JP Morgan as joint lead arrangers) and previously announced long-term debt of $300 million. Operations are expected to be cash accretive immediately and will be included in Graco's Industrial segment for reporting purposes. Closing is expected in June 2011, at the earliest, pending regulatory reviews and other customary conditions.

Graco's Chief Executive Officer, Pat McHale, said, "This acquisition is an excellent strategic fit with Graco's Industrial segment. It will advance all of our stated core growth strategies: new products and technology, geographic expansion, and new markets. We gain a leading position in industrial powder paint equipment — a growing global market where we have no offering today. In liquid finishing, the acquired product technologies are complementary to Graco's Industrial offering and also give us a leading position in automotive refinish where we have little presence. The acquired businesses generate two thirds of revenue outside North America, increasing our critical mass in important international and emerging markets. This transaction will bring several widely recognized premium brands to Graco, a strong distribution channel, an

installed base and approximately 40% of revenue from parts and accessories. We believe this acquisition will create long term value for our shareholders."

Investor slides that more fully describe this transaction are available on the Investor section at the Company's website at www.graco.com. Graco management will hold a conference call, including slides via webcast, with analysts, institutional investors and media to discuss the acquisition at 9:00 a.m. ET, 8:00 a.m. CT, on Friday, April 15, 2011.

A real-time listen-only webcast of the conference call will be broadcast by Thomson/CCBN. 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 15, 2011, by dialing 800-406-7325, Conference ID #4434303, 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 20, 2011.

ITW is a Fortune 200 global diversified industrial manufacturer. ITW's key business platforms include welding, automotive OEM, industrial packaging, food equipment, construction, polymers and fluids, test and measurement electronics, decorative surfaces and automotive aftermarket products. ITW's revenues totaled $15.9 billion in 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, and construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

Cautionary Statement Regarding Forward-Looking Statements

A forward-looking statement is any statement made in this presentation that reflects the Company's current thinking on the acquisition of the Finishing Business from ITW, 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: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 for a more comprehensive discussion of other risk factors that relate generally to the Company's business and financial condition. The Annual Report on Form 10-K is available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at www.sec.gov.

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GRACO INC (GGG)

8-K

Current report filing
Filed on 04/26/2011
Filed Period 04/21/2011

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 21, 2011

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 5.07 Submission of Matters to a Vote of Security Holders.

On April 21, 2011, Graco Inc. (the "Company") held its Annual Meeting of Shareholders (the "Annual Meeting") in Minneapolis, Minnesota. Set forth below are the final voting results on each matter submitted to a vote of security holders at the Annual Meeting. Each proposal is described in detail in the Company's Proxy Statement for 2011 Annual Meeting.

Proposal 1

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

Name	For	Withhold Authority	Broker Non-Votes
Patrick J. McHale	27,902,322	20,074,089	6,011,572
Lee R. Mitau	24,410,819	23,565,592	6,011,572
Marti Morfitt	24,172,102	23,804,309	6,011,572

Proposal 2

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2011.

For	Against	Abstain
53,559,753	351,169	77,061

Proposal 3

Advisory, non-binding resolution to approve our executive compensation.

For	Against	Abstain	Broker Non-Votes
45,675,643	1,681,390	619,378	6,011,572

Proposal 4

Advisory, non-binding vote on the frequency for which shareholders will have an advisory, non-binding vote on our executive compensation.

1 Year	2 Years	3 Years	Abstain	Broker Non-Votes
41,617,276	1,083,187	4,734,457	541,491	6,011,572

Proposal 5

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

For	Against	Abstain	Broker Non-Votes
33,872,738	13,972,200	131,473	6,011,572

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 26, 2011 By: /s/ Karen Park Gallivan
Karen Park Gallivan
Its: Vice President, General Counsel and Secretary

GRACO INC (GGG)

8-K/A

Current report filing
Filed on 06/14/2011
Filed Period 04/21/2011

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

FORM 8-K/A

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 21, 2011**

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))

Explanatory Note

On April 26, 2011, Graco Inc. (the "Company") filed a Current Report on Form 8-K (the "Original Form 8-K") with the Securities and Exchange Commission to report the voting results of the Company's Annual Meeting of Shareholders held on April 21, 2011 (the "Annual Meeting"). The sole purpose of this Form 8-K/A is to disclose the Company's decision regarding how frequently it will conduct an advisory, non-binding vote on executive compensation.

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

As previously reported in the Original Form 8-K, in an advisory, non-binding vote held at the Annual Meeting on the frequency for which shareholders will have an advisory, non-binding vote on our executive compensation, 41,617,276 shares voted for one year, 1,083,187 shares voted for two years, 4,734,457 shares voted for three years, 541,491 abstained and there were 6,011,572 broker non-votes. The Company has considered the outcome of this advisory, non-binding vote, and the Board of Directors of the Company has determined that the Company will provide shareholders with an advisory, non-binding vote every year until the next shareholder vote on the frequency of the advisory, non-binding vote on executive compensation.

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: June 14, 2011

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 05/26/2011
Filed Period 05/23/2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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): May 23, 2011

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)	(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

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))

Item 1.01. Entry into a Material Definitive Agreement.

On May 23, 2011, Graco Inc. (the "Company") entered into a Credit Agreement (the "Credit Agreement") with U.S. Bank National Association, as administrative agent (the "Agent") and a lender, certain other lenders, and other banks from time to time party thereto. The Credit Agreement provides the Company and certain of its subsidiaries access to a $450 million unsecured revolving credit facility until May 23, 2016. The size of the credit facility may be increased by up to $150 million upon exercise of an accordion feature. Borrowings under the Credit Agreement may be denominated in U.S. Dollars or certain other currencies. Outstanding loans in currencies other than U.S. Dollars cannot exceed $200 million in the aggregate.

Although the Credit Agreement has been entered into, the Company may not obtain any loans thereunder until certain conditions are met, including the closing of the acquisition of the operations of the finishing businesses of Illinois Tool Works Inc. and ITW Finishing LLC (the "Finishing Group Acquisition") and the Company receiving not less than $75 million in proceeds from the issuance of additional senior notes. As announced previously, the Finishing Group Acquisition is expected to close in the third quarter of 2011, pending regulatory reviews and other customary conditions. Proceeds of the first loan under the Credit Agreement may be used to fund the Finishing Group Acquisition. The Company's existing credit agreement with the Agent remains in effect pending the first loan under this Credit Agreement.

Loans denominated in U.S. Dollars may bear interest, at the Company's option, at either a base rate or a LIBOR-based rate. Loans denominated in currencies other than U.S. Dollars will bear interest at a LIBOR-based rate. The base rate is an annual rate equal to a margin ranging from 0.00% to 1.00%, depending on the Company's cash flow leverage ratio, plus the highest of (i) the rate of interest from time to time announced by the Agent as its prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) one-month a LIBOR plus 1.50%. In general, LIBOR-based loans bear interest at a rate per annum equal to LIBOR, plus a margin ranging from 1.00% to 2.00%, depending on the Company's cash flow leverage ratio.

In addition to paying interest on the outstanding loans, the Company is required to pay a facility fee on the full amount of the loan commitments (whether used or unused) beginning on the date when the Company obtains any loans under the Credit Agreement at a rate per annum ranging from 0.15% to 0.40%, depending on the Company's cash flow leverage ratio.

The Credit Agreement contains customary representations, warranties, covenants and events of default, including but not limited to covenants restricting the Company's and its subsidiaries' ability to (i) merge or consolidate with another entity, (ii) sell, transfer, lease or convey their assets, (iii) make any material change in the nature of the core business of the Company, (iv) make certain investments, or (v) incur secured indebtedness. The Credit Agreement also requires the Company to maintain a cash flow leverage ratio of not more than 3.25 to 1.00 (unless a significant acquisition has been consummated, in which case, not more than 3.75 to 1.00 during the four fiscal quarter period beginning with the quarter in which such acquisition occurs) and an interest coverage ratio of not less than 3.00 to 1.00 (unless a significant acquisition has been consummated, in which case, not less than 2.50 to 1.00 during

the four fiscal quarter period beginning with the quarter in which such acquisition occurs). A change in control of the Company will constitute an event of default under the Credit Agreement.

The full terms and conditions of the credit facility are set forth in the Credit Agreement. A copy of the Credit Agreement is filed as Exhibit 10.1 hereto and is incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

10.1 Credit Agreement, dated May 23, 2011, among Graco Inc., the borrowing subsidiaries from time to time party thereto, the banks from time to time party thereto and U.S. Bank National Association, as administrative agent.

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 hereunto duly authorized.

GRACO INC.

By /s/ Karen Park Gallivan
Karen Park Gallivan
Vice President, General Counsel and Secretary

Date: May 26, 2011

EXHIBIT INDEX

Exhibit	Description	Method of Filing
10.1	Credit Agreement, dated May 23, 2011, among Graco Inc., the borrowing subsidiaries from time to time party thereto, the banks from time to time party thereto and U.S. Bank National Association, as administrative agent.	Filed Electronically

Exhibit 10.1
EXECUTION VERSION

CREDIT AGREEMENT

Dated as of May 23, 2011

among

GRACO INC.,

THE BORROWING SUBSIDIARIES,

as defined herein,

THE BANKS,

as defined herein,

U.S. BANK NATIONAL ASSOCIATION,

as Administrative Agent,

JPMORGAN CHASE BANK, N.A.,

as Syndication Agent,

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD. and

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as Co-Documentation Agents, and

U.S. BANK NATIONAL ASSOCIATION and J.P. MORGAN SECURITIES LLC,

as Joint Lead Arrangers and Joint Bookrunners

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of May 23, 2011, is by and between GRACO INC., a Minnesota corporation (the "Company"), the subsidiaries of the Company listed on the signature pages hereof or which from time to time become parties hereto pursuant to Section 2.9 (each a "Borrowing Subsidiary" and collectively the "Borrowing Subsidiaries"), the banks or financial institutions listed on the signature pages hereof or which hereafter become parties hereto by means of assignment and assumption as hereinafter described (individually referred to as a "Bank" or collectively as the "Banks"), U.S. BANK NATIONAL ASSOCIATION, a national banking association, as Administrative Agent (in such capacity, the "Agent"), JPMORGAN CHASE BANK, N.A., as Syndication Agent (in such capacity, the "Syndication Agent"), THE BANK OF TOKYO-MITSUBISHI UFJ, LTD. and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Co-Documentation Agents (in such capacities, the "Co-Documentation Agents"), and U.S. BANK NATIONAL ASSOCIATION and J.P. MORGAN SECURITIES LLC as Joint Lead Arrangers and Joint Bookrunners (the "Lead Arrangers").

ARTICLE I
DEFINITIONS, CONSTRUCTION, ACCOUNTING TERMS AND ALTERNATIVE CURRENCIES

Section 1.1 Defined Terms. In addition to the terms defined elsewhere in this Agreement, the following terms shall have the following respective meanings (and such meanings shall be equally applicable to both the singular and plural form of the terms defined, as the context may require):

"Account Subsidiary" shall have the meaning set forth in Section 11.1.

"Additional Covenant" means any affirmative or negative covenant or similar restriction applicable to the Company or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant) the subject matter of which either (i) is similar to that of any covenant in Articles VIII or IX of this Agreement, or related definitions in Article I of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the lender or creditor under any Material Financing (and such covenant or similar restriction shall be deemed an Additional Covenant only to the extent that it is more restrictive or more beneficial) or (ii) is different from the subject matter of any covenants in Articles VIII or IX of this Agreement, or related definitions in Article I of this Agreement.

"Additional Default" means any provision contained in any agreement with respect to any Material Financing which permits the holders of such Indebtedness to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise requires the Company or any Subsidiary to purchase the Indebtedness thereunder prior to the stated maturity thereof and which either (i) is similar to any Default or Event of Default contained in Article X of this Agreement, or related definitions in Article I of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the lender under any Material Financing (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (ii) is different from the subject matter of any

Default or Event of Default contained in Article X of this Agreement, or related definitions in Article I of this Agreement.

"Advance" means the portion of the outstanding Loans bearing interest at an identical rate for an identical Interest Period, provided that all Base Rate Advances shall be deemed a single Advance. An Advance may be a "LIBOR Advance" or "Base Rate Advance", and a LIBOR Advance may be a "Fixed LIBOR Advance" or a "Floating LIBOR Advance" (each, a "type" of Advance).

"Adverse Event" means the occurrence of any event that could have a material adverse effect on the business, operations, property, assets, liabilities (actual or contingent) or condition (financial or otherwise) of the Company and the Subsidiaries as a consolidated enterprise or on the ability of the Company or any Subsidiary obligated thereunder to perform its obligations under the Loan Documents.

"Agent" means U.S. Bank National Association, as Agent for the Banks hereunder and each successor, as provided in Section 12.8, who shall act as Agent.

"Agreement" means this Credit Agreement, as it may be amended, modified, supplemented, restated or replaced from time to time.

"Alternative Currency" means any currency other than Dollars consisting of Yen, Euros, Canadian Dollars, Sterling, Swiss Francs and other freely-traded and transferable currencies, consistently obtainable in sufficient amounts, that are approved by the Agent and the Banks from time to time at their discretion at the request of the Company as Alternative Currencies.

"Applicable Margin" "Applicable Commitment Fee Rate" shall mean the percentages set forth below corresponding to the Cash Flow Leverage Ratios shown below for the most recent fiscal quarter end for which financial statements have been delivered:

Cash Flow Leverage Ratio:	Applicable Margin for Fixed LIBOR Advances:	Applicable Margin for Base Rate Advances	Applicable Commitment Fee Rate:
Less than or equal to 1.00 to 1.00	1.00%	0.0%	0.15%
Greater than 1.00 to 1.00 but less than or equal to 1.75 to 1.00	1.25%	0.25%	0.20%
Greater than 1.75 to 1.00 but less than or equal to 2.50 to 1.00	1.50%	0.50%	0.25%
Greater than 2.50 to 1.00 but less than or equal to 3.25 to 1.00	1.75%	0.75%	0.30%
Greater than 3.25 to 1.00	2.00%	1.00%	0.40%

Until delivery of the Company's quarterly financial statements for the first quarter ending after the quarter in which the closing conditions in Section 6.1 have been satisfied, the Applicable Margin for Fixed LIBOR Advances shall be 1.75%, the Applicable Margin for Base Rate Advances shall be 0.75%, and the Applicable Commitment Fee Rate shall be 0.30%. Thereafter,

the Applicable Margin shall be determined on a quarterly basis, and shall be effective as of the date five (5) days after the due date of the Company's annual or quarterly financial statements as required by Section 8.1(a) or (b) based on the Cash Flow Leverage Ratio as demonstrated by the annual or quarterly financial statements of the Borrower delivered for the fiscal quarter or year most recently ended, and as certified on behalf of the Company by the Borrower's financial officer. In the event that such financial statements are not delivered as required by Section 8.1(a) or (b), the Applicable Margin shall be the highest percentages set forth above until such time as such financial statements are delivered, after which time the Applicable Margin shall be readjusted to the rate applicable to the Cash Flow Leverage Ratio applicable to such statements.

"Base Rate" means the highest on any day of (a) the Prime Rate, (b) the Federal Funds Effective Rate (each determined each Business Day and applicable from and including such Business Day to, but not including, the next following Business Day) plus 0.50% or (c) the LIBOR Rate for Floating LIBOR Advances plus 1.50%.

"Base Rate Advance" means an Advance designated as such in a notice of borrowing under Section 2.3 or a notice of continuation or conversion under Section 2.4, or that otherwise accrues interest with reference to the Base Rate.

"Borrowers" means the Company and each Borrowing Subsidiary.

"Borrowing Subsidiary Agreement" means each agreement, in the form of Exhibit A executed by each Foreign Subsidiary proposed to be a Borrowing Subsidiary and the Company.

"Business Day" means any day (other than a Saturday, Sunday or legal holiday in the State of Minnesota) on which national banks are permitted to be open in Minneapolis, Minnesota and New York, New York and, with respect to the following types of Advances, the following days:

(a) for LIBOR Advances, a day on which dealings in Dollars or any other relevant Alternative Currency may be carried on by the Agent and the Banks in the interbank eurocurrency market; and

(b) for Advances in Euros, a TARGET Day.

"Canadian Dollar" and "C$" means the lawful currency of Canada.

"Capitalized Lease" means any lease which is or should be capitalized on the books of the lessee in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2).

"Cash Flow Leverage Ratio" means, as of any date, the ratio, calculated for the period of four consecutive fiscal quarters then ended, of consolidated Indebtedness of the Company and its Subsidiaries as of the last day of such period to EBITDA for such period.

"Change of Control" means:

(a) either (i) the acquisition by any "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Exchange Act) of beneficial ownership (as defined in Rules 13d-

3 and 13d-4 of the Securities and Exchange Commission, except that a Person shall be deemed to have beneficial ownership of all securities that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 30% or more of the voting power of the then-outstanding voting capital stock of the Borrower; or (ii) a change in the composition of the board of directors of the Company such that continuing directors cease to constitute more than 50% of such board of directors. As used in this definition, "continuing directors" means, as of any date, (i) those members of the board of directors of the Company who assumed office prior to such date, and (ii) those members of the board of directors of the Company who assumed office after such date and whose appointment or nomination for election by the Company's shareholders was approved by a vote of at least 50% of the directors of the Company in office immediately prior to such appointment or nomination; or

(b) a "change of control" or any similar event shall occur under, and as defined in documents pertaining to, any Indebtedness in excess of $10,000,000 in the aggregate (other than the Obligations) of the Company or any Material Subsidiary.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor statute, together with regulations thereunder.

"Collateral Agent" means U.S. Bank National Association, as collateral agent under the Pledge Agreement and under the Intercreditor Agreement.

"Commitment" means the maximum unpaid principal amount of the Loans and Letter of Credit Obligations of all Banks which may from time to time be outstanding hereunder, being initially $450,000,000, as the same may be increased from time to time pursuant to Section 2.10 or reduced from time to time pursuant to Section 4.3, or, if so indicated, the maximum unpaid principal amount of Loans and participation in Letters of Credit and Swing Line Loans of any Bank which may from time to time be outstanding hereunder (which amounts are set forth on Schedule 1.1 hereto or in the relevant Assignment and Assumption Agreement for such Bank) and, as the context may require, the agreement of each Bank to make Loans to the Borrowers and to issue (for the Agent) or participate in (for the Banks) the Letters of Credit subject to the terms and conditions of this Agreement up to its Commitment.

"Commitment Fees" is defined in Section 3.2.

"Compliance Certificate" means a certificate in the form of Exhibit B, duly completed and signed by a Responsible Officer of the Company, which certificate shall include, without limitation, supporting detail evidencing compliance with the applicable covenants addressed therein.

"Consolidated Assets" means the book value of the assets, net of reserves, of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2) (but after giving effect, without duplication, to the elimination of the asset component of minority interests, if any, in such Subsidiaries).

"Contingent Obligation" means, with respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or otherwise: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any direct or indirect security therefor, (b) to purchase property, securities, Ownership Interests or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (c) to maintain working capital, equity capital or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (d) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against loss in respect thereof; provided, that the term "Contingent Obligation" shall not include endorsements for collection or deposit, in each case in the ordinary course of business, and shall not include earn-outs in connection with Permitted Acquisitions and other acquisitions not prohibited hereby.

"Default" means any event which, with the giving of notice to the Company or lapse of time, or both, would constitute an Event of Default.

"Defaulting Bank" means any Bank, as determined by the Agent, that has (a) failed to fund any portion of its Loans or participations in Letters of Credit or Swing Line Loans within two (2) Business Days of the date such portion is required in the determination of the Agent to be funded by it hereunder, (b) notified the Company, the Agent, the Swing Line Bank or any Bank in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations (i) under this Agreement or (ii) under other agreements in which it is obligated to extend credit unless, in the case of this clause (ii), such obligation is the subject of a good faith dispute, (c) failed, within three (3) Business Days after request by the Agent, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Loans and participations in then outstanding Letters of Credit and Swing Line Loans, (d) otherwise failed to pay over to the Agent or any other Bank any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (e) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian, appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment; provided, that a Bank shall not become a Defaulting Bank solely as the result of (x) the acquisition or maintenance of an ownership interest in such Bank or a Person controlling such Bank or (y) the exercise of control over a Bank or a Person controlling such Bank, in each case, by a governmental authority or an instrumentality thereof. Any determination by the Agent that a Bank is a Defaulting Bank will be conclusive and binding absent manifest error, and such Bank

will be deemed to be a Defaulting Bank upon notification of such determination by the Agent to the Company, the Swing Line Bank and the Banks.

"Dollar" and "$" mean lawful currency of the United States.

"Dollar Equivalent" means (a) for any amount denominated in Dollars, such amount, and (b) for any amount denominated in an Alternative Currency at any date, the equivalent in such currency of such amount of Dollars, calculated on the basis of the arithmetic mean of the buy and sell spot rates of exchange of the Agent in the London interbank market (or other market where the Agent's foreign exchange operations in respect of such Alternative Currency are then being conducted) for such Alternative Currency at or about 11:00 a.m. (local time) two (2) Business Days prior to the date on which such amount is to be determined, rounded up to the nearest amount of such Alternative Currency as determined by the Agent from time to time; provided, however, that if at the time of any such determination, for any reason, no such spot rate is being quoted by the Agent, the Agent may use any reasonable method it deems appropriate to determine such amount, including without limitation quotations by other financial institutions, and such determination shall be conclusive absent manifest error.

"Domestic Subsidiary" means a Subsidiary organized under the laws of the United States, one of the States of the United States or the District of Columbia.

"EBITDA" means, for any period of determination, the consolidated net income of the Company and its Subsidiaries, plus, to the extent subtracted in determining consolidated net income and without duplication, (i) Interest Expense, (ii) depreciation, (iii) amortization, (iv) income tax expense, (v) extraordinary, non-operating or non-cash charges and expenses (including but not limited to non-cash stock compensation expense, non-cash pension expense, work force reduction or other restructuring charges, and transaction costs, fees, and charges incurred in connection with the acquisition of any substantial portion of the Ownership Interests or assets of, or a line of business or division of, another Person, including any merger or consolidation with such Person), minus extraordinary, non-operating or non-cash gains and income (including, without limitation, extraordinary or nonrecurring gains, gains from the discontinuance of operations and gains arising from the sale of assets other than inventory, all as determined in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2). For purposes of calculating EBITDA, with respect to any period of determination, (i) Permitted Acquisitions that have been made by the Company and its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the period of determination shall be deemed to have occurred on the first day of the period of determination; provided that only the actual historical results of operations of the Persons so acquired, without adjustment for pro forma expense savings or revenue increases, shall be used for such calculation; and provided, further, that the EBITDA of the Person so acquired attributable to discontinued operations, as determined in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2), and operations or businesses disposed of prior to the end of such period of determination, shall be excluded, and (ii) dispositions that have been made by the Company and its Subsidiaries during the period of determination shall be deemed to have occurred on the first day of the period of determination; provided that the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) attributable to the

property that is the subject of such disposition for such period or increased by an amount equal to the EBITDA (if negative) attributable thereto for such period.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute, together with regulations thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is a member of a group of which the Company is a member and which is treated as a single employer under Section 414 of the Code.

"Euro" and "EUR" means the single currency of the participating member states of the European Union.

"Event of Default" means any event described in Section 10.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent. In the case of a day which is not a Business Day, the Federal Funds Effective Rate for such day shall be the Federal Funds Effective Rate for the preceding Business Day.

"Fee Letters" has the meaning set forth in Section 3.4.

"Finishing Group Acquisition" means the acquisition by the Company of substantially all of the domestic and foreign assets and foreign equity interests of ITW Finishing Group from Illinois Tool Works Inc.

"Finishing Group Purchase Agreement" means the purchase agreement pursuant to which the Finishing Group Acquisition is to be consummated.

"Fixed LIBOR Advance" means an Advance designated as such in a notice of borrowing under Section 2.3 or a notice of continuation or conversion under Section 2.4.

"Floating LIBOR Advance" means an Advance designated as such in a notice of borrowing under Section 2.3 or a notice of continuation or conversion under Section 2.4.

"Foreign Subsidiary" means a Subsidiary other than a Domestic Subsidiary.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States.

"Guarantors" means each Subsidiary of the Company that executes and delivers a Guaranty in favor of the Agent and the Banks either at the time of execution of this Agreement or at any time hereafter pursuant to Section 8.11.

"Guarantied Obligations" is defined in Section 11.1.

"Guaranty" means a Guaranty of a Guarantor in favor of the Agent and the Banks, in the form of Exhibit C hereto duly completed for each Guarantor, as the same may be amended, supplemented or restated from time to time.

"Hedging Obligations" means any and all obligations and exposure of the Borrower and its Subsidiaries under (a) any and all agreements, devices or arrangements designed to protect the Borrower or any Subsidiary from the fluctuations of interest rates or currencies, including interest rate or foreign exchange agreements, interest rate or currency cap or collar protection agreements, and interest rate and currency options, puts and warrants, determined on a net, mark-to-market basis, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Highest Lawful Rate" shall mean, on any day, the maximum non-usurious rate of interest permitted for that day by applicable federal or state law stated as a rate per annum.

"Indebtedness" means, with respect to any Person at the time of any determination, without duplication: (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid or accrued, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, except trade accounts payable and accrued expenses arising in the ordinary course of business and except earn-outs and similar obligations, (f) all Indebtedness of others secured by any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Capitalized Lease obligations of such Person, (h) all Hedging Obligations of such Person, (i) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or bankers' acceptances, except for letters of credit supporting purchase or sale of goods in the ordinary course of business, (j) all Indebtedness of any partnership or joint venture as to which such Person is or may become personally liable, (k) all obligations of such Person under any Ownership Interests issued by such Person which cease to be considered Ownership Interests in such Person, and (1) all Contingent Obligations of such Person. Non-recourse Indebtedness of such Person shall be deemed Indebtedness, but only to the extent of the lower of the book value of such Indebtedness or the fair market value of the property securing such Indebtedness.

"Intercreditor Agreement" means the Intercreditor and Collateral Agency Agreement, dated as of the date hereof, by and among the Collateral Agent, the Agent, on behalf of the Banks, the Senior Noteholders, and such other Senior Creditors as may from time to time become parties thereto, in the form of Exhibit H hereto duly completed, as the same may be amended, supplemented or restated from time to time.

"Interest Coverage Ratio" means, as of any date, the ratio, calculated for the period of four consecutive fiscal quarters then ended on a consolidated basis for the Company and its Subsidiaries in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2), of (a) EBITDA for such period to (b) Interest Expense for such period.

"Interest Expense" means, for any period of determination, the aggregate consolidated amount, without duplication, of interest expense determined in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2), excluding amortization of financing fees to the extent included in interest expense, but specifically including (a) all but the principal component of payments in respect of conditional sale contracts, Capitalized Leases and other title retention agreements, (b) commissions, discounts and other fees and charges with respect to letters of credit and bankers' acceptance financings and (c) Hedging Obligations, in each case determined in accordance with GAAP (subject to the GAAP conventions set forth in Section 1.2). Notwithstanding the foregoing, for the first four fiscal quarters following the consummation of a Material Acquisition, Interest Expense shall be adjusted, on a basis acceptable to the Agent, to give effect to any such acquisition as if it had occurred on the first day of the measurement period.

"Interest Period" means, for any Advance, the period commencing on the borrowing date of such Advance or the last day of the preceding Interest Period for such Advance, as the case may be, and ending on the numerically corresponding day one, two, three or six months, or, if approved by all of the Banks in connection with the applicable notice, nine or twelve months thereafter, as selected by the Borrowers pursuant to Section 2.3 or Section 2.4; provided, that:

(a) any Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day unless such next succeeding Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend after the date specified in clause (a) of the definition of "Termination Date".

"Investment" means the acquisition, purchase, making or holding of any stock or other security, any loan, advance, contribution to capital, extension of credit (except for trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms), any acquisitions of real or personal property (other than real and personal property acquired in the ordinary course of business) and any purchase of or commitment or option to purchase stock or other debt or equity securities of or any interest in another Person or any integral part of any business or the assets comprising such business or part thereof. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for

increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"Investment Policies" means the Company's Excess Cash Investment Policy, effective as of October 1, 2010, copies of which have been furnished to the Banks, without giving effect to any changes thereto unless such changes have been consented to in writing by the Agent, given with the consent of the Required Banks.

"Letters of Credit" has the meaning set forth in Section 2.7.

"Letter of Credit Agreements" has the meaning set forth in Section 2.7.

"Letter of Credit Defeasance Conditions" means, for each Letter of Credit, that the Agent has received from the Company either (i) cash collateral in the full face amount of such Letter of Credit to hold in accordance with the terms of Section 10.3, plus a Fee Reserve to be held by the Agent for application to the items described below (with any excess being returned to the Company upon expiry or final drawing of such Letter of Credit), or (ii) a direct pay letter of credit (and not a standby letter of credit) issued by an issuer reasonably acceptable to the Agent, permitting the Agent to draw the full amount of any drawing under such Letter of Credit (including any amount that might be reinstated for drawing after drawn) and permitting drawing in the amount of the Fee Reserve. For such purpose, the "Fee Reserve" amount shall equal the sum of (i) routine expenses, such as drawing fees, that the Agent reasonably determines might be applicable to such Letter of Credit, plus (ii) Letter of Credit Fees that would apply to such Letter of Credit if it remained outstanding until its expiry date.

"Letter of Credit Fees" has the meaning set forth in Section 2.7.

"Letter of Credit Obligations" means the aggregate amount of all possible drawings under all Letters of Credit plus all amounts drawn under any Letter of Credit and not reimbursed by the Company under the applicable Letter of Credit Agreement (whether from a borrowing of Loans as provided in Section 2.7(c)(iii) or otherwise).

"LIBOR Advances" means the Fixed LIBOR Advances and Floating LIBOR Advances.

"LIBOR Rate" means the offered rate for deposits in Dollars or Alternative Currencies for delivery of such deposits on the first day of an Interest Period of a LIBOR Advance, for the number of days comprised therein, quoted by the Agent from Reuters Screen LIBOR01 Page or any successor thereto for Dollars and from other applicable Reuters Screens or any successor thereto for Alternative Currencies (or other published source of British Bankers Association LIBOR rates) as of approximately 11:00 a.m., London time, on the day that is two Business Days preceding the first day of the Interest Period of such LIBOR Advance, or the rate for such deposits determined by the Agent at such time based on such other published service of general application as shall be selected by the Agent for such purpose; provided, that in lieu of determining the rate in the foregoing manner, the Agent may determine the rate based on rates offered to the Agent for deposits in Dollars or Alternative Currencies (as applicable) in the interbank eurodollar market at such time for delivery on the first day of the Interest Period for the number of days comprised therein in amounts approximately equal to the requested Advance. Notwithstanding the foregoing, the LIBOR Rate for Floating LIBOR Advances shall be

determined each Business Day based on such quotations for an Interest Period of one month (without regard to the two business day delivery convention generally applicable to such quotations).

"LIBOR Reserve Rate" means a percentage equal to the daily average during the applicable Interest Period of the aggregate maximum reserve requirements (including all basic, supplemental, marginal and other reserves), as specified under Regulation D of the Federal Reserve Board, or any other applicable regulation that prescribes reserve requirements applicable to Eurocurrency liabilities (as presently defined in Regulation D) or applicable to extensions of credit by the Agent the rate of interest on which is determined with regard to rates applicable to Eurocurrency liabilities. Without limiting the generality of the foregoing, the LIBOR Reserve Rate shall reflect any reserves required to be maintained by the Agent against (i) any category of liabilities that includes deposits by reference to which the LIBOR Rate is to be determined, or (ii) any category of extensions of credit or other assets that includes LIBOR Advances.

"Lien" means any security interest, mortgage, pledge, lien, hypothecation, judgment lien or similar legal process, charge, encumbrance, title retention agreement or analogous instrument or device (including, without limitation, the interest of the lessors under Capitalized Leases and the interest of a vendor under any conditional sale or other title retention agreement).

"Loan Documents" means this Agreement, the Notes, each Guaranty, each Pledge Agreement, each Letter of Credit Agreement, each Borrowing Subsidiary Agreement, the Fee Letters, the Intercreditor Agreement, and each other instrument, document, guaranty, security agreement, mortgage, or other agreement executed and delivered by any Borrower or any guarantor or party granting security interests, in each case in connection with this Agreement, the Loans or any collateral for the Loans.

"Loans" means the Revolving Loans and the Swing Line Loans.

"Mandatory Costs" means the percentage rate per annum calculated by any Bank requiring that Mandatory Costs be included in calculation of the interest rate applicable to the Alternative Currency Advances made by such Bank from an Alternative Currency Lending Office (as defined in Exhibit D hereto) in the United Kingdom or a Participating Member State (as defined in Exhibit D hereto) in accordance with Exhibit D hereto.

"Material Acquisition" means a Permitted Acquisition by the Company or a Subsidiary where total consideration for such acquisition exceeds $25,000,000.

"Material Financings" means (i) the Senior Notes and the Senior Note Agreements, and (ii) any working capital facility of the Company providing for a revolving line of credit or note offering or note issuance of the Company (including one resulting in Indebtedness held by Senior Creditors) having an aggregate stated principal amount of at least $25,000,000. In no event shall the credit provided pursuant to this Agreement be deemed a Material Financing.

"Material Foreign Subsidiary" means any Foreign Subsidiary that is a Material Subsidiary.

"Material Subsidiary" means any Subsidiary designated as such by the Company to the Agent from time to time, and in any case in each quarterly Compliance Certificate, provided, that if, upon delivery of the annual or quarterly consolidated financial statements of the Company under Section 8.1(a) or (b), the book value (net of reserves) of the assets of all Subsidiaries that are not Material Subsidiaries (determined based on the consolidated quarterly or annual balance sheet of the Company and its Subsidiaries, but after giving effect, without duplication, to the elimination of the asset component of minority interests, if any in such Subsidiaries) shall exceed 10% of Consolidated Assets as determined based on such quarterly or annual balance sheet, the Company shall: (a) promptly designate an additional Material Subsidiary or additional Material Subsidiaries so that, after giving effect to such designation, such requirement shall have been met, and (b) comply, and cause such additional Material Subsidiary or Material Subsidiaries to comply, with the requirements of Section 8.11 promptly thereafter (and in any case within 45 days after delivery of the relevant annual or quarterly financial statements). So long as no Event of Default has occurred and is continuing and removal of the Material Subsidiary designation of a Subsidiary will not cause the book value of the assets of all Subsidiaries that are not Material Subsidiaries to exceed 10% of Consolidated Assets as of the date of such removal, the Company may remove the Material Subsidiary designation of such Subsidiary. No Subsidiary may be designated as a Borrowing Subsidiary that is not a Material Subsidiary, provided, however, that if there are no Loans outstanding to a Subsidiary that had been a Borrowing Subsidiary, the Company is permitted not to designate such Subsidiary as a Material Subsidiary.

"Notes" means the Revolving Notes and the Swing Line Note.

"Obligations" means all obligations and liabilities of each Borrower to the Agent and the Banks under this Agreement and all other Loan Documents, including without limitation obligations to pay principal, interest, fees, expenses and other amounts, all Letter of Credit Obligations, and all Hedging Obligations of each Borrower to any of the Banks or their respective affiliates, including without limitation any such obligations that arise after the filing of a petition by or against the Borrower under the Bankruptcy Code, regardless of whether allowed as a claim in the resulting proceeding, even if the obligations do not accrue because of the automatic stay under Bankruptcy Code Section 362 or otherwise.

"Organizational Documents" means, for a Person that is (a) a corporation, its articles of incorporation and bylaws, (b) a limited liability company, any articles of formation, membership agreement, member control agreement or equivalent document, (c) limited or general partnership, any partnership agreement, and (d) any other form of entity, the equivalent documents, in each case together with all instruments, documents and agreements filed with any governmental authority to establish such legal entity and any material instrument, document or agreement controlling the governance of such Person entered into by such Person.

"Other Taxes" is defined in Section 5.5.

"Ownership Interest" means, for a Person that is (a) a corporation, its stock, (b) a limited liability company, its membership interest and any other interest in profits, (c) limited or general partnerships, its partnership interests (limited or general) or partnership (limited or general) accounts, (d) any other form of entity, the equivalent Ownership Interests of such Person.

"Patriot Act" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. No. 107-56 (signed into law October 26, 2001)).

"Payment Date" means the Termination Date, plus (a) the last day of each Interest Period for each Fixed LIBOR Advance and, if such Interest Period is in excess of three months, the day three months after the first day of such Interest Period; (b) the first day of each month in respect of the immediately preceding month for each Floating LIBOR Advance, and (c) the first day of each month in respect of the immediately preceding month for each Base Rate Advance and for any fees including, without limitation, Commitment Fees (by way of example, June 1st for the month of May), except that the Letter of Credit Fees and other fees payable to the Agent in respect of Letters of Credit shall be payable as provided in Section 2.7(c)(v).

"PBGC" means the Pension Benefit Guaranty Corporation, established pursuant to Subtitle A of Title IV of ERISA, and any successor thereto or to the functions thereof.

"Percentage" means, as to any Bank, the proportion, expressed as a percentage, that such Bank's Commitment bears to the total Commitments of all Banks.

"Permitted Acquisition" means the acquisition by the Company or a Subsidiary of all or substantially all of the Ownership Interests or assets of any other Person (including by merger) or of all or substantially all of the assets of a division, business unit, product line or line of business of any other Person, provided that (a) following such acquisition, the Company shall be in compliance with Section 9.4 hereof, (b) such acquisition shall occur at a time that no Event of Default shall have occurred and continued hereunder and no Event of Default shall result therefrom, (c) if it is an acquisition of Ownership Interests and a new Material Subsidiary is thereby created, such Material Subsidiary shall become a Guarantor or the Company or Subsidiary that is the owner thereof shall have pledged the Ownership Interest thereof, if so required by Section 8.11 hereof, (d) such acquisition shall be consummated on a non-hostile basis and shall have been approved by the board of directors (or similar governing body) of any Person acquired, and (e) the Company shall have furnished to the Agent a certificate signed by a Responsible Officer demonstrating in reasonable detail pro forma compliance with the financial covenants contained in Sections 9.9, 9.10 and 9.11 for the applicable calculation period, in each case, calculated as if such acquisition, including the consideration therefor, had been consummated on the first day of such period.

"Person" means any natural person, corporation, limited liability company, partnership, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

"Plan" means an employee benefit plan or other plan, maintained for employees of the Company or of any ERISA Affiliate, and subject to Title IV of ERISA or Section 412 of the Code.

"Pledge Agreement" means a Pledge Agreement by and among the Company, certain Subsidiaries thereof from time to time parties thereto, and the Collateral Agent, in the form of

Exhibit E hereto duly completed, as the same may be amended, supplemented or restated from time to time.

"Prime Rate" means the rate of interest from time to time announced by the Agent as its "prime rate." For purposes of determining any interest rate which is based on the Prime Rate, such interest rate shall be adjusted each time that the prime rate changes.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such Section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulations issued and in effect as of the date of this Agreement has waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a material failure to meet the minimum funding standard of Section 412 of the Code and Section 302 of ERISA shall be a reportable event regardless of the issuance of any such waivers in accordance with Section 412(c) of the Code.

"Required Banks" means those Banks whose total Percentage exceeds 50%, or if no Commitments remain in effect, whose share of principal of the Loans exceeds 50% of the aggregate outstanding principal of all Loans.

"Responsible Employee" means any executive officer of the Company or any employee managing treasury functions of the Company.

"Responsible Officer" means as to the Company, the chief executive officer, chief operating officer, chief accounting officer, president, chief financial officer or treasurer (or any Person designated by any such officer of the Company as a Responsible Officer for purposes hereof and approved in writing by the Agent in its reasonable discretion), but in any event, with respect to financial matters, the chief accounting officer, chief financial officer or treasurer (or any Person designated by any such officer of the Company as a Responsible Officer for purposes hereof and approved in writing by the Agent in its reasonable discretion).

"Revaluation Date" means with respect to any Revolving Loan denominated in an Alternative Currency: (i) each date of a borrowing of a Revolving Loan denominated in an Alternative Currency, (ii) the last day of the Interest Period of each Advance in an Alternative Currency, and if so requested by the Agent, if such Interest Period shall exceed 3 months, days falling on 3 month intervals after the first day of such Interest Period, and (iii) after the occurrence and during the continuance of an Event of Default, such additional dates as the Agent shall determine or the Required Banks shall require.

"Revolving Loans" has the meaning set forth in Section 2.1(a).

"Revolving Notes" means any promissory note evidencing Revolving Loans delivered under Section 2.5.

"Secured Indebtedness" means Indebtedness secured by a Lien on the assets or revenues of the Company or any Subsidiary; provided, however, that Secured Indebtedness shall not include (i) the Obligations, (ii) Indebtedness evidenced by the Senior Notes and the Senior Note Agreements for so long as such Indebtedness and the Senior Noteholders remain subject to the Intercreditor Agreement, (iii) Indebtedness owing to Senior Creditors for so long as such

Indebtedness and the holders thereof remain subject to the Intercreditor Agreement and (iv) at any time prior to the making of initial Loans hereunder, Indebtedness arising under the Credit Agreement dated July 12, 2007 among the Borrower, U.S. Bank National Association, as administrative agent, and the Lenders, as defined therein.

"Senior Creditor" means any Person that (i) from time to time extends credit to the Company that is not subordinate or junior in right of payment or Lien priority to the Obligations, (ii) extends credit that constitutes a Material Financing and (iii) becomes a party to and is bound by the terms of the Intercreditor Agreement (including, without limitation, all limitations set forth therein).

"Senior Note Agreements" means (i) the Note Agreement, dated as of March 11, 2011, evidencing a $300,000,000 note facility, by and among the Company and the Senior Noteholders from time to time party thereto, and (ii) the Note Agreement to be executed, evidencing a $75,000,000 note facility, by and among the Company and the Senior Noteholders from time to time party thereto, in each case together with the agreements, documents and instruments delivered together therewith, and in each case as each of the same may be amended, restated, supplemented, or modified from time to time, or as the same may be refinanced or replaced from time to time.

"Senior Noteholders" means the holders of the Senior Notes.

"Senior Notes" means the notes from time to time issued pursuant to a Senior Note Agreement.

"Stated Rate" is defined in Section 3.5.

"Sterling" means the lawful currency of the United Kingdom.

"Subsidiary" means any Person of which or in which the Company and its other Subsidiaries own directly or indirectly 50% or more of: (a) the combined voting power of all classes of stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such Person, if it is a corporation, (b) the capital interest or profit interest of such Person, if it is a partnership, joint venture or similar entity, or (c) the beneficial interest of such Person, if it is a trust, association or other unincorporated organization. Each Borrowing Subsidiary shall be deemed a "Subsidiary" hereunder at all times that it is a Borrower hereunder and has not been excluded from the Material Subsidiaries by the Company (as provided in the definition of "Material Subsidiaries"), even if at any time it shall cease to be a Subsidiary under the foregoing sentence.

"Swing Line Bank" means U.S. Bank National Association.

"Swing Line Loans" means the Loans described in Section 2.1(b).

"Swing Line Note" means any promissory note of the Company evidencing Swing Line Loans delivered under Section 2.5.

"Swing Line Participation Amount" is defined in Section 2.8(b).

"Swing Line Sublimit" means the maximum unpaid principal amount of the Swing Line Loans which may from time to time be borrowed hereunder, being initially $50,000,000, and, as the context may require, the agreement of the Swing Line Bank to make the Swing Line Loans to the Company subject to the terms and conditions of this Agreement.

"TARGET Day" means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) payment system is open for the settlement of payments in Euros.

"Taxes" is defined in Section 5.5.

"Termination Conditions" means that (a) the Commitments are irrevocably terminated in full, (b) the Company and any relevant Borrowing Subsidiary has irrevocably paid in full all Obligations and any other amount payable hereunder for which a claim has been made, (c) Letter of Credit Defeasance Conditions shall exist in respect of each Letter of Credit outstanding hereunder, and (d) neither the Company nor any Borrowing Subsidiary shall have any unpaid obligations or liabilities to the Agent or the Banks hereunder except for obligations and liabilities in respect of any indemnities or other provisions that survive termination of this Agreement and for which no claim shall have been made by the Agent or any Bank.

"Termination Date" means the earliest of (a) May 23, 2016, (b) the date on which the Commitments are terminated pursuant to Section 10.2 hereof or (c) the date on which the Commitments are reduced to zero pursuant to Section 4.3 hereof.

"United States Person" means any citizen, national or resident of the United States, any corporation or other entity created or organized in or under the laws of the United States or any political subdivision hereof or any estate or trust, in each case that is not subject to withholding of United States Federal income taxes or other taxes on payment of interest, principal or fees hereunder.

"U.S. Bank" means U.S. Bank National Association, in its individual capacity and not as Agent hereunder.

"Wholly-owned Subsidiary" means a Subsidiary of which all of the issued and outstanding Ownership Interests (other than nominal Ownership Interests required as a matter of law to be held by directors, officers or other Persons) are owned by the Company and/or one or more other Wholly-owned Subsidiaries within the meaning of this definition.

"Yen" means the lawful currency of Japan.

Section 1.2 Accounting Terms and Calculations. Except as may be expressly provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder (including, without limitation, determination of compliance with financial ratios and restrictions in Articles VIII and IX hereof) shall be made in accordance with GAAP. To the extent that any change in GAAP or the application thereof from the financial statements referred to in Section 7.5 hereof affects any computation or determination required to be made pursuant to this Agreement, such computation or determination shall be made as if such change in GAAP had not occurred unless the Company and the Required Banks

agree in writing on an adjustment to such computation or determination to account for such change in GAAP or the application thereof. In the instance of such change, the Agent, Banks and Company shall negotiate in good faith to promptly agree to such adjustment. Any reference to "consolidated" financial terms shall be deemed to refer to those financial terms as applied to the Company and its Subsidiaries in accordance with GAAP. Notwithstanding any other provision contained herein, all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Accounting Standards Codification 825-10-25 (previously referred to as Statement of Financial Accounting Standards 159) (or any other Accounting Standards Codification or Financial Accounting Standard having similar result or effect) to value any Indebtedness or other liabilities of the Company or any of its Subsidiaries at "fair value", as defined therein.

Section 1.3 Computation of Time Periods. In this Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word "from" means "from and including" and the word "to" or "until" each means "to but excluding."

Section 1.4 Other Definitional Terms. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections, Exhibits, schedules and like references are to this Agreement unless otherwise expressly provided.

ARTICLE II
TERMS OF LENDING

Section 2.1 The Commitments. Subject to the terms and conditions hereof and in reliance upon the warranties of the Borrowers herein:

(a) each Bank agrees, severally and not jointly, to make loans (each, a "Revolving Loan" and, collectively, the "Revolving Loans") in Dollars and Alternative Currencies to the applicable Borrower from time to time from the date hereof until the Termination Date, during which period the Borrowers may repay and reborrow in accordance with the provisions hereof, provided, that the aggregate unpaid principal amount of the Revolving Loans of any Bank at any one time outstanding plus such Bank's Percentage of the Letter of Credit Obligations plus such Bank's Percentage of the outstanding Swing Line Loans shall not exceed its Commitment, and the total Revolving Loans, Letter of Credit Obligations and Swing Line Loans outstanding shall not exceed the total Commitment of all of the Banks. The Revolving Loans shall be made by the Banks on a pro rata basis, calculated for each Bank based on its Percentage. At no time shall the Dollar Equivalent of Revolving Loans made in Alternative Currencies exceed $200,000,000. For purposes of this Section and all calculations herein, the principal of Revolving Loans in Alternative Currencies shall be calculated using the Dollar Equivalent of such Revolving Loans as determined by the Agent on each Revaluation Date; and

(b) the Swing Line Bank agrees to make loans (each a "Swing Line Loan" and, collectively, the "Swing Line Loans") to the Company from time to time from the date hereof until the Termination Date, during which period the Company may repay and reborrow in accordance with the provisions hereof, provided, that the aggregate unpaid principal amount of the Swing Line Loans at any one time outstanding shall not exceed the Swing Line Sublimit. Swing Line Loans shall only be made in Dollars.

Section 2.2 Advance Options. Revolving Loans (a) in Dollars shall be composed of Fixed LIBOR Advances and Base Rate Advances, as shall be selected by the Company, and (b) in Alternative Currencies shall be composed of Fixed LIBOR Advances, all except as otherwise provided herein. Swing Line Loans shall be Floating LIBOR Advances or Base Rate Advances, as shall be selected by the Company. Any combination of types of Advances may be outstanding at the same time, except that the total number of outstanding Fixed LIBOR Advances shall not exceed 8 at any one time. Each Fixed LIBOR Advance in Dollars shall be in a minimum amount of $1,000,000 or in an integral multiple of $500,000 above such amount. Each Base Rate Advance of the Revolving Loans shall be in a minimum amount of $500,000 or in an integral multiple of $100,000 above such amount. Each Floating LIBOR Advance or Base Rate Advance of the Swing Line Loans shall be in a minimum amount of $5,000 or an integral multiple thereof above such amount. Each Fixed LIBOR Advance in Alternative Currencies shall be in a minimum amount and integrals designated by the Agent from time to time for various Alternative Currencies, which minimum amounts and integrals shall be substantially equivalent (subject to rounding) to the comparable minimum amount and integral amounts provided for Fixed LIBOR Advance in Dollars (unless otherwise agreed between the Agent and the Company upon addition of any Alternative Currency).

Section 2.3 Borrowing Procedures.

(a) Request by Borrowers. Any request by the Borrowers for a Loan or Letter of Credit shall be in writing, or by telephone promptly confirmed in writing or by e-mail, and must be given so as to be received by the Agent not later than:

(i) 2:00 p.m., Minneapolis time, on the date of any requested Swing Line Loan;

(ii) 11:00 a.m., Minneapolis time, on the date of any Revolving Loan requested as a Base Rate Advance;

(iii) 11:00 a.m., Minneapolis time, three Business Days prior to the date of any Revolving Loan requested as a Fixed LIBOR Advance in Dollars; or

(iv) 11:00 a.m., Minneapolis time, four Business Days prior to the date of any requested Revolving Loan in Alternative Currencies or any Letter of Credit.

Each request for a Loan shall specify (1) the borrowing date (which shall be a Business Day), (2) the amount of such Loan and the type or types of Advances comprising such Loan, and (3) the initial Interest Periods for such Advances if applicable, and (4) the Alternative Currency,

if applicable. Each request for a Letter of Credit shall be accompanied by the form of the Letter of Credit, the name of the beneficiary, and other information requested by the Agent.

(b) Funding of Agent. The Agent shall promptly notify each other Bank of the receipt of the request for Revolving Loans, the matters specified therein, and of such Bank's Percentage of the requested Revolving Loans. On the date of the requested Revolving Loans, each Bank shall provide its share of the requested Revolving Loans to the Agent in Dollars or the applicable Alternative Currency in immediately available funds not later than 2:00 p.m., Minneapolis time. Unless the Agent determines that any applicable condition specified in Article VI has not been satisfied, the Agent will make the requested Revolving Loans available to the Borrowers at the Agent's principal office in Minneapolis, Minnesota in immediately available funds not later than 3:00 p.m. (Minneapolis time) on the lending date so requested. If the Agent has made a Revolving Loan to the Borrowers on behalf of a Bank but has not received the amount of such Revolving Loan from such Bank by the time herein required, such Bank shall pay interest to the Agent on the amount so advanced from the date of such Revolving Loan to the date funds are received by the Agent from such Bank at the Federal Funds Effective Rate for Dollars or the applicable LIBOR Rate for Alternative Currencies, such interest to be payable with such remittance from such Bank of the principal amount of such Revolving Loan (provided, however, that the Agent shall not be required to make any Revolving Loan on behalf of a Bank if the Agent has received prior notice from such Bank that it will not make such Loan). If the Agent does not receive payment from such Bank by the next Business Day after the date of any Revolving Loan, the Agent shall be entitled to recover such Revolving Loan, with interest thereon at the rate then applicable to such Revolving Loan, on demand, from the Borrowers, without prejudice to the Agent's and the Borrowers' rights against such Bank. If such Bank pays the Agent the amount herein required with interest as provided above before the Agent has recovered from the Borrowers, such Bank shall be entitled to the interest payable by the Borrowers with respect to the Loan in question accruing from the date the Agent made such Revolving Loan.

Section 2.4 Continuation or Conversion of Loans. The Borrowers may elect to (i) continue any outstanding Advance from one Interest Period into a subsequent Interest Period to begin on the last day of the earlier Interest Period, or (ii) convert any outstanding Advance into another type of Advance, on the last day of an Interest Period only for a Fixed LIBOR Advance, by giving the Agent notice in writing, or by telephone promptly confirmed in writing or by e-mail, given so as to be received by the Agent not later than:

(a) 11:00 a.m., Minneapolis time, on the day of the requested continuation or conversion, if the continuing or as-converted Advance shall be a Floating LIBOR Advance or a Base Rate Advance;

(b) 11:00 a.m., Minneapolis time, three Business Days prior to the date of the requested continuation or conversion, if the continuing or as-converted Advance shall be a Fixed LIBOR Advance in Dollars; or

(c) 11:00 a.m., Minneapolis time, four Business Days prior to the date of the requested continuation or conversion, if the continuing or as-converted Advance shall be a Fixed LIBOR Advance in Alternative Currencies.

Each notice of continuation or conversion of an Advance shall specify (i) the effective date of the continuation or conversion (which shall be a Business Day), (ii) the amount and the type or types of Advances following such continuation or conversion (subject to the limitation on amount set forth in Section 2.2), and (iii) the Interest Periods for such Advances. Absent timely notice of continuation or conversion, following expiration of an Interest Period unless a Fixed LIBOR Advance is paid in full, the Agent may convert such Fixed LIBOR Advance into an Advance which shall bear interest at either (1) the Base Rate, for an Advance in Dollars, or (2) the rate established for a new Interest Period of one month for an Advance in an Alternative Currency (and the Borrowers shall be deemed to have selected such Interest Period for such Advance). At the option of the Agent, until such time as such Advance is so converted by the Agent or the Borrowers or is continued as a Fixed LIBOR Advance with a new Interest Period by notice by the Borrowers as provided above, such Fixed LIBOR Advance shall continue to accrue interest at a rate equal to the interest rate applicable during the expired Interest Period. Each Floating LIBOR Advance and Base Rate Advance shall continue as a Floating LIBOR Advance or Base Rate Advance (as the case may be) until notice of conversion shall be given as provided above. At the option of the Agent, no Revolving Loan in Dollars shall be continued as, or converted into, a Fixed LIBOR Advance if a Default or Event of Default shall exist.

Section 2.5 Evidence of Loans; Request for Note. The Banks and the Agent shall enter in their respective records the amount of each Loan and Advance, the rate of interest borne by each Advance and the payments made on the Revolving Loans, and such records shall be deemed conclusive evidence of the subject matter thereof, absent demonstrable error and may be introduced to prove such amounts in lieu of a promissory note. At the request of any Bank or the Swing Line Bank, the Company shall execute and deliver to such Bank or Swing Line Bank a promissory note to evidence the Loans of such Bank or the Swing Line Bank to the Company. In the event that a Borrowing Subsidiary shall be the borrower of any Revolving Loan, the Company and such Borrowing Subsidiary shall, upon request of any Bank, execute and deliver a promissory note denominated in the Alternative Currency of such Loan to evidence such Loans, which shall be a joint and several promissory note of the Company and such Borrowing Subsidiary.

Section 2.6 Funding Losses. The Company hereby agrees that upon demand by any Bank (which demand shall be accompanied by a statement setting forth the basis for the calculations of the amount being claimed) the Company will indemnify such Bank against any loss (other than loss of Applicable Margin) or expense which such Bank may have sustained or incurred (including, without limitation, any net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain Fixed LIBOR Advances) or which such Bank may be deemed to have sustained or incurred, as reasonably determined by such Bank, (i) as a consequence of any failure by the Borrower to make any payment when due of any amount due hereunder in connection with any Fixed LIBOR Advances, (ii) due to any failure of the Borrower to borrow or convert any Fixed LIBOR Advances on a date specified therefor in a notice thereof, other than as a result of such Bank's failure to fund such borrowing, or (iii) due to any payment or prepayment of any Fixed

LIBOR Advance on a date other than the last day of the applicable Interest Period for such Fixed LIBOR Advance. For this purpose, all notices under Sections 2.3 and 2.4 shall be deemed to be irrevocable.

Section 2.7 Letters of Credit

(a) Letters of Credit. Subject to the terms and conditions of this Agreement, and on the condition that aggregate Letter of Credit Obligations shall never exceed $100,000,000, and the sum of Letter of Credit Obligations plus Loans shall never exceed the aggregate Commitments of the Banks, the Company may, in addition to Loans, request that the Agent issue letters of credit for the account of the Company or a Material Subsidiary, by making such request to the Agent (such letters of credit as any of them may be amended, supplemented, extended or confirmed from time to time, being herein collectively called the "Letters of Credit"). The Agent shall issue the requested Letters of Credit, subject to (i) compliance by the Company with all conditions precedent set forth in Article VI hereof, (ii) entry by the Company into applications, agreements and other documents deemed appropriate by the Bank for the issuance of such Letters of Credit (the "Letter of Credit Agreements"), (iii) reasonable satisfaction of the Agent with the form and substance of such Letter of Credit, (iv) absence of any legal or regulatory prohibition of issuance of any letter of credit to the proposed beneficiary, and reasonable satisfaction of the Agent with the beneficiary of such Letter of Credit, and (v) the absence of any other statutory or regulatory change or directive adversely affecting the issuance by the Agent of letters of credit. Upon the date of the issuance of a Letter of Credit, the Agent shall be deemed, without further action by any party hereto, to have sold to each Bank, and each Bank shall be deemed without further action by any party hereto, to have purchased from the Agent, a participation, in its Percentage, in such Letter of Credit and the related Letter of Credit Obligations. All Letters of Credit shall expire not later than one year after the date specified in clause (a) of the definition of "Termination Date", provided, that the Company shall be obligated to cause Letter of Credit Defeasance Conditions to apply to any Letter of Credit that has not expired or been terminated (x) within three days prior to such date specified in clause (a) of such definition, or (y) by any other date that the Company shall terminate all Commitments hereunder.

(b) Each Bank's purchase of a participating interest in a Letter of Credit pursuant to Section 2.7(a) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any setoff, counterclaim, recoupment, defense or other right which such Bank or the Company may have against the Agent, the Company or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions precedent in Article VI; (iii) any adverse change in the condition (financial or otherwise) of the Company; (iv) any breach of this Agreement or any other Loan Document by the Company or any Bank; (v) the expiry date of any Letter of Credit occurring after such Bank's Commitment has terminated or (vi) any other circumstance, happening or event whatsoever, whether or not similar or any of the foregoing.

(c) Additional Provisions. The following additional provisions shall apply to each Letter of Credit:

(i) Upon receipt of any request for a Letter of Credit, the Agent shall notify each Bank of the contents of such request and of such Bank's Percentage of the amount of such proposed Letter of Credit.

(ii) Upon receipt from the beneficiary of any Letter of Credit of any demand for payment thereunder, Agent shall promptly notify the Company and each Bank as to the amount to be paid as a result of such demand and the payment date. If at any time the Agent shall have made a payment to a beneficiary of such Letter of Credit in respect of a drawing or in respect of an acceptance created in connection with a drawing under such Letter of Credit, each Bank will pay to Agent immediately upon demand by the Agent at any time during the period commencing after such payment until reimbursement thereof in full by the Company, an amount equal to such Bank's Percentage of such payment, together with interest on such amount for each day from the date of demand for such payment (or, if such demand is made after 2:00 a.m. Minneapolis time on such date, from the next succeeding Business Day) to the date of payment by such Bank of such amount at the Federal Funds Effective Rate.

(iii) The Company shall be irrevocably and unconditionally obligated forthwith to reimburse the Agent for any amount paid by the Agent upon any drawing under any Letter of Credit, including any Letter of Credit issued for the account of a Material Subsidiary, without presentment, demand, protest or other formalities of any kind, all of which are hereby waived. Such reimbursement may, subject to satisfaction of the conditions in Article VI hereof and to the available Commitment (after adjustment in the same to reflect the elimination of the corresponding Letter of Credit Obligation), be made by the borrowing of Loans. The Agent will pay to each Bank such Bank's Percentage of all amounts received from the Company for application in payment, in whole or in part, of a Letter of Credit Obligation, but only to the extent such Bank has made payment to the Agent in respect of such Letter of Credit pursuant to clause (ii) above.

(iv) The Company's obligation to reimburse the Agent for any amount paid by the Agent upon any drawing under any Letter of Credit shall be performed strictly in accordance with the terms of this Agreement and the applicable Letter of Credit Agreement under any and all circumstances notwithstanding any lack of validity or enforceability of any Letter of Credit, or any draft or other document presented under a Letter of Credit proving to be forged or fraudulent or any statement therein being untrue or inaccurate in any respect. Neither the Agent nor any Bank shall have any liability or responsibility by reason of or in connection with any payment or failure to make any payment thereunder, or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit, any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Agent; provided that the foregoing

shall not be construed to excuse the Agent from liability to the Company to the extent of any direct damages suffered by the Company that are caused by the Agent's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit substantially comply with the terms thereof (unless the Agent has received approval from the Company to honor a particular non-conforming drawing). The parties hereto expressly agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of the Letter of Credit, the Agent may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(v) The Company will pay to Agent for the account of each Bank in accordance with its Percentage letter of credit fees (the "Letter of Credit Fees") with respect to each Letter of Credit equal to an amount, calculated on the basis of face amount of each Letter of Credit, in each case for the period from and including the date of issuance of such Letter of Credit to and including the date of expiration or termination thereof at a per annum rate equal to the Applicable Margin for Fixed LIBOR Advances, provided, that if the rate of interest provided in Section 3.1(d) is applicable to the Loans, the rate of the Letter of Credit Fees shall be increased by 2.00% per annum. The Agent will pay to each Bank, promptly after receiving any payment in respect of Letter of Credit Fees, an amount equal to the product of such Bank's Percentage times the amount of such Letter of Credit Fees. The Company will pay to the Agent for its own account other fees in respect of Letters of Credit in accordance with the Agent's standard fee schedule as in effect from time to time. The Company will also pay to the Agent for its own account a fronting fee ("Fronting Fee") of 0.125% per annum of the amount of any Letter of Credit. The Letter of Credit Fees and Fronting Fee shall be payable quarterly, in arrears, on the last day of March, June, September and December of each year.

(d) Indemnification; Release. The Company hereby indemnifies and holds harmless the Agent and each Bank from and against any and all claims and damages, losses, liabilities, and costs and expenses determined on a reasonable basis which the Agent or such Bank may incur (or which may be claimed against the Agent or such Bank) in connection with the execution and delivery of any Letter of Credit or transfer of or payment or failure to pay under any Letter of Credit; provided that the Company shall not be required to indemnify any party seeking indemnification for any claims, damages, losses, liabilities, costs or expenses to the extent caused by the gross negligence or willful misconduct of the party seeking indemnification or to the extent caused by Agent's failure to exercise care as described in the proviso to Section 2.7(c)(iv).

(e) In the instance of issuance of any Letter of Credit for the account of any Material Subsidiary, the Company shall be deemed a joint applicant for such Letter of Credit, whether or not the Company shall have signed the relevant application or other Letter of Credit Agreement applying to such Letter of Credit, and shall be deemed to

guaranty payment of all Letter of Credit Obligations in respect of such Letter of Credit under Article XI.

Section 2.8 Refunding of Swing Line Loans.

(a) The Swing Line Bank, at any time, at its sole and absolute discretion may, on behalf of the Company (which hereby irrevocably directs the Swing Line Bank to act on its behalf), upon notice given by the Swing Line Bank no later than 11:00 a.m., Minneapolis time, on the relevant refunding date, request each Bank to make, and each Bank hereby agrees to make, a Revolving Loan (which initially shall be a Base Rate Advance), in an amount equal to such Bank's Percentage of the aggregate amount of the Swing Line Loans (the "Refunded Swing Line Loans") outstanding on the date of such notice, to refund such Swing Line Loans. Each Bank shall make the amount of such Revolving Loan available to the Agent in immediately available funds, no later than 1:00 p.m., Minneapolis time, on the date of such notice. The proceeds of such Revolving Loans shall be distributed by the Agent to the Swing Line Bank and immediately applied by the Swing Line Bank to repay the Refunded Swing Line Loans.

(b) Upon the date any Swing Line Loan is made, the Agent shall be deemed, without further action by any party hereto, to have sold to each Bank, and each Bank shall be deemed without further action by any party hereto, to have purchased from the Agent, a participation, in its Percentage, in such Swing Line Loan. Each Bank will immediately transfer to the Agent, upon the Agent's demand, in immediately available funds, the amount of its participation (the "Swing Line Participation Amount"), and the proceeds of such participation shall be distributed by the Agent to the Swing Line Bank in such amount as will reduce the amount of the participating interest retained by the Swing Line Bank in its Swing Line Loans.

(c) Whenever, at any time after the Swing Line Bank has received from any Bank such Bank's Swing Line Participation Amount, the Swing Line Bank receives any payment on account of the Swing Line Loans, the Swing Line Bank will distribute to such Bank its Swing Line Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Bank's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swing Line Loans then due); provided, however, that in the event that such payment received by the Swing Line Bank is required to be returned, such Bank will return to the Swing Line Bank any portion thereof previously distributed to it by the Swing Line Bank.

(d) Each Bank's obligation to make the Loans referred to in Section 2.8(a) and to purchase participating interests pursuant to Section 2.8(b) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any setoff, counterclaim, recoupment, defense or other right which such Bank or the Company may have against the Swing Line Bank, the Company or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions precedent specified in

Article VI; (iii) any adverse change in the condition (financial or otherwise) of the Company; (iv) any breach of this Agreement or any other Loan Document by the Company or any Bank; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

Section 2.9 Borrowing Subsidiaries.

(a) The Company, with the consent of the Agent (which shall not be unreasonably withheld), may designate any Material Foreign Subsidiary as a Borrowing Subsidiary; provided that all Banks must legally be able to make Loans to such Material Foreign Subsidiary. Upon not less than five (5) Business Days' prior notice, and upon the receipt and execution by the Agent of a duly executed Borrowing Subsidiary Agreement, such Subsidiary shall be a Borrowing Subsidiary and a party to this Agreement.

(b) The obligation of each Bank to make its first Loan to any Borrowing Subsidiary is subject to the satisfaction of the condition that the Agent shall have received the following:

(i) all documents as shall reasonably demonstrate the existence of such Borrowing Subsidiary, the corporate power and authority of such Borrowing Subsidiary to enter into, and the validity with respect to such Borrowing Subsidiary of, this Agreement and the other Loan Documents to which it is a party and any other matters relevant hereto (including an opinion of counsel), all in form and substance satisfactory to the Agent; and

(ii) any governmental and third party approvals necessary or advisable in connection with the execution, delivery and performance of this Agreement by the Borrowing Subsidiary and any documents that any Bank is required to obtain under any governmental law, rule or regulation, including the Patriot Act.

(c) Each Borrowing Subsidiary hereby irrevocably appoints and authorizes the Company to take such action and deliver and receive notices hereunder as agent on its behalf and to exercise such powers under this Agreement as delegated to it by the terms hereof, together with all such powers as are reasonably incidental thereof. In furtherance of and not in limitation of the foregoing, for administrative convenience of the parties hereto, the Agent and the Banks shall send all notices and communications to be sent to any Borrowing Subsidiary solely to the Company and may rely solely upon the Company to receive all such notices and other communications for and on behalf of each Borrowing Subsidiary. No Person other than the Company (and its authorized officers and employees) may act as agent for any Borrowing Subsidiary hereunder without the written consent of the Agent.

(d) Each Loan made to a Borrowing Subsidiary and interest thereon shall be the Obligation of such Borrowing Subsidiary and the Company, guarantied by the Company pursuant to Article XI hereof. Notwithstanding anything to the contrary in this Agreement, unless expressly so provided in a Loan Document other than this Agreement

entered by any Borrowing Subsidiary, no Borrowing Subsidiary shall have any obligations or liabilities in respect of any Obligations of any other Borrowing Subsidiary or the Company. The Company, the Agent and the Banks agree that due to difficulties of apportionment thereof, all Obligations other than principal and interest on Loans made to a Borrowing Subsidiary shall be Obligations of the Company only, and not of any Borrowing Subsidiary (whether or not such Obligations are related to Loans made to a Borrowing Subsidiary).

Section 2.10 Increase to Commitments. The Company may, from time to time, increase the Commitments hereunder, by giving notice to the Agent, specifying the dollar amount of the increase (which shall be in integral multiple of $5,000,000, and which shall not result in total aggregate Commitments hereunder in excess of $600,000,000); provided, however, that an increase in the Commitments hereunder may only be made at a time when no Default or Event of Default shall have occurred and be continuing. The Company may increase the Commitments by either increasing a Commitment with an existing Bank or obtaining a Commitment from a new financial institution, the selection of which shall require the consent of the Agent, not to be unreasonably withheld. The Company, the Agent and each Bank or other financial institution that is increasing its Commitment or extending a new Commitment shall enter into an amendment to this Agreement setting forth the amounts of the Commitments, as so increased or extended, and providing that any new financial institution extending a new Commitment shall be a Bank for all purposes under this Agreement. No such amendment shall require the approval or consent of any Bank whose Commitment is not being increased and no Bank shall be required to increase its Commitment unless it shall so agree in writing. Upon the execution and delivery of such amendment as provided above, this Agreement shall be deemed to be amended accordingly and the Agent shall adjust the funded amount of the Advances of the Banks so that each Bank (including the Banks with new or increased Commitments) shall hold their respective Percentages (as amended by such amendment) of the Advances outstanding and the unfunded Commitments (and each Bank shall so fund any increased amount of Advances).

Section 2.11 Defaulting Banks. Notwithstanding any provision of this Agreement to the contrary, if any Bank becomes a Defaulting Bank, then the following provisions shall apply for so long as such Bank is a Defaulting Bank:

(a) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Bank pursuant to Section 3.2;

(b) the Commitment and outstanding Loans of such Defaulting Bank shall not be included in determining whether all Banks or the Required Banks have taken or may take any action hereunder;

(c) if any Swing Line Loans shall be outstanding or any Letter of Credit Obligations shall exist at the time a Bank becomes a Defaulting Bank then:

(i) all or any part of the unfunded participations in and commitments with respect to such Swing Line Loans or Letters of Credit shall be reallocated among the non-Defaulting Banks in accordance with their respective Percentages but only to the extent (x) the sum of all non-Defaulting Banks' Loans and participations in Loans and

Letters of Credit plus such Defaulting Banks' Loans and participations in Loans and Letters of Credit does not exceed the total of all non-Defaulting Banks' Commitments and (y) the conditions set forth in Article IV are satisfied at such time; provided, that the Letter of Credit Fees payable to the Banks shall be determined taking into account such reallocation.

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Company shall within one Business Day following notice by the Agent (x) first, prepay the outstanding Swing Line Loans that were not reallocated and (y) second, cash collateralize such Defaulting Bank's Percentage of the Letter of Credit Obligations in accordance with the procedures set forth in Section 10.3;

(iii) if the Company cash collateralizes any portion of such Defaulting Bank's Percentage of the Letter of Credit Obligations pursuant to clause (ii) above, the Company shall not be required to pay any fees to such Defaulting Bank pursuant to Section 2.7 during the period any portion of such Defaulting Bank's Percentage of the Letter of Credit Obligations is cash collateralized; and

(iv) if any Defaulting Bank's Percentage of the Letter of Credit Obligations is not cash collateralized pursuant to clause (ii) above, then, without prejudice to any rights or remedies of the Agent or any Bank hereunder, all letter of credit fees payable under Section 2.7 with respect to such Defaulting Bank's Percentage of the Letter of Credit Obligations shall be payable to the Agent;

(d) so long as any Bank is a Defaulting Bank, the Agent shall not be required to issue or modify any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by cash collateral provided by the Company in accordance with Section 2.11(c); and

(e) any amount payable to such Defaulting Bank hereunder (whether on account of principal, interest, fees or otherwise and including any amount that would otherwise be payable to such Defaulting Bank pursuant to Section 4.4) shall, in lieu of being distributed to such Defaulting Bank, be retained by the Agent in a segregated account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Agent (i) first, to the payment of any amounts owing by such Defaulting Bank to the Agent hereunder, (ii) second, to the payment of any amounts owing by such Defaulting Bank to the Agent as issuer of Letters of Credit or Swing Line Bank hereunder, (iii) third, to the funding of any Revolving Loan or the funding or cash collateralization of any participating interest in any Swing Line Loan or Letter of Credit in respect of which such Defaulting Bank has failed to fund its portion thereof as required by this Agreement, as determined by the Agent, (iv) fourth, if so determined by the Agent and the Company, held in such account as cash collateral for future funding obligations of the Defaulting Bank under this Agreement, (v) fifth, to the payment of any amounts owing to the Company or the Banks as a result of any judgment of a court of competent jurisdiction obtained by the Company or any Bank against such Defaulting Bank as a result of such Defaulting Bank's breach of its obligations under this Agreement, and (vi) sixth, if so determined by the Agent, distributed to the Banks other than the Defaulting Bank until the ratio of the outstanding credit exposure of such Banks to the aggregate outstanding exposure of

all the Banks equals such ratio immediately prior to the Defaulting Bank's failure to fund any portion of any Loans or participations in Letters of Credit or Swing Line Loans and (vii) seventh, to such Defaulting Bank or as otherwise directed by a court of competent jurisdiction; provided, that if such payment is a prepayment of the principal amount of any Loans or Letter of Credit Obligations in respect of draws under Letters of Credit with respect to which the Agent has funded its participation obligations, such payment shall be applied solely to prepay the Loans of, and Letter of Credit Obligations owed to, all Banks that are not Defaulting Banks pro rata prior to being applied to the prepayment of any Loans, or Letter of Credit Obligations owed to, any Defaulting Bank.

Nothing contained in the foregoing shall be deemed to constitute a waiver by the Company of any of its rights or remedies (whether in equity or law) against any Bank which fails to fund any of its Loans hereunder at the time or in the amount required to be funded under the terms of this Agreement.

Section 2.12 Purpose of Loans. The Loans shall be used by the Company and its Subsidiaries for working capital purposes, capital expenditures, the Finishing Group Acquisition, other Permitted Acquisitions, prepayment of existing Indebtedness, share repurchases and other corporate purposes of the Company and its Subsidiaries.

ARTICLE III
INTEREST AND FEES

Section 3.1 Interest. The Loans shall bear interest as follows, all payable on the applicable Payment Dates for the type of Advances:

(a) Fixed LIBOR Advances. The unpaid principal amount of each Fixed LIBOR Advance shall bear interest prior to maturity at a rate per annum equal to the sum of (i) the LIBOR Rate in effect for the Interest Period for such Fixed LIBOR Advance, plus (ii) the Applicable Margin for Fixed LIBOR Advances, plus (iii) for Fixed LIBOR Advances made in Alternative Currencies by a Bank from an Alternative Currency Lending Office in the United Kingdom or a Participating Member State only, if so requested by a Bank in accordance with Exhibit D hereto, the Mandatory Costs of such Bank.

(b) Floating LIBOR Advances. The unpaid principal amount of each Floating LIBOR Advance shall bear interest prior to maturity at a rate per annum equal to the LIBOR Rate in effect for each day plus the Applicable Margin for Fixed LIBOR Advances.

(c) Base Rate Advances. The unpaid principal amount of each Base Rate Advance shall bear interest prior to maturity at a rate per annum equal to the Base Rate plus the Applicable Margin for Base Rate Advances.

(d) Interest After Default. After notice by the Agent to the Company (which may be given by the Agent and shall, upon direction by the Required Banks be given) following occurrence and during continuance of an Event of Default, the Loans shall bear interest until paid in full at a rate per annum equal to 2.00% in excess of the rate

otherwise applicable to the Loans and the Letter of Credit Fees shall be increased by 2.00% per annum, as provided in the proviso in the first sentence of Section 2.7(c)(v).

Section 3.2 Commitment Fee. The Company shall pay fees (the "Commitment Fees") to the Agent for the account of the Banks in an amount per annum determined by applying the Applicable Commitment Fee Rate to the average daily unused amount of the Commitments of the respective Banks for the period from the date of satisfaction of the conditions set forth in Section 6.2 to the Termination Date, payable on the applicable Payment Dates for Commitment Fees. Swing Line Loans shall not count as usage of the Commitments for the purpose of calculating the Commitment Fees.

Section 3.3 Computation. Interest on Base Rate Advances, the interest rate of which is determined with reference to the Prime Rate, shall be computed on the basis of actual days elapsed and a year of 365 or 366 days, as applicable. All other interest, Commitment Fees and other periodic fees (including Letter of Credit Fees) shall be computed on the basis of actual days elapsed and a year of 360 days.

Section 3.4 Fees. The Company shall pay the fees to the Agent in amounts and at times provided in the letter agreement dated as of April 29, 2011 (the "Agent's Fee Letter") between the Agent and the Company. The Company shall also pay the fees agreed to in the letter agreement dated as of April 29, 2011 between the Company and the Syndication Agent (together with the Agent's Fee Letter, the "Fee Letters").

Section 3.5 Limitation of Interest. The Borrowers, the Agent and the Banks intend to strictly comply with all applicable laws, including applicable usury laws. Accordingly, the provisions of this Section 3.5 shall govern and control over every other provision of this Agreement or any other Loan Document which conflicts or is inconsistent with this Section 3.5, even if such provision declares that it controls. As used in this Section 3.5, the term "interest" includes the aggregate of all charges, fees, benefits or other compensation which constitute interest under applicable law, provided that, to the maximum extent permitted by applicable law, (a) any non-principal payment shall be characterized as an expense or as compensation for something other than the use, forbearance or detention of money and not as interest, and (b) all interest at any time contracted for, reserved, charged or received shall be amortized, prorated, allocated and spread, in equal parts during the full term of the Obligations. In no event shall a Borrower or any other Person be obligated to pay, or any Bank have any right or privilege to reserve, receive or retain, (a) any interest in excess of the maximum amount of nonusurious interest permitted under the applicable laws (if any) of the United States or of any applicable state, or (b) total interest in excess of the amount which such Bank could lawfully have contracted for, reserved, received, retained or charged had the interest been calculated for the full term of the Obligations at the Highest Lawful Rate. On each day, if any, that the interest rate (the "Stated Rate") called for under this Agreement or any other Loan Document exceeds the Highest Lawful Rate, the rate at which interest shall accrue shall automatically be fixed by operation of this sentence at the Highest Lawful Rate for that day, and shall remain fixed at the Highest Lawful Rate for each day thereafter until the total amount of interest accrued equals the total amount of interest which would have accrued if there were no such ceiling rate as is imposed by this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate again exceeds the Highest Lawful Rate when the provisions of the immediately

preceding sentence shall again automatically operate to limit the interest accrual rate. The daily interest rates to be used in calculating interest at the Highest Lawful Rate shall be determined by dividing the applicable Highest Lawful Rate per annum by the number of days in the calendar year for which such calculation is being made. None of the terms and provisions contained in this Agreement or in any other Loan Document which directly or indirectly relate to interest shall ever be construed without reference to this Section 3.5, or be construed to create a contract to pay for the use, forbearance or detention of money at an interest rate in excess of the Highest Lawful Rate. If the term of any Obligation is shortened by reason of acceleration of maturity as a result of any Event of Default or by any other cause, or by reason of any required or permitted prepayment, and if for that (or any other) reason any Bank at any time, including but not limited to, the stated maturity, is owed or receives (and/or has received) interest in excess of interest calculated at the Highest Lawful Rate, then and in any such event all of any such excess interest shall be canceled automatically as of the date of such acceleration, prepayment or other event which produces the excess, and, if such excess interest has been paid to such Bank, it shall be credited *pro tanto* against the then-outstanding principal balance of the Borrowers' obligations to such Bank, effective as of the date or dates when the event occurs which causes it to be excess interest, until such excess is exhausted or all of such principal has been fully paid and satisfied, whichever occurs first, and any remaining balance of such excess shall be promptly refunded to its payor.

ARTICLE IV
PAYMENTS, PREPAYMENTS, REDUCTION OR TERMINATION OF THE CREDIT AND SETOFF

Section 4.1 Repayment. Principal of the Loans, together with all accrued and unpaid interest thereon, shall be due and payable on the Termination Date.

Section 4.2 Prepayments.

(a) The Borrowers may, upon at least one Business Day's prior written or telephonic notice received by the Agent, prepay the Loans denominated in Dollars, in whole or in part, at any time subject to the provisions of Section 2.6, without any other premium or penalty. Any prepayment of a Fixed LIBOR Advance must be accompanied by accrued and unpaid interest on the amount prepaid. Each partial prepayment of a Revolving Loan that is a Base Rate Advance shall be in an amount of $500,000 or an integral multiple of $100,000 above such amount, or if less, the remaining principal balance of such Loan. Each partial prepayment of a Swing Line Loan that is a Floating LIBOR Advance or Base Rate Advance shall be in an amount of $5,000 or an integral multiple thereof above such amount, or if less, the remaining principal balance. Each partial prepayment of a Fixed LIBOR Advance shall be in an amount of $1,000,000 or an integral multiple of $500,000 above such amount, or, if less, the remaining principal balance of such Advance.

(b) The Borrowers may, upon at least three Business Days' prior written or telephonic notice received by the Agent, prepay the Revolving Loans denominated in Alternative Currencies. Any prepayment of a Revolving Loan in an Alternative Currency shall be in the full amount of such Revolving Loan initially borrowed or in such portion

of such amount as the Agent shall approve in its reasonable discretion, and shall be subject to the provisions of Section 2.6, without any other premium or penalty.

(c) If on any Revaluation Date, the Agent shall determine that the outstanding Dollar Equivalent of the Revolving Loans, Swing Line Loans and Letter of Credit Obligations shall exceed the aggregate Commitments of the Banks, the Borrowers shall, upon notice of such excess by the Agent, repay the Revolving Loans or Swing Line Loans in the amount of any such excess. For purposes of this Section and all calculations herein, the principal of Revolving Loans in Alternative Currencies shall be calculated using the Dollar Equivalent of such Revolving Loans as determined by the Agent on such Revaluation Date. Such payment shall be applied first, to any Swing Line Loans outstanding, second, to any Revolving Loans in Dollars (first to Base Rate Advances, then Floating LIBOR Advances in a manner reasonably calculated to minimize payments under Section 2.6), third, to any Revolving Loans in Alternative Currencies, and fourth, to be held as cash collateral for Letter of Credit Obligations as provided in Section 10.3.

Section 4.3 Optional Reduction or Termination of Commitments. The Company may, at any time, upon no less than three (3) Business Days prior written or telephonic notice received by the Agent, reduce the Commitments of all Banks, such reduction to be in a minimum amount of $5,000,000 or an integral multiple thereof and to be applied ratably to the Commitments of the respective Banks. Upon any reduction in the Commitments pursuant to this Section, the Company shall pay to the Agent for the account of the Banks the amount, if any, by which the aggregate unpaid principal amount of outstanding Loans exceeds the total Commitments of all Banks as so reduced. Amounts so paid cannot be reborrowed. The Company may, at any time, upon not less than three (3) Business Days prior written notice to the Agent, terminate the Commitments in their entirety. Upon termination of the Commitments pursuant to this Section, the Company shall pay to the Agent for the account of the Banks the full amount of all outstanding Loans and shall cause all other Termination Conditions to exist. All payment described in this Section is subject to the provisions of Section 2.6.

Section 4.4 Payments. Payments and prepayments of principal of, and interest on, the Notes and all fees, expenses and other obligations under the Loan Documents shall be made without set-off or counterclaim in immediately available funds not later than 3:00 p.m., Minneapolis time, on the dates due at the main office of the Agent in Minneapolis, Minnesota. Funds received on any day after such time shall be deemed to have been received on the next Business Day. The Agent shall promptly distribute in like funds to each Bank its Percentage share of each such payment of principal, interest and Commitment Fees. Subject to the definition of the term "Interest Period", whenever any payment to be made hereunder or on the Notes shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of any interest or fees.

Section 4.5 Proration of Payments. If any Bank or other holder of a Loan shall obtain any payment or other recovery (whether voluntary, involuntary, by application of offset, pursuant to the guaranty hereunder, or otherwise) on account of principal of, interest on, or fees with respect to any Loan, in any case in excess of the share of payments and other recoveries of other Banks or holders, such Bank or other holder shall purchase from the other Banks or

holders, in a manner to be specified by the Agent, such participations in the Loans held by such other Banks or holders as shall be necessary to cause such purchasing Bank or other holder to share the excess payment or other recovery ratably with each of such other Banks or holders; provided, however, that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Bank or holder, the purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

ARTICLE V
ADDITIONAL PROVISIONS RELATING TO LOANS

Section 5.1 Increased Costs. If, as a result of application of any law or regulation (or in the interpretation or administration or implementation thereof) applicable to any Advance in an Alternative Currency, or change in any law or regulation (or in the interpretation or administration or implementation thereof) applicable to any Advance in Dollars after the date hereof, or application (for Alternative Currency Advances) or change after the date hereof (for Dollar Advances) of any law, rule, regulation, treaty or directive (or in the interpretation or administration or implementation thereof), including, notwithstanding the foregoing, all requests, rules, guidelines or directives in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act regardless of the date enacted, adopted or issued, or compliance by the Banks with any request or directive (whether or not having the force of law) from any court, central bank, governmental authority, agency or instrumentality, or comparable agency (provided, that in the case of Dollar Advances, such request or directive is made or issued after the date hereof):

(a) any reserve, special deposit, special assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank is imposed, modified or deemed applicable, including without limitation any LIBOR Reserve Rate on Dollars or similar reserve on Alternative Currencies;

(b) any increase in the amount of capital required or expected to be maintained by any Bank or any Person controlling such Bank is imposed, modified or deemed applicable; or

(c) any other condition affecting this Agreement or the Commitments is imposed on any Bank or the relevant funding markets;

and such Bank determines that, by reason thereof, the cost to such Bank of making or maintaining the Loans or extending its Commitment is increased, or the amount of any sum receivable by such Bank hereunder or under the Notes in respect of any Loan is reduced;

then, the Company shall pay to such Bank upon demand such additional amount or amounts as will compensate such Bank (or the controlling Person in the instance of (c) above) for such additional costs or reduction (provided that the Banks have not been compensated for such additional cost or reduction in the calculation of the LIBOR Reserve Rate). Determinations by each Bank for purposes of this Section 5.1 of the additional amounts required to compensate such Bank shall be conclusive in the absence of manifest error. In determining such amounts, the Banks may use any reasonable averaging, attribution and allocation methods. Each Bank

shall use best efforts to notify the Company within 90 days after becoming aware of any application or change that would result in payments by the Company under this Section 5.1. Failure or delay on the part of any Bank to demand compensation pursuant to this Section 5.1 shall not constitute a waiver of such Bank's right to demand such compensation; provided that the Company shall not be required to compensate a Bank pursuant to this section for any increased costs or reductions incurred more than 90 days prior to the date that such Bank notifies the Company of the application or change that would result in payments by the Company under this Section 5.1; provided further that, if the change in law giving rise to such increased costs or reductions is retroactive, then the 90-day period referred to above shall be extended to include the period of retroactive effect thereof

Section 5.2 Deposits Unavailable or Interest Rate Unascertainable or Inadequate; Impracticability. If the Agent determines (which determination shall be conclusive and binding on the parties hereto) that:

(a) deposits of the necessary amount for the relevant Interest Period for any LIBOR Advance are not available in the relevant markets, or for Alternative Currencies, necessary amounts of the relevant Alternative Currency are not readily obtainable on regular exchange markets available to each Bank, or that, by reason of circumstances affecting such market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate for Dollars or other Alternative Currencies for such Interest Period;

(b) the LIBOR Rate will not adequately and fairly reflect the cost to the Banks of making or funding the LIBOR Advance for a relevant Interest Period; or

(c) the making or funding of LIBOR Advances has become impracticable as a result of any event occurring after the date of this Agreement which, in the opinion of the Agent, materially and adversely affects such Advances or any Bank's Commitment or the relevant market;

the Agent shall promptly give notice of such determination to the Company, and (i) any notice of a new LIBOR Advance in Dollars previously given by the Borrowers and not yet borrowed or converted shall be deemed to be a notice to make a Base Rate Advance; (ii) any notice of a new LIBOR Advance in an Alternative Currency shall, upon notice by the Agent, be withdrawn by the Borrowers, and (iii) the Borrowers shall be obligated to either prepay in full any outstanding LIBOR Advances (in Dollars or Alternative Currencies), without premium or penalty on the last day of the current Interest Period with respect thereto or, in the instance of a LIBOR Advance in Dollars, convert any such LIBOR Advance to a Base Rate Advance on such last day.

Section 5.3 Changes in Law Rendering LIBOR Advances Unlawful. If at any time due to the adoption of any law, rule, regulation, treaty or directive, or any change therein or in the interpretation or administration thereof by any court, central bank, governmental authority, agency or instrumentality, or comparable agency charged with the interpretation or administration thereof in each case after the date of this Agreement, or for any other reason arising subsequent to the date of this Agreement, it shall become unlawful or impossible for any Bank to make or fund any LIBOR Advance in either Dollars or an Alternative Currency, the obligation of such Bank to provide such LIBOR Advance in Dollars or the relevant Alternative

Currency shall, upon the happening of such event, forthwith be suspended for the duration of such illegality or impossibility. If any such event shall make it unlawful or impossible for the Bank to continue any LIBOR Advance previously made by it hereunder, such Bank shall, upon the happening of such event, notify the Agent and the Company thereof in writing, and the Company shall, at the time notified by such Bank, repay such Advance in full, together with accrued interest thereon, subject to the provisions of Section 2.6, in the instance of a LIBOR Advance in Dollars convert each such unlawful Advance to a Base Rate Advance, or in the instance of a LIBOR Advance in an Alternative Currency change the interest rate index to an index that is not unlawful or impossible for such Bank.

Section 5.4 Discretion of the Banks as to Manner of Funding. Notwithstanding any provision of this Agreement to the contrary, each Bank shall be entitled to fund and maintain its funding of all or any part of the Loans in any manner it elects; it being understood, however, that for purposes of this Agreement, all determinations hereunder shall be made as if the Banks had actually funded and maintained each LIBOR Advance during the Interest Period for such Advance through the purchase of deposits of Dollars or purchase of Alternative Currencies on the foreign exchange market, each having a term corresponding to such Interest Period and bearing an interest rate equal to the LIBOR Rate for such Interest Period (whether or not any Bank shall have granted any participations in such Advances).

Section 5.5 Taxes.

(a) No Deductions. All payments made by the Borrowers under this Agreement and each other Loan Document shall be made free and clear of and without deduction for any present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of any Bank and all income and franchise taxes applicable to any Bank and taxes measured by or imposed on the capital or net worth of any Bank by the jurisdiction of its location or organization (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable under this Agreement or any other Loan Document, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.5) each Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall timely pay the full amount deducted to the relevant tax authority or other authority in accordance with applicable law.

(b) Stamp Taxes. In addition, the Borrowers agree to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) Indemnification for Taxes Paid by a Bank. The Borrowers shall indemnify each Bank for the full amount of Taxes or Other Taxes (including, without

limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.5) paid by any Bank and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. The Agent shall use its best efforts, but shall not be penalized for failure, to alert the Borrowers to the assertion of any such claim for taxes. This indemnification shall be made within 30 days from the date a Bank makes written demand therefor.

(d) Certificate. Within 30 days after the date of any payment of any Taxes by the Borrowers, the Borrowers shall furnish to each Bank, at its address referred to herein, the original or a certified copy of a receipt evidencing payment thereof. If no Taxes are payable in respect of any payment by the Borrowers, the Borrowers shall, if so requested by a Bank, provide a certificate of a Responsible Officer of the Borrowers to that effect.

(e) Refunds, Credits, Allowances. The amount that the Borrower shall be required to pay to any Bank pursuant to this Section 5.5 shall be reduced by the amount of any refund, credit or allowance which such Bank has received or reasonably anticipates receiving in respect of Taxes as to which it has received additional amounts or has been indemnified by the Borrower. In the case of such a refund, credit or allowance that is anticipated to be received by a Bank after its current financial reporting period, such Bank may require the Borrower's to adjust payments or indemnify it as payments are due, and return the amount of such refund, credit or allowance when received.

(f) Survival. Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 5.5 shall survive the payment in full of principal and interest hereunder and under any instrument delivered hereunder.

Section 5.6 Judgment Currency. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due from any Borrower hereunder in the currency expressed to be payable under this Agreement, the Notes or the Fee Letters (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase the specified currency with such other currency at the Agent's main office in Minneapolis, Minnesota on the Business Day preceding that on which the final, non-appealable judgment is given. The obligations of the Borrowers in respect of any sum due to any Bank or the Agent under this Agreement, the Notes and the Fee Letters shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by such Bank or the Agent (as the case may be) of any sum adjudged to be so due in such other currency such Bank or the Agent (as the case may be) may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to such Bank or the Agent, as the case may be, in the specified currency, the Borrowers agree, to the fullest extent that they may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Bank or the Agent, as the case may be, against such loss.

Section 5.7 Mitigation.

(a) If any Bank requests compensation under Section 5.1 hereof, or the Borrowers are required to pay any additional amount to or for the account of any Bank pursuant to Section 5.5 hereof, then such Bank shall use reasonable efforts to designate a different lending office for the funding or booking of its Loans or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Bank such designation or assignment (i) would eliminate or materially reduce amounts payable pursuant to Section 5.1 or Section 5.5, in the future, (ii) would not subject such Bank to any unreimbursed cost or expense, and (iii) would not otherwise be materially disadvantageous in any way to such Bank.

(b) The Company hereby agrees to pay all reasonable costs and expenses incurred by any Bank in connection with any designation or assignment pursuant to this Section 5.7.

Section 5.8 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), each Borrower acknowledges and agrees that: (i) (A) the arranging and other services regarding this Agreement provided by the Banks are arm's-length commercial transactions between such Borrower and its Affiliates, on the one hand, and the Banks, on the other hand, (B) each Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) each Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) each of the Banks is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrowers or any of their Affiliates, or any other Person and (B) no Bank has any obligation to the Borrowers or any of their Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) each of the Banks and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrowers and their Affiliates, and no Bank has any obligation to disclose any of such interests to the Borrowers or their Affiliates. To the fullest extent permitted by law, each Borrower hereby waives and releases any claims that it may have against each of the Banks with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

ARTICLE VI
CONDITIONS PRECEDENT

Section 6.1 Conditions to Effectiveness. The effectiveness of this Agreement, as well as the obligation of the Banks to make the initial Loans hereunder and of the Agent to issue Letters of Credit hereunder shall be subject to the satisfaction of the conditions precedent, in addition to the applicable conditions precedent set forth in Sections 6.2 and 6.3 below, that the Agent shall have received all of the following, in form and substance satisfactory to the Agent,

each duly executed and certified or dated as of the date of this Agreement or such other date as is satisfactory to the Agent:

(a) The Notes payable to each Bank executed by a duly authorized officer (or officers) of the Company (or Company and Borrowing Subsidiary, if applicable).

(b) The Pledge Agreement, together with delivery of any certificate evidencing the stock or Ownership Interest of Foreign Subsidiaries pledged thereby and executed assignments separate from certificate (stock powers) for such certificates.

(c) The Guaranties required hereunder, executed by a duly authorized officer of each Subsidiary required to be a Guarantor hereunder.

(d) A certificate or certificates of the Secretary or an Assistant Secretary of each Borrower and each Guarantor, attesting to and attaching (i) a copy of the corporate resolution of the Company authorizing the execution, delivery and performance of the Loan Documents, (ii) an incumbency certificate showing the names and titles, and bearing the signatures of, the officers of such Borrower or Guarantor authorized to execute the Loan Documents, and (iii) a copy of the Organizational Documents of such Borrower or Guarantor with all amendments thereto.

(e) A Certificate of Good Standing for the Company and each Guarantor certified by the Secretary of State or equivalent body in the applicable jurisdiction of incorporation.

(f) An opinion of counsel to the Company, the Guarantors and any Borrowing Subsidiary, addressed to the Agent and the Banks, in substantially the form of Exhibit F.

(g) The Agent shall have received pro forma financial statements and five-year projections giving effect to the Finishing Group Acquisition that are satisfactory to the Agent and the Banks.

(h) Evidence satisfactory to the Agent that after giving effect to the Finishing Group Acquisition the Company's Cash Flow Leverage Ratio calculated on a pro forma basis is less than 3.25 to 1.0.

(i) The Agent shall have received a copy of the Intercreditor Agreement executed and delivered by the Senior Noteholders.

(j) Payment of all fees and expenses due and payable as of the effectiveness of this Agreement under or in connection with the Fee Letters upon the effectiveness of this Agreement.

(k) Amendment of the Note Agreement dated as of March 11, 2011 by and among the Company and the Senior Noteholders party thereto to amend the definition of "Significant Acquisition" appearing therein to mean a Permitted Acquisition (as defined therein) involving payment by the Company or a Subsidiary (each as defined therein) of a

total purchase price equal to or exceeding $200,000,000 and to otherwise conform to the terms of this Agreement, as applicable, in form and substance satisfactory to the Agent.

Section 6.2 Conditions Precedent to Initial Loans. The obligation of the Banks to make the initial Loans hereunder and of the Agent to issue Letters of Credit hereunder shall be subject to the satisfaction of the conditions precedent, in addition to the applicable conditions precedent set forth in Section 6.1 above and Section 6.3 below, that the Agent shall have received all of the following, in form and substance satisfactory to the Agent, each duly executed and certified or dated as of the date of this Agreement or such other date as is satisfactory to the Agent:

(a) Evidence satisfactory to the Agent that the Company has received not less than $375,000,000 in proceeds from the issuance of the Senior Notes under the Senior Note Agreements with a minimum tenor of seven years, no scheduled amortization prior to the Termination Date and affirmative, negative and financial covenants, funding conditions and defaults or events of default no more restrictive than those under this Agreement or that would trigger the amendment provisions of Section 8.12.

(b) Evidence satisfactory to the Agent of payment in full and termination of the Company's existing revolving credit agreement.

(c) Evidence satisfactory to the Agent of the consummation of the Finishing Group Acquisition.

(d) Evidence of all governmental, shareholder and third party consents (including Hart-Scott-Rodino clearance necessary in connection with the Finishing Group Acquisition).

(e) The final terms and conditions of each aspect of the Finishing Group Acquisition shall be satisfactory to the Agent and the Banks, the Finishing Group Purchase Agreement pursuant to which the Finishing Group Acquisition is to be consummated shall be satisfactory to the Agent and the Banks and shall provide for a maximum acquisition consideration of $650,000,000 plus any working capital, net asset, and cash/debt adjustments provided for under the Finishing Group Purchase Agreement plus transaction costs, and the Company will deliver to the Agent a certificate signed by a Responsible Officer confirming that there have been no material modifications to the Finishing Group Purchase Agreement and confirming that the Finishing Group Acquisition will be consummated in accordance with the terms of the Finishing Group Purchase Agreement substantially contemporaneously with the making of the initial Loan hereunder.

(f) Audited financial statements for the assets and equity interests of the ITW Finishing Group being purchased in the Finishing Group Acquisition for the fiscal year ending December 31, 2010, which shall not be inconsistent in any material respect with the unaudited financial statements previously delivered to the Company.

(g) Payment of all fees and expenses due and payable as of the initial funding under or in connection with the Fee Letters upon the making of the initial Loan.

(h) A certificate signed by a Responsible Officer that the conditions specified in Section 6.3 have been satisfied.

Section 6.3 Conditions Precedent to all Loans. The obligation of the Banks to make any Loan hereunder (including the initial Loan) and the obligation of the Agent to issue Letters of Credit hereunder shall be subject to the satisfaction of the following conditions precedent (and any request for a Loan shall be deemed a representation by the Company that the following are satisfied):

(a) Before and after giving effect to such Loan or Letter of Credit, the representations and warranties contained in Article VII shall be true and correct in all material respects, as though made on the date of such Loan or issuance of such Letter of Credit, except (i) for representations and warranties which by their terms are limited to an earlier date and (ii) for purposes of this Section 6.3, the representations and warranties contained in Section 7.5 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 8.1 (and in the case of the last sentence of Section 7.5, the date of the most recent audited financial statements). For the avoidance of doubt, to the extent the information disclosed in Schedule 7.15 becomes inaccurate or outdated, the Borrower shall deliver to the Agent an updated Schedule 7.15 reflecting the most current and accurate information with respect to the disclosures therein, which schedule shall be deemed to be immediately effective and this Agreement shall be immediately amended to replace the existing Schedule 7.15 with the updated Schedule 7.15.

(b) Before and after giving effect to such Loan or Letter of Credit, no Default or Event of Default shall have occurred and be continuing.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

To induce the Agent and the Banks to enter into this Agreement, to grant the Commitments and to make Loans and issue Letters of Credit hereunder, the Borrowers represent and warrant to the Agent and the Banks that:

Section 7.1 Organization, Standing, Etc. The Company and each of its corporate Subsidiaries are corporations duly incorporated and validly existing and in good standing under the laws of the jurisdiction of their respective incorporation and have all requisite corporate power and authority to carry on their respective businesses as now conducted, to (in the instance of the Company) enter into the Loan Documents and to perform its obligations under the Loan Documents. The Company and each of its Subsidiaries are duly qualified and in good standing as a foreign corporation or other entity in each jurisdiction in which the character of the properties owned, leased or operated by it or the business conducted by it makes such qualification necessary, except where the failure to be so qualified and in good standing would not be reasonably likely to result in an Adverse Event.

Section 7.2 Authorization and Validity. The execution, delivery and performance by each Borrower and each Guarantor of the Loan Documents to which such Borrower or such

Guarantor is a party have been duly authorized by all necessary corporate, limited liability company or partnership action by such Borrower or such Guarantor, and such Loan Documents constitute the legal, valid and binding obligations of such Borrower or such Guarantor, enforceable against such Borrower or such Guarantor in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to general principles of equity.

Section 7.3 No Conflict; No Default. The execution, delivery and performance by each Borrower and each Guarantor of the Loan Documents to which such Borrower or such Guarantor is a party will not (a) violate any provision of any law, statute, rule or regulation or any order, writ, judgment, injunction, decree, determination or award of any court, governmental agency or arbitrator presently in effect having applicability to such Borrower or such Guarantor, (b) violate or contravene any provisions of the Organizational Documents of such Borrower or such Guarantor, or (c) result in a breach of or constitute a default under any indenture, loan or credit agreement or any other material agreement, lease or instrument to which such Borrower or such Guarantor is a party or by which it or any of its properties may be bound or result in the creation of any Lien on any asset of such Borrower or such Guarantor or any Subsidiary of such Borrower or such Guarantor. Neither the Company nor any Subsidiary is in default under or in violation of any such law, statute, rule or regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, loan or credit agreement or other agreement, lease or instrument in any case in which the consequences of such default or violation would be reasonably likely to result in an Adverse Event. No Default or Event of Default has occurred and is continuing.

Section 7.4 Government Consent. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority is required on the part of any Borrower or any Guarantor to authorize, or is required on the part of any Borrower or any Guarantor in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, the Loan Documents.

Section 7.5 Financial Statements and Condition. The Company's audited consolidated financial statements as at December 31, 2010, and its unaudited consolidated financial statements as at April 1, 2011, as heretofore furnished to the Banks, have been prepared in accordance with GAAP on a consistent basis and fairly present, in all material respects, the consolidated financial condition of the Company and its Subsidiaries as at such dates and the consolidated results of their operations and cash flows for the respective periods then ended (subject, in the case of such interim financial statements, to the absence of footnotes and normal year-end adjustments). Since December 31, 2010, no Adverse Event has occurred.

Section 7.6 Litigation. Except as described in Schedule 7.6, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any of their properties before any court or arbitrator, or any governmental department, board, agency or other instrumentality which would be reasonably likely to result in an Adverse Event.

Section 7.7 Compliance. The Company and its Subsidiaries are in compliance with all statutes and governmental rules and regulations applicable to them, except where the failure to be in such compliance would not be reasonably likely to result in an Adverse Event.

Section 7.8 Environmental, Health and Safety Laws. There does not exist any violation by the Company or any Subsidiary of any applicable federal, state or local law, rule or regulation or order of any government, governmental department, board, agency or other instrumentality relating to environmental, pollution, health or safety matters which is reasonably likely to impose a material liability on the Company or a Subsidiary or which would require a material expenditure by the Company or such Subsidiary to cure. Neither the Company nor any Subsidiary has received any notice to the effect that any part of its operations or properties is not in material compliance with any such law, rule, regulation or order or notice that it or its property is the subject of any governmental investigation evaluating whether any remedial action is needed to respond to any release of any toxic or hazardous waste or substance into the environment, the consequences of which non-compliance or remedial action would be reasonably likely to result in an Adverse Event.

Section 7.9 ERISA. Each Plan complies in all material respects with all applicable requirements of ERISA and the Code and with all applicable rulings and regulations issued under the provisions of ERISA and the Code setting forth those requirements, except for any noncompliance that could not reasonably be expected to result in an Adverse Event. No Reportable Event that is an Adverse Event has occurred and is continuing with respect to a Plan. All of the minimum funding standards applicable to such Plans have been satisfied and there exists no event or condition which would permit the institution of proceedings to terminate any Plan under Section 4042 of ERISA (except for immaterial failures).

Section 7.10 Regulation U. The Company is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

Section 7.11 Ownership of Property; Liens. Each of the Company and the Subsidiaries has good and marketable title to its owned real properties and good and sufficient title to its other owned properties, including all properties and assets referred to as owned by the Company and its Subsidiaries in the audited balance sheet of the Company referred to in Section 7.5 (other than property disposed of since the date of such balance sheet in the ordinary course of business or as otherwise permitted by this Agreement). None of the properties, revenues or assets of the Company or any of its Subsidiaries is subject to a Lien securing any Indebtedness (other than the Obligations and other Indebtedness excluded from the definition of "Secured Indebtedness" pursuant to the proviso in such definition) except to the extent securing Secured Indebtedness permitted by Section 9.8.

Section 7.12 Taxes. Each of the Company and the Subsidiaries has filed all federal, state and local tax returns required to be filed and has paid or made provision for the payment of all taxes due and payable pursuant to such returns and pursuant to any assessments made against it or any of its property and all other taxes, fees and other charges imposed on it or any of its property by any governmental authority (other than taxes, fees or charges the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect

to which reserves in accordance with GAAP have been provided on the books of the Company). No tax Liens have been filed and no material claims are being asserted with respect to any such taxes, fees or charges. The charges, accruals and reserves on the books of the Company in respect of taxes and other governmental charges are adequate.

Section 7.13 Trademarks, Patents. Each of the Company and the Subsidiaries possesses or has the right to use all of the material patents, trademarks, trade names, service marks and copyrights, and applications therefor, and all technology, know-how, processes, methods and designs used in or necessary for the conduct of its business, without known conflict with the rights of others.

Section 7.14 Investment Company Act. Neither the Company nor any Subsidiary is an "investment company" or a company "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as amended.

Section 7.15 Subsidiaries. Schedule 7.15 sets forth as of the date of this Agreement a list of all Subsidiaries (excluding Subsidiaries with no assets and no operations) and the number and percentage of the shares of each class of capital stock owned beneficially or of record by the Company or any Subsidiary therein, and the jurisdiction of formation of each such Subsidiary, and designates which Subsidiaries are Material Subsidiaries.

Section 7.16 Solvency.

(a) Immediately after the consummation of the transactions to occur on the date hereof and immediately following the making of each Loan or other extension of credit, if any, made on the date hereof and after giving effect to the application of the proceeds of such Loan or extension of credit, (i) the fair value of the assets of the Company and its Subsidiaries on a consolidated basis, on a going-concern basis, will exceed the debts and liabilities, subordinated, contingent or otherwise, of the Company and its Subsidiaries on a consolidated basis; (ii) the present fair saleable value of the property of the Company and its Subsidiaries on a consolidated basis, on a going-concern basis, will be greater than the amount that will be required to pay the probable liability of the Company and its Subsidiaries on a consolidated basis on their debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) the Company and its Subsidiaries on a consolidated basis will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) the Company and its Subsidiaries on a consolidated basis will not have unreasonably small capital with which to conduct the businesses in which they are engaged as such businesses are now conducted and are proposed to be conducted after the date hereof.

(b) The Company does not intend to, or to permit any of its Material Subsidiaries to, and does not believe that it or any of its Material Subsidiaries will, incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it or any such Material Subsidiary and the timing of the amounts of cash to be payable on or in respect of its Indebtedness or the Indebtedness of any such Material Subsidiary.

Section 7.17 Disclosure. The Company has disclosed to the Banks all agreements, instruments and corporate or other restrictions to which it or any Subsidiary is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in an Adverse Event. None of the reports, financial statements, certificates or other information furnished by or on behalf of any Borrower, any Guarantor or any Subsidiary to the Agent or any Bank in connection with the negotiation of this Agreement or any other Loan Document (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Company represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time delivered and, if such projected financial information was delivered prior to the date on which the conditions specified in Section 6.1 are satisfied, such date.

ARTICLE VIII
AFFIRMATIVE COVENANTS

From the date of this Agreement and thereafter until Termination Conditions exist, the Company will do, and will cause each Subsidiary (except in the instance of Section 8.1) to do, all of the following:

Section 8.1 Financial Statements and Reports. Furnish to the Banks:

(a) As soon as practicable and in any event within seventy-five (75) days after the end of each fiscal year of the Company, the annual audit report of the Company and its Subsidiaries prepared on a consolidated basis and in conformity with GAAP, consisting of at least statements of income, cash flow, and stockholders' equity for such year, and a consolidated balance sheet as at the end of such year, setting forth in each case in comparative form corresponding figures from the previous annual audit, certified without qualification by independent certified public accountants of recognized standing selected by the Company and reasonably acceptable to the Agent. Delivery within the time period specified above pursuant to paragraph (f) below of copies of the annual report on Form 10-K of the Company for such fiscal year (including all financial statement exhibits and financial statements incorporated by reference therein) prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this paragraph (a). The Company shall be deemed to have made such delivery of such Form 10-K if it shall have timely made such Form 10-K available on "EDGAR" and on its home page on the worldwide web (at the date of this Agreement located at: http//www.graco.com) (such availability thereof being referred to as "Electronic Delivery").

(b) As soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year, a copy of the unaudited financial statements of the Company and its Subsidiaries prepared in the same manner as the audit report referred to in Section 8.1(a), certified on behalf of the Company by its chief financial officer, consisting of at least a consolidated statement of income for the Company and the Subsidiaries for such quarter and for the period from the

beginning of such fiscal year to the end of such quarter, a consolidated statement of cash flow for the Company and its Subsidiaries for the period from the beginning of such fiscal year to the end of such quarter, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter. Delivery within the time period specified above pursuant to paragraph (f) below of copies of the quarterly report on Form 10-Q of the Company for such quarterly period (including all financial statement exhibits and financial statements incorporated by reference therein) prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this paragraph (a). The Company shall be deemed to have made such delivery of such Form 10-Q if it shall have timely made Electronic Delivery thereof.

(c) Together with the financial statements furnished by the Company under Sections 8.1(a) and 8.1(b), a Compliance Certificate stating that as at the date of each such financial statement there did not exist any Default or Event of Default or, if such Default or Event of Default existed, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto and confirming compliance with the covenants addressed in the Compliance Certificate.

(d) Immediately upon a Responsible Employee becoming aware of any Default or Event of Default, a notice describing the nature thereof and what action the Company proposes to take with respect thereto.

(e) Immediately upon a Responsible Employee becoming aware of the occurrence, with respect to any Plan, of any Reportable Event that is an Adverse Event, a notice specifying the nature thereof and what action the Company proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan.

(f) Promptly upon the mailing or filing thereof, copies of all material financial statements, reports and proxy statements mailed by the Company to the Company's shareholders, and copies of all registration statements, periodic reports and other documents filed by the Company with the Securities and Exchange Commission (or any successor thereto) or any national securities exchange.

(g) Immediately upon a Responsible Employee becoming aware of the occurrence thereof, notice of the institution of any litigation, arbitration or governmental proceeding, or the rendering of a judgment or decision in such litigation or proceeding, which is material to the Company and its Subsidiaries as a consolidated enterprise, and the steps being taken by the Company or Subsidiary affected by such proceeding.

(h) Immediately upon a Responsible Employee becoming aware of the occurrence thereof, notice of any violation as to any environmental matter by the Company or any Subsidiary and of the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters (i) in which an adverse determination or result would be reasonably likely to result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge

permits, hazardous waste permits or other permits held by the Company or any Subsidiary which are material to the operations of the Company or such Subsidiary as a consolidated enterprise, or (ii) which would be reasonably likely to impose a material liability on the Company or such Subsidiary to any Person or which will require a material expenditure by the Company or such Subsidiary to cure any alleged problem or violation.

(i) From time to time, such other information regarding the business, operation and financial condition of the Company and the Subsidiaries as any Bank may reasonably request.

Section 8.2 Corporate Existence. Subject to Section 9.1 in the instance of a Subsidiary, maintain its corporate existence in good standing under the laws of its jurisdiction of formation and its qualification to transact business as a foreign entity in each other jurisdiction in which the character of the properties owned, leased or operated by it or the business conducted by it makes such qualification necessary, unless failure to so qualify would not be reasonably likely to result in an Adverse Event.

Section 8.3 Insurance. Maintain with financially sound and reputable insurance companies such insurance as may be required by law and such other insurance in such amounts and against such hazards as is customary in the case of reputable corporations engaged in the same or similar business and similarly situated.

Section 8.4 Payment of Taxes and Claims. File all tax returns and reports which are required by law to be filed by it and pay before they become delinquent all taxes, assessments and governmental charges and levies imposed upon it or its property and all claims or demands of any kind (including, without limitation, those of suppliers, mechanics, carriers, warehouses, landlords and other like Persons) which, if unpaid, might result in the creation of a Lien upon its property; provided that the foregoing items need not be paid if they are being contested in good faith by appropriate proceedings, and as long as the Company's or such Subsidiary's title to its property is not materially adversely affected, its use of such property in the ordinary course of its business is not materially interfered with and adequate reserves with respect thereto have been set aside on the Company's or such Subsidiary's books in accordance with GAAP.

Section 8.5 Inspection. Permit any Person designated by the Agent (or, so long as any Default or Event of Default is continuing, any Bank) to visit and inspect any of its properties, corporate books and financial records, to examine and to make copies of its books of accounts and other financial records, and to discuss the affairs, finances and accounts of the Company and the Subsidiaries with, and to be advised as to the same by, its officers at such reasonable times and intervals as the Agent (or, if applicable, such Bank) may designate upon reasonable prior notice by the Agent (or, if applicable, such Bank) to the Company. So long as no Event of Default exists, the expenses of the Agent and the Banks for such visits, inspections and examinations shall be at the expense of the Agent and the Banks, but any such visits, inspections, and examinations made while any Event of Default is continuing shall be at the expense of the Company.

Section 8.6 Maintenance of Properties. Maintain its properties used or useful in the conduct of its business in good condition, repair and working order (ordinary wear and tear excepted), and supplied with all necessary equipment, and make all necessary repairs, renewals, replacements, betterments and improvements thereto, all as may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

Section 8.7 Books and Records. Keep adequate and proper records and books of account in which full and correct entries will be made of its dealings, business and affairs.

Section 8.8 Compliance. Comply in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, provided, that failure to so comply shall not be a breach of this covenant if such failure has not resulted, and is not reasonably likely to result, in an Adverse Event and the Borrower or such Subsidiary is acting in good faith and with reasonable dispatch to cure such noncompliance.

Section 8.9 ERISA. Maintain each Plan in compliance in all material respects with all applicable requirements of ERISA and of the Code and with all applicable rulings and regulations issued under the provisions of ERISA and of the Code, except for any noncompliance that could not reasonably be expected to result in an Adverse Event.

Section 8.10 Environmental Matters. Observe and comply with all laws, rules, regulations and orders of any government or government agency relating to health, safety, pollution, hazardous materials or other environmental matters to the extent non-compliance would be reasonably likely to result in a material liability or an Adverse Event

Section 8.11 Subsidiaries. Upon the formation, designation or acquisition of any Material Subsidiary:

(a) If it is a Domestic Subsidiary, the Company will cause such Material Subsidiary to become a Guarantor and to, concurrent with such formation or acquisition, execute and deliver a Guaranty to the Agent for the benefit of the Banks, and provide a secretary's certificate and copies of all documents consistent with Section 6.1(d) for such Material Subsidiary; and

(b) If it is a Foreign Subsidiary, the Company will pledge, or will cause any Domestic Subsidiary owning such stock or Ownership Interests to pledge to the Collateral Agent for the benefit of the Banks and the other secured parties pursuant to the Intercreditor Agreement, pursuant to a Pledge Agreement subject to the Intercreditor Agreement, the lesser of (i) 65% of the outstanding stock or other Ownership Interests of such Material Foreign Subsidiary, or (ii) all of the stock or other Ownership Interests of such Material Foreign Subsidiary owned by the Company or such Domestic Subsidiary at any time.

Section 8.12 Most Favored Lender.

(a) If the Company or any Subsidiary (a) amends, restates or otherwise modifies any Material Financing or (b) otherwise enters into, assumes or otherwise

becomes bound or obligated under any Material Financing, in each case which tightens existing covenants or defaults or includes one or more Additional Covenants or Additional Defaults, the terms of this Agreement shall, without any further action on the part of the Company, any Subsidiary or the Agent or any Bank, be deemed to be amended automatically and immediately to include each such tightened covenant, tightened default, Additional Covenant and Additional Default contained in such agreement (subject to clause (b) below), and the Company shall provide written notice of such event to the Agent and the Banks providing a fully executed copy of the Material Financing containing such tightened covenant, tightened default, Additional Covenant and Additional Default within ten (10) Business Days of becoming bound or obligated thereby. Upon written request of the Company or the Agent, the Company and the Agent (on behalf of the Required Banks) shall promptly execute and deliver at the Company's expense (including the fees and expenses of counsel for the Agent) an amendment to this Agreement in form and substance reasonably satisfactory to the Agent evidencing the amendment of this Agreement to include such tightened covenants, tightened defaults, Additional Covenants and Additional Defaults, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this Section 8.12(a), but shall merely be for the convenience of the parties hereto.

(b) If after the time this Agreement is amended pursuant to Section 8.12(a) to include in this Agreement any tightened covenant, tightened default, Additional Covenant or Additional Default in any Material Financing and such tightened covenant, tightened default, Additional Covenant or Additional Default ceases to be in effect under such Material Financing or is amended by the requisite lenders under such Material Financing so as to be less restrictive with respect to the Company and its Subsidiaries, then, upon written request of the Company, the Agent, on behalf of the Required Banks, will release or similarly amend, as the case may be, such tightened covenant, tightened default, Additional Covenant or Additional Default as in effect in this Agreement, provided that (a) no Default or Event of Default shall be in existence, and (b) if any waiver or similar fees were paid or other concession given to any lender under such Material Financing with respect to causing such tightened covenant, tightened default, Additional Covenant or Additional Default to cease to be in effect or to be so amended, then the Company shall have paid or given to the Banks the same fees or other concessions on a pro rata basis in proportion to the relative outstanding principal amounts of the Obligations and the principal amount of the Indebtedness outstanding under such Material Financing (plus, in the case of a revolving credit facility, the aggregate principal amount of additional loans that the lenders are legally committed to fund thereunder). Notwithstanding the foregoing, no release or amendment to this Agreement pursuant to this Section 8.12(b) as the result of any tightened covenant, tightened default, Additional Covenant or Additional Default in any Material Financing ceasing to be in effect or being amended shall cause the covenants or Events of Default in this Agreement to be less restrictive than the covenants or Events of Default as contained in this Agreement as amended as provided herein other than by the amendment to this Agreement under Section 8.12(a) originally caused by such tightened covenant, tightened default, Additional Covenant or Additional Default.

(c) If the Indebtedness evidenced by the Senior Notes and the Senior Note Agreements, or any Indebtedness held by Senior Creditors, is secured by assets other than Ownership Interests in Foreign Subsidiaries, then the Obligations shall be concurrently secured by such assets, with the collateral documents evidencing the grant or perfection of the applicable Lien being in form and substance acceptable to the Agent.

Section 8.13 Post-Closing Covenant. Within sixty (60) days of the date on which initial Loans are made (or such later date as the Agent shall determine in its sole discretion), the Agent shall have received supplements or joinders with respect to the Pledge Agreement to the extent necessary to grant the Agent a security interest in 65% of the outstanding stock or other Ownership Interests of each first-tier Material Foreign Subsidiary, together (to the extent available and applicable) with certificates evidencing the stock or Ownership Interest of Material Foreign Subsidiaries pledged thereby and executed assignments separate from the certificates (stock powers) for such certificates with respect to any Material Foreign Subsidiary the stock of which is required to be pledged by this Agreement, including Material Foreign Subsidiaries acquired in the Finishing Group Acquisition.

ARTICLE IX
NEGATIVE COVENANTS

From the date of this Agreement and thereafter until Termination Conditions exist, the Company will not, and will not permit any Subsidiary to, do any of the following:

Section 9.1 Merger. Merge or consolidate or enter into any analogous reorganization or transaction with any Person; provided, however, that:

(a) any Subsidiary may be merged with or dissolved and liquidated into the Company (if the Company is the surviving corporation) or any Wholly-owned Subsidiary; and

(b) any Subsidiary may be merged with any other Person in the conduct of a Permitted Acquisition, provided that the resulting Person is a Subsidiary, or in the conduct of a disposition of such Subsidiary permitted under Section 9.2 of this Agreement.

Section 9.2 Sale of Assets. Sell, transfer, lease or otherwise convey any of its assets except for:

(a) sales, leases and other dispositions of assets in the ordinary course of business;

(b) sales and other dispositions of equipment that is obsolete or not otherwise useful in the business of the Company or its Subsidiaries;

(c) sales and other dispositions of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment of equivalent value, or the proceeds of such sale are applied with reasonable promptness to the purchase price of such replacement equipment;

(d) sales or other transfers by a Subsidiary to the Company or a Wholly-owned Subsidiary;

(e) sale and leaseback transactions not otherwise prohibited hereby;

(f) the endorsement of accounts receivable by Graco K.K. in the ordinary course of business; and

(g) sales of assets of the Company or any Subsidiary or of the Ownership Interests of any Subsidiary during any fiscal year the aggregate book value (net of reserves) for all such sales of which (determined, with respect to any such sale, in accordance with GAAP as of the end of the fiscal quarter or fiscal year most recently completed prior to the date of such sale for which financial statements have been delivered under Section 8.1(a) or (b) hereof) does not exceed 10.00% of Consolidated Assets as of the end of the prior fiscal year (or, if financial statements for such prior fiscal year have not yet been delivered under Section 8.1(a) hereof, the fiscal year immediately preceding such prior fiscal year).

Section 9.3 Plans. Permit any condition to exist in connection with any Plan which might constitute grounds for the PBGC to institute proceedings to have such Plan terminated or a trustee appointed to administer such Plan, permit any Plan to terminate under any circumstances which would cause the lien provided for in Section 4068 of ERISA to attach to any property, revenue or asset of the Company or any Subsidiary or permit any Plan to be in "at-risk status" (within the meaning of Section 430(i)(4) of the Code) under circumstances where the present value of liabilities of the Plan exceed the value of the assets of the Plan by more than $50,000,000 (with liabilities and assets valued in the manner used to determine the funding target attainment percentage under Section 430 of the Code (disregarding the special rules contained in Section 430(i)(1)(B)).

Section 9.4 Change in Nature of Business. Make any material change in the nature of the core business of the Company and its Subsidiaries, as carried on at the date hereof.

Section 9.5 Other Agreements. Enter into any agreement, bond, note or other instrument with or for the benefit of any Person other than the Banks which would be violated or breached by the Company's performance of its obligations under the Loan Documents.

Section 9.6 Investments. Acquire for value, make, have or hold any Investments, except:

(a) Investments outstanding on the date hereof and listed on Schedule 9.6;

(b) Travel advances to officers and employees in the ordinary course of business;

(c) Investments complying with the Investment Policies;

(d) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale of goods and services in the ordinary course of business;

(e) Ownership Interests, obligations or other securities received in settlement of claims arising in the ordinary course of business;

(f) Investments in Subsidiaries by the Company and other Subsidiaries not involving an acquisition after the date hereof of the assets or Ownership Interests of a Person that is not a Subsidiary;

(g) Permitted Acquisitions;

(h) Arrangements giving rise to Hedging Obligations, and other foreign exchange, interest or other hedging arrangements, so long as each such arrangement is entered into in connection with bona fide hedging operations and not for speculation; and

(i) any other Investments, if the aggregate costs thereof, net of any returns with respect thereto, does not exceed $50,000,000 for all such Investments in the aggregate at any time.

Section 9.7 Use of Proceeds. Permit any proceeds of the Loans to be used, either directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of "purchasing or carrying any margin stock" in any manner that would cause any Bank not to comply with Regulation U or at any time that Section 9.8 shall be reasonably determined by the Agent to cause any Loan to be "indirectly" secured by margin stock as determined under Regulation U, and furnish to any Bank, upon its request, a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U.

Section 9.8 Secured Indebtedness. Either (a) incur, create, issue, assume or permit to exist Secured Indebtedness at any time exceeding 5.00% of Consolidated Assets as of the end of the most-recently completed fiscal quarter or fiscal year for which financial statements have been delivered under Section 8.1(a) or (b), or (b) permit Secured Indebtedness to have a Lien on the Ownership Interests of Foreign Subsidiaries that are Material Subsidiaries; provided, however, that Indebtedness evidenced by the Senior Notes and the Senior Note Agreements, and Indebtedness owing to Senior Creditors shall constitute Secured Indebtedness for purposes hereof if the Indebtedness owing to the Senior Noteholders or the Senior Creditors, as applicable, is not subject to the Intercreditor Agreement.

Section 9.9 Cash Flow Leverage Ratio. Permit the Cash Flow Leverage Ratio, calculated as provided in the definition thereof for each period of four consecutive fiscal quarters, to exceed 3.25 to 1.00; provided, however, that in connection with any Permitted Acquisition for which the purchase consideration equals or exceeds $200,000,000 (including the Finishing Group Acquisition), the maximum Cash Flow Leverage Ratio, with prior notice to the Agent, shall increase to 3.75 to 1.00 for the four fiscal quarter period beginning with the quarter in which such Permitted Acquisition occurs, so long as (i) the Company is in pro forma compliance herewith at such 3.75 to 1.00 level before and after giving effect to such Permitted Acquisition and (ii) after any such Permitted Acquisition that results in an increase to the 3.75 to 1.00 level, the Cash Flow Leverage Ratio permitted under this Section 9.9 shall decrease to 3.25 to 1.00 for at least one fiscal quarter before becoming eligible to again increase to 3.75 to 1.00 for a new period of four consecutive fiscal quarters (with the understanding that any Permitted

Acquisition occurring during such fiscal quarter would be required to comply with the 3.25 to 1.00 ratio).

Section 9.10 Interest Coverage Ratio. Permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters to be less than 3.00 to 1.00; provided, however, that in connection with any Permitted Acquisition for which the purchase consideration equals or exceeds $200,000,000 (including the Finishing Group Acquisition), the minimum Interest Coverage Ratio, with prior notice to the Agent, shall decrease to 2.50 to 1.00 for the four fiscal quarter period beginning with the quarter in which such Permitted Acquisition occurs, so long as (i) the Company is in pro forma compliance herewith at such 2.50 to 1.00 level before and after giving effect to such Permitted Acquisition and (ii) after any such Permitted Acquisition that results in a decrease to the 2.50 to 1.00 level, the Interest Coverage Ratio permitted under this Section 9.10 shall increase to 3.00 to 1.00 for at least one fiscal quarter before becoming eligible to again decrease to 2.50 to 1.00 for a new period of four consecutive fiscal quarters (with the understanding that any Permitted Acquisition occurring during such fiscal quarter would be required to comply with the 3.00 to 1.00 ratio).

Section 9.11 Material Subsidiaries. Fail to comply with the terms, conditions and requirements of the definition of "Material Subsidiaries" in Section 1.1.

ARTICLE X
EVENTS OF DEFAULT AND REMEDIES

Section 10.1 Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default:

(a) Any Borrower or any Guarantor shall fail to make when due, whether by acceleration or otherwise, any payment of principal of or interest on any Loan or any fee or other amount required to be made by such Borrower or such Guarantor to the Banks pursuant to any Loan Documents;

(b) Any representation or warranty made or deemed to have been made by or on behalf of the Company or any Subsidiary in any of the Loan Documents or by or on behalf of the Company or any Subsidiary in any certificate, statement, report or other writing furnished by or on behalf of the Company to the Banks pursuant to the Loan Documents shall prove to have been false or misleading in any material respect on the date as of which the facts set forth are stated or certified or deemed to have been stated or certified;

(c) The Company shall fail to comply with Section 8.2 hereof or any Section of Article IX hereof;

(d) Any Borrower or any Guarantor shall fail to comply with any agreement, covenant, condition, provision or term contained in the Loan Documents and applicable to such Borrower or such Guarantor (and such failure shall not constitute an Event of Default under any of the other provisions of this Section 10.1) and such failure to comply shall continue for thirty (30) calendar days after notice thereof to the Company by the Agent;

(e) The Company or any Material Subsidiary shall become insolvent or shall generally not pay its debts as they mature or shall apply for, shall consent to, or shall acquiesce in the appointment of a custodian, trustee or receiver of the Company or such Material Subsidiary or for a substantial part of the property thereof or, in the absence of such application, consent or acquiescence, a custodian, trustee or receiver shall be appointed for the Company or a Material Subsidiary or for a substantial part of the property thereof and shall not be discharged within 60 days;

(f) Any bankruptcy, reorganization, debt arrangement or other proceedings under any bankruptcy or insolvency law shall be instituted by or against the Company or a Material Subsidiary, and, if instituted against the Company or a Material Subsidiary, shall have been consented to or acquiesced in by the Company or such Material Subsidiary, or shall remain undismissed for 60 days, or an order for relief shall have been entered against the Company or such Material Subsidiary, or the Company or any Material Subsidiary shall take any corporate, limited liability or partnership action to approve institution of, or acquiescence in, such a proceeding;

(g) Any dissolution or liquidation proceeding not permitted by Section 9.1 shall be instituted by or against the Company or a Material Subsidiary and, if instituted against the Company or such Material Subsidiary, shall be consented to or acquiesced in by the Company or such Material Subsidiary or shall remain for 60 days undismissed, or the Company or any Material Subsidiary shall take any corporate action to approve institution of, or acquiescence in, such a proceeding;

(h) A judgment or judgments for the payment of money in excess of the sum of $25,000,000 in the aggregate shall be rendered against the Company or a Material Subsidiary and the Company or such Material Subsidiary shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, prior to any execution on such judgments by such judgment creditor, within 60 days from the date of entry thereof, and within said period of 60 days, or such longer period during which execution of such judgment shall be stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

(i) The institution by the Company or any ERISA Affiliate of steps to terminate any Plan if in order to effectuate such termination, the Company or any ERISA Affiliate would be required to make a contribution to such Plan, or would incur a liability or obligation to such Plan, in excess of $50,000,000, if the payment of such liability would constitute an Adverse Event, or the institution by the PBGC of steps to terminate any Plan;

(j) The maturity of any Indebtedness of the Company or a Material Subsidiary (other than Indebtedness under this Agreement) in an aggregate amount outstanding which exceeds $25,000,000 shall be accelerated, or the Company or a Material Subsidiary shall fail to pay any such Indebtedness in excess of such aggregate amount when due or, in the case of such Indebtedness payable on demand, when demanded, or any event shall occur or condition shall exist and shall continue for more than the period of grace, if any, applicable thereto and shall have the effect of causing, or

permitting (any required notice having been given and grace period having expired) the holder of any such Indebtedness in excess of such aggregate amount or any trustee or other Person acting on behalf of such holder to cause, such Indebtedness to become due prior to its stated maturity or to realize upon any collateral given as security therefor;

(k) Except as contemplated by Section 13.16 hereof, any Loan Document shall not be, or shall cease to be, binding on any Borrower or Guarantor (as applicable), enforceable against such Borrower or such Guarantor in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to general principles of equity, or any Guarantor shall disavow, cancel or terminate, or attempt to disavow, cancel or terminate, any Guaranty; or

(l) Any Change of Control shall occur.

Section 10.2 Remedies. If (a) any Event of Default described in Sections 10.1(e), (f) or (g) shall occur, the Commitments shall automatically terminate and the outstanding unpaid principal balance of the Notes, the accrued interest thereon and all other obligations of the Borrowers to the Banks and the Agent under the Loan Documents shall automatically become immediately due and payable; or (b) any other Event of Default shall occur and be continuing, then the Agent may take any or all of the following actions (and shall take any or all of the following actions on direction of the Required Banks): (i) declare the Commitments terminated, whereupon the Commitments shall terminate, (ii) declare that the outstanding unpaid principal balance of the Notes, the accrued and unpaid interest thereon and all other obligations of the Borrowers to the Banks and the Agent under the Loan Documents to be forthwith due and payable, whereupon the Notes, all accrued and unpaid interest thereon and all such obligations shall immediately become due and payable, in each case without demand or notice of any kind, all of which are hereby expressly waived, anything in this Agreement or in the Notes to the contrary notwithstanding, (iii) exercise all rights and remedies under any other instrument, document or agreement between any Borrower and the Agent or the Banks, and (iv) enforce all rights and remedies under any applicable law.

Section 10.3 Letters of Credit. In addition to the foregoing remedies, if any Event of Default described in Section 10.1(e), (f) or (g) shall have occurred, or if any other Event of Default shall have occurred and the Agent shall have declared that the principal balance of the Notes is due and payable, the Company shall pay to the Agent an amount equal to all Letter of Credit Obligations. Such payment shall be in immediately available funds or in similar cash collateral acceptable to the Agent and shall be pledged to the Agent for the ratable benefit of the Banks. Such amount shall be held by the Agent in a cash collateral account until the outstanding Letters of Credit are terminated without payment or are drawn and Letter of Credit Obligations with respect thereto are paid. In the event the Company defaults in the payment of any Letter of Credit Obligations, the proceeds of the cash collateral account shall be applied to the payment thereof. The Company acknowledges and agrees that the Banks would not have an adequate remedy at law for failure by the Company to pay immediately to the Agent the amount provided under this Section, and that the Agent shall, on behalf of the Banks, have the right to require the Company to perform specifically such undertaking whether or not any of the Letter of Credit Obligations are due and payable. Upon the failure of the Company to make any payment

required under this Section, the Agent, on behalf of the Banks, may proceed to use all remedies available at law or equity to enforce the obligation of the Company to pay or reimburse the Agent. The balance of any payment due under this Section shall bear interest payable on demand until paid in full at a per annum rate equal to the rate of interest applicable to the Loans.

Section 10.4 Security Agreement in Accounts and Setoff. As additional security for the payment of all of the Obligations, each Borrower grants to the Agent, each Bank and each holder of a Note a security interest in, a lien on, and an express contractual right to set off against, each deposit account and all deposit account balances, cash and any other property of such Borrower now or hereafter maintained with, or in the possession of, the Agent, such Bank or such other holder of a Note. Upon the occurrence and during the continuance of any Event of Default, upon written direction by the Agent to such effect, the Agent, each such Bank and each such holder of a Note may: (a) refuse to allow withdrawals from any such deposit account; (b) apply the amount of such deposit account balances and the other assets of such Borrower described above to the Obligations of such Borrower; and (c) offset any other obligation of the Agent, such Bank or such holder of a Note due to such Borrower against the Obligations of such Borrower; all whether or not the Obligations are then due or have been accelerated and all without any advance or contemporaneous notice or demand of any kind to the Company, such notice and demand being expressly waived.

ARTICLE XI
GUARANTY

For valuable consideration, receipt whereof is hereby acknowledged, and to induce each Bank to make Revolving Loans to and on account of each Borrowing Subsidiary and to issue Letters of Credit for the account of Material Subsidiaries:

Section 11.1 Unconditional Guaranty. The Company unconditionally and irrevocably guaranties to each Bank and the Agent the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of any Borrowing Subsidiary and any other Material Subsidiary for whose account a Letter of Credit has been issued (an "Account Subsidiary"), whether for principal, interest, fees, expenses or otherwise, whether direct or indirect, absolute or contingent or now existing or hereafter arising (such Obligations being the "Guarantied Obligations"). This is a Guaranty of payment and not of collection.

Section 11.2 Guaranty Absolute. The Company guaranties that the Guarantied Obligations will be paid strictly in accordance with the terms of this Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Bank or the Agent with respect thereto. The Obligations of the Company under this Article XI are independent of the Guarantied Obligations, and a separate action or actions may be brought and prosecuted against the Company to enforce this Article XI, irrespective of whether any action is brought against any Borrowing Subsidiary or Account Subsidiary or whether any Borrowing Subsidiary or Account Subsidiary is joined in any such action or actions. The liability of the Company under this Guaranty shall be irrevocable, absolute and unconditional irrespective of, and the Company hereby irrevocably waives any defense it may now or hereafter have in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of this Agreement or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guarantied Obligations, or any other amendment or waiver of or any consent to departure from this Agreement;

(c) any taking, exchange, release or non-perfection of any collateral or any taking, release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guarantied Obligations;

(d) any change, restructuring or termination of the corporate structure or existence of any Borrowing Subsidiary or Account Subsidiary; or

(e) any other circumstance (including any statute of limitations to the fullest extent permitted by applicable law) which might otherwise constitute a defense available to, or a discharge of, the Company, any Borrowing Subsidiary or Account Subsidiary or other guarantor.

This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guarantied Obligations is rescinded or must otherwise be returned by any Bank or the Agent upon the insolvency, bankruptcy or reorganization of any Borrowing Subsidiary or Account Subsidiary or otherwise, all as though such payment had not been made.

Section 11.3 Waivers. The Company hereby expressly waives promptness, diligence, notice of acceptance, presentment, demand for payment, protest, any requirement that any right or power be exhausted or any action be taken against any Borrowing Subsidiary or Account Subsidiary or against any other guarantor of all or any portion of the Guarantied Obligations, and all other notices and demands whatsoever.

(a) The Company hereby waives any right to revoke this guaranty, and acknowledges that this Guaranty is continuing in nature and applies to all Guarantied Obligations, whether existing now or in the future and regardless of whether the Guarantied Obligations are reduced to zero at any time or from time to time.

(b) The Company acknowledges that it will receive substantial direct and indirect benefits from the financing arrangements contemplated herein and that the waivers set forth in this Article XI are knowingly made in contemplation of such benefits.

Section 11.4 Subrogation. The Company will not exercise any rights that it may now or hereafter acquire against any Borrowing Subsidiary or Account Subsidiary or any other insider guarantor that arise from the existence, payment, performance or enforcement of the Guarantied Obligations under this Agreement, including any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or any other Bank against a Borrowing Subsidiary or Account Subsidiary or any other insider guarantor or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including the right to take or receive from a Borrowing Subsidiary or Account Subsidiary or any other insider guarantor,

directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until all of the Guarantied Obligations and all other amounts payable under this guaranty shall have been paid in full in cash and the Commitments shall have terminated. If any amount shall be paid to the Company in violation of the preceding sentence at any time prior to the later of the payment in full in cash of the Guarantied Obligations and all other amounts payable under this guaranty and the termination of the Commitments, such amount shall be held in trust for the benefit of the Agent and the other Banks and shall forthwith be paid to the Agent to be credited and applied to the Guarantied Obligations and all other amounts payable under this guaranty, whether matured or unmatured, in accordance with the terms of this Agreement, or to be held as collateral for any Guarantied Obligations or other amounts payable under this guaranty thereafter arising.

Section 11.5 Survival. This guaranty is a continuing guaranty and shall (a) remain in full force and effect until Termination Conditions exist, (b) be binding upon the Company, its successors and assigns, (c) inure to the benefit of and be enforceable by each Bank (including each assignee Bank pursuant to Section 13.3) and the Agent and their respective successors, transferees and assigns and (d) shall be reinstated if at any time any payment to a Bank or the Agent hereunder is required to be restored by such Bank or the Agent. Without limiting the generality of the foregoing clause (c), each Bank may assign or otherwise transfer its interest in any Obligation to any other Person in accordance with Section 13.3, and such other Person shall thereupon become vested with all the rights in respect thereof granted to such Bank herein or otherwise.

ARTICLE XII
THE AGENTS

Section 12.1 Appointment and Grant of Authority. Each Bank hereby appoints the Agent, and the Agent hereby agrees to act, as Agent under this Agreement and the Intercreditor Agreement and Collateral Agent under the Pledge Agreement and the Intercreditor Agreement. The Agent shall have and may exercise such powers under this Agreement as are specifically delegated to the Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. Each Bank hereby authorizes, consents to, and directs each Borrower to deal with the Agent as the true and lawful Agent of such Bank to the extent set forth herein. Each Bank authorizes the Agent and the Collateral Agent to enter into the Pledge Agreement and the Intercreditor Agreement on behalf of the Banks and to take such actions thereunder as may be required from time to time, including the release of any Collateral pursuant to a restructuring not prohibited hereunder.

Section 12.2 Non Reliance on Agent. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Company and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Agent shall not be required to keep informed as to the performance or observance by any Borrower of this Agreement and the Loan Documents or to inspect the properties or books of the Borrower. Except for notices, reports and other documents

and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Company or any Subsidiary (or any of its related companies) which may come into the Agent's possession.

Section 12.3 Responsibility of the Agent and Other Matters.

(a) The Agent shall have no duties or responsibilities in its capacity as Agent except those expressly set forth in this Agreement and the other Loan Documents and those duties and liabilities shall be subject to the limitations and qualifications set forth in this Section. The duties of the Agent shall be mechanical and administrative in nature.

(b) Neither the Agent nor any of its directors, officers or employees shall be liable to any Bank or holder of the Loans or Notes for any action taken or omitted (whether or not such action taken or omitted is within or without the Agent's responsibilities and duties expressly set forth in this Agreement) under or in connection with this Agreement, or any other instrument or document in connection herewith, except for gross negligence or willful misconduct. Without limiting the foregoing, neither the Agent nor any of its directors, officers or employees shall be responsible for, or have any duty to examine:

(i) the genuineness, execution, validity, effectiveness, enforceability, value or sufficiency of this Agreement or any other Loan Document;

(ii) the collectibility of any amounts owed by any Borrower; any recitals or statements or representations or warranties in connection with this Agreement or any other Loan Document;

(iii) any failure of any party to this Agreement to receive any communication sent; or

(iv) the assets, liabilities, financial condition, results of operations, business or creditworthiness of the Company and its Subsidiaries.

(c) The Agent shall be entitled to act, and shall be fully protected in acting upon, any communication in whatever form believed by the Agent in good faith to be genuine and correct and to have been signed or sent or made by a proper person or persons or entity. The Agent may consult counsel and shall be entitled to act, and shall be fully protected in any action taken in good faith, in accordance with advice given by counsel. The Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by the Agent with reasonable care. The Agent shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, provisions or conditions of this Agreement or the Notes on any Borrower's part.

Section 12.4 Action on Instructions. The Agent shall be entitled to act or refrain from acting, and in all cases shall be fully protected in acting or refraining from acting under this Agreement or the Notes or any other instrument or document in connection herewith or therewith

in accordance with instructions in writing from (i) the Required Banks except for instructions which under the express provisions hereof must be received by the Agent from all the Banks, and (ii) in the case of such instructions, from all the Banks.

Section 12.5 Indemnification. To the extent the Company does not reimburse and save the Agent harmless according to the terms hereof for and from all costs, expenses and disbursements in connection herewith or with the other Loan Documents, such costs, expenses and disbursements to the extent reasonable shall be borne by the Banks ratably in accordance with their Percentages and the Banks hereby agree on such basis (a) to reimburse the Agent for all such reasonable costs, expenses and disbursements on request and (b) to indemnify and save harmless the Agent against and from any and all losses, obligations, penalties, actions, judgments and suits and other reasonable costs, expenses and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, other than as a consequence of actual gross negligence or willful misconduct on the part of the Agent, arising out of or in connection with this Agreement or the Notes or any instrument or document in connection herewith or therewith, or any request of the Banks, including without limitation the reasonable costs, expenses and disbursements in connection with defending itself against any claim or liability, or answering any subpoena, related to the exercise or performance of any of its powers or duties under this Agreement or the other Loan Documents or the taking of any action under or in connection with this Agreement or the Notes.

Section 12.6 U.S. Bank National Association and Affiliates. With respect to U.S. Bank National Association's Commitment and any Loans by U.S. Bank National Association under this Agreement and any Note and any interest of U.S. Bank National Association in any Note, U.S. Bank National Association shall have the same rights, powers and duties under this Agreement and such Note as any other Bank and may exercise the same as though it were not the Agent. U.S. Bank National Association and its affiliates may accept deposits from, lend money to, and generally engage, and continue to engage, in any kind of business with each Borrower as if U.S. Bank National Association were not the Agent.

Section 12.7 Notice to Holder of Notes. The Agent may deem and treat the payees of the Notes as the owners thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof has been filed with the Agent. Any request, authority or consent of any holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note.

Section 12.8 Successor Agent. The Agent may resign at any time by giving at least 30 days written notice thereof to the Banks and the Company. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent, which shall be one of the Banks or if not one of the Banks and no Event of Default shall have occurred and continued shall have been accepted in writing by the Company, which acceptance shall not be unreasonably withheld. If no successor Agent shall have been appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Agent's giving notice of resignation, then the retiring Agent may, but shall not be required to, on behalf of the Banks, appoint a successor Agent which shall be one of the Banks or if not one of the Banks and no Event of Default shall have occurred and continued shall have been accepted in writing by the Company, which acceptance shall not be unreasonably withheld.

Section 12.9 Syndication Agent; Co-Documentation Agents; Lead Arrangers. None of the Syndication Agent, the Co-Documentation Agents and the Lead Arrangers shall have any duties, responsibilities, liabilities or obligations under this Agreement except in its capacity as a Bank.

ARTICLE XIII

MISCELLANEOUS

Section 13.1 No Waiver and Amendment. No failure on the part of the Banks or the holder of the Notes to exercise and no delay in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The remedies herein and in any other instrument, document or agreement delivered or to be delivered to the Banks hereunder or in connection herewith are cumulative and not exclusive of any remedies provided by law. No notice to or demand on any Borrower not required hereunder or under the Notes shall in any event entitle any Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of the Banks or the holder of the Notes to any other or further action in any circumstances without notice or demand.

Section 13.2 Amendments, Etc. No amendment or waiver of any provision of this Agreement, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Company and the Agent upon direction of the Required Banks and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless agreed to by the Agent and all of the Banks:

(a) except as provided in Section 2.10, increase the amounts of or extend the terms of the Commitments or subject the Banks to any additional obligations;

(b) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder;

(c) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder;

(d) release the guaranty by the Company in Article XI hereof, or release the Guaranty of any Guarantor except as provided in Section 13.16 hereof;

(e) release the pledge of Ownership Interest of any Subsidiary except as provided in Sections 12.1 and 13.16 hereof;

(f) any provision requiring proceeds of repayment of the Revolving Loans or funded participations in Letters of Credit to be transferred by the Agent to the Banks ratably, in accordance with their respective Percentages; or

(g) change the definition of Required Banks or amend this Section 13.2;

provided, further that amendments, waivers or consents affecting the rights of the Agent shall also require the consent of the Agent.

Section 13.3 Assignments and Participations.

(a) Assignments. Each Bank shall have the right, subject to the further provisions of this Sections 13.3, to sell or assign all or any part of its Commitments, Loans, Notes, and other rights and obligations under this Agreement and related documents (such transfer, and "Assignment") to any commercial lender, other financial institution or other entity (an "Assignee"). Upon such Assignment becoming effective as provided in Section 13.3(b), the assigning Bank shall be relieved from the portion of its Commitment, obligations to indemnify the Agent and other obligations hereunder (other than obligations under Section 13.15) to the extent assumed and undertaken by the Assignee, and to such extent the Assignee shall have the rights and obligations of a "Bank" hereunder. Notwithstanding the foregoing, unless otherwise consented to by the Company and the Agent, each partial Assignment shall be in the initial principal amount of not less than $5,000,000 in the aggregate for all Loans and Commitments assigned, or an integral multiple of $1,000,000 if above such amount. Each Assignment shall be documented by an agreement between the assigning Bank and the Assignee (an "Assignment and Assumption Agreement") substantially in the form of Exhibit G attached hereto. Each Assignee agrees to be bound by the terms of the Intercreditor Agreement.

(b) Effectiveness of Assignments. An Assignment shall become effective hereunder when all of the following shall have occurred: (i) the Agent and the Company (or, following occurrence and during continuance of an Event of Default, the Agent only and not the Company) shall have been given notice of the Assignment and shall, unless the Assignee is already a Bank under this Agreement, have given prior written consent to such Assignment, which written consent shall not be unreasonably withheld or delayed, (ii) either the assigning Bank or the Assignee shall have paid a processing fee of $3,500 to the Agent for its own account, (iii) the Assignee shall have submitted the Assignment and Assumption Agreement to the Agent with a copy for the Company, and shall have provided to the Agent information the Agent shall have reasonably requested to make payments to the Assignee, and (iv) the assigning Bank and the Agent shall have agreed upon a date upon which the Assignment shall become effective. Upon the Assignment becoming effective, the Agent shall forward all payments of interest, principal, fees and other amounts that would have been made to the assigning Bank, in proportion to the percentage of the assigning Bank's rights transferred, to the Assignee.

(c) Participations. Each Bank shall have the right, subject to the further provisions of this Section 13.3, to grant or sell a participation in all or any part of its Loans, Notes and Commitments (a "Participation") to any commercial lender, other financial institution or other entity (a "Participant") without the consent of the Company, the Agent of any other party hereto. The Company agrees that if amounts outstanding under this agreement and the Notes are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its Participation in

amounts owing under this Agreement and any Note to the same extent as if the amount of its Participation were owing directly to it as a Bank under this Agreement or any Note; provided, that such right of setoff shall be subject to the obligation of such Participant to share with the Banks, and the Banks agree to share with such Participant, as provided in Section 4.5 hereof. The Company also agrees that each Participant shall be entitled to the benefits of Article V with respect to its Participation, provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the transferor Bank would have been entitled to receive in respect of the amount of the Participation transferred by such transferor Bank to such Participant had no such transfer occurred.

(d) Limitation of Rights of any Assignee or Participant. Notwithstanding anything in the foregoing to the contrary, except in the instance of an Assignment that has become effective as provided in Section 13.3(b), (i) no Assignee or Participant shall have any direct rights hereunder, (ii) the Company, the Agent and the Banks other than the assigning or selling Bank shall deal solely with the assigning or selling Bank and shall not be obligated to extend any rights or make any payment to, or seek any consent of, the Assignee or Participant, (iii) no Assignment or Participation shall relieve the assigning or selling Bank from its Commitment to make Loans hereunder or any of its other obligations hereunder and such Bank shall remain solely responsible for the performance hereof, the (iv) no Assignee or Participant, other than an affiliate of the assigning or selling Bank, shall be entitled to require such Bank to take or omit to take any action hereunder, except that such Bank may agree with such Assignee or Participant that such Bank will not, without such Assignee's or Participant's consent, take any action which would, in the case of any principal, interest or fee in which the Assignee or Participant has an ownership or beneficial interest: (w) extend the final maturity of any Loans or extend the Termination Date, (x) reduce the interest rate on the Loans or the rate of Commitment Fees, (y) forgive any principal of, or interest on, the Loans or any fees, or (z) release all or substantially all of the Collateral for the Loans.

(e) Tax Matters. No Bank shall be permitted to enter into any Assignment or Participation with any Assignee or Participant who is not a United States Person unless such Assignee or Participant represents and warrants to such Bank that, as at the date of such Assignment or Participation, it is entitled to receive interest payments from the Borrowers without withholding or deduction of any taxes and such Assignee or Participant executes and delivers to such Bank on or before the date of execution and delivery of documentation of such Participation or Assignment, a United States Internal Revenue Service Form W8BEN or W8ECI, or any successor to either of such forms, as appropriate, properly completed and claiming complete exemption from withholding and deduction of all United States federal income taxes. Such obligation shall be continuing and any Assignee or Participant who is not a United States Person shall deliver such forms promptly upon learning of the obsolescence or invalidity of any forms previously delivered by such Assignee or Participant. Borrowers shall not be required to pay additional amounts to any Assignee or Participant pursuant to Section 5.5, and such Assignee or Participant shall reimburse such Borrower fully for all amounts paid, directly or indirectly, by such Borrower as tax, withholding therefor, or otherwise, including penalties and interest, together with all costs and expenses related thereto (including reasonable attorneys fees and disbursements), to the extent that the obligation to pay such

amounts (i) would not have arisen but for the failure of such Assignee or Participant to comply with this Section 13.3(e), (ii) because the appropriate form was not delivered or properly completed, or (iii) because such Assignee or Participant failed to notify the Borrower of a change in circumstances which rendered its exemption from withholding ineffective. Notwithstanding the foregoing, if no exemption to withholding in respect of a Loan in an Alternative Currency shall have been available to the Bank entering into such Assignment or Participation (and such event shall not have been caused by such Bank's failure to deliver appropriate forms or otherwise mitigate under Section 5.7), and such Bank shall have been requiring adjustments or compensation under Section 5.5, such Bank's Assignee or Participant may require adjustment or compensation at rates not exceeding those required by the Bank granting such Assignment or Participation.

(f) Information. Each Bank may furnish any information concerning each Borrower in the possession of such Bank from time to time to Assignees and Participants and potential Assignees and Participants, subject to agreement by such Assignees and Participants and potential Assignees and Participants to a confidentiality restriction substantially similar to Section 13.15.

(g) Federal Reserve Bank. Nothing herein stated shall limit the right of any Bank to assign any interest herein and in any Note to a Federal Reserve Bank.

Section 13.4 Costs, Expenses and Taxes; Indemnification.

(a) The Company agrees, whether or not any Advance is made hereunder, to pay on demand: (i) all reasonable out-of-pocket costs and expenses of the Agent (including, without limitation, the reasonable fees and expenses of outside counsel to the Agent) incurred in connection with the preparation, execution and delivery of the Loan Documents and the preparation, negotiation and execution of any and all amendments to each thereof, and (ii) all reasonable out-of-pocket costs and expenses of the Agent and each of the Banks incurred after the occurrence of an Event of Default in connection with the enforcement of the Loan Documents or protection of its rights thereunder. The Company agrees to pay, and save the Banks harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of the Loan Documents. The Company agrees to indemnify and hold the Banks harmless from any loss or expense which may arise or be created by the acceptance in good faith by the Agent of telephonic, e-mail or other instructions for making Advances or disbursing the proceeds thereof.

(b) The Company agrees to defend, protect, indemnify, and hold harmless the Agent and each and all of the Banks, each of their respective Affiliates and each of the respective officers, directors, employees and agents of each of the foregoing (each an "Indemnified Person" and, collectively, the "Indemnified Persons") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, out-of-pocket costs and expenses determined on a reasonable basis, and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of outside counsel to such Indemnified Persons) in connection with this Agreement, any other Loan Document, the capitalization of the

Company, the Commitments, the making of, management of and participation in the Loans, the issuance of the Letters of Credit or the use or intended use of the proceeds of the Loans or of the Letters of Credit, provided that the Company shall have no obligation under this Section 13.4(b) to an Indemnified Person with respect to any of the foregoing to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person or arising solely from claims between one such Indemnified Person and another such Indemnified Person. The indemnity set forth herein shall be in addition to any other obligations or liabilities of the Company to each Indemnified Person under the Loan Documents or at common law or otherwise.

(c) The obligations of the Company under this Section 13.4 shall survive any termination of this Agreement.

Section 13.5 Notices. Except when telephonic notice is expressly authorized by this Agreement, any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, facsimile transmission, electronic mail, overnight courier or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party shall have specified to the other party hereto in writing. All periods of notice shall be measured from the date of delivery thereof if manually delivered, from the date of sending thereof if sent by facsimile transmission or electronic mail, from the first Business Day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed; provided, however, that any notice to the Agent under Article II hereof shall be deemed to have been given only when received by the Agent.

Section 13.6 Successors. This Agreement shall be binding upon each Borrower, the Banks and the Agent and their respective successors and permitted assigns, and shall inure to the benefit of each Borrower, the Banks and the Agent and the successors and permitted assigns of the Banks. No Borrower shall assign its rights or duties hereunder without the written consent of the Banks.

Section 13.7 Severability. Any provision of the Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 13.8 Captions. The captions or headings herein and any table of contents hereto are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Agreement.

Section 13.9 Entire Agreement. The Loan Documents embody the entire agreement and understanding between each Borrower, the Banks and the Agent with respect to the subject matter hereof and thereof. This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 13.10 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and either

of the parties hereto may execute this Agreement by signing any such counterpart. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart signature page to this Agreement by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Agreement.

Section 13.11 Governing Law. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS.

Section 13.12 Consent to Jurisdiction. AT THE OPTION OF THE BANKS, THIS AGREEMENT AND THE NOTES MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND EACH BORROWER CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT ANY BORROWER COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE BANKS AT THEIR OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 13.13 Waiver of Jury Trial. EACH BORROWER, THE BANKS AND THE AGENT EACH WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS (a) UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR (b) ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

Section 13.14 Patriot Act. Each Bank hereby notifies the Borrowers that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of the Borrowers and other information that will allow such Bank to identify the Borrowers in accordance with the Patriot Act.

Section 13.15 Confidentiality. The Banks and the Agent agree to hold any information which they may receive from the Company or any Subsidiary pursuant to this Agreement in confidence, except for disclosure (a) to other Banks and to participants, assignees, potential participants and potential assignees with respect to the financing, and to affiliates of such Bank, each of the foregoing who agree to be bound by confidentiality provisions substantially similar to

this Section 13.15; (b) to legal counsel, accountants and other professional advisors to such Bank or the Agent, provided, that the Banks and Agent shall make such Persons aware of this confidentiality requirement, (c) to regulatory officials, (d) to any Person if, in the opinion of counsel to the disclosing party, such disclosure is required by law, regulation or legal process; (e) to any Person in connection with any legal proceeding against the Company or a Subsidiary to which such Bank or the Agent is a party (and in such instance, such Bank or the Agent shall only disclose such information as it deems reasonably necessary for purposes of such legal proceeding); and (f) of conventional information given in response to credit inquiries to credit bureaus, provided, however, that in the instance of disclosure under (d) or (e) unless legally prevented such Bank or the Agent uses best efforts to give the Company prior notice of such disclosure to allow the Company to object (without assuming any liabilities or obligations if the Company is not able to so object). This Section 13.15 will survive termination of this Agreement and will apply to any Bank notwithstanding its assignment of all of its rights hereunder, provided, that this Section 13.15 shall terminate as to any Bank three years after the earlier of (x) final assignment by such Bank of all of its rights hereunder, or (y) existence of Termination Conditions. Information subject to such restriction shall not include (i) information already in any Bank's possession prior to receipt from the Company or any Subsidiary, or (ii) information which becomes generally available to the public, other than as a result of disclosure by a Bank, or its directors, officers, employees, advisors or agents or becomes available to a Bank on a non-confidential basis from a source other than the Company or any Subsidiary or its advisors, provided that such source is not known by such Bank to be bound by a confidentiality agreement with, or other obligation of confidentiality to, the Company or any Subsidiary or another party.

Section 13.16 Release of Borrowing Subsidiary, Guaranty or Pledge Agreement. Except at times that an Event of Default shall have occurred and continued, upon request of the Company, if a Subsidiary that is a Guarantor or a Subsidiary the Ownership Interests of which are pledged to the Collateral Agent is sold in a manner permitted by this Agreement, the Agent shall (and the Banks authorize the Agent to) release such Subsidiary from its Guaranty and direct the Collateral Agent to release or terminate the pledge of the Ownership Interests of such Subsidiary, as requested by the Company. In addition, if a Subsidiary that is a Borrowing Subsidiary is sold in a manner permitted by this Agreement at a time which no Loans to such Borrowing Subsidiary, or accrued interest thereon, remain outstanding, if so requested by the Company, the Agent shall (and the Banks authorize the Agent to) release such Borrowing Subsidiary from this Agreement. Except at times that an Event of Default shall have occurred and continued, if a Subsidiary is designated by the Company as no longer being a Material Subsidiary in accordance with the definition of Material Subsidiary, the Agent shall (and the Banks authorize the Agent to) release such Subsidiary from its Guaranty; and, if the Ownership Interests in such Subsidiary have been pledged to the Collateral Agent, the Agent shall (and the Banks authorize the Agent to) direct the Collateral Agent to release or terminate the pledge of the Ownership Interests of such Subsidiary, as requested by the Company; and, if such Subsidiary is a Borrowing Subsidiary, the Agent shall (and the Banks authorize the Agent to) release such Borrowing Subsidiary from this Agreement provided no Loans to such Borrowing Subsidiary, or accrued interest thereon, remain outstanding.

(signature pages follow)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above.

GRACO INC.

By: /s/ James A. Graner

James A. Graner
Chief Financial Officer and Treasurer

88 11th Avenue N.E.

Minneapolis, MN 55413

Attention: Timothy A. Stoffel, Corporate Tax Director

Telephone: (612) 623-6448

Fax: (612) 378-3595

E-mail: tstoffel@graco.com

and

Attention: Karen Gallivan

Telephone: (612) 623-6604

Fax: (612) 623-6944

E-mail: kgallivan@graco.com

U.S. BANK NATIONAL ASSOCIATION

as Agent and a Bank

By: /s/ Michael J. Staloch
Name: Michael J. Staloch
Title: Senior Vice President

800 Nicollet Mall

Mail Code BC-MN-HO3P

Minneapolis, MN 55402

Attention: Michael J. Staloch

Telephone: (612) 303-3050

Fax: (612) 303-2265

E-mail: Michael.Staloch@usbank.com

JPMORGAN CHASE BANK, N.A.,

as Syndication Agent and a Bank

By: /s/ Suzanne Ergastolo
Name: Suzanne Ergastolo
Title: Vice President

10 S. Dearborn St.

Mail Code: IL1-0364

Chicago, IL 60603

Attention: Suzanne Ergastolo

Telephone: (312) 325-3221

Fax: (312) 794-7684

E-mail: suzanne.ergastolo@jpmorgan.com

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,

as a Bank

By: /s/ Victor Pierzchalski
Name: Victor Pierzchalski
Title: Authorized Signatory

1251 Avenue of the Americas

New York, New York 10020-1104

Attention: US Corporate Banking
Scott Ackerman
Telephone: 1-952-473-7894
Fax: 1-212-782-6440 with a
copy to 312-696-4535

E-mail: sackerman@us.mufg.jp

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as a Bank

By:	/s/ Allison Gelfman
Name:	Allison Gelfman
Title:	Managing Director

By:	/s/ Peter Kiedrowski
Name:	Peter Kiedrowski
Title:	Director

90 South 7th Street

Minneapolis, Minnesota 55402

Attention: Allison Gelfman

Telephone: (612) 316-1402

Fax: (612) 667-4145

E-mail: allison.s.gelfman@wellsfargo.com

FIFTH THIRD BANK,

as a Bank

By: /s/ Gary S. Losey
Name: Gary S. Losey
Title: VP — Corporate Banking

38 Fountain Square Plaza

Cincinnati, Ohio 45202

Attention: Pam Willinger

Telephone: (513) 534-6724

Fax: (513) 534-5947

E-mail: pam.willinger@53.com

PNC BANK, National Association

as a Bank

By: /s/ Alison L. Kirker
Name: Alison L. Kirker
Title: Credit Officer

225 Fifth Avenue

4th Floor

Pittsburgh, Pennsylvania 15222

Attention: Alison Kirker

Telephone: (412) 768-5342

Fax: (412) 705-3232

E-mail: Alison.Kirker@pnc.com

RBS CITIZENS, N.A.,

as a Bank

By: /s/ M. James Barry, III
Name: M. James Barry, III
Title: Vice President

71 South Wacker Drive

Chicago, IL 60606

Attention: Mark Wegener

Telephone: (312) 777-3663

Fax: (312) 777-4003

E-mail: Mark.Wegener@rbscitizens.com

BANK OF AMERICA, N.A.,

as a Bank

By: /s/ Steven K. Kessler
Name: Steven K. Kessler
Title: Senior Vice President

135 S. LaSalle St.

Chicago, IL 60603

Attention: Steven K. Kessler

Telephone: (312) 992-6323

Fax: (312) 453-3346

E-mail: steven.kessler@baml.com

THE NORTHERN TRUST CO.,

as a Bank

By: /s/ Benjamin Livermore
Name: Benjamin Livermore
Title: Vice President

50 S. LaSalle Street

M-27

Chicago, IL 60603

Attention: Benjamin Livermore

Telephone: (312) 557-7223

Fax: (312) 557-1425

E-mail: bL24@ntrs.com

EXHIBITS

Exhibits

A	Form of Borrowing Subsidiary Agreement
B	Compliance Certificate
C	Guaranty
D	Calculation of Mandatory Costs
E	Pledge Agreement
F	Form of Legal Opinion
G	Assignment and Assumption

Schedules

1.1	Commitments and Percentages
7.6	Litigation (Section 7.6)
7.15	Subsidiaries (Section 7.15)
9.6	Investments (Section 9.6)

Exhibit A

FORM OF

BORROWING SUBSIDIARY AGREEMENT

_____, 20___

U.S. Bank National Association, as Agent

Attention:

Ladies and Gentlemen:

The undersigned, Graco Inc. (the "Company"), refers to the Credit Agreement dated as of May 23, 2011 (as thereafter amended, the "Credit Agreement"), among the Company, any Borrowing Subsidiary from time to time party thereto, the Banks as defined therein and U.S. Bank National Association, as Agent. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

The Company and _____ (the "Designated Borrowing Subsidiary") make, on and as of the date hereof (except to the extent such representations and warranties are by their terms limited to an earlier date), the representations and warranties as to the Designated Borrowing Subsidiary contained in Article VII of the Credit Agreement. The Designated Borrowing Subsidiary agrees to be bound in all respects by the terms of the Credit Agreement and to perform all of the obligations of a Borrowing Subsidiary thereunder. Each reference to a Borrowing Subsidiary in the Credit Agreement shall be deemed to include the Designated Borrowing Subsidiary.

All communications to the Designated Borrowing Subsidiary under the Credit Agreement should be directed to the Company as set forth in the Section 13.5 of the Credit Agreement.

This instrument shall be construed in accordance with and governed by the laws of the State of Minnesota and shall be subject to the consent to jurisdiction and waiver of jury trial provisions of the Credit Agreement. Loan proceeds should be disbursed as provided in the Credit Agreement.

Upon the execution of this Borrowing Subsidiary Agreement by the Company and the Designated Borrowing Subsidiary and acceptance hereof by the Agent, the Designated Borrowing Subsidiary shall become a Borrowing Subsidiary under the Credit Agreement as though it were an original party thereto and shall be entitled to borrow under the Credit Agreement upon the satisfaction of the conditions precedent set forth in Article VI of the Credit Agreement.

Very Truly Yours,

GRACO INC.

By: _____

Title: _____

[DESIGNATED BORROWING SUBSIDIARY]

By: _____

Title: _____

Accepted as of the date first above written:

U.S. BANK NATIONAL ASSOCIATION, as Agent

By: _____

Title: _____

EXHIBIT B

[FORM OF COMPLIANCE CERTIFICATE]

To:

[address to each Bank]

U.S. Bank National Association, as Agent

800 Nicollet Mall

Mail Code BC-MN-H03P

Minneapolis, MN 55402

Attention:

The undersigned hereby certifies, on behalf of Graco Inc. (the "Company") that:

(1) I am the duly elected chief financial officer of the Company;

(2) I have reviewed the terms of the Credit Agreement dated as of May 23, 2011 (as thereafter amended, the "Credit Agreement"), among the Company, any Borrowing Subsidiary from time to time party thereto, the Banks as defined therein and U.S. Bank National Association, as Agent and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Company during the accounting period covered by the Attachment hereto;

(3) The examination described in paragraph (2) did not disclose, and I have no knowledge, whether arising out of such examinations or otherwise, of the existence of any condition or event which constitutes a Default or an Event of Default (as such terms are defined in the Credit Agreement) during or at the end of the accounting period covered by the Attachment hereto or as of the date of this Certificate, except as described below (or on a separate attachment to this Certificate). The exceptions listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Company has taken, is taking or proposes to take, with respect to each such condition or event are as follows:

(4) No subsidiary has become a Material Subsidiary and no Material Subsidiary has been acquired or formed since the date of the most recent Certificate delivered pursuant to Section 8.1(c), except as described below (or on a separate attachment to this Certificate):

The foregoing certification, together with the computations in the Attachment hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this _____ day of _____, _____ pursuant to Section 8.1(c) of the Credit Agreement.

GRACO INC.

By: _____

Title: _____

ATTACHMENT TO COMPLIANCE CERTIFICATE
AS OF _____, _____ WHICH PERTAINS

TO THE PERIOD FROM _____, _____

TO _____, _____

Secured Indebtedness (Maximum amount: 5.00% of Consolidated Assets as of the time specified in Section 9.8) (Section 9.8)	$
Cash Flow Leverage Ratio (Maximum [3.25 to 1.00][3.75 to 1.00][1]) (Section 9.9)	
Interest Coverage Ratio (Minimum [2.50 to 1.00][3.0 to 1.00][2]) (Section 9.10)	to 1.0
Consolidated Assets as of_____ (determine date in accordance with Section 9.8):	$
Applicable Margin for Fixed LIBOR Advances:	%
Applicable Margin for Base Rate Advances:	%
Applicable Commitment Fee Rate (determine as provided in the definition thereof.):	%
Book value (net of reserves) of total assets of Subsidiaries that are not Material Subsidiaries (determined as provided in the definition of "Material Subsidiaries" in the Credit Agreement):	$

[1] Per Section 9.9, covenant levels may vary based on permitted acquisitions. Appropriate level and permitted acquisition reference to be included.

[2] Per Section 9.10, covenant levels may vary based on permitted acquisitions. Appropriate level and permitted acquisition reference to be included.

EXHIBIT C

FORM OF GUARANTY

(Joint and Several)

FOR VALUE RECEIVED and in consideration of entry by the Banks (as defined in the Credit Agreement) and U.S. BANK NATIONAL ASSOCIATION, as agent for the Banks (in such capacity, together with it successors and assigns, called the "Agent") into that certain Credit Agreement, dated as of May 23, 2011 (as thereafter amended, modified, extended, renewed, restated or replaced from time to time called the "Credit Agreement") among the Banks, the Agent, the Borrowing Subsidiaries (as defined in the Credit Agreement) and GRACO INC., a Minnesota corporation (hereinafter called the "Debtor"), the undersigned (the "Guarantors") JOINTLY AND SEVERALLY hereby unconditionally guarantee the full and prompt payment when due, whether by acceleration or otherwise, and at all times thereafter, of all Obligations, as defined in and determined under, the Credit Agreement, including without limitation all future advances, all obligations to reimburse the Agent for drawings under all Letters of Credit, and all of such Obligations that arise after the filing of a petition by or against the Debtor under the Bankruptcy Code, even if the obligations do not accrue or are not allowed or allowable under the Bankruptcy Code or otherwise (all such obligations being hereinafter collectively called the "Liabilities"), and the Guarantors further jointly and severally agree to pay all expenses (including attorneys' fees and legal expenses) paid or incurred by the Banks or Agent in endeavoring to collect the Liabilities, or any part thereof, and in enforcing this guaranty.

As additional security for the payment of all of the Liabilities and all obligations of the Guarantors hereunder (collectively, the "Guaranty Obligations"), each Guarantor grants to the Agent for the benefit of itself and the Banks a security interest in, a lien on, and an express contractual right to set off against, each deposit account and all deposit account balances, cash and any other property of such Guarantor now or hereafter maintained with, or in the possession of, the Agent. Upon the occurrence of any default hereunder (as described in the immediately preceding paragraph), the Agent may: (a) refuse to allow withdrawals from any such deposit account; (b) apply the amount of such deposit account balances and the other assets of the Guarantors described above to the Guaranty Obligations; and (c) offset any other obligation of the Agent against the Guaranty Obligations; all whether or not the Guaranty Obligations are then due or have been accelerated and all without any advance or contemporaneous notice or demand of any kind to the Guarantor, such notice and demand being expressly waived.

This guaranty shall in all respects be a continuing, absolute and unconditional guaranty, and shall (subject to release by the Agent, as provided in Section 13.16 of the Credit Agreement) remain in full force and effect (notwithstanding, without limitation, the dissolution of any Guarantor or that at any time or from time to time all Liabilities may have been paid in full) until Termination Conditions (as defined in and determined under the Credit Agreement) exist.

The Guarantors further agrees that, if at any time all or any part of any payment theretofore applied by the Agent or the Banks to any of the Liabilities is or must be rescinded or returned by the Agent or the Banks for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of the Debtor), such Liabilities shall, for the purposes of this guaranty, to the extent that such payment is or must be rescinded or returned, be deemed

to have continued in existence, notwithstanding such application by the Agent or the Banks, and this guaranty shall continue to be effective or be reinstated, as the case may be, as to such Liabilities, all as though such application by the Agent or the Banks had not been made.

The Agent and the Banks may, from time to time, at their sole discretion and without notice to any Guarantor, take any or all of the following actions: (a) be granted a security interest in any property to secure any of the Liabilities or the Guaranty Obligations, (b) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the Guarantors, with respect to any of the Liabilities, (c) extend or renew for one or more periods (whether or not longer than the original period), alter or exchange any of the Liabilities, or release or compromise any obligation of any nature of any other obligor with respect to any of the Liabilities, (d) release its security interest in, or surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Liabilities or any obligation hereunder, or extend or renew for one or more periods (whether or not longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any other obligor with respect to any such property, and (e) resort to any Guarantor for payment of any of the Liabilities, whether or not the Agent and the Banks (i) shall have resorted to any property securing any of the Liabilities or (ii) shall have proceeded against any other obligor primarily or secondarily obligated with respect to any of the Liabilities including without limitation any other Guarantor (all of the actions referred to in preceding clauses (i) and (ii) being hereby expressly waived by each Guarantor).

Any amounts received by the Agent and the Banks from whatsoever source on account of the Liabilities may be applied by it toward the payment of such of the Liabilities, and in such order of application, as the Agent may from time to time elect.

Until Termination Conditions exist, no payment made by or for the account of the Guarantors pursuant to this guaranty shall entitle the Guarantors by subrogation or otherwise to any payment by the Debtor or from or out of any property of the Debtor and the Guarantors shall not exercise any right or remedy against the Debtor or any property of the Debtor by reason of any performance by the Guarantors of this guaranty.

The Guarantors hereby expressly waive: (a) notice of the acceptance by the Agent or the Banks of this guaranty, (b) notice of the existence or creation or non-payment of all or any of the Liabilities, (c) presentment, demand, notice of dishonor, protest, and all other notices whatsoever, and (d) all diligence in collection or protection of or realization upon the Liabilities or any part thereof, any obligation hereunder, or any security for, or guaranty of, any of the foregoing.

Notwithstanding any other provision hereof, the obligation of each Guarantor on this guaranty is limited to the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors without this guaranty being held to be avoidable or unenforceable. Each Guarantor acknowledges and agrees that Obligations may be created and continued in any amount, without affecting or impairing the liability of such Guarantor hereunder, and Agent and the Banks may pay (or allow for the payment of) Obligations out of any sums received by or available to the Agent or the Banks on account of Obligations from the Debtor, the Borrowing Subsidiaries, any other Guarantor or any other

Person (except the Guarantor), from the properties of the Debtor, the Borrowing Subsidiaries, any other Guarantor or such other Persons, out of collateral security or from any other source and such payment (or allowance) shall not reduce, affect or impair the liability of such Guarantor hereunder. The liability of each Guarantor shall be a continuing liability and shall not be affected by (nor shall anything herein contained be deemed a limitation upon) the amount of credit which may be extended to the Debtor or the Borrowing Subsidiaries, the number of transactions with the Debtor or the Borrowing Subsidiaries, repayments by the Debtor, the Borrowing Subsidiaries or any other Guarantor, or the allocation by the Agent of repayments by the Debtor or the Borrowing Subsidiaries, it being the understanding of such Guarantor that, subject to the provisions of Section 13.16 of the Credit Agreement, such Guarantor's liability shall continue hereunder until Termination Conditions (as defined in and determined under the Credit Agreement) exist. To the extent that any payment to, or realization by, the Agent or the Banks on the Guarantied Obligations exceeds the limitations of this paragraph as to any Guarantor and is subject to avoidance and recovery in any such proceeding, the amount subject to avoidance shall in all events be limited to the amount by which such actual payment or realization exceeds such limitation, and this guaranty as limited shall in all events remain in full force and effect and be fully enforceable against each Guarantor. This paragraph is intended solely to preserve the rights of the Agent hereunder against each Guarantor and neither any Guarantor, the Debtor, any Borrowing Subsidiary, any other Guarantor of the Obligations nor any Person shall have any right, claim or defense under this paragraph that would not otherwise be available under applicable insolvency laws. "Person" shall have the meaning set forth in the Credit Agreement.

Each Bank may from time to time without notice to the Guarantors, assign or transfer, in accordance with the terms of the Credit Agreement, its Percentage (as defined in the Credit Agreement) of any or all of the Liabilities or any interest therein; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof in accordance with the terms of the Credit Agreement, such Liabilities shall be and remain Liabilities for the purposes of this guaranty, and each and every immediate and successive permitted assignee or transferee of any of the Liabilities or of any interest therein shall, to the extent of the interest of such assignee or transferee in the Liabilities, be entitled to the benefits of this guaranty to the same extent as if such assignee or transferee were such Bank.

Unless the Agent shall otherwise consent in writing, the Agent shall have the sole right to enforce this Guaranty, as Agent as provided in the Credit Agreement, for the benefit of the Agent and the Banks (including any transferee, as provided in the prior paragraph).

Each Guarantor hereby warrants to the Agent and the Banks that such Guarantor now has, and will continue to have independent means of obtaining information concerning the affairs, financial condition and business of the Debtor. Neither the Agent nor the Bank shall have any duty or responsibility to provide the Guarantors with any credit or other information concerning the affairs, financial condition or business of the Debtor which may come into the Agent's or the Bank's possession.

No delay on the part of the Agent or any Bank in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Bank of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right

or remedy; nor shall any modification or waiver of any of the provisions of this guaranty be binding upon the Agent or any Bank except as expressly set forth in a writing duly signed and delivered on behalf of the Agent and (except in the case of a release required by Section 13.16 of the Credit Agreement) the Required Banks (as defined in the Credit Agreement). No action of the Agent or the Banks permitted hereunder shall in any way affect or impair the rights of the Agent or the Banks and the obligations of the Guarantors under this guaranty. For the purposes of this guaranty, Liabilities shall include all obligations of the Debtor to the Agent or the Banks specified as Liabilities, notwithstanding any right or power of the Debtor or anyone else to assert any claim or defense as to the invalidity or unenforceability of any such obligation, and no such claim or defense shall affect or impair the obligations of the Guarantors hereunder, and shall specifically include, without limitation, any and all interest, fees or commissions included in the Liabilities and accruing or payable after the commencement of any bankruptcy or insolvency proceedings, notwithstanding any provision or rule of law which might restrict the rights of the Bank to collect such obligations from the Debtor. The obligations of the Guarantors under this guaranty shall be absolute and unconditional irrespective of any circumstance whatsoever which might constitute a legal or equitable discharge or defense of any Guarantor. The Guarantors hereby acknowledge that there are no conditions to the effectiveness of this guaranty.

This guaranty shall be binding upon each Guarantor, and upon the successors and assigns of each Guarantor.

Wherever possible, each provision of this guaranty shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this guaranty shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this guaranty.

THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS GUARANTY SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS.

THE AGENT AND THE BANKS (BY ACCEPTING THIS GUARANTY) AND THE GUARANTORS HEREBY EXPRESSLY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS GUARANTY OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

AT THE OPTION OF THE AGENT, THIS GUARANTY MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE GUARANTORS CONSENT TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVE ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT ANY GUARANTOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE

UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS GUARANTY, THE AGENT, AT ITS OPTION, SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

(signature page follows)

SIGNED AND DELIVERED as of _____, 2011.

GRACO OHIO INC.

By: _____
James A. Graner
Chief Financial Officer and Treasurer

GRACO MINNESOTA INC.

By: _____
James A. Graner
Chief Financial Officer and Treasurer

GRACO HOLDINGS INC.

By: _____
James A. Graner
Chief Financial Officer and Treasurer

EXHIBIT D

MANDATORY COST

1. The Mandatory Cost (to the extent applicable) is an addition to the interest rate to compensate Banks for the cost of compliance with:

   (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions); or

   (b) the requirements of the European Central Bank.

2. On the first day of each Interest Period (or as soon as practicable thereafter), each Bank requesting an adjustment to the rate of interest borne by an Advance in an Alternative Currency (a "Requesting Bank") shall calculate, as a percentage rate, a rate (the "Additional Cost Rate") for such Requesting Bank, in accordance with the paragraphs set out below, and notify the Agent and the Company of such rate. Each Requesting Bank will, at the request of the Company or the Agent, deliver to the Company or the Agent as the case may be, a statement setting forth, in reasonable detail, the calculation of any Mandatory Cost.

3. The Additional Cost Rate for any Bank lending from an Alternative Currency Lending Office in a Participating Member State (other than the United Kingdom) will be the percentage notified by that Bank to the Agent and the Company. This percentage will be certified by such Bank in its notice to the Agent and the Company as the cost (expressed as a percentage of such Bank's participation in all Loans made from such Alternative Currency Lending Office) of complying with the minimum reserve requirements of the European Central Bank in respect of Loans made from that Alternative Currency Lending Office.

4. The Additional Cost Rate for any Bank lending from an Alternative Currency Lending Office in the United Kingdom will be calculated by the Requesting Bank as follows:

(a) in relation to any Loan in Sterling:

$$\frac{AB+C(B-D)+E \times 0.01 \text{ per cent. per annum}}{100 - (A+C)}$$

(b) in relation to any Loan in any currency other than Sterling:

$$\frac{E \times 0.01 \text{ percent. per annum}}{300}$$

Where:

A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Bank is from time to time required to maintain as an

interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.

B is the percentage rate of interest (excluding the Applicable Margin, the Mandatory Cost and, in the case of interest charged at the rate specified in Section 3.1(e) (the "Default Rate"), without counting any increase in interest rate effected by the charging of the Default Rate) payable for the relevant Interest Period of such Loan.

C is the percentage (if any) of Eligible Liabilities which that Bank is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.

D is the percentage rate per annum payable by the Bank of England to the Requesting Bank on interest bearing Special Deposits.

E is designed to compensate Banks for amounts payable under the Fees Regulations and is calculated by the Requesting Bank and expressed in pounds per £1,000,000.

5. For the purposes of this Exhibit:

(a) "Alternative Currency Lending Office" for any Bank shall mean the office of such Bank designated in an administrative questionnaire delivered to the Agent or such other office or offices as such Bank shall from time to time notify the Company and the Agent.

(b) "Eligible Liabilities" and "Special Deposits" have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;

(c) "Fees Regulations" means the FSA1Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;

(d) "Fee Tariffs" means the fee tariffs specified in the Fees Regulations under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Regulations but taking into account any applicable discount rate); and

(e) "Participating Member State" means each such state described as such in the economic and monetary union as contemplated in the Treaty on European Union, as thereafter amended, and subsequent treaties.

(f) "Tariff Base" has the meaning given to it in, and will be calculated in accordance with, the Fees Regulations.

6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 percent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.

7. The percentages or rates of charge of each Bank for the purpose of A, C and E above shall be determined by the Requesting Bank based on the assumption that such Requesting Bank's obligations in relation to cash ratio deposits, Special Deposits and the Fees Regulations are the same as those of a typical bank from its jurisdiction of incorporation with an Alternative Currency Lending Office in the same jurisdiction as such Bank's Alternative Currency Lending Office.

8. The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Requesting Banks on the basis of the Additional Cost Rate for each Requesting Bank based on the information provided by each Bank pursuant to paragraph 2 above.

9. Any determination by the Requesting Bank pursuant to this Exhibit in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a such Requesting Bank shall, in the absence of manifest error, be conclusive and binding on all parties hereto.

10. The Agent may from time to time, after consultation with the Company and the Banks, determine and notify to all parties any amendments which are required to be made to this Exhibit in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all parties hereto.

Exhibit E

FORM OF PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (this "Agreement"), dated as of May 23, 2011, is made and given by GRACO INC., a corporation organized under the laws of the State of Minnesota (the "Pledgor") to U.S. BANK NATIONAL ASSOCIATION as Collateral Agent (in such capacity, and together with any successors in such capacity, the "Secured Party") for the banks (the "Banks") from time to time party to the Credit Agreement defined below and the noteholders (the "Noteholders" and collectively with the Banks, the "Creditors") from time to time holding notes issued under the Note Purchase Agreements defined below.

RECITALS

A. Graco Inc., a Minnesota corporation (the "Borrower"), the Borrowing Subsidiaries from time to time party thereto, the Banks (as named therein from time to time) and U.S. Bank National Association, as Agent, have entered into a Credit Agreement dated as of May 23, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") pursuant to which the Banks have agreed to extend to the Borrower certain credit accommodations, including loan and letter of credit facilities.

B. The Borrower and the Noteholders named in the Purchaser Schedule attached thereto have entered into a Note Agreement dated as of March 11, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "March 11, 2011 Note Purchase Agreement").

C. It is contemplated that the Borrower will enter into a Note Agreement with one or more affiliates of The Prudential Insurance Company of America as Noteholders named in the Purchaser Schedule attached thereto (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Additional Note Purchase Agreement", together with the March 2011 Note Agreement, the "Note Purchase Agreements", and together with the Credit Agreement and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended, restated, supplemented or otherwise modified from time to time), the "Senior Indebtedness Documents").

D. The Agent, the Secured Party and the Noteholders have entered into an Intercreditor and Collateral Agency Agreement dated as of May 6, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), pursuant to which the Secured Party has been appointed Collateral Agent.

E. The Pledgor is the owner of the stock or other ownership or membership interests (the "Pledged Interests") described in Schedule I hereto issued by the issuers named thereon. The Pledgor may own stock or other ownership or membership interests in such issuers in excess of the percentage set forth on Schedule I, but the term "Pledged Interests" shall be limited to the percentage of stock or other ownership or membership interest listed on Schedule I, and all assets described in Sections 2(b) and (c) hereof consistent therewith.

F. It is a term and condition of the Senior Indebtedness Documents that Pledgor enter into this Agreement and grant the security interests and pledges provided herein.

G. The Pledgor finds it advantageous, desirable and in the best interests of the Pledgor to comply with the requirement that this Agreement be executed and delivered to the Secured Party.

H. The relative rights and priorities of the Creditors in respect of the Collateral (as defined below) are governed by the Intercreditor Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Creditors to continue to extend credit accommodations to the Borrower, the Pledgor hereby agrees with the Secured Party for the benefit of the Secured Party (on behalf of the Creditors) as follows:

Section 1. Defined Terms. As used in this Agreement, the following terms shall have the meanings indicated:

"Collateral" shall have the meaning given to such term in Section 2.

"Event of Default" shall have the meaning given to such term in the Intercreditor Agreement.

"Lien" shall mean any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device (including the interest of the lessors under capitalized leases), in, of or on any assets or properties of the Person referred to.

"Permitted Lien" shall have the meaning given to such term in Section 4(a).

"Pledged Interests" shall have the meaning given to such term in the Recitals.

"Secured Obligations" shall mean all of the "Obligations" under and as defined in the Credit Agreement and all of the obligations owing to the Noteholders under the Note Purchase Agreements, including, without limitation, all of the "Obligations" under and as defined in the Intercreditor Agreement.

"Security Interest" shall have the meaning given to such term in Section 2.

(a) Terms Defined in Uniform Commercial Code. All other terms used in this Agreement that are not specifically defined herein or the definitions of which are not incorporated herein by reference shall have the meaning assigned to such terms in Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota.

(b) Singular/Plural, Etc. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular, the plural and "or" has the inclusive meaning represented by the phrase "and/or." The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The words "hereof," "herein," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections are references to Sections in this Agreement unless otherwise provided.

Section 2. Pledge. As security for the payment and performance of all of the Secured Obligations, the Pledgor hereby pledges to the Secured Party for the benefit of the Secured Party and the Creditors and grants to the Secured Party for the benefit of the Secured Party and the Creditors a security interest (the "Security Interest") in the following, including any securities account containing a securities entitlement with respect to the following (the "Collateral"):

(a) The Pledged Interests and the certificates representing the Pledged Interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Interests.

(b) All additional shares of stock or ownership or membership interests of any issuer of the Pledged Interests from time to time acquired by the Pledgor in any manner in exchange for, as a dividend on, as a result of stock splits or combinations or otherwise in connection with the initial Pledged Interests, and the certificates representing such additional shares of stock or ownership or membership interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares of stock or ownership or membership interests.

(c) All proceeds of any and all of the foregoing (including proceeds that constitute property of types described above).

Section 3. Delivery of Collateral. All certificates and instruments representing or evidencing the Pledged Interests shall be delivered to the Secured Party contemporaneously with the execution of this Agreement. All certificates and instruments representing or evidencing Collateral received by the Pledgor after the execution of this Agreement shall be delivered to the Secured Party promptly upon the Pledgor's receipt thereof. All such certificates and instruments shall be held by or on behalf of the Secured Party pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Secured Party. With respect to all Pledged Interests consisting of uncertificated securities, book-entry securities or securities entitlements, the Pledgor shall either (a) execute and deliver, and cause any necessary issuers or securities intermediaries to execute and deliver, control agreements in form and substance reasonably satisfactory to the Secured Party covering such Pledged Interests, or (b) cause such Pledged Interests to be transferred into the name of the Secured Party. The Secured Party shall have the right at any time, when an Event of Default has occurred and is continuing, to cause any or all of the Collateral to be transferred of record into the name of the Secured Party or its nominee for the benefit of the Creditors (but subject to the rights of the Pledgor under Section 6) and to exchange certificates representing or evidencing Collateral for certificates of smaller or larger denominations. If the Collateral is in the possession of a bailee, the Pledgor will join with the Secured Party in notifying the bailee of the interest of the Secured Party and in obtaining from the bailee an acknowledgment that it hold the Collateral for the benefit of the Secured Party.

Section 4. Certain Warranties and Covenants. The Pledgor makes the following warranties and covenants:

(a) The Pledgor has title to the Pledged Interests and will have title to each other item of Collateral hereafter acquired, free of all Liens except the Security Interest and liens permitted by the Senior Indebtedness Documents or that arise by operation of law ("Permitted Liens"). As of the date of this Agreement, the Pledgor is unaware of the existence of any such liens arising by operation of law.

(b) The Pledgor has full corporate power and authority to execute this Agreement, to perform the Pledgor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(c) No financing statement covering all or any part of the Collateral is on file in any public office (except for any financing statements filed by the Secured Party or as permitted by the Intercreditor Agreement).

(d) The Pledged Interests have been duly authorized and validly issued by the issuer thereof and are fully paid and non-assessable. The certificates representing the Pledged Interests are genuine.

(e) The Pledged Interests constitute the percentage of the issued and outstanding member interests of the respective issuers thereof indicated on Schedule I (if any such percentage is so indicated).

Section 5. Further Assurances. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or that the Secured Party may reasonably request, in order to perfect and protect the Security Interest or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral (but any failure to request or assure that the Pledgor execute and deliver such instruments or documents or to take such action shall not affect or impair the validity, sufficiency or enforceability of this Agreement and the Security Interest, regardless of whether any such

item was or was not executed and delivered or action taken in a similar context or on a prior occasion).

Section 6. Voting Rights; Dividends; Etc.

(a) Subject to paragraph (d) of this Section 6, the Pledgor shall be entitled to exercise or refrain from exercising any and all voting and other consensual rights pertaining to the Pledged Interests or any other stock or member interests that becomes part of the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Senior Indebtedness Documents.

(b) Subject to paragraph (e) of this Section 6 and Section 3 hereof, the Pledgor shall be entitled to receive, retain, and use in any manner not prohibited by the Senior Indebtedness Documents any and all interest and dividends paid in respect of the Collateral.

(c) The Secured Party shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the voting and other rights that it is entitled to exercise pursuant to Section 6(a) hereof and to receive the dividends and interest that it is authorized to receive and retain pursuant to Section 6(b) hereof.

(d) Upon the occurrence and during the continuance of any Event of Default, the Secured Party shall have the right in its sole discretion, and the Pledgor shall execute and deliver all such proxies and other instruments as may be necessary or appropriate to give effect to such right, to terminate all rights of the Pledgor to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 6(a) hereof, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights; provided, however, that the Secured Party shall not be deemed to possess or have control over any voting rights with respect to any Collateral unless and until the Secured Party has given written notice to the Pledgor that any further exercise of such voting rights by the Pledgor is prohibited and that the Secured Party and/or its assigns will henceforth exercise such voting rights; and provided, further, that neither the registration of any item of Collateral in the Secured Party's name nor the exercise of any voting rights with respect thereto shall be deemed to constitute a retention by the Secured Party of any such Collateral in satisfaction of the Secured Obligations or any part thereof.

(e) Upon the occurrence and during the continuance of any Event of Default following written notice from the Secured Party to the Pledgor of revocation of the Pledgor's rights under Section 6(b) hereof (provided that no such notice shall be required in the case of an Event of Default under Section 10.1(e) or (f) of the Credit Agreement or Section 7A(viii), (ix) or (x) of the Note Purchase Agreements):

(i) all rights of the Pledgor to receive the dividends and interest that it would otherwise be authorized to receive and retain pursuant to Section 6(b) hereof shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to receive and hold such dividends as Collateral, and

(ii) all payments of interest and dividends that are received by the Pledgor contrary to the provisions of paragraph (i) of this Section 6(e) shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of the Pledgor and shall be forthwith paid over to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

Section 7. Transfers and Other Liens; Additional Member Interests.

(a) Except as may be permitted by the Senior Indebtedness Documents, the Pledgor agrees that it will not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any Lien, upon or with respect to any of the Collateral other than Permitted Liens to the extent that the holder thereof shall not be seeking enforcement thereof in any way.

(b) The Pledgor agrees that it will (i) cause each issuer of the Pledged Interests not to issue any additional stock or member interests that would cause the percentage of all such stock or membership interest represented by the Pledged Interests to be less than such percentage as of the date of this Agreement, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or member interests or other securities of each issuer of the Pledged Interests issued to or received by the Pledgor, provided, that at no time shall the Pledged Interests be required to exceed, on a percentage basis, 65% of all outstanding stock or membership interest of any issuer.

Section 8. Secured Party Appointed Attorney-in-Fact. As additional security for the Secured Obligations, the Pledgor hereby irrevocably appoints the Secured Party the Pledgor's

attorney-in-fact, with full authority in the place and stead of such Pledgor and in the name of such Pledgor or otherwise, from time to time in the Secured Party's good-faith discretion, to take any action and to execute any instrument that the Secured Party may reasonably believe necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Pledgor under Section 6 hereof), in a manner consistent with the terms hereof, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

Section 9. Secured Party May Perform. The Pledgor hereby authorizes the Secured Party to file financing statements with respect to the Collateral. The Pledgor irrevocably waives any right to notice of any such filing. If the Pledgor fails to perform any agreement contained herein, the Secured Party may itself perform, or cause performance of, such agreement, and the reasonable expenses of the Secured Party incurred in connection therewith shall be payable by the Pledgor under Section 13 hereof.

Section 10. The Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its and the Creditors' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be deemed to have exercised reasonable care in the safekeeping of any Collateral in its possession if such Collateral is accorded treatment substantially equal to the safekeeping which the Secured Party accords its own property of like kind. Except for the safekeeping of any Collateral in its possession and the accounting for monies and for other properties actually received by it hereunder, neither the Secured Party nor any Creditor shall have any duty, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Secured Party or any Creditor has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral. The Secured Party will take action in the nature of exchanges, conversions, redemption, tenders and the like requested in writing by the Pledgor with respect to any of the Collateral in the Secured Party's possession if the Secured Party in its reasonable judgment determines that such action will not impair the Security Interest or the value of the Collateral, but a failure of the Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care.

Section 11. Remedies upon Default. If any Event of Default shall have occurred and be continuing:

(a) The Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of

a secured party on default under Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota (the "Code") in effect at that time, and may, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Secured Party may reasonably believe are commercially reasonable. The Secured Party agrees to give at least ten days' prior notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made, and the Pledgor agrees that such notice shall constitute reasonable notification. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives all requirements of law, if any, relating to the marshalling of assets which would be applicable in connection with the enforcement by the Secured Party of its remedies hereunder, absent this waiver. The Secured Party may disclaim warranties of title and possession and the like.

(b) The Secured Party may notify any Person obligated on any of the Collateral that the same has been assigned or transferred to the Secured Party and that the same should be performed as requested by, or paid directly to, the Secured Party, as the case may be. The Pledgor shall join in giving such notice, if the Secured Party so requests. The Secured Party may, in the Secured Party's name or in the Pledgor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such Collateral or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligation of any such Person.

(c) Any cash held by the Secured Party as Collateral and all cash proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, or then or at any time thereafter be applied in whole or in part by the Secured Party against, all or any part of the Secured Obligations (including any expenses of the Secured Party payable pursuant to Section 13 hereof).

Section 12. Waiver of Certain Claims. The Pledgor acknowledges that because of present or future circumstances, a question may arise under the Securities Act of 1933, as from time to time amended (the "Securities Act"), with respect to any disposition of the Collateral permitted hereunder. The Pledgor understands that compliance with the Securities Act may very strictly limit the course of conduct of the Secured Party if the Secured Party were to attempt to dispose of all or any portion of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of the Collateral or any portion thereof may dispose of the same. There may be other legal restrictions or limitations affecting the Secured Party in

any attempt to dispose of all or any portion of the Collateral under the applicable Blue Sky or other securities laws or similar laws analogous in purpose or effect. The Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account for investment only and not to engage in a distribution or resale thereof. The Pledgor agrees that the Secured Party shall not incur any liability, and any liability of the Pledgor for any deficiency shall not be impaired, as a result of the sale of the Collateral or any portion thereof at any such private sale in a manner that the Secured Party reasonably believes is commercially reasonable (within the meaning of Section 9-627 of the Uniform Commercial Code as adopted in the State of Minnesota). The Pledgor hereby waives any claims against the Secured Party arising by reason of the fact that the price at which the Collateral may have been sold at such sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Secured Party shall accept the first offer received and does not offer any portion of the Collateral to more than one possible purchaser. The Pledgor further agrees that the Secured Party has no obligation to delay sale of any Collateral for the period of time necessary to permit the issuer of such Collateral to qualify or register such Collateral for public sale under the Securities Act, applicable Blue Sky laws and other applicable state and federal securities laws, even if said issuer would agree to do so. Without limiting the generality of the foregoing, the provisions of this Section would apply if, for example, the Secured Party were to place all or any portion of the Collateral for private placement by an investment banking firm, or if such investment banking firm purchased all or any portion of the Collateral for its own account, or if the Secured Party placed all or any portion of the Collateral privately with a purchaser or purchasers.

Section 13. Costs and Expenses; Indemnity. The Pledgor will pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses (including in each case all filing and recording fees and taxes and all reasonable fees and expenses of counsel and of any experts and agents) incurred by the Secured Party in connection with the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest and the preparation, administration, continuance, amendment or enforcement of this Agreement, and all such costs and expenses shall be part of the Secured Obligations secured by the Security Interest. The Pledgor shall indemnify and hold the Secured Party and each Creditor harmless from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or the Secured Party's actions pursuant hereto, except claims, losses or liabilities resulting from the Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction. Any liability of the Pledgor to indemnify and hold the Secured Party and each Creditor harmless pursuant to the preceding sentence shall be part of the Secured Obligations secured by the Security Interest. The obligations of the Pledgor under this Section shall survive any termination of this Agreement.

Section 14. Waivers and Amendments; Remedies. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only

explicitly in a writing signed by the Secured Party and the Pledgor. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Secured Party's option, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

Section 15. Notices. Any notice or other communication to any party in connection with this Agreement shall be sent as provided in the Intercreditor Agreement.

Section 16. Pledgor Acknowledgments. The Pledgor hereby acknowledges that (a) the Pledgor has been advised by counsel in the negotiation, execution and delivery of this Agreement, (b) the Secured Party has no fiduciary relationship to the Pledgor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Pledgor and the Secured Party.

Section 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing security interest in the Collateral and shall (a) subject to release by the Secured Party as provided in Section 13.16 of the Credit Agreement and Section 11V of the Note Purchase Agreements, remain in full force and effect until Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, (b) be binding upon the Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of, and be enforceable by, the Secured Party and its successors and permitted transferees and assigns. Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Senior Indebtedness Documents to any other Person to the extent and in the manner provided in the Senior Indebtedness Documents, and may similarly transfer all or any portion of its rights under this Agreement to such Persons.

Section 18. Termination of Security Interest. At such time as Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Secured Party will return to the Pledgor such of the Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination. Any reversion or return of the Collateral upon termination of this Agreement and any instruments of transfer or termination shall be at the expense of the Pledgor and shall be without warranty by, or recourse on, the

Secured Party. As used in this Section, "Pledgor" includes any assigns of Pledgor, any Person holding a subordinate security interest in any part of the Collateral or whoever else may be lawfully entitled to any part of the Collateral.

Section 19. Governing Law and Construction. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MINNESOTA; PROVIDED, HOWEVER, THAT NO EFFECT SHALL BE GIVEN TO CONFLICT OF LAWS PRINCIPLES OF THE STATE OF MINNESOTA, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE MANDATORILY GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF MINNESOTA. Whenever possible, each provision of this Agreement and any other statement, instrument or transaction contemplated hereby or relating hereto shall be interpreted in such manner as to be effective and valid under such applicable law, but, if any provision of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto shall be held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto.

Section 20. Consent to Jurisdiction. AT THE OPTION OF THE SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE PLEDGOR CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE PLEDGOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 21. Waiver of Jury Trial. EACH OF THE PLEDGOR AND THE SECURED PARTY, BY ITS ACCEPTANCE OF THIS AGREEMENT, IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 22. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart signature page to this Agreement by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Agreement.

Section 23 General. All representations and warranties contained in this Agreement or in any other agreement between the Pledgor and the Secured Party shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations. The Pledgor waives notice of the acceptance of this Agreement by the Secured Party. Captions in this Agreement are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Agreement.

Section 24. Collateral Agent. U.S. Bank National Association, in its capacity as Secured Party, has been appointed collateral agent for the Creditors hereunder pursuant to the Intercreditor Agreement. It is expressly understood and agreed by the parties to this Agreement that any authority conferred upon the Secured Party hereunder is subject to the terms of the delegation of authority made by the Creditors to the Secured Party pursuant to the Intercreditor Agreement, and that the Secured Party has agreed to act (and any successor Secured Party shall act) as such hereunder only on the express conditions contained in such Section 2. Any successor Secured Party appointed pursuant to the Intercreditor Agreement shall be entitled to all the rights, interests and benefits of the Secured Party hereunder. For the avoidance of doubt, each Pledgor hereby acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Intercreditor Agreement. If the Secured Party or any Creditor shall violate the terms of the Intercreditor Agreement, each Pledgor agrees, by its execution and delivery hereof, that it shall not use such violation as a defense to any enforcement by any such party against such Pledgor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party. No such violation shall limit or impair the rights of the Secured Party or any Creditor hereunder.

(signature page follows)

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

PLEDGOR:

GRACO INC.

By: _____
James A. Graner
Chief Financial Officer and Treasurer

Address for Pledgor:

88 11th Avenue N.E.

Minneapolis, MN 55413

Attention: Timothy Stoffel, Corporate Tax Director

Telephone: (612) 623-___

Fax: (612) __-____

and

Attention: Karen Gallivan

Telephone: (612) 623-6604

Fax: (612) 623-6944

Accepted:

U.S. BANK NATIONAL ASSOCIATION,

Secured Party

By: _____
Title: _____

Address for Secured Party:

800 Nicollet Mall

Mail Code BC-MN-H03P

Minneapolis, MN 55402

Fax Number: (612) 303-2265

SCHEDULE I

TO

PLEDGE AGREEMENT

GRACO INC.

PLEDGED INTERESTS

Issuer:	Graco K.K.
Jurisdiction of Organization:	Japan
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	2B-001 through 2B-009; 3A-001 through 3A-008; 4A-001 through 4A-0034
Number of Units/Shares:	429,000
Issuer:	Graco Korea Inc.
Jurisdiction of Organization:	Korea
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	10,000-1 through 10,000-8; 1000-01; 100-1 through 100-5
Number of Units/Shares:	81,500
Issuer:	Graco N.V.
Jurisdiction of Organization:	Belgium
Type of Interest:	Uncertificated Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	N/A
Number of Units/Shares:	655,301

EXHIBIT F

Form of General Counsel's Opinion

May 23, 2011

To: The Agent and Banks party on the date hereof to the Credit Agreement described below

Ladies and Gentlemen:

I am General Counsel of Graco Inc., a Minnesota corporation (the "Company" and, together with each of its Domestic Subsidiaries who are Guarantors, collectively the "Loan Parties" and individually, a "Loan Party"). I am delivering to you this opinion letter upon which you may rely in connection with the Credit Agreement, dated as of the date hereof, among the Company, the Borrowing Subsidiaries, as defined therein, the Banks, as defined therein, and U.S. Bank National Association, as Agent (the "Credit Agreement"), the other Loan Documents described therein which are being entered into by any of the Loan Parties concurrently therewith (together with the Credit Agreement, the "Loan Documents"), and the transactions contemplated thereby. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings assigned to such terms in the Credit Agreement.

I, as General Counsel for the Company, have made or caused to be made such factual inquiries, and have examined or caused to be examined such questions of law, as I have considered necessary or appropriate for purposes of this opinion letter. In connection with such examination, I have reviewed originals or facsimile or electronic copies of the following documents, each, to the extent applicable, dated as of the date hereof:

(i) the Credit Agreement;

(ii) the Notes;

(iii) the Guaranty;

(iv) the Pledge Agreement;

(v) the Intercreditor Agreement; and

(vi) the Fee Letters.

The documents referred to in clauses (i) through (vi) above are hereinafter collectively called the "Loan Documents" and individually called a "Loan Document".

Based upon and subject to the foregoing and the assumptions, qualifications and exceptions set forth below, I advise you that, in my opinion:

(1) Each of the Company, Graco Minnesota Inc. and Graco Holdings Inc. (together with Graco Minnesota Inc., the "Minnesota Guarantors") is a corporation validly existing and in

good standing under the laws of the State of Minnesota. Each of the other Loan Parties is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation.

(2) Each of the Company and each of the Minnesota Guarantors has full corporate power and authority to own and operate its properties and assets, carry on its business as presently conducted, and enter into and perform its obligations under the Loan Documents to which it is a party.

(3) The execution and delivery by each of the Company and each of the Minnesota Guarantors of each of the Loan Documents to which it is a party, the performance by each of the Company and each of the Minnesota Guarantors of its obligations thereunder, and, in the case of the Company, the borrowing by it under the Credit Agreement, have been duly authorized by all necessary corporate action on the part of such Loan Party, and the Loan Documents to which either the Company or a Minnesota Guarantor is a party have been duly executed and delivered on behalf of such Loan Party.

(4) There is no provision in any Loan Party's Organizational Documents, or in any material indenture, mortgage, contract or agreement to which any Loan Party is a party or by which it or its properties may be bound and of which I have Actual Knowledge, or in any writ, order or decision of any court or governmental instrumentality binding on any Loan Party and of which I have Actual Knowledge, which would be contravened by the execution and delivery by such Loan Party of the Loan Documents to which it is a party, nor do any of the foregoing prohibit such Loan Party's performance of any obligation of such Loan Party contained therein. There is no provision in any statute, rule or regulation of the United States of America or the State of Minnesota applicable to any Loan Party which would be contravened by the execution and delivery by such Loan Party of the Loan Documents to which it is a party, nor do any of the foregoing prohibit such Loan Party's performance of any obligation of such Loan Party contained therein.

(5) To my Actual Knowledge, except as described in Schedule 7.6 to the Credit Agreement, there are no actions, suits or proceedings pending or threatened against any Loan Party before any court or arbitrator or by or before any administrative agency which are reasonably likely to constitute an Adverse Event.

(6) The Company is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System).

ASSUMPTIONS, QUALIFICATIONS AND EXCEPTIONS

In rendering the foregoing opinions, I wish to advise you of the following additional assumptions, qualifications and exceptions to which such opinions are subject:

A. I have relied solely on certificates of public officials as to the opinions set forth in paragraph (1) above regarding valid existence and good standing, and such opinions are given as of the respective dates of such certificates. As to certain relevant facts, I have relied on representations made by the Loan Parties in the

Loan Documents, the assumptions set forth below, and certificates of officers of the Loan Parties reasonably believed by me to be appropriate sources of information, as to the accuracy of factual matters, in each case without independent verification thereof or other investigation; provided, however, that I have no Actual Knowledge concerning the factual matters upon which reliance is placed which would render such reliance unreasonable. For purposes hereof, the term "Actual Knowledge" means the conscious awareness by me at the time this opinion letter is delivered of facts or other information without any other investigation.

B. This opinion letter is limited to the laws of the State of Minnesota and the federal laws of the United States of America.

C. I have relied, without investigation, upon the following assumptions: (i) natural persons who are involved on behalf of any Loan Party have sufficient legal capacity to enter into and perform the transaction or to carry out their role in it; (ii) each document submitted to me for review is accurate and complete, each such document that is an original is authentic, each such document that is a copy conforms to an authentic original, and all signatures on each such document are genuine; (iii) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of any of the Loan Documents; (iv) all statutes, judicial and administrative decisions, and rules and regulations of governmental agencies, constituting the law of any relevant jurisdiction are generally available (i.e., in terms of access and distribution following publication or other release) to lawyers practicing in such jurisdiction, and are in a format that makes legal research reasonably feasible; (v) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the relevant jurisdiction has specifically addressed but not resolved, or has established, its unconstitutionality or invalidity; (vi) documents reviewed by me (including the Loan Documents) would be enforced as written and would be interpreted in accordance with the laws of the State of Minnesota; (vii) each Loan Party will obtain all permits and governmental approvals required in the future, and will make all filings and take all actions similarly required, relevant to subsequent consummation of the transactions contemplated by the Loan Documents or performance of the Loan Documents; (viii) no Loan Party will in the future take any discretionary action (including a decision not to act) permitted under the Loan Documents that would result in a violation of law or constitute a breach or default under any other agreement or court order; and (ix) all parties to the transaction will act in accordance with, and will refrain from taking any action that is forbidden by, the terms and conditions of the Loan Documents.

D. The opinions expressed above are limited to the specific issues addressed and to laws existing on the date hereof. By rendering my opinions, I do not undertake to advise you with respect to any other matter or of any change in such laws or in the interpretation thereof which may occur after the date hereof.

E. I express no opinions as to the effect of any document or instrument that is not itself a Loan Document, notwithstanding any provision in a Loan Document requiring that any Loan Party perform or cause any other Person to perform its obligations under, or stating that any action will be taken as provided in or in accordance with, or otherwise incorporating by reference, such document or instrument.

F. In rendering the opinions expressed herein, I have only considered the applicability of statutes, rules and regulations that a lawyer in the State of Minnesota exercising customary professional diligence would reasonably recognize as being directly applicable to the Loan Parties, the transaction or both.

G. The opinions expressed above do not address any of the following legal issues: (i) securities laws and regulations, the rules and regulations of securities exchanges, and laws and regulations relating to commodity (and other) futures and indices and other similar instruments; (ii) except as provided in paragraph (6) above, Federal Reserve Board margin regulations; (iii) pension and employee benefit laws and regulations (*e.g.,* ERISA); (iv) antitrust and unfair competition laws and regulations; (v) laws and regulations concerning filing and notice requirements(*e.g.,* the Hart-Scott-Rodino Antitrust Improvements Act, as amended), other than requirements applicable to charter-related documents such as certificates of merger; (vi) laws, regulations, directives and executive orders restricting transactions with, or freezing or otherwise controlling assets of, designated foreign persons or governing investments by foreign persons in the United States (*e.g.*, the Trading with the Enemy Act, as amended, regulations of the Office of Foreign Asset Control of the United States Treasury Department, and the Foreign Investment and National Security Act of 2007); (vii) compliance with fiduciary duty and conflict of interest requirements; (viii) the statutes and ordinances, administrative decisions and the rules and regulations of counties, towns, municipalities and special political subdivisions (whether created or enabled through legislative action at the federal, state or regional level) and judicial decisions to the extent that they deal with the foregoing; (ix) fraudulent transfer and fraudulent conveyance laws; (x) environmental laws and regulations; (xi) land use and subdivision laws and regulations; (xii) tax laws and regulations; (xiii) intellectual property laws and regulations; (xiv) racketeering laws and regulations (*e.g.*, RICO); (xv) health and safety laws and regulations (*e.g.*, OSHA); (xvi) labor laws and regulations; (xvii) laws, regulations and policies concerning national and local emergency (*e.g.*, the International Emergency Economic Powers Act, as amended), possible judicial deference to acts of sovereign states, and criminal and civil forfeiture laws; and (xviii) other statutes of general application to the extent they provide for criminal prosecution (*e.g.*, mail fraud and wire fraud statutes).

This opinion letter may not be used or relied upon without my prior written consent (i) by any Person who is not an addressee, except for Persons that become Banks or the Agent under the Credit Agreement after the date hereof pursuant to the Credit Agreement (which Persons may rely on this opinion letter to the same extent as the addressees hereof as if this opinion letter were

addressed and had been delivered to them on the date of this opinion letter, on the condition and understanding that I assume no responsibility or obligation to consider the applicability or correctness of this opinion letter to any Person other than the addressees), or (ii) for any purpose whatsoever other than the transactions contemplated by the Loan Documents.

Very truly yours,

Karen P. Gallivan

Vice President, General Counsel and Secretary

EXHIBIT F

Form of Special Counsel's Opinion

May 23, 2011

To: The Agent and Banks party on the date

hereof to the Credit Agreement described below

Ladies and Gentlemen:

We have acted as special counsel for Graco Inc., a Minnesota corporation (the "Company" and together, with its Domestic Subsidiaries who are Guarantors, collectively, the "Loan Parties" and individually, a "Loan Party"), and we are delivering to you this opinion letter upon which you may rely, in connection with the Credit Agreement, dated as of the date hereof, among the Company, the Borrowing Subsidiaries, as defined therein, the Banks, as defined therein, and U.S. Bank National Association, as Agent (the "Credit Agreement"), the other Loan Documents described therein which are being entered into by any of the Loan Parties concurrently therewith (together with the Credit Agreement, the "Loan Documents"), and the transactions contemplated thereby. Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings assigned to such terms in the Credit Agreement.

In so acting, we, as special counsel for the Company, have made such factual inquiries, and have examined such questions of law, as we have considered necessary or appropriate for the purposes of this opinion letter. In connection with such examination, we have reviewed originals or facsimile or electronic copies of the following documents, each, to the extent applicable, dated as of the date hereof:

(i) the Credit Agreement;

(ii) the Notes;

(iii) the Guaranty;

(iv) the Pledge Agreement;

(v) the Intercreditor Agreement; and

(vi) the Fee Letters.

The documents referred to in clauses (i) through (vi) above are hereinafter collectively called the "Loan Documents" and individually called a "Loan Document".

Based upon and subject to the foregoing and the assumptions, qualifications and exceptions set forth below, advise you that, in our opinion:

(1) Each of the Loan Documents to which any of the Loan Parties is a party constitutes a valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms.

(2) Neither the execution and delivery by any Loan Party of the Loan Documents to which it is a party, nor the performance by such Loan Party of any obligation of such Loan Party contained therein, nor, in the case of the Company, the borrowing by it under the Credit Agreement, requires such Loan Party to obtain the consent or approval of the government of the United States of America or the State of Minnesota or any department, commission or agency thereof or make any filings under any statute, rule or regulation of the United States of America or the State of Minnesota applicable to such Loan Party except for consents which have been obtained or filings which have been made.

(3) The Company is not an "investment company" or, to our Actual Knowledge, a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

ASSUMPTIONS, QUALIFICATIONS AND EXCEPTIONS

In rendering the foregoing opinions, we wish to advise you of the following additional assumptions, qualifications and exceptions to which such opinions are subject:

A. As to certain relevant facts, we have relied on representations made by the Loan Parties in the Loan Documents, the assumptions set forth below, and certificates of officers of the Loan Parties reasonably believed by us to be appropriate sources of information, as to the accuracy of factual matters, in each case without independent verification thereof or other investigation; provided, however, that our Primary Lawyers have no Actual Knowledge concerning the factual matters upon which reliance is placed which would render such reliance unreasonable. For purposes hereof, the term "Primary Lawyers" means lawyers in this firm who have given substantive legal attention to representation of the Company in connection with this matter, and the term "Actual Knowledge" means the conscious awareness by such Primary Lawyers at the time this opinion letter is delivered of facts or other information without any other investigation.

B. This opinion letter is limited to the laws of the State of Minnesota and the federal laws of the United States of America. We express no opinion as to whether, or the extent to which, the laws of any particular jurisdiction apply to the subject matter hereof, including without limitation the enforceability of the governing law provisions contained in the Loan Documents. Without limiting the generality of the foregoing, we do not opine with respect to any foreign law which may govern the collateral subject to the Pledge Agreement, or as to the applicability of any such law.

C. We have relied, without investigation, upon the following assumptions: (i) natural persons who are involved on behalf of any Loan Party have sufficient legal capacity to enter into and perform the transaction or to carry out their role in

it; (ii) the Company holds the requisite title and rights to the collateral subject to the Pledge Agreement, each party to a Loan Document (other than the Loan Parties) has satisfied those legal requirements that are applicable to it to the extent necessary to make such Loan Document enforceable against it; each party to a Loan Document (other than the Loan Parties) has complied with all legal requirements pertaining to its status (such as legal investment laws, foreign qualification statutes and business activity reporting requirements, including without limitation, to the extent applicable, the provisions of Minnesota Statute Section 290.371) as such status relates to its rights to enforce such Loan Document against the Loan Parties; (v) each document submitted to us for review is accurate and complete, each such document that is an original is authentic, each such document that is a copy conforms to an authentic original, and all signatures on each such document are genuine; (vi) there has not been any mutual mistake of fact or misunderstanding, fraud, duress or undue influence; (vii) the conduct of the parties to the Loan Documents has complied with any requirement of good faith, fair dealing and conscionability; (viii) the Agent, the Banks and any representative acting for any of them in connection with the Loan Documents have acted in good faith and without notice of any defense against the enforcement of any rights created by, or adverse claim to any property or security interest transferred or created as a part of, any of the Loan Documents; (ix) there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement or qualify the terms of any of the Loan Documents; (x) all statutes, judicial and administrative decisions, and rules and regulations of governmental agencies, constituting the law of any relevant jurisdiction are generally available (i.e., in terms of access and distribution following publication or other release) to lawyers practicing in such jurisdiction, and are in a format that makes legal research reasonably feasible; (xi) the constitutionality or validity of a relevant statute, rule, regulation or agency action is not at issue unless a reported decision in the relevant jurisdiction has specifically addressed but not resolved, or has established, its unconstitutionality or invalidity; (xii) documents reviewed by us (other than the Loan Documents) would be enforced as written and would be interpreted in accordance with the laws of the State of Minnesota; (xiii) each Loan Party will obtain all permits and governmental approvals required in the future, and will make all filings and take all actions similarly required, relevant to subsequent consummation of the transactions contemplated by the Loan Documents or performance of the Loan Documents; (xiv) no Loan Party will in the future take any discretionary action (including a decision not to act) permitted under the Loan Documents that would result in a violation of law or constitute a breach or default under any other agreement or court order; and (xv) all parties to the transaction will act in accordance with, and will refrain from taking any action that is forbidden by, the terms and conditions of the Loan Documents.

D. In rendering the opinions set forth herein, we have also assumed, without investigation, that (i) the Loan Parties are duly organized, validly existing and in good standing under the laws of their respective jurisdictions of organization; (ii)

each of the Loan Parties has the power and authority to execute, deliver and perform the Loan Documents to which such Loan Party is a party and to consummate the transactions contemplated by such Loan Documents; (iii) the Loan Documents to which any of the Loan Parties is a party have been duly authorized, executed and delivered by such Loan Party; and (iv) except to the extent expressly opined to under paragraph (2) above, the execution, delivery and performance by each of the Loan Parties of the Loan Documents to which such Loan Party is a party and the consummation by each of the Loan Parties of the transactions contemplated by the Loan Documents to which such Loan Party is a party did not and will not (A) violate or conflict with or require any consent under any statute, rule or regulation or any judgment, order, writ, injunction or decree of any court or governmental authority, or (B) violate or result in a breach of or constitute a default or require any consent under any Organizational Documents of such Loan Party or any other agreement, contract, instrument or obligation to which such Loan Party is a party or by which such Loan Party or any of its assets is bound. We note that you have, to the extent you deemed advisable, received opinions with respect to certain of the foregoing matters from Karen P. Gallivan, Vice President, General Counsel and Secretary of the Company.

E. The opinions expressed above are limited to the specific issues addressed and to laws and facts existing on the date hereof. By rendering our opinions, we do not undertake to advise you with respect to any other matter or of any change in such laws or in the interpretation thereof, or of any changes in facts, which may occur after the date hereof.

F. The opinion expressed in paragraph (3) above (i) is limited by the effect of bankruptcy, reorganization, insolvency, moratorium, fraudulent transfer, fraudulent conveyance, receivership and other similar laws now or hereafter in effect relating to or affecting creditors' rights generally, and by general principles of equity, and (ii) is subject to the qualification that certain provisions of the Pledge Agreement may be unenforceable in whole or in part, but the inclusion of such provisions does not affect the validity as against the Company of the Pledge Agreement as a whole and the Pledge Agreement contains provisions generally considered adequate for the practical realization in respect of the Company of the principal benefits provided thereby, subject to the other assumptions, qualifications and exceptions contained in this opinion letter. Without limiting the generality of the foregoing, we have assumed that each of the Agent and the Banks will exercise its rights and remedies under the Loan Documents in good faith and under circumstances and in a manner which are commercially reasonable.

G. Without limiting any other qualifications set forth herein, the opinion expressed in paragraph (1) above is subject to the effect of generally applicable laws (including without limitation common law) that (i) provide for the enforcement of oral waivers or modifications where a material change of position in reliance thereon has occurred or provide that a course of performance may operate as a waiver; (ii) limit the enforcement of provisions of a contract that purport to require waiver

of the obligations of good faith, fair dealing, diligence and reasonableness; (iii) limit the availability of a remedy under certain circumstances where another remedy has been elected; (iv) limit the enforceability of provisions releasing, exculpating or exempting a party from, or requiring indemnification of or contribution to a party for, liability for its own action or inaction, to the extent the action or inaction involves gross negligence, recklessness, willful misconduct or unlawful conduct; may, where less than all of a contract may be unenforceable, limit the enforceability of the balance of the contract to circumstances in which the unenforceable portion is not an essential part of the agreed exchange; (vi) govern and afford judicial discretion regarding the determination of damages and entitlement to attorneys' fees and other costs; (vii) may permit a party who has materially failed to render or offer performance required by a contract to cure that failure unless either permitting a cure would unreasonably hinder the aggrieved party from making substitute arrangements for performance or it is important under the circumstances to the aggrieved party that performance occur by the date stated in the contract; (viii) may require mitigation of damages; (ix) limit the right of a creditor to use force or cause a breach of the peace in enforcing rights; (x) relate to the sale or disposition of collateral subject to the Pledge Agreement or the requirements of a commercially reasonable sale; (xi) provide a time limitation after which a remedy may not be enforced (i.e., statutes of limitation), or (xii) may limit the enforceability of provisions restricting competition, the solicitation of customers or employees, the use or disclosure of information or other activities in restraint of trade.

H. We express no opinion as to the enforceability or effect in the Loan Documents of (i) any provision that provides for the payment of premiums upon mandatory prepayment or acceleration, or of liquidated damages (whether or not denominated as such); (ii) any "usury savings" provision; (iii) any provision that authorizes one party to act as attorney-in-fact for another party; (iv) any agreement to submit to the jurisdiction of any particular court or other governmental authority (either as to personal jurisdiction or subject matter jurisdiction), any provision restricting access to courts (including without limitation agreements to arbitrate disputes), any waivers of the right to jury trial, any waivers of service of process requirements which would otherwise be applicable, any provision relating to evidentiary standards, any agreement that a judgment rendered by a court in one jurisdiction may be enforced in another jurisdiction or any provision otherwise affecting the jurisdiction or venue of courts; (v) any waiver of, or agreement or consent that has the effect of waiving, legal or equitable defenses, rights to damages, rights to counterclaim or set off, the application of statutes of limitations, rights to notice, or the benefits of any other constitutional, statutory or regulatory rights (unless and to the extent the constitution, statute or regulation explicitly allows waiver); any provision that provides that any Person purchasing a participation from a Bank may exercise set-off or similar rights with respect to such participation, or that any Person other than a Bank, including any affiliate of a Bank, may exercise set-off or similar rights with respect to the Obligations due to such Bank, or that the Agent or any Bank may exercise set-off or similar rights other than in accordance with

applicable law; or (vii) any provision that purports to impose increased interest rates or late payment charges upon overdraft, delinquency in payment or default, or to provide for the compounding of interest or the payment of interest on interest.

I. We express no opinions as to the enforceability or effect of any document or instrument that is not itself a Loan Document, notwithstanding any provision in a Loan Document requiring that the Loan Parties perform or cause any other Person to perform its obligations under, or stating that any action will be taken as provided in or in accordance with, or otherwise incorporating by reference, such document or instrument.

J. With respect to our opinion in paragraph (1) above, we hereby advise you that (i) in the absence of an effective waiver or consent, a guarantor may be discharged from its guaranty to the extent the guaranteed obligations are modified or other action or inaction by a creditor increases the scope of the guarantor's risk or otherwise detrimentally affects the guarantor's interests (such as by impairing the value of collateral securing the guaranteed obligations, negligently administering the guaranteed obligations, or releasing the borrower or a co-guarantor of the guaranteed obligations); and (ii) a guarantor may have the right to revoke a guaranty with respect to obligations incurred after the revocation, notwithstanding the absence of an express right of revocation in the guaranty.

K. In rendering the opinions expressed herein, we have only considered the applicability of statutes, rules and regulations that a lawyer in the relevant jurisdiction exercising customary professional diligence would reasonably recognize as being directly applicable to the Loan Parties, the transaction or both.

L. The opinions expressed above do not address any of the following legal issues: (i) securities laws and regulations, the rules and regulations of securities exchanges, and laws and regulations relating to commodity (and other) futures and indices and other similar instruments; (ii) Federal Reserve Board margin regulations; (iii) pension and employee benefit laws and regulations (e.g., ERISA); (iv) antitrust and unfair competition laws and regulations; (v) laws and regulations concerning filing and notice requirements (*e.g.*, the Hart-Scott-Rodino Antitrust Improvements Act, as amended) other than requirements applicable to charter-related documents such as certificates of merger; (vi) laws, regulations, directives and executive orders restricting transactions with, or freezing or otherwise controlling assets of, designated foreign persons or governing investments by foreign persons in the United States (*e.g.*, the Trading with the Enemy Act, as amended, regulations of the Office of Foreign Asset Control of the United States Treasury Department, and the Foreign Investment and National Security Act of 2007); (vii) compliance with fiduciary duty and conflict of interest requirements; (viii) the statutes and ordinances, administrative decisions and the rules and regulations of counties, towns, municipalities and special political subdivisions (whether created or enabled through legislative action at the federal, state or regional level) and judicial decisions to the extent that they deal with the

foregoing; (ix) fraudulent transfer and fraudulent conveyance laws; (x) environmental laws and regulations; (xi) land use and subdivision laws and regulations; (xii) tax laws and regulations; (xiii) intellectual property laws and regulations; (xiv) racketeering laws and regulations (e.g., RICO); (xv) health and safety laws and regulations (e.g., OSHA); (xvi) labor laws and regulations; (xvii) laws, regulations and policies concerning national and local emergency (*e.g.*, the International Emergency Economic Powers Act, as amended), possible judicial deference to acts of sovereign states, and criminal and civil forfeiture laws; and (xviii) other statutes of general application to the extent they provide for criminal prosecution (e.g., mail fraud and wire fraud statutes).

M. We express no opinion as to the attachment, perfection or relative priority of any security interest created by the Pledge Agreement.

This opinion letter may not be used or relied upon without our prior written consent (i) by any Person who is not an addressee, except for Persons that become Banks or the Agent under the Credit Agreement after the date hereof pursuant to the Credit Agreement (which Persons may rely on this opinion letter to the same extent as the addressees hereof as if this opinion letter were addressed and had been delivered to them on the date of this opinion letter, on the condition and understanding that we assume no responsibility or obligation to consider the applicability or correctness of this opinion letter to any Person other than the addressees), or (ii) for any purpose whatsoever other than the transactions contemplated by the Loan Documents.

Very truly yours,

FAEGRE & BENSON LLP

Exhibit G

Form of Assignment Agreement

ASSIGNMENT AGREEMENT, dated as of _____, 20_, among [ ] (the "Transferor Bank"), [ ] (the "Purchasing Bank"), Graco Inc., a Delaware corporation (the "Company") and U.S. Bank National Association, as Agent for the Banks under the Credit Agreement described below (in such capacity, the "Agent").

WITNESSETH

WHEREAS, this Assignment Agreement is being executed and delivered in accordance with Section 13.3 of the Credit Agreement, dated as of May 23, 2011, among the Company, the Borrowing Subsidiaries from time to time party thereto, the Transferor Bank and the other Banks party thereto and the Agent (as from time to time amended, supplemented or otherwise modified in accordance with the terms thereof, the "Credit Agreement" terms defined therein being used herein as therein defined);

WHEREAS, the Purchasing Bank wishes to become a Bank party to the Credit Agreement; and

WHEREAS, the Transferor Bank is selling and assigning to the Purchasing Bank rights, obligations and commitments under the Credit Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Upon the execution and delivery of this Assignment Agreement by the Purchasing Bank, the Transferor Bank, the Agent and the Company, the Purchasing Bank shall be a Bank party to the Credit Agreement for all purposes thereof.

2. Effective on [ ] (the "Effective Date"), the Transferor Bank hereby sells and assigns to the Purchasing Bank ___% (the "Assigned Percentage") of its Commitment and of the principal balance of its Loans outstanding under the Credit Agreement. Together with the Assigned Percentage, the Transferor Bank hereby assigns to the Purchasing Bank the Transferor Bank's interest as a Bank in the Loan Documents (the Assigned Percentage and such interest in the Loan Documents being hereinafter referred to as the "Assigned Interest"). The Purchasing Bank hereby assumes the Assigned Interest and the Transferor Bank's related obligations under the Loan Documents, including without limitation the Transferor Bank's participation in Letters of Credit and all obligations of the Transferor Bank to fund, refund or purchase participations in Revolving Loans and Swing Line Loans to the extent provided in the Credit Agreement.

3. On the Effective Date, the Purchasing Bank shall pay to the Transferor Bank a purchase price (the "Purchase Price") equal to the outstanding principal amount of the Loans included in the Assigned Interest as of the day preceding the Effective Date. The Transferor Bank acknowledges receipt from the Purchasing Bank of an amount equal to the Purchase Price.

4. All interest and Commitment Fees and Letter of Credit Fees accrued on the Assigned Interest for the billing period in which the Effective Date falls shall be paid to the

Agent as provided in the Credit Agreement, and distributed by the Agent (a) with respect to amounts accrued before the Effective Date, to the Transferor Bank and (b) with respect to amounts accrued on or after the Effective Date, to the Purchasing Bank. The Transferor Bank has made arrangements with the Purchasing Bank with respect to the portion, if any, to be paid by the Transferor Bank to the Purchasing Bank of other fees heretofore received by the Transferor Bank pursuant to the Credit Agreement.

5. Subject to the provisions of paragraph 4 above, from and after the Effective Date, principal, interest, fees and other amounts that would otherwise be payable to or for the account of the Transferor Bank pursuant to the Credit Agreement and the other Loan Documents in respect of the Assigned Interest shall, instead, be payable to or for the account of the Purchasing Bank pursuant to the Credit Agreement. Each time the Banks are asked, from and after the Effective Date, to make Loans or otherwise extend credit under the Loan Documents, the Agent shall advise the Purchasing Bank, as provided in the Credit Agreement, of the request, and the Purchasing Bank shall be solely responsible for making a Loan or otherwise extending credit in accordance with its Assigned Interest.

6. Concurrently with the execution and delivery hereof, (i) as and to the extent provided in the Credit Agreement, the Agent shall prepare and distribute to the Company and the Banks a revised schedule of the Commitments, Loans and Percentages of each Bank, after giving effect to the assignment of the Assigned Interest, and (iii) the Transferor Bank shall pay to the Agent a processing and recordation fee of $3,500.

7. The Transferor Bank (a) represents and warrants to the Purchasing Bank that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (b) represents and warrants to the Purchasing Bank that the copies of the Loan Documents and the related agreements, certificates, opinion and letters previously delivered to the Purchasing Bank are true and correct copies of the Loan Documents and related agreements, certificates, opinion and letters executed by and/or delivered in connection with the closing of the credit facility contemplated by the Credit Agreement; (c) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any of the Loan Documents or any other instrument or document furnished pursuant thereto; and (d) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company, or the performance or observance by the Company or any other Person of any of their respective obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

8. The Purchasing Bank (a) confirms to the Transferor Bank and the Agent that it has received a copy of the Loan Documents together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement; (b) acknowledges that it has, independently and without reliance upon the Transferor Bank, the Agent or any Bank and instead in reliance upon its own review of such documents and information as the Purchasing Bank deemed appropriate, made its own credit analysis and decision to enter into this Agreement and agrees that it will, independently and without reliance upon the Transferor Bank, the Agent or any Bank, and based on such documents and information

as the Purchasing Bank shall deem appropriate at the time, continue to make its own credit decision in taking or not taking action under the Loan Documents; (c) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by the Purchasing Bank as a Bank under the Credit Agreement, including, without limitation, the provisions of Section 13.15 of the Credit Agreement relating to confidentiality of information; and (d) represents and warrants to the Company and the Agent that it is either (i) a corporation organized under the laws of the United States or any State thereof or (ii) is entitled to complete exemption from United States withholding tax imposed on or with respect to any payments, including fees, to be made pursuant to the Credit Agreement (x) under an applicable provision of a tax convention to which the United States is a party or (y) because it is acting through a branch, agency or office in the United States and any payment to be received by it under the Credit Agreement is effectively connected with a trade or business in the United States, and it has complied with the provisions of Section 13.3(e) of the Credit Agreement. The Purchasing Bank agrees that it shall be subject to the terms of the Intercreditor Agreement.

9. The Transferor Bank and the Purchasing Bank each individually represents and warrants that (a) it is validly existing and in good standing and has all requisite power to enter into this Agreement and to carry out the provisions hereof and has duly authorized the execution and delivery of this Agreement; (b) the execution and delivery of this Agreement and the performance of the obligations hereunder do not violate any provision of law, any order, rule or regulation of any court or governmental agency or its charter, articles of incorporation or bylaws or constitute a default under any agreement or other instrument to which it is a party or by which it is bound; and (c) it has duly executed and delivered this Agreement, and this Agreement constitutes a legal, valid and binding obligation enforceable against it in accordance with its terms.

10. Each of the parties to this Assignment Agreement agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to effect the purposes of this Assignment Agreement.

11. The address for notices to the Purchasing Bank as well as administrative information with respect to the Purchasing Bank is as set out below:

THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF MINNESOTA.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement to be executed by their respective duly authorized officers as of the date first set forth above.

[ ],

Transferor Bank

By: _____
Name: _____
Title: _____

[ ],

Purchasing Bank

By: _____
Name: _____
Title: _____

U.S. BANK NATIONAL ASSOCIATION

as Agent

By: _____
Name: _____
Title: _____

CONSENTED AND ACKNOWLEDGED

GRACO INC.

By: _____
Name: _____
Title: _____

Information on Purchasing Bank:

Address:

[ ],

Attention: [ ]

Fax: [ ]

Exhibit H

Form of Intercreditor Agreement

Attached.

INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT

This Intercreditor and Collateral Agency Agreement (this "**Agreement"**), dated as of May 23, 2011, is entered into by and among U.S. Bank National Association, as the administrative agent under the below-defined Bank Credit Agreement (the "**Bank Agent**"), U.S. Bank National Association, as the collateral agent appointed pursuant to the terms and conditions hereof (the "**Collateral Agent**"), and The Prudential Insurance Company of America, Gibraltar Life Insurance Co., Ltd., The Prudential Life Insurance Company, Ltd., Forethought Life Insurance Company, RGA Reinsurance Company, MTL Insurance Company and Zurich American Insurance Company (each, together with its successors and permitted assigns, and any other holder of any Senior Notes, a "**Noteholder**", and collectively the "**Noteholders**").

WITNESSETH:

WHEREAS, Graco Inc. (the "**Company**"), the institutions from time to time party thereto as lenders (the "**Banks**"), and the Bank Agent are parties to a Credit Agreement dated as of May 23, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "**Bank Credit Agreement**");

WHEREAS, the Company and the Noteholders named in the Purchaser Schedule attached thereto are party to that certain Note Agreement, dated as of March 11, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"March 11, 2011 Note Purchase Agreement**"), pursuant to which the Company has issued or expects to issue its 4.00% Series A Senior Notes due March 11, 2018 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series A Notes"**), 5.01% Series B Senior Notes due March 11, 2023 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series B Notes"**), 4.88% Series C Senior Notes due January 26, 2023 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series C Notes"**) and 5.35% Series D Senior Notes due July 26, 2026 (as the case may be amended, restated, supplemented or otherwise modified form time to time, the **"Series D Notes"**); and

WHEREAS, it is contemplated that the Company will enter into a Note Agreement (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Additional Note Purchase Agreement"**; and, together with the March 2011 Note Agreement, the **"Note Purchase Agreements"**) with one or more affiliates of The Prudential Insurance Company of America under which the Company will issue one or more additional series of its senior notes (each as amended, restated, supplemented or otherwise modified from time to time, the **"Additional Senior Notes"** and, together with the Series A Notes, the Series B Notes, the Series C Notes and the Series D Notes, collectively, the **"Senior Notes"**) in the aggregate principal amount of $75,000,000 (the Senior Notes, together with the Bank Credit Agreement, the Note Purchase Agreements and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended, restated, supplemented or otherwise modified from time to time), the "**Senior Indebtedness Documents**");

WHEREAS, the Banks and the Noteholders (together with the Bank Agent, the "**Creditors**") have provided the Company with various loans, extensions of credit and financial accommodations under the Senior Indebtedness Documents (collectively, the "**Senior Indebtedness**");

WHEREAS, in order to make and continue making and extending such loans, extensions of credit and financial accommodations, the Creditors have required that the Company and certain of its subsidiaries (collectively, the "**Grantors**") guaranty and/or secure the Obligations (as hereafter defined);

WHEREAS, the Creditors wish to appoint the Collateral Agent to hold all security interests and liens granted by the Grantors in respect of the Obligations; and

WHEREAS, the Creditors wish to agree upon certain matters in respect of the Senior Indebtedness, including, without limitation, payment priorities and the application of Collateral (as defined below) proceeds;

NOW, THEREFORE, for the above reasons, in consideration of the mutual covenants herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

For the purposes of this Agreement, the following terms shall have the meanings specified with respect thereto below. Any plural term that is used herein in the singular shall be taken to mean each entity or item of the defined class and any singular term that is used herein in the plural shall be taken to mean all of the entities or items of the defined class, collectively.

"Affiliate" of any Person shall mean any other Person which directly or indirectly controls, is controlled by or is under common control with such first Person. A Person shall be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of voting securities, by contract or otherwise.

"Collateral" shall mean all property and assets, and interests in property and assets, upon or in which the Grantors have granted a lien or security interest to the Collateral Agent to secure all or any part of the Obligations.

"Collateral Agent Expenses" shall mean, without limitation, all costs and expenses incurred by the Collateral Agent in connection with the performance of its duties under this Agreement, including the realization upon or protection of the Collateral or enforcing or defending any lien upon or security interest in the Collateral or any other action taken in accordance with the provisions of this Agreement, expenses incurred for legal counsel (including reasonable allocated costs of staff counsel) in connection with the foregoing, and any other costs, expenses or liabilities incurred by the Collateral Agent for which the Collateral Agent is entitled to be reimbursed or indemnified by any Grantor pursuant to this Agreement or any Collateral Document or by the Creditors pursuant to this Agreement.

"Collateral Documents" shall mean all agreements, documents and instruments (including, without limitation, all pledge agreements, security agreements, mortgages, collateral assignments, financing statements, and other perfection documents) entered into, delivered or authorized from time to time by any Grantor in favor of the Collateral Agent in respect of the Obligations or otherwise entered into, delivered or authorized from time to time by a Grantor to secure all or any part of the Obligations, as each may be amended, restated, supplemented or otherwise modified from time to time.

"Enforcement" shall mean:

(a) for the Bank Agent or any Bank to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith or to call for funding of cash collateral for any Letter of Credit prior to being presented with a draft drawn thereunder (or in the event the draft is a time draft, prior to its due date), in each case on account of an "Event of Default" under and as defined in the Bank Credit Agreement;

(b) for any Noteholder to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under either Note Purchase Agreement, the Senior Notes, or the agreements, documents and instruments delivered in connection therewith;

(c) for the Bank Agent or any Bank to terminate its commitment to extend loans or other financial accommodations, including issuances of Letters of Credit, to the Company or any other Grantor prior to the final scheduled payment date for all Obligations thereunder or prior to the scheduled termination date for such commitment (as such scheduled termination date is in effect on the date hereof or, if later, such date to which any such scheduled termination date may hereafter be extended) , in each case on account of an "Event of Default" under and as defined in the Bank Credit Agreement;

(d) for the Bank Agent or any Bank to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, or to set off against any balances held by the Bank Agent or such Bank for the account of any Grantor or any other property at any time held or owing by the Bank Agent or such Bank to or for the credit or account of any Grantor;

(e) for any Noteholder to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, either Note Purchase Agreement, the Senior Notes, or any agreement, document or instrument delivered in connection therewith, or, if applicable, to set off against or appropriate any balances held by such Noteholder for the account of any Grantor or any other property at any time held or owing by such Noteholder to or for the credit or account of any Grantor;

(f) for the Collateral Agent to commence the judicial enforcement of any rights or remedies under any Collateral Document (other than an action solely for the purpose of

establishing or defending the lien or security interest intended to be created by any Collateral Document upon or in any Collateral as against or from claims of third parties on or in such Collateral), to setoff against any balances held by it for the account of any Grantor or any other property at any time held or owing by it to or for the credit or for the account of any Grantor or to otherwise take any action to realize upon the Collateral (provided, however, that "Enforcement" shall not include the Bank Agent's charging of the Borrower's deposit account for non-accelerated amounts due in the ordinary course pursuant to the Credit Agreement); or

(g) the commencement by, against or with respect to any Grantor of any proceeding under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law or for the appointment of a receiver for any Grantor or its assets.

"Event of Default" shall mean (i) an "Event of Default" under and as defined in the Bank Credit Agreement, (ii) an "Event of Default" under and as defined in either Note Purchase Agreement or the Senior Notes, or (iii) any event, occurrence or action (or any failure to take any of the foregoing) that permits or automatically results in the acceleration of the repayment of any amount of Obligations under a Senior Indebtedness Document.

"Insolvent Entity" shall mean any entity that has (i) become or is insolvent or has a parent company that has become or is insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"L/C Interests" shall mean, with respect to any Bank, such Bank's direct or participation interests in all unpaid reimbursement obligations with respect to Letters of Credit, and such Bank's direct obligations or risk participations with respect to undrawn amounts of all outstanding Letters of Credit; provided, that the undrawn amounts of outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof.

"**Letters of Credit**" shall mean all letters of credit issued under the Bank Credit Agreement.

"Obligation Share" shall mean, with respect to any Creditor at any time, a fraction (expressed as a percentage), the numerator of which is the amount of Obligations owing to such Creditor at such time, and the denominator of which is the aggregate amount of all Obligations owing to all of the Creditors at such time.

"Obligations" shall mean each and every monetary obligation owed by a Grantor to the Creditors and the Collateral Agent under the Senior Indebtedness Documents, including, without limitation, (1) the outstanding principal amount of, accrued and unpaid interest on, and any unpaid Yield-Maintenance Amount or other breakage or prepayment indemnification due

with respect to Senior Indebtedness, (2) any unpaid reimbursement obligations with respect to any Letters of Credit, (3) any undrawn amounts of any outstanding Letters of Credit, and (4) any other unpaid amounts including amounts in respect of hedging obligations, foreign exchange obligations and treasury and cash management obligations permitted under the Senior Indebtedness Documents, and fees, expenses, indemnifications, and reimbursements due from the Grantors under any of the Senior Indebtedness Documents; provided that the undrawn amounts of any outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof. The term "Obligations" shall include all of the foregoing indebtedness, liabilities and obligations whether or not allowed as a claim in any bankruptcy, insolvency, receivership or similar proceeding.

"Person" shall mean any individual, corporation, partnership, limited liability company, trust or other entity.

"Principal Exposure" shall mean, with respect to any Creditor at any time, (i) if such Creditor is a Bank, the aggregate amount of such Bank's commitments to extend revolving credit (including letters of credit) under the Bank Credit Agreement plus, to the extent any term loans have been extended, the principal amount of such term loans, or, if the Banks shall then have terminated their commitments to extend credit under the Bank Credit Agreement, the sum of (x) the outstanding principal amount of all of such Bank's loans under the Bank Credit Agreement and (y) the outstanding face amount and/or principal amount of such Bank's L/C Interests at such time, and (ii) if such Creditor is a Noteholder, the outstanding principal amount of such Creditor's Senior Notes at such time.

"Pro Rata Share" shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor's Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all of the Creditors of the same class (i.e. Banks or Noteholders, as applicable) at such time.

"Pro Rata Expenses Share" shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor's Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all Creditors at such time.

"Qualified Creditor" shall mean any Creditor which is not an Affiliate of any Grantor.

"Required Creditors" shall mean, at any time, (i) Banks whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Banks and (ii) Noteholders whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Noteholders; provided, however, that only Pro Rata Shares of Senior Indebtedness held by Qualified Creditors shall be included in this determination; provided, further, that if at any time Obligations owing to Banks or Noteholders, as the case may be, are less than both (A) $1,000,000, and (B) 10% of the aggregate Obligations (the Banks or the Noteholders, as the case may be, a "**Deminimis Group"**), then the Required Creditors shall be

determined without regard to clause (i) if the Deminimis Group is the Banks, and clause (ii) if the Deminimis Group is the Noteholders.

"Specified Provisions" shall mean any of the terms relating to (i) amounts or timing of payment of interest or fees, (ii) terms relating to required payments or prepayments of any Obligations, (iii) financial and negative covenants set forth in the Senior Indebtedness Documents (including paragraph 6 of either Note Purchase Agreement and Article IX of the Bank Credit Agreement), (iv) covenants relating to the operations of the Company or its subsidiaries, (v) events of default, and (vi) definitions as used in any of the foregoing.

"Yield-Maintenance Amount" shall mean the "Yield-Maintenance Amount" as defined in either Note Purchase Agreement.

2. Appointment of Collateral Agent.

(a) Appointment of Collateral Agent. Subject in all respects to the terms and provisions of this Agreement, the Bank Agent, for itself and on behalf of the Banks, and the Noteholders hereby appoint U.S. Bank National Association to act as collateral agent for the benefit of the Creditors (the "**Collateral Agent**") with respect to the liens upon and the security interests in the Collateral and the rights and remedies granted under and pursuant to the Collateral Documents, and U.S. Bank National Association hereby accepts such appointment and agrees to act as such collateral agent. The agency created by this Section 2 shall in no way impair or affect any of the rights and powers of, or impart any duties or obligations upon, U.S. Bank National Association in its individual capacity as a lender or creditor under any Senior Indebtedness Document. To the extent legally necessary to enable the Collateral Agent to enforce or otherwise foreclose and realize upon any of the liens or security interests in the Collateral in any legal proceeding which the Collateral Agent either commences or joins as a party in accordance with the terms of this Agreement, each of the Creditors agrees to join as a party in such proceeding and take such action therein concurrently to enforce and obtain a judgment for the payment of the Obligations held by it.

(b) Duties of Collateral Agent. Subject to the Collateral Agent having been directed to take such action in accordance with the terms of this Agreement, each Creditor hereby irrevocably authorizes the Collateral Agent to take such action on its behalf under the provisions of the Collateral Documents and any other instruments, documents and agreements referred to in the Collateral Documents and to exercise such powers under the Collateral Documents as are specifically delegated to the Collateral Agent by the terms of the Collateral Documents and such other powers as are reasonably incidental thereto. Subject to the provisions of Section 11 of this Agreement, the Collateral Agent is hereby irrevocably authorized to take all actions on behalf of the Creditors to enforce the rights and remedies of the Collateral Agent and the Creditors provided for in the Collateral Documents or by applicable law with respect to the liens upon and security interests in the Collateral granted to secure the Obligations provided, however, that, notwithstanding any provision to the contrary in any Collateral Documents, (i) the Collateral Agent shall act solely at and in accordance with the written direction of the Required Creditors, (ii) the Collateral Agent shall not, without the written consent of all of the Qualified Creditors, release or terminate by affirmative action or consent any lien upon or security interest in any Collateral granted under any Collateral Documents (except (x) upon (1) dispositions of

Collateral by a Grantor and (2) removal of the Material Subsidiary (as defined in the Bank Credit Agreement) designation of a Subsidiary (as defined in the Bank Credit Agreement), in each case as permitted in accordance with the terms of all of the Senior Indebtedness Documents and prior to the occurrence of an Event of Default, (y) upon disposition of such Collateral after an Event of Default pursuant to direction given under clause (i) of this Section 2(b) and (x) to the extent authorized under the provisions of the last sentence of Section 12.1 of the Bank Credit Agreement, paragraph 11V of the March 11, 2011 Purchase Note Agreement and the comparable provision of the Additional Note Purchase Agreement), and (iii) the Collateral Agent shall not accept any Obligations in whole or partial consideration for the disposition of any Collateral without the written consent of all of the Qualified Creditors. The Collateral Agent agrees to make such demands and give such notices under the Collateral Documents as may be requested by, and to take such action to enforce the Collateral Documents and to foreclose upon, collect and dispose of the Collateral or of the Collateral Documents as may be directed by, the Required Creditors; provided, however, that the Collateral Agent shall not be required to take any action that is contrary to law or the terms of the Collateral Documents or this Agreement. Once a direction to take any action has been given by the Required Creditors to the Collateral Agent, and subject to any other directions which may be given from time to time by the Required Creditors, decisions regarding the manner in which any such action is to be implemented and conducted (with the exception of any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice) shall be made by the Collateral Agent, with the assistance and upon the advice of its counsel. Notwithstanding the provisions of the preceding sentence, any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice, which implements, approves or results in or has the effect of causing any release, change or occurrence, where such release, change or occurrence otherwise would require unanimous approval of all of the Qualified Creditors pursuant to the terms of this Agreement, also shall require the unanimous approval of all of the Qualified Creditors.

(c) Requesting Instructions. The Collateral Agent may at any time request directions from the Creditors as to any course of action or other matter relating to the performance of its duties under this Agreement and the Collateral Documents, and the Creditors shall respond to such request in a reasonably prompt manner.

(d) Emergency Actions. If the Collateral Agent has asked the Required Creditors for instructions following the receipt of any notice of an Event of Default and if the Required Creditors have not responded to such request within 30 days, the Collateral Agent shall be authorized to take such actions with regard to such Event of Default which the Collateral Agent, in good faith, believes to be reasonably required to protect the Collateral from damage or destruction; provided, however, that once instructions have been received from the Required Creditors, the actions of the Collateral Agent shall be governed thereby and the Collateral Agent shall not take any further action which would be contrary to such instructions.

(e) Collateral Document Amendments. An amendment, supplement, modification, restatement or waiver of any provision of any Collateral Document, any consent to any departure by any Grantor from any such provision, or the execution or acceptance by the Collateral Agent of any Collateral Document not in effect on the date of this Agreement shall be effective if, and only if, consented to in writing by the Required Creditors (with the understanding that the Collateral Documents that are identified in Exhibit A hereto are hereby

approved by the Required Creditors); provided, however, that, (i) no such amendment, supplement, modification, restatement, waiver, consent or such Collateral Document not in effect on the date of this Agreement which imposes any additional responsibilities upon the Collateral Agent shall be effective without the written consent of the Collateral Agent, and (ii) no such amendment, supplement, modification, waiver or consent shall release any Collateral from the lien or security interest created by any Collateral Document not subject to the exception in Section 2(b)(ii) of this Agreement or narrow the scope of the property or assets in which a lien or security interest is granted pursuant to any Collateral Document or change the description of the obligations secured thereby without the written consent of all Qualified Creditors.

(f) Administrative Actions. The Collateral Agent shall have the right to take such actions under this Agreement and under the Collateral Documents, not inconsistent with the instructions of the Required Creditors or the terms of the Collateral Documents and this Agreement, as the Collateral Agent deems necessary or appropriate to perfect or continue the perfection of the liens on the Collateral for the benefit of the Creditors.

(g) Collateral Agent Acting Through Others. The Collateral Agent may perform any of its duties under this Agreement and the Collateral Documents by or through attorneys (which attorneys may be the same attorneys who represent any Creditor), agents or other persons reasonably deemed appropriate by the Collateral Agent. In addition, the Collateral Agent may act in good faith reliance upon the opinion or advice of attorneys selected by the Collateral Agent. In all cases the Collateral Agent may pay reasonable fees and expenses of all such attorneys, agents or other persons as may be employed in connection with the performance of its duties under this Agreement and the Collateral Documents.

(h) Resignation of Collateral Agent.

(i) The Collateral Agent (A) may resign at any time upon notice to the Creditors, and (B) may be removed at any time upon the written request of the Required Creditors sent to the Collateral Agent and the other Creditors. For the purposes of any determination of Required Creditors under this Section 2(h)(i), the Pro Rata Share of any Insolvent Entity shall be disregarded.

(ii) If the Collateral Agent shall resign or be removed, the Required Creditors shall have the right to select a replacement Collateral Agent by notice to the Collateral Agent and the other Creditors.

(iii) Upon any replacement of the Collateral Agent, the Collateral Agent shall assign all of the liens upon and security interests in all Collateral under the Collateral Documents, and all right, title and interest of the Collateral Agent under all the Collateral Documents, to the replacement Collateral Agent, without recourse to the Collateral Agent or any Creditor and at the expense of the Company.

(iv) No resignation or removal of the Collateral Agent shall become effective until a replacement Collateral Agent shall have been selected as provided in this Agreement and shall have assumed in writing the obligations of the Collateral Agent under this Agreement and under the Collateral Documents. In the event that a

replacement Collateral Agent shall not have been selected as provided in this Agreement or shall not have assumed such obligations within 90 days after the resignation or removal of the Collateral Agent, then the Collateral Agent may apply to a court of competent jurisdiction for the appointment of a replacement Collateral Agent.

(v) Any replacement Collateral Agent shall be a bank, trust company, or insurance company having capital, surplus and undivided profits of at least $250,000,000.

(i) Indemnification of Collateral Agent. Each Grantor, by its consent to this Agreement, hereby agrees to indemnify and hold the Collateral Agent, its officers, directors, employees and agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) harmless against any and all costs, claims, damages, penalties, liabilities, losses and expenses (including, but not limited to, court costs and reasonable attorneys' fees) which may be incurred by or asserted against the Collateral Agent or any such officers, directors, employees and agents by reason of its status as agent under this Agreement or which pertain, whether directly or indirectly, to this Agreement, the Collateral Documents, or to any action or failure to act of the Collateral Agent as agent hereunder, except to the extent any such action or failure to act by the Collateral Agent constitutes gross negligence, willful misconduct or a breach of this Agreement. The obligations of the Grantor under this Section 2(i) shall survive the payment in full of the Obligations and the termination of this Agreement.

(j) Liability of Collateral Agent. In the absence of gross negligence, willful misconduct or a breach of this Agreement, the Collateral Agent will not be liable to any Creditor for any action or failure to act or any error of judgment, negligence, mistake or oversight on its part or on the part of any of its officers, directors, employees or agents. To the extent not paid by any Grantor, each Creditor hereby severally, and not jointly, agrees to indemnify and hold the Collateral Agent and each of its officers, directors, employees and agents (collectively, **"Indemnitees"**) harmless from and against any and all liabilities, costs, claims, damages, penalties, losses and actions of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for any Indemnitee) incurred by or asserted against any Indemnitee arising out of or in relation to this Agreement or the Collateral Documents or its status as agent under this Agreement or any action taken or omitted to be taken by any Indemnitee pursuant to and in accordance with any of the Collateral Documents and this Agreement, except to the extent arising from the gross negligence, willful misconduct or breach of this Agreement, with each Creditor being liable only for its Pro Rata Expenses Share of any such indemnification liability. The obligations of the Creditors under this Section 2(j) shall survive the payment in full of the Obligations and the termination of this Agreement.

(k) No Reliance on Collateral Agent. Neither the Collateral Agent nor any of its officers, directors, employees or agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) shall be deemed to have made any representations or warranties, express or implied, with respect to, nor shall the Collateral Agent or any such officer, director, employee or agent be liable to any Creditor or responsible for (i) any warranties or recitals made by any Grantor in the Collateral Documents or any other agreement, certificate, instrument or document executed by any Grantor in connection with the Collateral Documents, (ii) the due or proper execution or authorization of this Agreement or any

Collateral Documents by any party other than the Collateral Agent, or the effectiveness, enforceability, validity, genuineness or collectability as against any Grantor of any Collateral Document or any other agreement, certificate, instrument or document executed by any Grantor in connection with any Collateral Document, (iii) the present or future solvency or financial worth of any Grantor, or (iv) the value, condition, existence or ownership of any of the Collateral or the perfection of any lien upon or security interest in the Collateral (whether now or hereafter held or granted) or the sufficiency of any action, filing, notice or other procedure taken or to be taken to perfect, attach or vest any lien or security interest in the Collateral. Except as may be required by Section 2(b) of this Agreement, the Collateral Agent shall not be required, either initially or on a continuing basis, to (A) make any inquiry, investigation, evaluation or appraisal respecting, or enforce performance by any Grantor of, any of the covenants, agreements or obligations of any Grantor under any Collateral Document, or (B) undertake any other actions (other than actions expressly required to be taken by it under this Agreement). Nothing in any of the Collateral Documents, expressed or implied, is intended to or shall be so construed as to impose upon the Collateral Agent any obligations, duties or responsibilities except as set forth in this Agreement and in the Collateral Documents. The Collateral Agent shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, telecopy or other paper or document given to it by any person reasonably and in good faith believed by it to be genuine and correct and to have been signed or sent by such person. The Collateral Agent shall have no duty to inquire as to the performance or observance of any of the terms, covenants or conditions of any of the Senior Indebtedness Documents. Except upon the direction of the Required Creditors pursuant to Section 2(b) of this Agreement, the Collateral Agent shall not be required to inspect the properties or books and records of any Grantor for any purpose, including to determine compliance by any Grantor with its covenants respecting the perfection of security interests.

3. Lien Priorities. The parties to this Agreement expressly agree that the security interests and liens granted to the Collateral Agent shall secure the Obligations on a pari passu basis for the benefit of the Creditors and that, notwithstanding the relative priority or the time of grant, creation, attachment or perfection under applicable law of any security interests and liens, if any, of the Creditors upon or in any of the Collateral to secure any Obligations, whether such security interests and liens are now existing or hereafter acquired or arising and whether such security interests and liens are in or upon now existing or hereafter arising Collateral, such security interests and liens shall be first and prior security interests and liens (subject to security interests and liens permitted by the Senior Indebtedness Documents) in favor of the Collateral Agent to secure all of the Obligations on a pari passu basis for the benefit of the Creditors.

4. Certain Notices. Each of the Collateral Agent and each Creditor agrees to use its best efforts to give to the others (a) copies of any notice of the occurrence or existence of an Event of Default sent to any Grantor, simultaneously with the sending of such notice to such Grantor, (b) notice of the occurrence or existence of an Event of Default of which such party has knowledge, promptly after obtaining knowledge thereof, (c) notice of the refusal of any Bank to make any loan or extension of credit pursuant to the terms of any Senior Indebtedness Document, promptly after such refusal, and (d) notice of an Enforcement by such party (excluding an Enforcement approved by the Required Creditors as required by this Agreement), prior to commencing such Enforcement, but the failure to give any of the foregoing notices shall

not affect the validity of such notice of an Event of Default given to a Grantor or create a cause of action against or cause a forfeiture of any rights of the party failing to give such notice or create any claim or right on behalf of any third party. The Collateral Agent agrees to deliver to each Creditor a copy of each notice or other communication received by it under any Collateral Document as soon as practicable after receipt of such notice or communication and a copy of any Collateral Document executed after the date of this Agreement as soon as practicable after the execution thereof.

5. Distribution of Proceeds of Collateral and Payments and Collections After Enforcement.

(a) On and after the occurrence of an Event of Default (unless such Event of Default has been waived pursuant to the terms of the Bank Credit Agreement with the consent of the holders of a majority of the outstanding principal amount of the Senior Notes (in the case of an Event of Default under the Bank Credit Agreement) or waived pursuant to the terms of the applicable Note Purchase Agreement with the consent of the Required Lenders as defined in the Bank Credit Agreement (in the case of an Event of Default under a Note Purchase Agreement)), all proceeds of Collateral held or received by the Collateral Agent or any Creditor and any other collections or payments received, directly or indirectly, by the Collateral Agent or any Creditor on or with respect to any Obligations (including, without limitation, any amount of any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor setoff or appropriated by it, any payment under any guaranty constituting a Senior Indebtedness Document, any payment in an insolvency or reorganization proceeding and the proceeds from any sale of any Obligations or any interest therein to any Grantor or any Affiliate of any Grantor, but excluding, except as otherwise provided in paragraph (b) of this Section 5, amounts on deposit in the Special Cash Collateral Account provided for in paragraph (b) of this Section 5) shall be delivered to the Collateral Agent and distributed as follows:

(i) First, to the Collateral Agent in the amount of any unpaid Collateral Agent Expenses;

(ii) Next, to the extent proceeds remain, to the Creditors in the amount of any unreimbursed amounts paid by the Creditors to any Indemnitee pursuant to Section 2(j) of this Agreement, pro rata in proportion to the respective unreimbursed amounts thereof paid by each Creditor; and

(iii) Next, to the extent proceeds remain, to each Creditor an amount equal to its Obligation Share of such proceeds in respect of Obligations owing to it under the Senior Indebtedness Documents.

Notwithstanding the foregoing, with respect to any collections or payments received by any Creditor on or after the occurrence of an Event of Default but prior to the date of the occurrence of an Enforcement, (1) such collections and payments shall be subject to the distribution provisions of clauses (i) through (iii), above, only to the extent that the principal amount of the Obligations owed to such Creditor on the date of such Enforcement is less than the principal amount of the Obligations owed to such Creditor on the date of such Event of Default,

and (2) the amount of any such collections and payments subject to the distribution provisions of clause (i) through (iii) above, in accordance with clause (1) shall not be so distributed until the date of the occurrence of such Enforcement. For the purposes of the preceding sentence, any collection or payment received by the Bank Agent on behalf of the Banks shall be considered to have been received by the Banks, and applied to pay the Obligations owed to the Banks, to which such payment or collection relates whether or not distributed by the Bank Agent to the Banks.

After the Obligations have been finally paid in full in cash, the balance of proceeds of the Collateral, if any, shall be paid to any Grantor or as otherwise required by law.

(b) Any payment pursuant to clause (a)(iii) above with respect to undrawn amounts of outstanding Letters of Credit shall be paid to the Collateral Agent for deposit in an account (the "**Special Cash Collateral Account**") to be held as collateral for the Obligations and disposed of as provided herein. On each date after the occurrence of an Enforcement on which a payment is made to a beneficiary pursuant to a draw on a Letter of Credit, the Collateral Agent shall distribute from the Special Cash Collateral Account for application to the payment of the reimbursement obligation due to the Banks with respect to such draw an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account, and (2) a fraction, the numerator of which is the amount of such draw and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such draw. On each date after the occurrence of an Enforcement on which a reduction in the undrawn amount of any outstanding Letter of Credit occurs other than on account of a payment made to a beneficiary pursuant to a draw on a Letter of Credit, then the Collateral Agent shall distribute from the Special Cash Collateral Account an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account and (2) a fraction the numerator of which is the amount of such reduction and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such reduction, which amount shall be distributed as provided in clauses (a)(i) through (iii) above. At such time as the undrawn amount of outstanding Letters of Credit is reduced to zero, any amount remaining in the Special Cash Collateral Account, after the distribution therefrom as provided above, shall be distributed as provided in clauses (a)(i) through (iii) above.

(c) Any re-allocations of any payments or distributions initially made or received on any Obligations due to payments and transfers among the Creditors and the Collateral Agent under this Section 5 shall be deemed to reduce the Obligations of any Creditor receiving any such payment or other transfer under this Section 5 and shall be deemed to restore and reinstate the Obligations of any Creditor making any such payment or other transfer under this Section 5, in each case by the amount of such payment and other transfer; provided that if for any reason such restoration and reinstatement shall not be binding against the Company or any other Grantor, then the Creditors and the Collateral Agent agree to take such actions as shall have the effect of placing them in the same relative positions as they would have been if such restoration and reinstatement had been binding against the Company and the other Grantors.

6. Certain Credit Extensions and Amendments to Agreements by the Creditors; Actions Related to Collateral; Other Liens, Security Interests and Guaranties.

(a) The Bank Agent, on its behalf and on behalf of the Banks, agrees that, without the prior written consent of Noteholders holding a majority of the outstanding principal amount of the Senior Notes, it will not (i) amend, modify, supplement or restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement, or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary thereof or (B) any other provision of the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(b) Each Noteholder agrees that, without the prior written consent of Banks holding a majority of the outstanding principal amount of Obligations under and undrawn commitments to extend credit under the Bank Credit Agreement, it will not (i) amend, modify, supplement, restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary of the Company or (B) any other provision of a Note Purchase Agreement or Senior Notes if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by a Note Purchase Agreement and the Senior Notes or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(c) Each Creditor agrees that it will have recourse to the Collateral only through the Collateral Agent, that it shall have no independent recourse to the Collateral and that it shall refrain from exercising any rights or remedies under the Collateral Documents which have or may have arisen or which may arise as a result of an Event of Default or an acceleration of the maturities of the Obligations, except that, upon the direction of the Required Creditors, any Creditor may set off any amount of any balances held by it for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor, provided that the amount set off is delivered to the Collateral Agent for application pursuant to Section 5 of this Agreement. Without such direction, no Creditor shall set off any such amount. For the purposes of determining whether such direction to setoff has been given, any Creditor which has not voted in favor of or against such setoff within three business days of receiving

notice from another Creditor of its intent to setoff will be deemed to have voted in favor of such setoff. For the purposes of perfection any setoff rights which may be available under applicable law, any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by the Collateral Agent or any Creditor to or for the credit or account of any Grantor shall be deemed to be held as agent for all Creditors.

(d) No Creditor shall take or receive a security interest in or a lien upon any of the property or assets of any Grantor as security for the payment of any Obligations other than liens and security interests granted to the Collateral Agent in the Collateral pursuant to the Collateral Documents. The existence of a common law lien on deposit accounts shall not be prohibited by the provisions of this paragraph (d) provided that any realization on such lien and the application of the proceeds thereof shall be subject to the provisions of this Agreement.

(e) Nothing contained in this Agreement shall (i) prevent any Creditor from imposing a default rate of interest in accordance with any Senior Indebtedness Document or prevent a Creditor from raising any defenses in any action in which it has been made a party defendant or has been joined as a third party, except that the Collateral Agent may direct and control any defense directly relating to the Collateral or any one or more of the Collateral Documents as directed by the Required Creditors, which shall be governed by the provisions of this Agreement, or (ii) affect or impair the right any Creditor may have under the terms and conditions governing the Obligations to accelerate and demand repayment of such Obligations. Subject only to the express limitations set forth in this Agreement, each Creditor retains the right to freely exercise its rights and remedies as a general creditor of the Grantors in accordance with applicable law and agreements with the Grantors, including without limitation the right to file a lawsuit and obtain a judgment therein against the Grantors and to enforce such judgment against any assets of the Grantors other than the Collateral.

(e) Subject to the provisions set forth in this Agreement, each Creditor and its affiliates may (without having to account therefor to any Creditor) own, sell, acquire and hold equity and debt securities of the Grantors and lend money to and generally engage in any kind of business with the Grantors (as if, in the case of U.S. Bank National Association, it was not acting as Collateral Agent), and, subject to the provisions of this Agreement, the Creditors and their affiliates may accept dividends, interest, principal payments, fees and other consideration from the Grantors for services in connection with this Agreement or otherwise without having to account for the same to the other Creditors, provided that any such amounts which constitute Obligations are provided for in the applicable Senior Indebtedness Documents.

7. Accounting; Adjustments.

(a) The Collateral Agent and each Creditor agrees to render an accounting to any of the others of the amounts of the outstanding Obligations, receipts of payments from the Grantors or from the Collateral and of other items relevant to the provisions of this Agreement upon the reasonable request from one of the others as soon as reasonably practicable after such request, giving effect to the application of payments and collections as hereinbefore provided in this Agreement.

(b) Each party hereto agrees that to the extent any payment of any Obligations made to it hereunder is in excess of the amount due to be paid to it hereunder, or in the event any payment of any Obligations made to any party hereto is subsequently invalidated, declared fraudulent or preferential, set aside or required to be paid to a trustee, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause ("**Avoided Payments**"), then it shall pay to the other parties hereto (or in the case of Avoided Payments the other parties shall pay to it) such amounts so that, after giving effect to the payments hereunder by all parties, the amounts received by all parties are not in excess of the amounts to be paid to them hereunder as though any payment so invalidated, declared to be fraudulent or preferential, set aside or required to be repaid had not been made.

8. Notices. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, with proper postage prepaid, one business day after delivery to a courier for next day delivery, upon delivery by courier or upon transmission by telecopy or similar electronic medium (provided that a copy of any such notice sent by such transmission is also sent by one of the other means provided hereunder within one day after the date sent by such transmission) to the addresses set forth below the signatures hereto, with a copy to any person or persons set forth below such signature shown as to receive a copy, or to such other address as any party designates to the others in the manner herein prescribed. Any party giving notice to any other party hereunder shall also give copies of such notice to all other parties. Any notice delivered to the Bank Agent shall be deemed to be delivered to all of the Banks.

9. Contesting Liens or Security Interests; No Partitioning or Marshaling of Collateral; Contesting Obligations.

(a) No Creditor shall contest the validity, perfection, priority or enforceability of or seek to avoid, have declared fraudulent or have put aside any lien or security interest granted to the Collateral Agent and each party hereby agrees to cooperate in the defense of any action contesting the validity, perfection, priority or enforceability of such liens or security interests. Each party shall also use its best efforts to notify the other parties of any change in the location of any of the Collateral or the business operations of any Grantor or of any change in law which would make it necessary or advisable to file additional financing statements in another location as against any Grantor with respect to the liens and security interests intended to be created by the Collateral Documents, but the failure to do so shall not create a cause of action against the party failing to give such notice or create any claim or right on behalf of any other party to this Agreement and any third party.

(b) Notwithstanding anything to the contrary in this Agreement or in any Collateral Document, no Creditor shall have the right to have any of the Collateral, or any security interest or other property being held as security for all or any part of the Obligations by the Collateral Agent, partitioned, or to file a complaint or institute any proceeding at law or in equity to have any of the Collateral or any such security interest or other property partitioned, each Creditor hereby waives any such right. The Collateral Agent and each Creditor hereby waive any and all rights to have the Collateral, or any part thereof, marshaled upon any foreclosure of any of the liens or security interests securing the Obligations.

(c) Neither the Collateral Agent nor any Creditor shall contest the validity or enforceability of or seek to avoid, have declared fraudulent or have set aside any Obligations (including, without limitation, any guaranty thereof). In the event any Obligations are invalidated, avoided, declared fraudulent or set aside for the benefit of any Grantor, the Collateral Agent and the Creditors agree that such Obligations shall nevertheless be considered to be outstanding for all purposes of this Agreement.

10. No Additional Rights for Grantors Hereunder. Each Grantor, by its consent hereto, acknowledges that it shall have no rights under this Agreement. If the Collateral Agent or any Creditor shall violate the terms of this Agreement, each Grantor agrees, by its consent hereto, that it shall not use such violation as a defense to any enforcement by any such party against such Grantor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party.

11. Bankruptcy Proceedings. Nothing contained herein shall limit or restrict the independent right of any Creditor to initiate an action or actions in any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding in its individual capacity and to appear or be heard on any matter before the bankruptcy or other applicable court in any such proceeding, including, without limitation, with respect to any question concerning the post-petition usage of Collateral and post-petition financing arrangements, provided such initiating Creditor provides all other Creditors prior notice of the initiation of any such action. The Collateral Agent is not entitled to initiate such actions on behalf of any Creditor or to appear and be heard on any matter before the bankruptcy or other applicable court in any such proceeding as the representative of any Creditor. The Collateral Agent is not authorized in any such proceeding to enter into any agreement for, or give any authorization or consent with respect to, the post-petition usage of Collateral, unless such agreement, authorization or consent has been approved in writing by the Required Creditors. This Agreement shall survive the commencement of any such bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding.

12. Independent Credit Investigation. Neither the Collateral Agent nor any Creditor, nor any of its respective directors, officers, agents or employees, shall be responsible to any of the others for the solvency or financial condition of any Grantor or the ability of any Grantor to repay any of the Obligations, or for the value, sufficiency, existence or ownership of any of the Collateral, the perfection or vesting of any lien or security interest, or the statements of any Grantor, oral or written, or for the validity, sufficiency or enforceability of any of the Obligations, any Senior Indebtedness Document, any Collateral Documents, any document or agreement executed or delivered in connection with or pursuant to any of the foregoing, or the liens or security interests granted by the Grantors in connection therewith. Each of the Collateral Agent and each Creditor has entered into its respective financial agreements with the Grantors based upon its own independent investigation, and makes no warranty or representation to the other, nor does it rely upon any representation by any of the others, with respect to the matters identified or referred to in this Section.

13. Supervision of Obligations. Except to the extent otherwise expressly provided herein, each Creditor shall be entitled to manage, supervise, amend and modify

(including, without limitation, an amendment to increase the amount of such Obligations or waive an Event of Default) the obligations of the Grantors to it in accordance with applicable law and such Creditor's practices in effect from time to time without regard to the existence of any other Creditor.

14. Turnover of Collateral. If any Creditor acquires custody, control or possession of any Collateral or any proceeds thereof other than pursuant to the terms of this Agreement, such Creditor shall promptly cause such Collateral or the proceeds of such Collateral to be delivered to or put in the custody, possession or control of the Collateral Agent for disposition and distribution in accordance with the provisions of Section 5 of this Agreement. Until such time as such Creditor shall have complied with the provisions of the immediately preceding sentence, such Creditor shall be deemed to hold such Collateral and the proceeds thereof in trust for the parties entitled thereto under this Agreement.

15. Options to Purchase.

(a) After the occurrence of a Purchase Option Trigger Event (as defined below), each Bank shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Noteholders at a purchase price equal to 100% of the amount of such Obligations on the date of purchase (including all interest thereon to the date of purchase), plus an amount equal to the Yield-Maintenance Amount which would be payable under the applicable Note Purchase Agreement if the Senior Notes were prepaid pursuant to the optional prepayment provisions of the applicable Note Purchase Agreement on such date of purchase.

(b) After the occurrence of a Purchase Option Trigger Event, each Noteholder shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Banks at a purchase price equal to 100% of the amount thereof on the date of purchase (including all interest thereon to the date of purchase).

(c) Any Creditor desiring to exercise its option to purchase under this Section 15 may do so by giving notice to the Creditors whose Obligations are to be purchased. The closing of the purchase and sale shall take place on the fifth business day after such notice is given. At the closing, the buyer will pay the sellers the purchase price of the Obligations being purchased except that, with respect to the purchase of exposures in respect of outstanding but undrawn Letters of Credit, the purchase shall be a risk participation therein payable at the same time as the related Letters of Credit are drawn. Payment of such purchase price shall be made in the same manner as specified in the applicable Senior Indebtedness Documents. Any notice of exercise of any such option to purchase shall be irrevocable. In the event more than one notice of exercise of an option to purchase under this Section 15 is given, only the notice first given shall be effective and the other notices given shall be ineffective.

(d) For the purposes of this Section 15, a "Purchase Option Trigger Event" shall occur when (i) an Event of Default has occurred and is continuing, (ii) any Creditor has notified the Collateral Agent and each other Creditor of its desire to direct the Collateral Agent to take action hereunder, and (iii) within 60 days after the notice specified in clause (ii), the Required Creditors shall not have authorized the Collateral Agent to take such action and the

Creditor giving such notice shall not have withdrawn such notice by notice given to the Collateral Agent and the other Creditors.

16. Amendment. This Agreement and the provisions hereof may be amended, modified or waived only by a writing signed by the Collateral Agent, the Bank Agent, on its behalf and on behalf of the Banks, and each of the Noteholders.

17. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of each of the parties hereto, including subsequent holders of the Obligations and persons subsequently becoming parties to the Senior Indebtedness Documents as Creditors; provided that (a) neither the Collateral Agent nor any Creditor shall assign or transfer any interest in any Obligations or permit such person to become such a party to the applicable Senior Indebtedness Documents unless such transfer or assignment is made subject to this Agreement and such transferee, assignee or person assumes the obligations of the transferor or assignor or the obligations of a Creditor, as the case may be, hereunder from and after the time of such transfer or assignment or the time such person becomes a party to the applicable Senior Indebtedness Documents, as the case may be, and (b) the appointment of any replacement Collateral Agent shall be subject to the provisions of Section 2 of this Agreement.

18. Limitation Relative to Other Agreements. Nothing contained in this Agreement is intended to impair (a) as between the Noteholders and the Grantors, the rights of the Noteholders and the obligations of the Grantors under the Note Purchase Agreements and the Senior Notes, or (b) as between the Bank Agent, the Banks and the Grantors, the rights of the Bank Agent and the Banks and the obligations of the Grantors under the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith.

19. Counterparts. This Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one and the same instrument. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Any facsimile copy of a signature hereto shall have the same effect as the original thereof.

20. Governing Law. THIS AGREEMENT SHALL BE GOVERNED AS TO VALIDITY, INTERPRETATIONS, ENFORCEABILITY AND EFFECT BY THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS.

21. Confirmations and Agreements.

(i) The Bank Agent confirms that the Banks have approved this Agreement as of the date hereof.

(ii) Each party subject hereto agrees that it will not, and will use commercially reasonable efforts to cause its agents, employees, officers, directors, shareholders, partners, and its representatives associated with or acting on its behalf (collectively, the "**Representatives**"), and its sub-contractors, if any, not to, directly or indirectly through a third-party intermediary, in

connection with this Agreement and the transactions resulting herefrom, offer, pay, promise to pay, or authorize the giving of money or anything of value to any Government Official (as defined below) for the purpose of inducing such Government Official to use his or her influence or position with the government or instrumentality thereof to affect or influence any act or decision of such government or instrumentality, in order to assist in obtaining or retaining business for, directing business to, or securing an improper advantage for such party.

(b) Each party subject hereto will, and will use commercially reasonable efforts to cause its Representatives and sub-contractors, if any, to maintain books and records that accurately reflect any payment of money or thing of value to a Government Official, directly or indirectly, in connection with any matter relating to this Agreement.

(c) The term "Government Official" includes any employee, agent or representative of a non-US government, and any non-US political party, party official or candidate. Government Official may also include royalty, non-US legislators, representatives of non-US state-owned enterprises, employees of public international organizations (including but not limited to the United Nations, International Monetary Fund, World Bank and other international agencies and organizations), and employees and officers of foreign embassies or trade organizations having offices in the US, regardless of rank or position, and any individuals acting on behalf of a Government Official.

(d) On any date on which the Obligations or any other amounts need to be determined, the Collateral Agent shall use the rate of exchange specified in Section 5.6 of the Bank Credit Agreement to determine the U.S. Dollar equivalent of any foreign currency (if any) in which such Obligations or other amounts are denominated, and such U.S. Dollar equivalent shall be used for purposes of determining that portion of the Obligations or such other amounts denominated in the applicable foreign currencies on such date.

The remainder of this page is intentionally blank.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

U.S. BANK NATIONAL ASSOCIATION

as Bank Agent and Collateral Agent

By: _____
Name: _____
Title: _____

Notice information:

800 Nicollet Mall

Mail Code BC-MN-HO3P

Minneapolis, MN 55402

Attention: Michael J. Staloch

Telephone: (612) 303-3050

Fax: (612) 303-2265

E-mail: Michael.Staloch@usbank.com

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, as a Noteholder

By: _____
Vice President

Notice information:

The Prudential Insurance Company of America

c/o Prudential Capital Group

Two Prudential Plaza, Suite 5600

180 N. Stetson Avenue

Chicago, IL 60601

Attention: Managing Director

GIBRALTAR LIFE INSURANCE CO., LTD.,

as a Noteholder

THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD., as a Noteholder

By: Prudential Investment Management

(Japan), Inc., as Investment Manager

By: Prudential Investment Management, Inc.,

as Sub-Adviser

By: _____

Vice President

Notice information:

Pruco Life Insurance Company

c/o Prudential Capital Group

Two Prudential Plaza, Suite 5600

180 N. Stetson Avenue

Chicago, IL 60601

Attention: Managing Director

FORETHOUGHT LIFE INSURANCE COMPANY, as a Noteholder

RGA REINSURANCE COMPANY,

as a Noteholder

MTL INSURANCE COMPANY,

as a Noteholder

ZURICH AMERICAN INSURANCE COMPANY, as a Noteholder

By: Prudential Private Placement Investors, L.P.

(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.

(as its General Partner)

By: _____

Vice President

Notice information:

Prudential Retirement Insurance and Annuity Company

c/o Prudential Capital Group

Two Prudential Plaza, Suite 5600

180 N. Stetson Avenue

Chicago, IL 60601

Attention: Managing Director

EXHIBIT A

LIST OF COLLATERAL DOCUMENTS

Pledge Agreement, dated as of May 23, 2011, made by Graco Inc.

ACKNOWLEDGMENT OF AND CONSENT AND AGREEMENT
TO INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT

Each of the undersigned, a Grantor described in the Intercreditor and Collateral Agency Agreement set forth above, acknowledges and, to the extent required, consents to the terms and conditions of the Intercreditor and Collateral Agency Agreement. Each of the undersigned Grantors does hereby further acknowledge and agree to its agreements under Sections 2(i), 5(c) and 10 of the Intercreditor and Collateral Agency Agreement and acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Intercreditor and Collateral Agency Agreement. Each of the undersigned confirms that the signatories to this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement constitute all of the Grantors in existence as of the date hereof.

This Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one of the same instrument. In proving this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

The remainder of this page is intentionally blank.

IN WITNESS WHEREOF, each party below has caused this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement to be executed by its duly authorized officer as of May 23, 2011.

GRACO INC.
GRACO HOLDINGS INC.
GRACO MINNESOTA INC.
GRACO OHIO INC.

By: _____
Name: James A. Graner
Title: CFO & Treasurer

Schedule 1.1

Commitments and Percentages

Bank:	Commitment:	Percentage:
U.S. BANK NATIONAL ASSOCIATION	$ 85,000,000	18.888888888889%
JPMORGAN CHASE BANK, N.A.	$ 85,000,000	18.888888888889%
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.	$ 55,000,000	12.222222222222%
WELLS FARGO BANK, NATIONAL ASSOCIATION	$ 55,000,000	12.222222222222%
FIFTH THIRD BANK	$ 40,000,000	8.888888888889%
PNC BANK N.A.	$ 40,000,000	8.888888888889%
RBS CITIZENS, N.A.	$ 40,000,000	8.888888888889%
BANK OF AMERICA, N.A.	$ 25,000,000	5.555555555556%
THE NORTHERN TRUST CO.	$ 25,000,000	5.555555555556%
TOTAL COMMITMENTS	**$ 450,000,000**	**100%**

Schedule 1.1-1

Schedule 7.6

Litigation (Section 7.6)

None.

Schedule 7.15

Subsidiaries (Section 7.15)

Subsidiary	Jurisdiction	Number of Shares	Percentage Owned	Material Subsidiary?
Graco Australia Pty Ltd.	Australia	100	100% by the Company	
Graco California Inc.	Minnesota	100	100% by the Company	
Graco Canada Inc.	Canada	10,000	100% by the Company	
Graco do Brasil Lmtda	Brazil	132,536*	100% by the Company*	
Graco Fluid Equipment (Shanghai) Co., Ltd.	People's Republic of China	N/A**	100% by the Company	
Graco Fluid Equipment (Suzhou) Co., Ltd.	People's Republic of China	N/A**	100% by Graco Minnesota Inc.	
Graco GmbH	Germany	N/A**	100% by the Company	
Graco Hong Kong Ltd.	People's Republic of China (Special Adm Region)	2,000	100% by the Company	
Graco Indiana Inc.	Delaware	1,000	100% by the Company	
Graco K.K.	Japan	660,000	100% by the Company	Yes
Graco Korea Inc.	Korea	125,500	100% by the Company	Yes
Graco Limited	United Kingdom	100,000	100% by the Company	
Graco Minnesota Inc.	Minnesota	1,000	100% by the Company	Yes
Graco N.V.	Belgium	1,008,157*	100% by the Company*	Yes
Graco Ohio Inc.	Ohio	95 Class A 9,405 Class B	100% by the Company	Yes
Graco S.A.S.	France	24,499	100% by the Company	
Graco Trading (Suzhou) Co., Ltd.	People's Republic of China	N/A**	100% by Graco Minnesota Inc.	
Gusmer Corporation	Delaware	1,000	100% by the Company	
Gusmer Canada Ltd.	Canada	100 Common 1,000 Class A	100% by Gusmer Corporation	
Gusmer Sudamerica S.A.	Argentina	12,000***	100% by the Company***	
Graco Holdings Inc.	Minnesota	100	100% by the Company	Yes

* Includes shares held by executive officers of the Company or the relevant Subsidiary to satisfy the requirements of local law.

** No shares are issued.

*** Shares held by two executive officers of the Company to satisfy the requirements of local law.

Schedule 9.6

Investments (Section 9.6)

Investment in Corporate Owned Life Insurance (COLI) through establishment of a Rabbi (Grantor) Trust ("Trust") with Wilmington Trust on June 27, 2007.

The Trust is intended to provide informal funding for the Company's deferred compensation and executive excess benefit retirement plans. The funding schedule anticipates the payment of a premium of $1,498,626 each year for a five year period beginning in 2007.

GRACO INC (GGG)

8-K
Current report filing
Filed on 07/26/2011
Filed Period 07/26/2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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): July 26, 2011

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)	(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

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))

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On July 26, 2011, Graco Inc. (the "Company") issued and sold $150 million in senior unsecured notes (the "Series C/D Notes") to certain affiliates, investment funds or managed accounts of Prudential Investment Management, Inc. (the "Purchasers") in a private placement pursuant to its March 11, 2011 Note Agreement with the Purchasers (the "Note Agreement"). The Company plans to use the proceeds for general corporate purposes.

The Series C/D Notes are in two series as follows:

Series	Aggregate Principal Amount	Interest Rate	Maturity Date
C	$75 million	4.88%	January 26, 2020
D	$75 million	5.35%	July 26, 2026

Interest on the Series C/D Notes is payable quarterly, starting on December 11, 2011. The Company is required to pay the entire unpaid principal amount of the Series C/D Notes on the maturity date set forth above for such series. The Company may make optional prepayments of the Series C/D Notes, subject to certain limitations and the requirement to pay an additional yield-maintenance amount in connection therewith. Upon a change of control, the holders of the Series C/D Notes have the right to require the Company to prepay the Series C/D Notes, including an additional yield-maintenance amount. The Note Agreement includes customary default provisions that include a default for the Company's default on other debt exceeding $25 million. If an event of default occurs, all outstanding obligations under the Series C/D Notes may become immediately due and payable.

The foregoing description of the Note Agreement and the Series C/D Notes does not purport to be complete and is qualified in its entirety by reference to such documents, forms of which were filed as Exhibit 10.1 to the Company's Report on Form 8-K filed March 16, 2011, and are incorporated by reference in this Current Report on Form 8-K.

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 hereunto duly authorized.

GRACO INC.

By /s/ James A. Graner

James A. Graner

Chief Financial Officer

Date: July 26, 2011

Exhibit IV

Quarterly Reports on Form 10-Q for the quarters ended on April 1, 2011, July 1, 2011 and September 30, 2011

GRACO INC (GGG)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 04/27/2011
Filed Period 04/01/2011

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 **April 1, 2011**

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

60,649,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of April 20, 2011.

INDEX

PART I

Item 1.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands except per share amounts)

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net Sales	$ 217,679	$ 164,721
Cost of products sold	93,282	75,426
Gross Profit	124,397	89,295
Product development	9,931	9,474
Selling, marketing and distribution	37,483	29,160
General and administrative	19,914	17,955
Operating Earnings	57,069	32,706
Interest expense	616	1,080
Other expense, net	-	161
Earnings Before Income Taxes	56,453	31,465
Income taxes	19,200	10,900
Net Earnings	$ 37,253	$ 20,565
Basic Net Earnings per Common Share	$ 0.62	$ 0.34
Diluted Net Earnings per Common Share	$ 0.61	$ 0.34
Cash Dividends Declared per Common Share	$ 0.21	$ 0.20

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands)

	April 1, 2011	Dec 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 102,509	$ 9,591
Accounts receivable, less allowances of $5,500 and $5,600	153,541	124,593
Inventories	102,785	91,620
Deferred income taxes	19,272	18,647
Other current assets	2,418	7,957
Total current assets	380,525	252,408
Property, Plant and Equipment		
Cost	342,777	344,854
Accumulated depreciation	(209,388)	(210,669)
Property, plant and equipment, net	133,389	134,185
Goodwill	91,740	91,740
Other Intangible Assets, net	25,461	28,338
Deferred Income Taxes	15,267	14,696
Other Assets	9,040	9,107
Total Assets	$ 655,422	$ 530,474
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 11,192	$ 8,183
Trade accounts payable	28,930	19,669
Salaries and incentives	18,362	34,907
Dividends payable	12,621	12,610
Other current liabilities	50,658	44,385
Total current liabilities	121,763	119,754
Long-term Debt	150,000	70,255
Retirement Benefits and Deferred Compensation	77,437	76,351
Shareholders' Equity		
Common stock	60,625	60,048
Additional paid-in-capital	227,823	212,073
Retained earnings	69,066	44,436
Accumulated other comprehensive income (loss)	(51,292)	(52,443)
Total shareholders' equity	306,222	264,114
Total Liabilities and Shareholders' Equity	$ 655,422	$ 530,474

See notes to consolidated financial statements.

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

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Cash Flows From Operating Activities		
Net Earnings	$ 37,253	$ 20,565
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	8,427	8,578
Deferred income taxes	(1,795)	(3,254)
Share-based compensation	2,658	2,108
Excess tax benefit related to share-based payment arrangements	(1,200)	(700)
Change in		
Accounts receivable	(27,372)	(19,601)
Inventories	(11,037)	(7,849)
Trade accounts payable	9,193	6,088
Salaries and incentives	(17,139)	1,333
Retirement benefits and deferred compensation	2,025	2,714
Other accrued liabilities	7,853	6,153
Other	5,314	(94)
Net cash provided by operating activities	14,180	16,041
Cash Flows From Investing Activities		
Property, plant and equipment additions	(4,517)	(2,847)
Proceeds from sale of property, plant and equipment	143	57
Capitalized software and other intangible asset additions	-	(125)
Net cash used in investing activities	(4,374)	(2,915)
Cash Flows From Financing Activities		
Borrowings on short-term lines of credit	7,861	3,851
Payments on short-term lines of credit	(5,220)	(960)
Borrowings on long-term notes and line of credit	252,175	17,315
Payments on long-term line of credit	(172,430)	(23,575)
Excess tax benefit related to share-based payment arrangements	1,200	700
Common stock issued	12,437	7,984
Common stock repurchased	-	(52)
Cash dividends paid	(12,612)	(12,002)
Net cash provided by (used in) financing activities	83,411	(6,739)
Effect of exchange rate changes on cash	(299)	(166)
Net increase (decrease) in cash and cash equivalents	92,918	6,221
Cash and cash equivalents		
Beginning of year	9,591	5,412
End of period	$ 102,509	$ 11,633

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 April 1, 2011 and the related statements of earnings for the thirteen weeks ended April 1, 2011 and March 26, 2010, and cash flows for the thirteen weeks ended April 1, 2011 and March 26, 2010 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 April 1, 2011, and the results of operations and cash flows for all periods presented.

   In the fourth quarter of 2010, the Company changed its cash flow presentation of notes payable activity, for all periods presented, to separately disclose borrowings and payments. The Company also changed the cash flow presentation of activity on the swingline portion of its long-term revolving credit arrangement by changing the method it uses to accumulate borrowing and payment amounts. In prior periods, such activity was disclosed on a net basis. The effect of this change was to increase both borrowings and payments on long-term line of credit by $17 million in the first quarter of 2010. These changes had no impact on net cash used in financing activities.

   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 2010 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	
	April 1, 2011	March 26, 2010
Net earnings available to common shareholders	$ 37,253	$ 20,565
Weighted average shares outstanding for basic earnings per share	60,270	60,206
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,090	507
Weighted average shares outstanding for diluted earnings per share	61,360	60,713
Basic earnings per share	$ 0.62	$ 0.34
Diluted earnings per share	$ 0.61	$ 0.34

Stock options to purchase 828,000 and 3,103,000 shares were not included in the 2011 and 2010 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 April 1, 2011 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 31, 2010	5,509	$ 30.42	2,980	$ 31.99
Granted	497	42.73		
Exercised	(235)	20.69		
Canceled	(17)	37.25		
Outstanding, April 1, 2011	5,754	$ 31.86	3,410	$ 32.08

The Company recognized year-to-date share-based compensation of $2.7 million in 2011 and $2.1 million in 2010. As of April 1, 2011, there was $13.0 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	
	April 1, 2011	March 26, 2010
Expected life in years	6.5	6.0
Interest rate	2.8 %	2.7 %
Volatility	33.7 %	33.8 %
Dividend yield	2.0 %	3.0 %
Weighted average fair value per share	$ 13.21	$ 7.16

Under the Company's Employee Stock Purchase Plan, the Company issued 313,000 shares in 2011 and 436,000 shares in 2010. 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	
	April 1, 2011	March 26, 2010
Expected life in years	1.0	1.0
Interest rate	0.3 %	0.3 %
Volatility	27.8 %	42.8 %
Dividend yield	2.1 %	2.9 %
Weighted average fair value per share	$ 10.05	$ 8.48

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

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Pension Benefits		
Service cost	$ 1,233	$ 1,241
Interest cost	3,370	3,277
Expected return on assets	(4,000)	(3,475)
Amortization and other	1,481	1,504
Net periodic benefit cost	$ 2,084	$ 2,547
Postretirement Medical		
Service cost	$ 125	$ 125
Interest cost	325	325
Net periodic benefit cost	$ 450	$ 450

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

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net earnings	$ 37,253	$ 20,565
Pension and postretirement medical liability adjustment	1,363	1,468
Gain (loss) on interest rate hedge contracts	454	705
Income taxes	(666)	(805)
Comprehensive income	$ 38,404	$ 21,933

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

	April 1, 2011	Dec 31, 2010
Pension and postretirement medical liability adjustment	$ (50,469)	$ (51,334)
Gain (loss) on interest rate hedge contracts	-	(286)
Cumulative translation adjustment	(823)	(823)
Total	$ (51,292)	$ (52,443)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. Sales and operating earnings by segment for the thirteen weeks ended April 1, 2011 and March 26, 2010 were as follows (in thousands):

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net Sales		
Industrial	$ 122,830	$ 96,792
Contractor	70,205	50,797
Lubrication	24,644	17,132
Total	$ 217,679	$ 164,721
Operating Earnings		
Industrial	$ 45,025	$ 30,474
Contractor	11,115	4,883
Lubrication	5,227	1,707
Unallocated corporate (expense)	(4,298)	(4,358)
Total	$ 57,069	$ 32,706

Assets by segment were as follows (in thousands):

	April 1, 2011	Dec 31, 2010
Industrial	$ 286,027	$ 270,160
Contractor	155,261	134,938
Lubrication	85,017	81,746
Unallocated corporate	129,117	43,630
Total	$ 655,422	$ 530,474

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

	April 1, 2011	Dec 31, 2010
Finished products and components	$ 53,719	$ 48,670
Products and components in various stages of completion	36,028	31,275
Raw materials and purchased components	48,630	46,693
	138,377	126,638
Reduction to LIFO cost	(35,592)	(35,018)
Total	$ 102,785	$ 91,620

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
April 1, 2011					
Customer relationships	5-8	$ 40,875	$ (26,180)	$ (181)	$ 14,514
Patents, proprietary technology and product documentation	3-10	19,452	(14,233)	(87)	5,132
Trademarks, trade names and other	3	6,960	(4,325)	-	2,635
		67,287	(44,738)	(268)	22,281
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 70,467	$ (44,738)	$ (268)	$ 25,461
December 31, 2010					
Customer relationships	3-8	$ 41,075	$ (24,840)	$ (181)	$ 16,054
Patents, proprietary technology and product documentation	3-10	19,902	(13,956)	(87)	5,859
Trademarks, trade names and other	3-10	8,154	(4,909)	-	3,245
		69,131	(43,705)	(268)	25,158
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 72,311	$ (43,705)	$ (268)	$ 28,338

Amortization of intangibles was $2.9 million in the first quarter of 2011. Estimated annual amortization expense is as follows: $10.7 million in 2011, $8.8 million in 2012, $4.1 million in 2013, $0.9 million in 2014, $0.5 million in 2015 and $0.2 million thereafter.

9. Components of other current liabilities were (in thousands):

	April 1, 2011	Dec 31, 2010
Accrued self-insurance retentions	$ 6,797	$ 6,675
Accrued warranty and service liabilities	6,907	6,862
Accrued trade promotions	3,673	5,947
Payable for employee stock purchases	1,276	5,655
Income taxes payable	13,007	733
Other	18,998	18,513
Total other current liabilities	$ 50,658	$ 44,385

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 April 1, 2011	Year Ended Dec 31, 2010
Balance, beginning of year	$ 6,862	$ 7,437
Charged to expense	1,189	3,484
Margin on parts sales reversed	789	3,412
Reductions for claims settled	(1,933)	(7,471)
Balance, end of period	$ 6,907	$ 6,862

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.

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 April 1, 2011, with notional amounts totaling $21 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, including reference to market prices and financial models that incorporate relevant market assumptions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	April 1, 2011	Dec 31, 2010
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ —	$ (454)
Gain (loss) on foreign currency forward contracts			
Gains		$ 186	$ 92
Losses		(263)	(284)
Net	Other current liabilities	$ (77)	$ (192)

11. In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes (series A and B) in a private placement. Proceeds were used to repay revolving line of credit borrowings and invested in cash equivalents. The note agreement provides for the issuance and sale of an additional $150 million in unsecured notes (series C and D) on or before July 26, 2011.

Interest rates and maturity dates on the four series of notes are as follows (dollars in millions):

Series	Amount	Rate	Maturity
A	$ 75	4.00%	March 2018
B	$ 75	5.01%	March 2023
C	$ 75	4.88%	January 2020
D	$ 75	5.35%	July 2026

The note agreement requires the Company to maintain certain financial ratios as to cash flow leverage and interest coverage.

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

The estimated fair value of the notes sold in March 2011 is not significantly different from the $150 million carrying amount as of April 1, 2011.

12. In April 2011, the Company entered into a definitive agreement to purchase the finishing businesses of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. The agreement contemplates a closing date on or after June 1, 2011, subject to regulatory reviews and other customary closing conditions. The Company currently expects the transaction to close in the third quarter of 2011. The Company plans to finance the acquisition through a new committed $450 million revolving credit facility and funds available under the long-term notes referenced above.

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		
	April 1, 2011	March 26, 2010	% Change
Net Sales	$ 217.7	$ 164.7	32%
Net Earnings	$ 37.3	$ 20.6	81%
Diluted Net Earnings per Common Share	$ 0.61	$ 0.34	79%

All segments and geographic regions had double-digit percentage revenue growth for the first quarter. 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.

Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Americas[1]	$ 115.6	$ 86.7
Europe[2]	53.3	41.8
Asia Pacific	48.8	36.2
Consolidated	$ 217.7	$ 164.7

[1] North and South America, including the U.S.

[2] Europe, Africa and Middle East

First quarter sales increased 33 percent in the Americas, 27 percent in Europe and 35 percent in Asia Pacific (31 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increase of 32 percent.

Gross profit margin, expressed as a percentage of sales, was 57 percent, up from 54 percent for the first quarter last year. Higher production volume was the major factor in the improvement. Selling price increases also contributed to the increase in margin rates.

Total operating expenses increased $11 million (19 percent) compared to first quarter last year, including increases of $8 million in selling and marketing and $2 million in general and administrative. Increases in payroll (headcount and incentives) and product promotion (mostly Contractor segment) were related to higher levels of business activity. As a percentage of sales, operating expenses decreased to 31 percent from 34 percent for the first quarter last year.

The effective income tax rate was 34 percent compared to 34 1/2 percent for the first quarter last year. The decrease is mostly due to the federal R&D credit included in the 2011 rate. There was no R&D credit included in the rate for the first quarter of 2010.

Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net sales (in millions)		
Americas	$ 52.9	$ 41.9
Europe	34.4	27.9
Asia Pacific	35.5	27.0
Total	$ 122.8	$ 96.8
Operating earnings as a percentage of net sales	37%	31%

Industrial segment sales increased 26 percent in the Americas, 24 percent in Europe and 31 percent in Asia Pacific.

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net sales (in millions)		
Americas	$ 44.9	$ 31.9
Europe	16.7	12.6
Asia Pacific	8.6	6.3
Total	$ 70.2	$ 50.8
Operating earnings as a percentage of net sales	16%	10%

Contractor segment sales increased 41 percent in the Americas, with substantial gains in both the paint store and home center channels. Sales increased 33 percent in Europe and 38 percent in Asia Pacific.

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales. High product development expenses affected operating margin rate in 2010, and increased marketing, including product launch and promotion expenses, moderated the improvement in 2011.

Lubrication

	Thirteen Weeks Ended	
	April 1, 2011	March 26, 2010
Net sales (in millions)		
Americas	$ 17.8	$ 12.8
Europe	2.2	1.4
Asia Pacific	4.6	2.9
Total	$ 24.6	$ 17.1
Operating earnings as a percentage of net sales	21%	10%

Lubrication segment sales increased 39 percent in the Americas. From small bases, sales increased 55 percent in Europe and 61 percent in Asia Pacific.

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales.

Liquidity and Capital Resources

Net cash provided by operating activities was $14 million in 2011 and $16 million in 2010. The effect of higher net earnings was offset by larger increases in inventories and receivables and higher 2010 incentive and bonus payments made in the first quarter of 2011.

Since the end of 2010, inventories increased by $11 million to meet higher demand, and accounts receivable increased by $29 million due to higher sales levels.

At April 1, 2011, the Company had various lines of credit totaling $271 million, of which $262 million was unused.

In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes in a private placement. One series of notes totaling $75 million bears interest at 4.0 percent and matures in 2018. Another series of notes totaling $75 million bears interest at 5.01 percent and matures in 2023. Proceeds were used to repay revolving line of credit borrowings and invested in cash equivalents. The note agreement provides for the issuance and sale of an additional $150 million in unsecured notes on or before July 26, 2011. One series of notes to be issued totaling $75 million will bear interest at 4.88 percent and mature in 2020. Another series of notes to be issued totaling $75 million will bear interest at 5.35 percent and mature in 2026.

Under terms of the note agreement, interest is payable quarterly. The Company is required to maintain a cash flow leverage ratio of not more than 3.25 to 1.00 and an interest coverage ratio of not less than 3.00 to 1.00. If a significant acquisition is consummated, the agreement allows, for a one-year period, for a cash flow leverage ratio of 3.75 to 1.00 and an interest coverage ratio of not less than 2.50 to 1.00. The note agreement contains covenants typical of unsecured credit facilities, including customary default provisions. If an event of default occurs, all outstanding obligations may become immediately due and payable. The Company was in compliance with all financial covenants at April 1, 2011.

In April 2011, the Company entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. The agreement contemplates a closing date on or after June 1, 2011, subject to regulatory reviews and other customary closing conditions. The Company currently expects the transaction to close in the third quarter of 2011. The Company plans to finance the acquisition through a new committed $450 million revolving credit facility and funds available under the long-term notes referenced above.

Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2011.

Outlook

Management is optimistic that sales momentum will continue throughout 2011, although percentage gains may decline due to tougher sales comparisons, particularly in the Contractor segment, where the initial stocking of new handheld products occurred in the second quarter of 2010.

The pending acquisition of the ITW finishing businesses would advance all of the Company's stated core growth strategies, including new products and technology, geographic expansion, and new markets.

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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing business include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 and Item 1A of this Quarterly Report on Form 10-Q 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 2010 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 2010 Annual Report on Form 10-K, except for the addition of the risk factor described below:

Pending Acquisition — Our pending acquisition of the finishing business operations of Illinois Tool Works Inc. is subject to regulatory approvals and the expected benefits from the acquisition may not be fully realized.

We have entered into a definitive agreement to purchase the finishing business of Illinois Tools Works Inc. (ITW) in a $650 million cash transaction. We cannot predict whether or when the required regulatory approvals will be obtained or if the closing conditions will be satisfied. If we terminate the agreement before April 1, 2012 due to failure to obtain regulatory approval, we will be required to pay a $20 million termination fee. The $450 million revolving credit facility that will be used to finance the transaction has not yet been executed. After the transaction closes, significant changes to our financial condition as a result of global economic changes or difficulties in the integration of the newly acquired businesses may affect our ability to obtain the expected benefits from the transaction or to satisfy the financial covenants included in the terms of the financing arrangements.

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.

No shares were purchased in the first quarter of 2011. As of April 1, 2011, there were 5,179,638 shares that may yet be purchased under the Board authorization.

Item 6. Exhibits

10.1	Chief Executive Officer Restricted Stock Agreement (Performance-Based). Form of agreement used to award performance-based restricted stock to the Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed March 2, 2011).
10.2	Note Agreement, dated March 11, 2011, between Graco Inc. and the Purchasers listed on the Purchaser Schedule attached thereto, which includes as exhibits the form of Senior Notes (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed March 16, 2011).
10.3	Stock Option Agreement. Form of agreement used for award in 2011 of non-qualified stock options to chief executive officer under the Graco Inc. 2010 Stock Incentive Plan.
10.4	Stock Option Agreement. Form of agreement used for award in 2011 of non-qualified stock options to executive officers under the Graco Inc. 2010 Stock Incentive Plan.
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 First Quarter Earnings, dated April 27, 2011.
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: April 27, 2011 By: /s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

(Principal Executive Officer)

Date: April 27, 2011 By: /s/ James A. Graner
James A. Graner
Chief Financial Officer and Treasurer

(Principal Financial Officer)

Date: April 27, 2011 By: /s/ Caroline M. Chambers
Caroline M. Chambers

Vice President and Controller

(Principal Accounting Officer)

Exhibit 10.3

GRACO INC. 2010 STOCK INCENTIVE PLAN

CHIEF EXECUTIVE OFFICER STOCK OPTION AGREEMENT (Non-Qualified)

THIS AGREEMENT, made this «DATE» day of «MONTH», «YEAR», by and between Graco Inc., a Minnesota corporation (the "Company") and «NAME» ("«NAME»" or the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to the Graco Inc. 2010 Stock Incentive Plan (the "Plan") wishes to grant this stock option to Employee;

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

1. Grant of Option

The Company grants to Employee, 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 USD 1.00 per share, at the price of USD «PRICE» per share on the terms and conditions set forth in this Agreement. The date of grant of the Option is «DATE» (the "Date of Grant").

2. Duration and Exercisability

A. No portion of this Option may be exercised by Employee 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

Vesting 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 Employee 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, purchase such shares of Common Stock in any subsequent year during the term of this Option. This 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 Employee, 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 or any portion of the Option granted by this Agreement be exercised after the term of the Option expires.

3. Effect of Termination of Employment

A. If Employee's employment terminates for any reason other than Employee's gross and willful misconduct, death, retirement (as defined in Section 3D), or disability (as defined in Section 3D), Employee shall have the right to exercise that portion of the Option exercisable upon the date of termination of employment at any time within the period beginning on the day after termination of employment and ending at the close of trading on the Exchange ninety (90) days later.

B. If Employee's employment terminates by reason of Employee's gross and willful misconduct during employment, including, but not limited to, wrongful appropriation of Company funds, serious violations of Company policy, breach of fiduciary duty or the conviction of a felony, the unexercised portion of the Option shall terminate as of the time of the misconduct. If the Company determines subsequent to the termination of Employee's employment for whatever reason, that Employee engaged in conduct during employment that would constitute gross and willful misconduct justifying termination, the Option shall terminate as of the time of such misconduct. Furthermore, if the Option is exercised in whole or in part and the Company thereafter determines that Employee engaged in gross and willful misconduct during employment which would have justified termination 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. Gross and willful misconduct shall not include any action or inaction by the Employee contrary to the direction of the Board with respect to any initiative, strategy or action of the Company, which action or inaction the Employee believes is in the best interest of the Company.

C. If Employee shall die while employed by the Company or an affiliate and shall not have fully exercised the Option, all shares remaining under the Option shall become immediately exercisable. If Employee shall die within ninety (90) days after a termination of employment which meets the criteria of Section 3A above, only those shares vested as of the date of termination shall be exercisable. The executor or administrator of Employee's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent may exercise such exercisable shares at any time during a period beginning on the day after the date of Employee's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant.

D. If Employee's termination of employment is due to retirement or disability, all shares remaining under the Option shall become immediately exercisable. Employee shall be deemed to have retired if the termination of employment occurs for reasons other than the Employee's gross and willful misconduct, death, or disability after Employee (i) has attained age 55 and 10 years of service with the Company or an affiliate, or (ii) has attained age 65. Employee shall be deemed to be disabled if the termination of employment occurs because Employee is unable to work due to an impairment which would qualify as a disability under the Company's long term disability program. Employee may exercise the shares remaining unexercised at any time during a period beginning on the day after the date of Employee's termination of employment and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant. If Employee should die during the period between the date of Employee's retirement or disability and the expiration of the Option, the executor(s) or administrator(s) of the Employee'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 Employee's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant. Notwithstanding anything to the contrary contained in Section 3, if the Employee's employment is terminated by retirement (as defined in this Section 3D) and Employee has not given written notice to the Chair of the Management Organization and Compensation Committee of the Board of Directors (the "Committee"), of Employee's intention to retire not less than six (6) months prior to the date of his retirement, then in such event, for purposes of this Agreement only, said termination of employment shall be deemed to be not a retirement but a termination subject to the provisions of Section 3A, *provided, however,* that in the event that the Committee determines that said termination of employment without six (6) months prior written notice is in the best interests of the Company, such termination shall be deemed to be a retirement and shall be subject to this Section 3D.

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

F. 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. Employee 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 the Option price for all shares designated in the notice.

B. The Employee may, at Employee's election, pay the Option price as follows:

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

(2) by delivering to the Company for cancellation, shares of Common Stock of the Company which have been held by the Employee for not less than six (6) months with a fair market value equal to the Option 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 day immediately preceding the date of exercise on the Exchange. 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 Employee may, with the consent of the Company, pay the Option price by delivering to the Company 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. Payment of Withholding Taxes

Upon exercise of any portion of this Option, Employee shall pay to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements which arise as a result of the exercise of the Option or provide the Company with satisfactory indemnification for such payment. Employee may pay such amount by delivering to the Company for cancellation shares of Common Stock of the Company with a fair market value equal to the minimum amount of such withholding tax requirement by (i) electing to have the Company withhold shares otherwise to be delivered with a fair market value equal to the minimum statutory amount of such taxes required to be withheld by the Company, or (ii) electing to surrender to the Company previously owned shares with a fair market value equal to the amount of such minimum tax obligation.

6. 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 6A(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.

7. 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 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 7B) 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 7B, 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 7B if such Option shall have expired or been forfeited. For purposes of this Section 7B 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.

8. Miscellaneous

A. This Option is issued 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. This Agreement shall not confer on Employee any right with respect to continuance of employment by the Company or any of its subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time.

C. Neither Employee, the Employee's legal representative, nor the executor(s) or administrator(s) of the Employee'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 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. Employee 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. Employee also consents to the storage and processing of such data by such persons for this purpose.

IN WITNESS WHEREOF, the Company, by the Management Organization and Compensation Committee of the Board of Directors, and the Employee have caused this Agreement to be executed and delivered, all as of the day and year first above written.

GRACO INC.

Management Org and Comp Committee

By _____
«NAME»
Its Chairman

EMPLOYEE

By _____
«NAME»

Exhibit 10.4

GRACO INC. 2010 STOCK INCENTIVE PLAN

EXECUTIVE OFFICER STOCK OPTION AGREEMENT
(Non-Qualified)

THIS AGREEMENT, made this «DATE» day of «MONTH», «YEAR», by and between Graco Inc., a Minnesota corporation (the "Company") and «NAME» (the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to the Graco Inc. 2010 Stock Incentive Plan (the "Plan") wishes to grant this stock option to Employee;

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

1. Grant of Option

The Company grants to Employee, 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 USD 1.00 per share, at the price of USD «PRICE» per share on the terms and conditions set forth in this Agreement. The date of grant of the Option is «DATE» (the "Date of Grant").

2. Duration and Exercisability

A. No portion of this Option may be exercised by Employee 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

Vesting 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 Employee 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, purchase such shares of Common Stock in any subsequent year during the term of this Option. This 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 Employee, 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 or any portion of the Option granted by this Agreement be exercised after the term of the Option expires.

3. Effect of Termination of Employment

A. If Employee's employment terminates for any reason other than Employee's gross and willful misconduct, death, retirement (as defined in Section 3D), or disability (as defined in Section 3D), Employee shall have the right to exercise that portion of the Option exercisable upon the date of termination of employment at any time within the period beginning on the day after termination of employment and ending at the close of trading on the Exchange ninety (90) days later.

B. If Employee's employment terminates by reason of Employee's gross and willful misconduct during employment, including, but not limited to, wrongful appropriation of Company funds, serious violations of Company policy, breach of fiduciary duty or the conviction of a felony, the unexercised portion of the Option shall terminate as of the time of the misconduct. If the Company determines subsequent to the termination of Employee's employment for whatever reason, that Employee engaged in conduct during employment that would constitute gross and willful misconduct justifying termination, the Option shall terminate as of the time of such misconduct. Furthermore, if the Option is exercised in whole or in part and the Company thereafter determines that Employee engaged in gross and willful misconduct during employment which would have justified termination 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. If Employee shall die while employed by the Company or an affiliate and shall not have fully exercised the Option, all shares remaining under the Option shall become immediately exercisable. If Employee shall die within ninety (90) days after a termination of employment which meets the criteria of Section 3A above, only those shares vested as of the date of termination shall be exercisable. The executor or administrator of Employee's estate, or any person(s) to whom the Option was transferred by will or the applicable laws of distribution and descent may exercise such exercisable shares at any time during a period beginning on the day after the date of Employee's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant.

D. If Employee's termination of employment is due to retirement or disability, all shares remaining under the Option shall become immediately exercisable. Employee shall be deemed to have retired if the termination of employment occurs for reasons other than the Employee's gross and willful misconduct, death, or disability after Employee (i) has attained age 55 and 10 years of service with the Company or an affiliate, or (ii) has attained age 65. Employee shall be deemed to be disabled if the termination of employment occurs because Employee is unable to work due to an impairment which would qualify as a disability under the Company's long term disability program. Employee may exercise the shares remaining unexercised at any time during a period beginning on the day after the date of Employee's termination of employment and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant. If Employee should die during the period between the date of Employee's retirement or disability and the expiration of the Option, the executor(s) or administrator(s) of the Employee'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 Employee's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant.

E. Notwithstanding anything to the contrary contained in this Section 3, if the Employee's employment is terminated by retirement (as defined in Section 3D) and Employee has not given the Company written notice to his/her immediate supervisor and the Chief Executive Officer, of Employee's intention to retire not less than six (6) months prior to the date of his/her retirement, then in such event, for purposes of this Agreement only, said termination of employment shall be deemed to be not a retirement but a termination subject to the provisions of Section 3A, *provided, however,* that in the event that the Chief Executive Officer determines that said termination of employment without six (6) months prior written notice is in the best interests of the Company, such termination shall be deemed to be a retirement and shall be subject to Section 3D.

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

G. 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. Employee 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 the Option price for all shares designated in the notice.

B. The Employee may, at Employee's election, pay the Option price as follows:

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

(2) by delivering to the Company for cancellation, shares of Common Stock of the Company which have been held by the Employee for not less than six (6) months with a fair market value equal to the Option 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 day immediately preceding the date of exercise on the Exchange. 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 Employee may, with the consent of the Company, pay the Option price by delivering to the Company 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. Payment of Withholding Taxes

Upon exercise of any portion of this Option, Employee shall pay to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements which arise as a result of the exercise of the Option or provide the Company with satisfactory indemnification for such payment. Employee may pay such amount by delivering to the Company for cancellation shares of Common Stock of the Company with a fair market value equal to the minimum amount of such withholding tax requirement by (i) electing to have the Company withhold shares otherwise to be delivered with a fair market value equal to the minimum statutory amount of such taxes required to be withheld by the Company, or (ii) electing to surrender to the Company previously owned shares with a fair market value equal to the amount of such minimum tax obligation.

6. 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 6A(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.

7. 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 of Directors (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 7B) 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 7B, 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 7B if such Option shall have expired or been forfeited. For purposes of this Section 7B 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.

8. Miscellaneous

A. This Option is issued 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. This Agreement shall not create an employment relationship between Employee and the Company and shall not confer on Employee any right with respect to continuance of employment by the Company or any of its affiliates or subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time.

C. Neither Employee, the Employee's legal representative, nor the executor(s) or administrator(s) of the Employee'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. This option has been granted to Employee as a purely discretionary benefit and shall not form part of Employee's salary or entitle Employee to receive similar option grants in the future. Benefits received under the Plan shall not be used in calculating severance payments, if any.

E. 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.

F. The internal law, and not the law of conflicts, of the State of Minnesota, USA, 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

G. Employee hereby consents to the transfer by his/her 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. Employee 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 _____
«NAME»
President and Chief Executive Officer

EMPLOYEE

_____
«NAME»

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 27, 2011

/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 27, 2011

/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 27, 2011

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

Date: April 27, 2011

/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

FOR IMMEDIATE RELEASE:
April 27, 2011

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

GRACO REPORTS RECORD FIRST QUARTER SALES AND EARNINGS
STRONG SALES GROWTH CONTINUES IN ALL SEGMENTS AND REGIONS

MINNEAPOLIS, MN (April 27, 2011) — Graco Inc. **(NYSE: GGG)** today announced results for the first quarter ended April 1, 2011.

Summary

$ in millions except per share amounts

	Thirteen Weeks Ended		
	April 1, 2011	March 26, 2010	% Change
Net Sales	$ 217.7	$ 164.7	32%
Net Earnings	37.3	20.6	81%
Diluted Net Earnings per Common Share	$ 0.61	$ 0.34	79%

- All segments and regions had double-digit percentage revenue growth.
- Gross margin rate of 57 percent was 3 percentage points higher than the rate for the first quarter last year.
- Sales growth and expense leverage drove operating margin improvement in all segments.
- Net earnings were 17 percent of sales, 5 percentage points higher than the first quarter last year.
- Proceeds from the private placement of $150 million in notes were used to repay revolving line of credit borrowings and invested in cash equivalents.

"Sales momentum picked up in 2010 and continued into the first quarter of 2011," said Patrick J. McHale, President and Chief Executive Officer. "Revenue gains were strong across all segments and regions. Returns on the investments we made during the recession are significant contributors to current growth. Our good start to 2011 reflects improved economic conditions and solid execution of our core growth strategies, including new products and technology, geographic expansion and new markets."

Consolidated Results

First quarter sales increased 33 percent in the Americas, 27 percent in Europe and 35 percent in Asia Pacific (31 percent at consistent translation rates). Translation rates did not have a significant impact on the overall sales increase of 32 percent.

Gross profit margin, expressed as a percentage of sales, was 57 percent, up from 54 percent for the first quarter last year. Higher production volume was the major factor in the improvement. Selling price increases also contributed to the increase in margin rates.

Total operating expenses increased $11 million (19 percent) compared to first quarter last year, including increases of $8 million in selling and marketing and $2 million in general and administrative. Increases in payroll (headcount

and incentives) and product promotion (mostly Contractor segment) were related to higher levels of business activity. As a percentage of sales, operating expenses decreased to 31 percent from 34 percent for the first quarter last year.

The effective income tax rate was 34 percent compared to 34½ percent for the first quarter last year. There was no federal R&D credit included in the 2010 rate.

Segment Results

Certain measurements of segment operations are summarized below:

	Thirteen Weeks		
	Industrial	**Contractor**	**Lubrication**
Net sales (in millions)	$ 122.8	$ 70.2	$ 24.6
Net sales percentage change from last year	27%	38%	44%
Operating earnings as a percentage of net sales			
2011	37%	16%	21%
2010	31%	10%	10%

All segments had strong increases in sales and improved operating margins. Industrial segment sales increased 27 percent, with gains of 26 percent in the Americas, 24 percent in Europe and 31 percent in Asia Pacific. Contractor segment sales increased 38 percent, including a gain of 41 percent in the Americas, with substantial increases in both the paint stores and home centers channels. Sales in this segment were up 33 percent in Europe and 38 percent in Asia Pacific. Lubrication segment sales increased 44 percent, with strong percentage gains in all regions.

Higher volume and leveraging of expenses drove continued improvement in operating earnings. Compared to first quarter last year, operating earnings as a percentage of sales increased by more than 5 percentage points in all segments.

Outlook

"We're optimistic that sales momentum will continue throughout 2011, although we expect that percentage gains will decline due to tougher sales comparisons, particularly in the Contractor segment, where the initial stocking of new handheld products occurred in the second quarter of 2010," said Patrick J. McHale, President and Chief Executive Officer. "We are excited about the previously announced pending acquisition of the ITW finishing businesses. Financing is committed for the $650 million transaction and we look forward to complementing Graco's already strong business model with the premium brands, strong distribution channel and global manufacturing capabilities of those businesses."

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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing business include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 (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 28, 2011, 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 28, 2011, by dialing 800-406-7325, Conference ID #4432429, 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 May 2, 2011.

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 99.1

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

(in thousands, except per share amounts)	Thirteen Weeks Ended April 1, 2011	Thirteen Weeks Ended March 26, 2010
Net Sales	$ 217,679	$ 164,721
Cost of products sold	93,282	75,426
Gross Profit	124,397	89,295
Product development	9,931	9,474
Selling, marketing and distribution	37,483	29,160
General and administrative	19,914	17,955
Operating Earnings	57,069	32,706
Interest expense	616	1,080
Other expense, net	—	161
Earnings Before Income Taxes	56,453	31,465
Income taxes	19,200	10,900
Net Earnings	$ 37,253	$ 20,565
Net Earnings per Common Share		
Basic	$ 0.62	$ 0.34
Diluted	$ 0.61	$ 0.34
Weighted Average Number of Shares		
Basic	60,270	60,206
Diluted	61,360	60,713

Segment Information (Unaudited)

	Thirteen Weeks Ended April 1, 2011	Thirteen Weeks Ended March 26, 2010
Net Sales		
Industrial	$ 122,830	$ 96,792
Contractor	70,205	50,797
Lubrication	24,644	17,132
Total	$ 217,679	$ 164,721
Operating Earnings		
Industrial	$ 45,025	$ 30,474
Contractor	11,115	4,883
Lubrication	5,227	1,707
Unallocated corporate (expense)	(4,298)	(4,358)
Total	$ 57,069	$ 32,706

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 07/27/2011
Filed Period 07/01/2011

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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 **July 1, 2011**

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

60,850,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of July 20, 2011.

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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	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net Sales	$ 234,663	$ 192,088	$ 452,342	$ 356,809
Cost of products sold	102,217	90,168	195,499	165,594
Gross Profit	132,446	101,920	256,843	191,215
Product development	10,354	9,472	20,285	18,946
Selling, marketing and distribution	39,582	32,647	77,065	61,807
General and administrative	24,255	20,592	44,169	38,547
Operating Earnings	58,255	39,209	115,324	71,915
Interest expense	1,732	1,041	2,348	2,121
Other expense, net	324	(268)	324	(107)
Earnings Before Income Taxes	56,199	38,436	112,652	69,901
Income taxes	18,100	13,600	37,300	24,500
Net Earnings	$ 38,099	$ 24,836	$ 75,352	$ 45,401
Basic Net Earnings per Common Share	$ 0.63	$ 0.41	$ 1.25	$ 0.75
Diluted Net Earnings per Common Share	$ 0.61	$ 0.41	$ 1.22	$ 0.74
Cash Dividends Declared per Common Share	$ 0.21	$ 0.20	$ 0.42	$ 0.40

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands)

	July 1, 2011	Dec 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 119,267	$ 9,591
Accounts receivable, less allowances of $5,700 and $5,600	159,807	124,593
Inventories	113,494	91,620
Deferred income taxes	20,952	18,647
Other current assets	3,616	7,957
Total current assets	417,136	252,408
Property, Plant and Equipment		
Cost	345,871	344,854
Accumulated depreciation	(212,933)	(210,669)
Property, plant and equipment, net	132,938	134,185
Goodwill	93,400	91,740
Other Intangible Assets, net	23,250	28,338
Deferred Income Taxes	15,550	14,696
Other Assets	9,995	9,107
Total Assets	$ 692,269	$ 530,474
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 13,935	$ 8,183
Trade accounts payable	27,418	19,669
Salaries and incentives	24,350	34,907
Dividends payable	12,751	12,610
Other current liabilities	42,832	44,385
Total current liabilities	121,286	119,754
Long-term Debt	150,000	70,255
Retirement Benefits and Deferred Compensation	78,246	76,351
Shareholders' Equity		
Common stock	60,816	60,048
Additional paid-in-capital	238,016	212,073
Retained earnings	94,305	44,436
Accumulated other comprehensive income (loss)	(50,400)	(52,443)
Total shareholders' equity	342,737	264,114

Total Liabilities and Shareholders' Equity	$ 692,269	$ 530,474

See notes to consolidated financial statements.

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

	Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010
Cash Flows From Operating Activities		
Net Earnings	$ 75,352	$ 45,401
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	17,542	17,319
Deferred income taxes	(4,223)	(5,247)
Share-based compensation	6,287	5,127
Excess tax benefit related to share-based payment arrangements	(1,700)	(900)
Change in		
Accounts receivable	(32,590)	(40,392)
Inventories	(21,446)	(17,742)
Trade accounts payable	7,642	9,552
Salaries and incentives	(11,633)	7,624
Retirement benefits and deferred compensation	4,040	4,996
Other accrued liabilities	62	1,287
Other	4,558	1,020
Net cash provided by operating activities	43,891	28,045
Cash Flows From Investing Activities		
Property, plant and equipment additions	(9,999)	(5,932)
Proceeds from sale of property, plant and equipment	188	123
Acquisition of business	(2,139)	-
Investment in life insurance	-	(1,499)
Capitalized software and other intangible asset additions	(485)	(193)
Net cash used in investing activities	(12,435)	(7,501)
Cash Flows From Financing Activities		
Borrowings on short-term lines of credit	13,550	6,410
Payments on short-term lines of credit	(8,328)	(3,406)
Borrowings on long-term notes and line of credit	252,175	45,800
Payments on long-term line of credit	(172,430)	(52,060)
Payments of debt issuance costs	(1,131)	-
Excess tax benefit related to share-based payment arrangements	1,700	900
Common stock issued	18,705	8,815
Common stock repurchased	-	(3,462)
Cash dividends paid	(25,342)	(24,122)
Net cash provided by (used in) financing activities	78,899	(21,125)
Effect of exchange rate changes on cash	(679)	47
Net increase (decrease) in cash and cash equivalents	109,676	(534)
Cash and cash equivalents		
Beginning of year	9,591	5,412

End of period	$ 119,267	$ 4,878

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of July 1, 2011 and the related statements of earnings for the thirteen and twenty-six weeks ended July 1, 2011 and June 25, 2010, and cash flows for the twenty-six weeks ended July 1, 2011 and June 25, 2010 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 July 1, 2011, and the results of operations and cash flows for all periods presented.

In the fourth quarter of 2010, the Company changed its cash flow presentation of notes payable activity, for all periods presented, to separately disclose borrowings and payments. The Company also changed the cash flow presentation of activity on the swingline portion of its long-term revolving credit arrangement by changing the method it uses to accumulate borrowing and payment amounts. In prior periods, such activity was disclosed on a net basis. The effect of this change was to increase both borrowings and payments on long-term line of credit by $46 million in the first half of 2010. These changes had no impact on net cash used in financing activities.

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 2010 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	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net earnings available to common shareholders	$ 38,099	$ 24,836	$ 75,352	$ 45,401
Weighted average shares outstanding for basic earnings per share	60,721	60,597	60,496	60,402
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,349	587	1,219	546
Weighted average shares outstanding for diluted earnings per share	62,070	61,184	61,715	60,948
Basic earnings per share	$ 0.63	$ 0.41	$ 1.25	$ 0.75
Diluted earnings per share	$ 0.61	$ 0.41	$ 1.22	$ 0.74

Stock options to purchase 438,000 and 2,987,000 shares were not included in the 2011 and 2010 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 July 1, 2011 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 31, 2010	5,509	$ 30.42	2,980	$ 31.99
Granted	569	43.15		
Exercised	(425)	26.00		
Canceled	(33)	35.18		
Outstanding, July 1, 2011	5,620	$ 32.01	3,304	$ 32.01

The Company recognized year-to-date share-based compensation of $6.3 million in 2011 and $5.1 million in 2010. As of July 1, 2011, there was $11.3 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.2 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	
	July 1, 2011	June 25, 2010
Expected life in years	6.5	6.0
Interest rate	2.8 %	2.7 %
Volatility	33.7 %	34.0 %
Dividend yield	2.0 %	3.0 %
Weighted average fair value per share	$ 13.35	$ 7.38

Under the Company's Employee Stock Purchase Plan, the Company issued 313,000 shares in 2011 and 436,000 shares in 2010. 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	
	July 1, 2011	June 25, 2010
Expected life in years	1.0	1.0
Interest rate	0.3 %	0.3 %
Volatility	27.8 %	42.8 %
Dividend yield	2.1 %	2.9 %
Weighted average fair value per share	$ 10.05	$ 8.48

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Pension Benefits				
Service cost	$ 1,232	$ 894	$ 2,465	$ 2,135
Interest cost	3,370	3,138	6,740	6,415
Expected return on assets	(4,000)	(3,325)	(8,000)	(6,800)
Amortization and other	1,465	1,548	2,946	3,052
Net periodic benefit cost	$ 2,067	$ 2,255	$ 4,151	$ 4,802
Postretirement Medical				
Service cost	$ 125	$ 150	$ 250	$ 275
Interest cost	325	295	650	620
Amortization	-	(95)	-	(95)
Net periodic benefit cost	$ 450	$ 350	$ 900	$ 800

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net earnings	$ 38,099	$ 24,836	$ 75,352	$ 45,401
Pension and postretirement medical liability adjustment	1,429	1,491	2,792	2,959
Gain (loss) on interest rate hedge contracts	-	933	454	1,638
Income taxes	(537)	(896)	(1,203)	(1,701)
Comprehensive income	$ 38,991	$ 26,364	$ 77,395	$ 48,297

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

	July 1, 2011	Dec 31, 2010
Pension and postretirement medical liability adjustment	$ (49,577)	$ (51,334)
Gain (loss) on interest rate hedge contracts	-	(286)
Cumulative translation adjustment	(823)	(823)
Total	$ (50,400)	$ (52,443)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. Sales and operating earnings by segment for the thirteen and twenty-six weeks ended July 1, 2011 and June 25, 2010 were as follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net Sales				
Industrial	$ 129,304	$ 100,461	$ 252,134	$ 197,253
Contractor	80,702	73,782	150,907	124,579
Lubrication	24,657	17,845	49,301	34,977
Total	$ 234,663	$ 192,088	$ 452,342	$ 356,809
Operating Earnings				
Industrial	$ 45,339	$ 29,565	$ 90,364	$ 60,039
Contractor	16,424	13,203	27,539	18,086
Lubrication	4,045	1,868	9,272	3,575
Unallocated corporate (expense)	(7,553)	(5,427)	(11,851)	(9,785)
Total	$ 58,255	$ 39,209	$ 115,324	$ 71,915

Unallocated corporate includes $3 million of expense in 2011 related to the pending acquisition of ITW's finishing businesses.

Assets by segment were as follows (in thousands):

	July 1, 2011	Dec 31, 2010
Industrial	$ 302,554	$ 270,160
Contractor	159,373	134,938
Lubrication	88,130	81,746
Unallocated corporate	142,212	43,630
Total	$ 692,269	$ 530,474

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

	July 1, 2011	Dec 31, 2010
Finished products and components	$ 56,934	$ 48,670
Products and components in various stages of completion	37,636	31,275
Raw materials and purchased components	55,928	46,693
	150,498	126,638
Reduction to LIFO cost	(37,004)	(35,018)
Total	$ 113,494	$ 91,620

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
July 1, 2011					
Customer relationships	2 - 8	$ 40,925	$ (27,716)	$ (181)	$ 13,028
Patents, proprietary technology and product documentation	3 -10	14,752	(9,688)	(87)	4,977
Trademarks, trade names and other	2 - 3	6,970	(4,905)	-	2,065
		62,647	(42,309)	(268)	20,070
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 65,827	$ (42,309)	$ (268)	$ 23,250
December 31, 2010					
Customer relationships	3 - 8	$ 41,075	$ (24,840)	$ (181)	$ 16,054
Patents, proprietary technology and product documentation	3 - 10	19,902	(13,956)	(87)	5,859
Trademarks, trade names and other	3 - 10	8,154	(4,909)	-	3,245
		69,131	(43,705)	(268)	25,158
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 72,311	$ (43,705)	$ (268)	$ 28,338

Amortization of intangibles was $2.9 million in the second quarter of 2011 and $5.7 million year-to-date. Estimated annual amortization expense is as follows: $10.9 million in 2011, $9.0 million in 2012, $4.3 million in 2013, $0.9 million in 2014, $0.5 million in 2015 and $0.2 million thereafter.

9. Components of other current liabilities were (in thousands):

	July 1, 2011	Dec 31, 2010
Accrued self-insurance retentions	$ 6,900	$ 6,675
Accrued warranty and service liabilities	6,859	6,862
Accrued trade promotions	4,150	5,947
Payable for employee stock purchases	3,129	5,655
Income taxes payable	2,220	733
Other	19,574	18,513
Total other current liabilities	$ 42,832	$ 44,385

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 July 1, 2011	Year Ended Dec 31, 2010
Balance, beginning of year	$ 6,862	$ 7,437
Charged to expense	2,385	3,484
Margin on parts sales reversed	2,058	3,412
Reductions for claims settled	(4,446)	(7,471)
Balance, end of period	$ 6,859	$ 6,862

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.

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. The notional amount of contracts outstanding as of July 1, 2011, totaled $23 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, including reference to market prices and financial models that incorporate relevant market assumptions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	July 1, 2011	Dec 31, 2010
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ -	$ (454)
Gain (loss) on foreign currency forward contracts			
Gains		$ 41	$ 92
Losses		(344)	(284)
Net	Other current liabilities	$ (303)	$ (192)

11. In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes (series A and B) in a private placement. Proceeds were used to repay revolving line of credit borrowings and invested in cash equivalents. In July 2011, the Company sold an additional $150 million in unsecured notes (series C and D). Proceeds were invested in cash equivalents.

Interest rates and maturity dates on the four series of notes are as follows (dollars in millions):

Series	Amount	Rate	Maturity
A	$ 75	4.00 %	March 2018
B	$ 75	5.01 %	March 2023
C	$ 75	4.88 %	January 2020
D	$ 75	5.35 %	July 2026

The note agreement requires the Company to maintain certain financial ratios as to cash flow leverage and interest coverage.

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

The estimated fair value of the notes sold in March 2011 is not significantly different from the $150 million carrying amount as of July 1, 2011.

12. In April 2011, the Company entered into a definitive agreement to purchase the finishing businesses of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. Closing on the purchase is subject to regulatory reviews and other customary closing conditions. The Company is cooperating with the Federal Trade Commission to obtain clearance to close on the transaction. The Company plans to finance the acquisition through a new committed $450 million revolving credit facility that will become effective upon closing of the purchase, and funds available under the long-term notes referenced above.

Also in April 2011, the Company acquired the assets and assumed certain liabilities of Eccentric Pumps, LLC ("Eccentric") for approximately $2.1 million cash. Eccentric was engaged in the business of designing and selling peristaltic hose pumps for metering, dosing and transferring fluids. The Company expects to employ the Eccentric assets to expand and complement its Industrial segment business. The purchase price was allocated based on estimated fair values, including $1.7 million of goodwill and $0.7 million of other identifiable intangible assets.

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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		
	July 1, 2011	June 25, 2010	% Change	July 1, 2011	June 25, 2010	% Change
Net Sales	$ 234.7	$ 192.1	22%	$ 452.3	$ 356.8	27%
Net Earnings	$ 38.1	$ 24.8	53%	$ 75.4	$ 45.4	66%
Diluted Net Earnings per Common Share	$ 0.61	$ 0.41	49%	$ 1.22	$ 0.74	65%

All segments and geographic regions had strong percentage revenue growth over last year for the quarter and year-to-date. Volume increases continued to drive improvement in net earnings. Changes in translation rates increased net earnings for the quarter by approximately $4 million and increased year-to-date earnings by approximately $5 million.

Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Americas[1]	$ 125.7	$ 110.2	$ 241.3	$ 196.9
Europe[2]	58.0	44.0	111.3	85.8
Asia Pacific	51.0	37.9	99.7	74.1
Consolidated	$ 234.7	$ 192.1	$ 452.3	$ 356.8

[1] North and South America, including the U.S.
[2] Europe, Africa and Middle East

Sales for the quarter increased 22 percent (18 percent at consistent translation rates), including increases of 14 percent in the Americas, 32 percent in Europe (21 percent at consistent translation rates) and 34 percent in Asia Pacific (27 percent at consistent translation rates). Year-to-date sales increased 27 percent (24 percent at consistent translation rates), with increases of 23 percent in the Americas, 30 percent in Europe (24 percent at consistent translation rates) and 35 percent in Asia Pacific (29 percent at consistent translation rates).

Gross profit margin, expressed as a percentage of sales, was 56 1/2 percent for the quarter, up 3 percentage points from the second quarter last year. The year-to-date gross margin rate was 57 percent, also 3 percentage points higher than the rate for the comparable period last year. The favorable effects of higher volume, translation, and selling price increases were offset somewhat by higher material costs for both the quarter and the year-to-date.

Total operating expenses increased $11 million for the quarter and $22 million year-to-date. Selling, marketing and distribution expenses increased $7 million for the quarter and $15 million year-to-date, from translation, headcount increases (mostly in Europe and Asia Pacific) and higher marketing and promotion expenses (mainly in Contractor segment). General and administrative expense for the quarter increased $4 million, including $3 million related to the pending acquisition of ITW's finishing businesses.

The effective income tax rate of 32 percent for the quarter and 33 percent for the year-to-date is lower than the 35 percent rate for both the quarter and year-to-date periods last year. The decrease is mainly due to the federal R&D credit included in the 2011 rate (the federal R&D credit was not available in 2010 until the fourth quarter).

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Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Industrial

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net sales (in millions)				
Americas	$ 55.9	$ 45.5	$ 108.8	$ 87.4
Europe	36.1	27.1	70.5	55.0
Asia Pacific	37.3	27.9	72.8	54.9
Total	$ 129.3	$ 100.5	$ 252.1	$ 197.3
Operating earnings as a percentage of net sales	35 %	29 %	36 %	30 %

Industrial segment sales for the quarter increased 23 percent in the Americas, 33 percent in Europe (22 percent at consistent translation rates) and 34 percent in Asia Pacific (28 percent at consistent translation rates). Year-to-date sales increased 25 percent in the Americas, 28 percent in Europe (23 percent at consistent translation rates) and 33 percent in Asia Pacific (28 percent at consistent translation rates).

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net sales (in millions)				
Americas	$ 52.5	$ 51.6	$ 97.4	$ 83.5
Europe	19.6	15.2	36.3	27.8
Asia Pacific	8.6	7.0	17.2	13.3
Total	$ 80.7	$ 73.8	$ 150.9	$ 124.6
Operating earnings as a percentage of net sales	20 %	18 %	18 %	15 %

Contractor segment sales for the quarter increased 2 percent in the Americas, 29 percent in Europe (17 percent at consistent translation rates) and 23 percent in Asia Pacific (13 percent at consistent translation rates). Year-to-date sales increased 17 percent in the Americas, 30 percent in Europe (24 percent at consistent translation rates) and 30 percent in Asia Pacific (22 percent at consistent translation rates).

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales. High product development expenses affected the operating margin rate

in 2010, and increased marketing, including product launch and promotion expenses, moderated the improvement in 2011.

Lubrication

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2011	June 25, 2010	July 1, 2011	June 25, 2010
Net sales (in millions)				
Americas	$ 17.2	$ 13.2	$ 35.0	$ 26.0
Europe	2.3	1.5	4.5	2.9
Asia Pacific	5.2	3.1	9.8	6.0
Total	$ 24.7	$ 17.8	$ 49.3	$ 34.9
Operating earnings as a percentage of net sales	16 %	10 %	19 %	10 %

Lubrication segment sales for the quarter increased 30 percent in the Americas, 55 percent in Europe and 64 percent in Asia Pacific. Year-to-date sales increased 34 percent in the Americas, 55 percent in Europe and 63 percent in Asia Pacific.

Higher volume and expense leverage contributed to the improvement in operating earnings as a percentage of sales.

Liquidity and Capital Resources

Net cash provided by operating activities was $44 million in 2011 and $28 million in 2010. The effect of higher net earnings was offset by higher 2010 incentive and bonus payments made in the first quarter of 2011.

Since the end of 2010, inventories increased by $22 million to meet higher demand, and accounts receivable increased by $35 million due to higher sales levels.

At July 1, 2011, the Company had various lines of credit totaling $272 million, of which $261 million was unused.

In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes in a private placement. One series of notes totaling $75 million bears interest at 4.0 percent and matures in 2018. Another series of notes totaling $75 million bears interest at 5.01 percent and matures in 2023. Under terms of the agreement, the Company sold an additional $150 million of unsecured notes on July 26, 2011. One series of notes issued in July totaling $75 million bears interest at 4.88 percent and matures in 2020. Another series of notes issued in July totaling $75 million bears interest at 5.35 percent and matures in 2026. Proceeds were used to repay revolving line of credit borrowings and invested in cash equivalents.

Under terms of the note agreement, interest is payable quarterly. The Company is required to maintain a cash flow leverage ratio of not more than 3.25 to 1.00 and an interest coverage ratio of not less than 3.00 to 1.00. If a significant acquisition is consummated, the agreement allows, for a one-year period, for a cash flow leverage ratio of 3.75 to 1.00 and an interest coverage ratio of not less than 2.50 to 1.00. The note agreement contains covenants typical of

unsecured credit facilities, including customary default provisions. If an event of default occurs, all outstanding obligations may become immediately due and payable. The Company was in compliance with all financial covenants at July 1, 2011.

In April 2011, the Company entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. Closing on the purchase is subject to regulatory reviews and other customary closing conditions. On July 5, 2011, the Company received a request for additional information from the Federal Trade Commission. The issuance of this second request extends the waiting period to close the acquisition to thirty days after the Company has substantially complied with the request. The Company is in the process of responding to the second request.

The Company plans to finance the acquisition with borrowings under the long-term notes referenced above and with borrowings under a new revolving credit facility that will become effective upon closing of the purchase. In May 2011, the Company entered into a credit agreement providing the Company access to a $450 million unsecured revolving credit facility until May 2016. The Company may not obtain any loans under the credit agreement until certain conditions are met, including the closing of the acquisition of ITW's finishing businesses and the Company receiving not less than $75 million in proceeds from the issuance of additional long-term notes.

Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2011.

Outlook

On a global basis, incoming order rates are stable and management expects market conditions in the second half of 2011 to be generally favorable, with the exception of the U.S. housing and commercial construction markets, which continue to be challenging. Percentage growth trends in the second half of 2011 are expected to be lower as comparisons to prior year become more difficult.

The pending acquisition of the ITW finishing businesses would advance all of the Company's stated core growth strategies, including new products and technology, geographic expansion, and new markets.

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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 the acquisition of the finishing businesses of ITW, 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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing businesses include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 and Item 1A of this Quarterly Report on Form 10-Q 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.

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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 2010 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, 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.

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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 2010 Annual Report on Form 10-K, except for the addition of the risk factor described below:

Pending Acquisition - Our pending acquisition of the finishing business operations of Illinois Tool Works Inc. is subject to regulatory approvals and the expected benefits from the acquisition may not be fully realized.

We have entered into a definitive agreement to purchase the finishing business of Illinois Tools Works Inc. (ITW) in a $650 million cash transaction. We cannot predict whether or when the required regulatory approvals will be obtained or if the closing conditions will be satisfied. If we terminate the agreement before April 1, 2012 due to failure to obtain regulatory approval, we will be required to pay a $20 million termination fee. After the transaction closes, significant changes to our financial condition as a result of global economic changes or difficulties in the integration of the newly acquired businesses may affect our ability to obtain the expected benefits from the transaction or to satisfy the financial covenants included in the terms of the financing arrangements.

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.

No shares were purchased in the second quarter of 2011. As of July 1, 2011, there were 5,179,638 shares that may yet be purchased under the Board authorization.

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Item 6. Exhibits

2.1	Asset Purchase Agreement, dated April 14, 2011, by and among Graco Inc., Graco Holdings Inc., Graco Minnesota Inc., Illinois Tool Works Inc. and ITW Finishing LLC (excluding schedules and exhibits, which the Registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request) (incorporated by reference to Exhibit 2.1 to the Company's Report on Form 8-K filed April 15, 2011).
10.1	Credit Agreement, dated May 23, 2011, among Graco Inc., the borrowing subsidiaries from time to time party thereto, the banks from time to time party thereto and U.S. Bank National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed May 26, 2011).
10.2	Amendment No. 1 to Note Agreement, dated May 23, 2011.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification of President and Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Title 18, U.S.C.
99.1	Press Release, Reporting Second Quarter Earnings, dated July 27, 2011.
101	Interactive Data File.

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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 27, 2011 By: /s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 27, 2011 By: /s/ James A. Graner
James A. Graner
Chief Financial Officer
(Principal Financial Officer)

Date: July 27, 2011 By: /s/ Caroline M. Chambers
Caroline M. Chambers
Vice President and Controller
(Principal Accounting Officer)

Exhibit 10.2

May 23, 2011

Graco Inc.
88 11th Avenue NE
Minneapolis, Minnesota 55413

Re: Amendment No. 1 to Note Agreement

Ladies and Gentlemen:

Reference is made to that certain Note Agreement, dated as of March 11, 2011 (the **"Note Agreement"**), between Graco Inc., a Minnesota corporation (the **"Company"**), on the one hand, and The Prudential Insurance Company of America, Gibraltar Life Insurance Co., Ltd., The Prudential Life Insurance Company, Ltd., Forethought Life Insurance Company, RGA Reinsurance Company, MTL Insurance Company and Zurich American Insurance Company, on the other hand. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Note Agreement.

The Company has requested certain amendments to the Note Agreement set forth below. Subject to the terms and conditions hereof, the undersigned holders of the Notes are willing to agree to such request. Accordingly, and in accordance with the provisions of paragraph 11C of the Note Agreement, the parties hereto agree as follows:

SECTION 1. Amendments to the Note Agreement. Effective upon the Effective Date (as defined in Section 2 below), the parties hereto agree that the Note Agreement is amended as follows:

1.1. The reference to "90" in clause (ii) of paragraph 5A of the Note Agreement is amended to be "75".

1.2. Paragraph 5M of the Note Agreement is added to the Note Agreement to read as follows:

"5M. Pledge Agreements. The Company covenants that if at any time the Company or any Domestic Subsidiary owning stock or Ownership Interests of a Material Foreign Subsidiary is required to secure the obligations under a Primary Credit Facility with a security interest in such stock or Ownership Interest of such Material Foreign Subsidiary, the Company will promptly execute, or cause such Domestic Subsidiary owning such stock or Ownership Interests of a Material Foreign Subsidiary to promptly execute, a pledge agreement to pledge to the Collateral Agent for the benefit of the holders of the Notes and other secured parties pursuant to the Intercreditor Agreement with respect to the lesser of (i) 65% of the outstanding stock or other Ownership Interests of a Material Foreign Subsidiary, or (ii) all of the stock or other Ownership Interests of such Material

Foreign Subsidiary owned by the Company or such Domestic Subsidiary at any time. The Company further agrees to deliver to the Collateral Agent all such pledge agreements, to the extent necessary to grant the Collateral Agent a security interest in 65% of the outstanding stock or other Ownership Interests of each first-tier Material Foreign Subsidiary, together (to the extent available and applicable) with appropriate corporate resolutions and other documentation (including the certificates representing the stock or Ownership Interests of such Material Foreign Subsidiary subject to such pledge, executed assignments separate from the certificates (stock powers) for such certificates with respect to any Material Foreign Subsidiary thereto executed in blank, such other documents as shall be reasonably requested to perfect the Lien of such pledge, and, if the lenders under a Primary Credit Facility have received similar legal opinions, opinions of counsel addressed to the holders of the Notes), in each case in form and substance reasonably satisfactory to the Required Holder(s), and in a manner that the Required Holder(s) shall be reasonably satisfied that the Collateral Agent has a first priority perfected pledge of or charge over the Ownership Interest pledged pursuant to such pledge agreements."

1.3. Paragraph 6A of the Note Agreement is amended in its entirety to read as follows:

"6A. Financial Covenants.

6A(1). Cash Flow Leverage Ratio. The Company will not permit the Cash Flow Leverage Ratio, as of the end of any fiscal quarter of the Company, to exceed 3.25 to 1.00; provided, however, that, in connection with any Permitted Acquisition for which the purchase consideration equals or exceeds $200,000,000 (including the Finishing Group Acquisition), the maximum Cash Flow Leverage Ratio, with prior notice to the holders of the Notes, shall increase to 3.75 to 1.00 for the four fiscal quarter period beginning with the quarter in which such Permitted Acquisition occurs, so long as (i) the Company is in pro forma compliance herewith at such 3.75 to 1.00 level before and after giving effect to such Permitted Acquisition and (ii) after any such Permitted Acquisition that results in an increase to the 3.75 to 1.00 level, the Cash Flow Leverage Ratio permitted under this paragraph 6A(1) shall decrease to 3.25 to 1.00 for at least one fiscal quarter before becoming eligible to again increase to 3.75 to 1.00 for a new period of four consecutive fiscal quarters (with the understanding that any Permitted Acquisition occurring during such fiscal quarter would be required to comply with the 3.25 to 1.00 ratio).

6A(2). Interest Coverage Ratio. The Company will not permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters ending on the last day of any fiscal quarter to be less than 3.00 to 1.00; provided, however, that, in connection with any Permitted Acquisition for which the purchase consideration equals or exceeds $200,000,000 (including the Finishing Group Acquisition), the minimum Interest Coverage Ratio, with prior notice to the holders of the Notes, shall decrease to 2.50 to 1.00 for the four fiscal quarter period beginning with the quarter in which such Permitted Acquisition occurs, so

long as (i) the Company is in pro forma compliance herewith at such 2.50 to 1.00 level before and after giving effect to such Permitted Acquisition and (ii) after any such Permitted Acquisition that results in a decrease to the 2.50 to 1.00 level, the Interest Coverage Ratio permitted under this paragraph 6A(2) shall increase to 3.00 to 1.00 for at least one fiscal quarter before becoming eligible to again decrease to 2.50 to 1.00 for a new period of four consecutive fiscal quarters (with the understanding that any Permitted Acquisition occurring during such fiscal quarter would be required to comply with the 3.00 to 1.00 ratio)."

1.4. Clause (iii) of paragraph 6L of the Note Agreement is hereby deleted.

1.5. The reference "subject to paragraph 11W" appearing in clause (iii) of paragraph 7A of the Note Agreement is hereby deleted.

1.6. Clause (xiii) of paragraph 7A of the Note Agreement is amended in its entirety to read as follows:

"(xiii) if (a) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (b) a notice of intent to terminate any Plan shall have been filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, or (c) any Plan is in "at-risk status" (within the meaning of section 430(i)(4) of the Code) and the aggregate value of the liabilities of all Plans that are in at-risk status exceeds the aggregate value of the assets of all Plans that are in at-risk status by more than $50,000,000 (with liabilities and assets valued in the manner used to determine the funding target attainment percentage under Section 430 of the Code (disregarding the special rules contained in Section 430(i)(1)(B)), (d) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (e) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (f) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and, if such event or events are events described in clauses (a), (b) or (d) through (f) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or"

1.7. Paragraph 10B of the Note Agreement is hereby amended by amending and restating, or inserting in the appropriate alphabetical sequence, as the case may be, the following definitions:

"Change of Control" shall mean

(i), either (a) the acquisition by any "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Exchange Act, but excluding any employee benefit plan of the Company or its Subsidiaries, and any Person acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) of beneficial ownership (as defined in Rules 13d-3 and 13d-4 of the Securities and Exchange Commission, except that a Person shall be deemed to have beneficial ownership of all securities that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 30% or more of the voting power of the then-outstanding voting capital stock of the Company; or (b) a change in the composition of the board of directors of the Company such that continuing directors cease to constitute more than 50% of such board of directors. As used in this definition, "continuing directors" means, as of any date, (1) those members of the board of directors of the Company who assumed office prior to such date, and (2) those members of the board of directors of the Company who assumed office after such date and whose appointment or nomination for election by the Company's shareholders was approved by a vote of at least 50% of the directors of the Company in office immediately prior to such appointment or nomination; or (ii) a "change of control" or any similar event shall occur under, and as defined in documents pertaining to, any Indebtedness in excess of $10,000,000 in the aggregate (other than the Notes) of the Company or any Material Subsidiary.

"Collateral Agent" shall mean U.S. Bank National Association in its capacity as Collateral Agent under the Intercreditor Agreement, or any successor in such capacity.

"Contingent Obligation" means, with respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or otherwise: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any direct or indirect security therefor, (ii) to purchase property, securities, Ownership Interests or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (iii) to maintain working capital, equity capital or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (iv) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against loss in respect thereof; provided, that the term "Contingent Obligation"

shall not include endorsements for collection or deposit, in each case in the ordinary course of business, and shall not include earn-outs in connection with Permitted Acquisitions and other acquisitions not prohibited hereby.

"Credit Agreement" shall mean that certain Credit Agreement dated as of May 23, 2011 among the Company, the Borrowing Subsidiaries defined therein, the Banks named therein, U.S. Bank National Association, as Administrative Agent and JPMorgan Chase Bank N.A., as Syndication Agent, as such agreement is amended, restated, supplemented or otherwise modified or extended, renewed or refinanced from time to time.

"EBITDA" means, for any period of determination, the consolidated net income of the Company and its Subsidiaries, plus, to the extent subtracted in determining consolidated net income and without duplication, (i) Interest Expense, (ii) depreciation, (iii) amortization, (iv) income tax expense, (v) extraordinary, non-operating or noncash charges and expenses for (including but not limited to non-cash stock compensation expense, non-cash pension expense, workforce reduction or other restructuring charges, and transaction costs, fees and charges incurred in connection with the acquisition of any substantial portion of the Ownership Interests or assets of, or a line of business or division of, another Person, including any merger or consolidation with such other Person), minus, the aggregate amount of extraordinary, non-operating or non-cash gains and income (including, without limitation, extraordinary or nonrecurring gains, gains from the discontinuance of operations and gains arising from the sale of assets other than inventory, all as determined in accordance with GAAP). For purposes of calculating EBITDA, with respect to any period of determination, (i) Permitted Acquisitions that have been made by the Company and its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the period of determination shall be deemed to have occurred on the first day of the period of determination; provided that only the actual historical results of operations of the Persons so acquired, without adjustment for pro forma expense savings or revenue increases, shall be used for such calculation; and provided, further, that the EBITDA of the Person so acquired attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the end of such period of determination, shall be excluded, and (ii) dispositions that have been made by the Company and its Subsidiaries during the period of determination shall be deemed to have occurred on the first day of the period of determination; provided that the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) attributable to the property that is the subject of such disposition for such period of increased by an amount equal to the EBITDA (if negative) attributable thereto for such period.

"Finishing Group Acquisition" shall mean the acquisition by the Company of substantially all of the domestic and foreign assets and foreign equity interests of ITW Finishing Group from Illinois Tool Works Inc.

"Intercreditor Agreement" shall mean that certain Intercreditor and Collateral Agency Agreement, dated as of May 23, 2011, by and among U.S. Bank National Association, as the administrative agent under the Credit Agreement, U.S. Bank National Association, as the collateral agent appointed pursuant to the terms and conditions thereof, and the holders of the Notes, as such agreement is amended, restated, modified or supplemented from time to time.

"Interest Expense" shall mean, for any period of determination, the aggregate consolidated amount, without duplication, of interest expense determined in accordance with GAAP excluding amortization of financing fees to the extent included in interest expense but specifically including (i) all but the principal component of payments in respect of conditional sale contracts, Capitalized Leases and other title retention agreements, (ii) commissions, discounts and other fees and charges with respect to letters of credit and bankers' acceptance financings and (iii) Rate Hedging Obligations, in each case determined in accordance with GAAP. Notwithstanding the foregoing, for the first four fiscal quarters following the consummation of a Material Acquisition, Interest Expense shall be adjusted, on a basis acceptable to the Required Holders, to give effect to any such acquisition as if it had occurred on the first day of the measurement period.

"Material Acquisition" means a Permitted Acquisition by the Company or a Subsidiary where total consideration for such acquisition exceeds $25,000,000.

"Material Foreign Subsidiary" shall mean any Foreign Subsidiary that is a Material Subsidiary.

"Permitted Acquisition" shall mean the acquisition by the Company or a Subsidiary of all or substantially all of the Ownership Interests or assets of any other Person (including by merger) or of all or substantially all of the assets of a division, business unit, product line or line of business of any other Person, provided that (i) following such acquisition, the Company shall be in compliance with paragraph 6G hereof, (ii) such acquisition shall occur at a time that no Event of Default shall have occurred and continued hereunder and no Event of Default shall result therefrom, (iii) if it is an acquisition of Ownership Interests and a new Material Subsidiary is thereby created, such Material Subsidiary shall become a Guarantor or the Company or Subsidiary that is the owner thereof shall have pledged the Ownership Interest thereof, if so required by paragraph 5K or 5M hereof, (iv) such acquisition shall be consummated on a non-hostile basis and shall have been approved by the board of directors (or similar governing body) of any Person acquired, and (v) the Company shall have furnished to the holders of the Notes a certificate signed by a Responsible Employee demonstrating in reasonable detail pro forma compliance with the financial covenants contained in paragraphs 6A(1), 6A(2) and 6J for the applicable calculation period, in each case, calculated as if such acquisition, including the consideration therefor, had been consummated on the first day of such period.

"Pledge Agreement" has the meaning given in Amendment No. 1 to this Agreement.

"Rate Hedging Obligations" means any and all obligations and exposure of the Company and its Subsidiaries under (i) any and all agreements, devices or arrangements designed to protect the Company or any Subsidiary from the fluctuations of interest rates or currencies, including interest rate or foreign exchange agreements, interest rate or currency cap or collar protection agreements, and interest rate and currency options, puts and warrants, determined on a net, mark-to-market basis, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Senior Creditor" means any Person that (i) from time to time extends credit to the Company that is not subordinate or junior in right of payment or Lien priority to the Notes and the other obligations under this Agreement and the other Transaction Documents, (ii) extends credit that constitutes a Primary Credit Facility and (iii) becomes a party to and is bound by the terms of the Intercreditor Agreement (including, without limitation, all limitations set forth therein).

1.8. The following definition is deleted from paragraph 10B of the Note Agreement:

"Significant Acquisition"

1.9. Paragraph 11V is amended by adding the following sentence to the end thereof:

"In addition, if a Material Foreign Subsidiary, 65% of the Ownership Interests of which are pledged to the Collateral Agent (such Subsidiary referred to as a **"Restructured Foreign Subsidiary"**), becomes a direct or indirect wholly owned Subsidiary of another Foreign Subsidiary (such other Foreign Subsidiary being referred to herein as a **"Foreign Holding Subsidiary"**), the holders of the Notes hereby authorize the Collateral Agent to release such pledge of the Ownership Interests of such Restructured Subsidiary if requested by the Company, provided that (a) at least 65% of the outstanding Ownership Interests of such Foreign Holding Subsidiary are pledged to the Collateral Agent pursuant to the Pledge Agreement and (b) no holder of any Indebtedness outstanding under any Primary Credit Facility shall have received any release, waiver or similar fees for the foregoing release unless the holders of the Notes receive fees on a pro rata basis in proportion to the relative outstanding principal amounts of the Notes and the principal amount of the Indebtedness outstanding under such Primary Credit Facility (including, in the case of a revolving credit facility, the aggregate principal amount of additional loans that the lenders are legally committed to fund thereunder)."

1.10. Paragraph 11W of the Note Agreement is hereby deleted.

1.11. Schedule 8A(1) to the Note Agreement is replaced by Schedule 8A(1) attached to this letter agreement.

SECTION 2. Effectiveness. The amendments in Section 1 of this letter agreement shall become effective on the date (the "**Effective Date**") that each of the following conditions has been satisfied:

2.1. Documents. Each holder of a Note shall have received original counterparts of this letter agreement executed by the holders of the Notes, the Company and each Guarantor.

2.2. New Credit Agreement. Each holder of a Note shall have received copies of the executed Credit Agreement (as defined in the Note Agreement as amended hereby) in form and substance satisfactory to each holder of a Note, the Credit Agreement shall be in full force and effect and all conditions to the obligations of the Banks named therein to make the initial loans thereunder shall have been satisfied.

2.3. Joinder to Guaranty Agreement. Each holder of a Note shall have received a copy of a joinder to the Guaranty Agreement in the form of exhibit attached to the Note Agreement executed by Graco Holdings Inc.

2.4. Intercreditor Agreement. Each holder of a Note shall have received an executed copy of the Intercreditor Agreement in the form attached hereto as Exhibit A, and such Intercreditor Agreement shall be in full force and effect.

2.5. Pledge Agreement. Each holder of a Note shall have received an executed copy of the pledge agreement (the **"Pledge Agreement"**) required by paragraph 5M of the Note Agreement as amended hereby in the form attached hereto as Exhibit B, and such Pledge Agreement shall be in full force and effect.

2.6. Representations. All representations set forth in Section 3 shall be true and correct as of the Effective Date, except for such representations and warranties that speak of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date.

2.7. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated by this letter agreement shall be satisfactory to each holder of a Note and its counsel, and each holder of a Note shall have received all such counterpart originals or certified or other copies of such documents as they may reasonably request.

SECTION 3. Representations and Warranties. The Company represents and warrants to each holder of Note that (i) immediately before and after giving effect to the amendments to the Note Agreement in Section 1 hereof, (a) each representation and warranty set forth in paragraph 8 of the Note Agreement is true and correct other than those representations and warranties that speak as of a certain date, in which case such representation and warranty was true and correct as of such earlier date, (b) no Event of Default or Default exists and (ii) all necessary or required consents to this letter agreement have been obtained and are in full force and effect.

SECTION 4. Reference to and Effect on Note Agreement. Upon the effectiveness of the amendments made in this letter agreement, each reference to the Note Agreement in any other document, instrument or agreement shall mean and be a reference to the Note Agreement as modified by this letter agreement. Except as specifically set forth in Section 1 hereof, the Note Agreement and the Notes shall remain in full force and effect and are hereby ratified and confirmed in all respects. Except as specifically stated in Section 1 of this letter agreement, the execution, delivery and effectiveness of this letter agreement shall not (a) amend the Note Agreement, any Note or any other Transaction Document, (b) operate as a waiver of any right, power or remedy of the holder of any Note, or (c) constitute a waiver of, or consent to any departure from, any provision of the Note Agreement, any Note or any of the other Transaction Documents at any time. The execution, delivery and effectiveness of this letter agreement shall not be construed as a course of dealing or other implication that any holder of Notes has agreed to or is prepared to grant any amendment to, waiver of or consent under the Note Agreement, any Note or any other Transaction Document in the future, whether or not under similar circumstances.

SECTION 5. Expenses. The Company hereby confirms its obligations under the Note Agreement, whether or not the transactions hereby contemplated are consummated, to pay, promptly after request by the holders of the Notes, all reasonable out-of-pocket costs and expenses, including attorneys' fees and expenses, incurred by such holders in connection with this letter agreement or the transactions contemplated hereby, in enforcing any rights under this letter agreement, or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this letter agreement or the transactions contemplated hereby. The obligations of the Company under this Section 5 shall survive transfer by any holder of any Note and payment of any Note.

SECTION 6. Reaffirmation. Each Guarantor hereby consents to the foregoing amendments to the Note Agreement and hereby ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under the Guaranty Agreement after giving effect to such amendments. Each Guarantor hereby acknowledges that, notwithstanding the foregoing amendments, that the Guaranty Agreement remains in full force and effect and is hereby ratified and confirmed. Without limiting the generality of the foregoing, each Guarantor agrees and confirms that the Guaranty Agreement continues to guaranty the obligations arising under or in connection with the Note Agreement, as the same may be amended by this letter agreement.

SECTION 7. Governing Law. THIS LETTER AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS OF SUCH STATE WHICH WOULD OTHERWISE CAUSE THIS LETTER TO BE CONSTRUED OR ENFORCED OTHER THAN IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

SECTION 8. Counterparts; Section Titles. This letter agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of

a signature page to this letter agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this letter agreement. The section titles contained in this letter agreement are and shall be without substance, meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

SECTION 9 Acknowledgement of Status of Existing Credit Agreement. The Company acknowledges that the Credit Agreement (as defined in the Note Agreement prior to giving effect to the amendments contained in Section 1 hereof) has been renewed, extended, refinanced or replaced as contemplated by clause (a) of the definition of "Permitted Foreign Stock Pledge" contained in the Note Agreement as of the Effective Date.

Very truly yours,

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Dianna Carr
Vice President

GIBRALTAR LIFE INSURANCE CO., LTD.
THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD.

By: Prudential Investment Management (Japan), Inc.,
as Investment Manager

By: Prudential Investment Management, Inc.,
as Sub-Adviser

By: /s/ Dianna Carr
Vice President

FORETHOUGHT LIFE INSURANCE COMPANY
RGA REINSURANCE COMPANY
MTL INSURANCE COMPANY
ZURICH AMERICAN INSURANCE COMPANY

By: Prudential Private Placement Investors, L.P.
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.
(as its General Partner)

By: /s/ Dianna Carr
Vice President

Accepted and Agreed to:

GRACO INC.

By: /s/ James A. Graner
Name: James A. Graner
Title: Chief Financial Officer & Treasurer

GRACO MINNESOTA INC.

By: /s/ James A. Graner
Name: James A. Graner
Title: Chief Financial Officer & Treasurer

GRACO OHIO INC.

By: /s/ James A. Graner
Name: James A. Graner
Title: Chief Financial Officer & Treasurer

GRACO HOLDINGS INC.

By: /s/ James A. Graner
Name: James A. Graner
Title: Chief Financial Officer & Treasurer

Exhibit 10.2

SCHEDULE 8A(1)

SUBSIDIARIES

Subsidiary	**Jurisdiction**	**Holders of Ownership Interests**	**Liable under a Contingent Obligation, or as a Co-Borrower or Co-Obligor, under a Primary Credit Facility**
Graco Australia Pty Ltd.	Australia	100% by the Company	No
Graco California Inc.	Minnesota	100% by the Company	No
Graco Canada Inc.	Canada	100% by the Company	No
Graco do Brasil Lmtda	Brazil	100% by the Company[1]	No
Graco Fluid Equipment (Shanghai) Co., Ltd.	People's Republic of China	100% by the Company	No
Graco Fluid Equipment (Suzhou) Co., Ltd.	People's Republic of China	100% by Graco Minnesota Inc.	No
Graco GmbH	Germany	100% by the Company	No
Graco Holdings Inc.	Minnesota	100% by the Company	Guarantor under the Credit Agreement
Graco Hong Kong Ltd.	People's Republic of China (Special Adm Region)	100% by the Company	No
Graco Indiana Inc.	Delaware	100% by the Company	No
Graco K.K.	Japan	100% by the Company	No
Graco Korea Inc.	Korea	100% by the Company	No
Graco Ltd.	United Kingdom	100% by the Company	No
Graco Minnesota Inc.	Minnesota	100% by the Company	Guarantor under the Credit Agreement
Graco N.V.	Belgium	100% by the Company[2]	No
Graco Ohio Inc.	Ohio	100% by the Company	Guarantor under the Credit Agreement
Graco S.A.S.	France	100% by the Company	No
Graco Trading (Suzhou) Co., Ltd.	People's Republic of China	100% by Graco Minnesota Inc.	No
Gusmer Corporation	Delaware	100% by the Company	No
Gusmer Canada Ltd.	Canada	100% by Gusmer Corporation	No
Gusmer Sudamerica S.A.	Argentina	100% by the Company[3]	No

[1] Includes shares held by executive officers of the Company or the relevant subsidiary to satisfy the requirements of local law.
[2] Includes shares held by executive officers of the Company or the relevant subsidiary to satisfy the requirements of local law.
[3] Shares held by executive officers of the Company to satisfy the requirements of local law.

Exhibit A

INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT

This Intercreditor and Collateral Agency Agreement (this "**Agreement"**), dated as of May 23, 2011, is entered into by and among U.S. Bank National Association, as the administrative agent under the below-defined Bank Credit Agreement (the "**Bank Agent**"), U.S. Bank National Association, as the collateral agent appointed pursuant to the terms and conditions hereof (the "**Collateral Agent**"), and The Prudential Insurance Company of America, Gibraltar Life Insurance Co., Ltd., The Prudential Life Insurance Company, Ltd., Forethought Life Insurance Company, RGA Reinsurance Company, MTL Insurance Company and Zurich American Insurance Company (each, together with its successors and permitted assigns, and any other holder of any Senior Notes, a "**Noteholder**", and collectively the "**Noteholders**").

WITNESSETH:

WHEREAS, Graco Inc. (the "**Company**"), the institutions from time to time party thereto as lenders (the "**Banks**"), and the Bank Agent are parties to a Credit Agreement dated as of May 23, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "**Bank Credit Agreement**");

WHEREAS, the Company and the Noteholders named in the Purchaser Schedule attached thereto are party to that certain Note Agreement, dated as of March 11, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"March 11, 2011 Note Purchase Agreement**"), pursuant to which the Company has issued or expects to issue its 4.00% Series A Senior Notes due March 11, 2018 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series A Notes"**), 5.01% Series B Senior Notes due March 11, 2023 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series B Notes"**), 4.88% Series C Senior Notes due January 26, 2023 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Series C Notes"**) and 5.35% Series D Senior Notes due July 26, 2026 (as the case may be amended, restated, supplemented or otherwise modified form time to time, the **"Series D Notes"**); and

WHEREAS, it is contemplated that the Company will enter into a Note Agreement (as the same may be amended, restated, supplemented or otherwise modified from time to time, the **"Additional Note Purchase Agreement"**; and, together with the March 2011 Note Agreement, the **"Note Purchase Agreements"**) with one or more affiliates of The Prudential Insurance Company of America under which the Company will issue one or more additional series of its senior notes (each as amended, restated, supplemented or otherwise modified from time to time, the **"Additional Senior Notes"** and, together with the Series A Notes, the Series B Notes, the Series C Notes and the Series D Notes, collectively, the **"Senior Notes"**) in the aggregate principal amount of $75,000,000 (the Senior Notes, together with the Bank Credit Agreement, the Note Purchase Agreements and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended,

restated, supplemented or otherwise modified from time to time), the "**Senior Indebtedness Documents**");

WHEREAS, the Banks and the Noteholders (together with the Bank Agent, the "**Creditors**") have provided the Company with various loans, extensions of credit and financial accommodations under the Senior Indebtedness Documents (collectively, the "**Senior Indebtedness**");

WHEREAS, in order to make and continue making and extending such loans, extensions of credit and financial accommodations, the Creditors have required that the Company and certain of its subsidiaries (collectively, the "**Grantors**") guaranty and/or secure the Obligations (as hereafter defined);

WHEREAS, the Creditors wish to appoint the Collateral Agent to hold all security interests and liens granted by the Grantors in respect of the Obligations; and

WHEREAS, the Creditors wish to agree upon certain matters in respect of the Senior Indebtedness, including, without limitation, payment priorities and the application of Collateral (as defined below) proceeds;

NOW, THEREFORE, for the above reasons, in consideration of the mutual covenants herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

For the purposes of this Agreement, the following terms shall have the meanings specified with respect thereto below. Any plural term that is used herein in the singular shall be taken to mean each entity or item of the defined class and any singular term that is used herein in the plural shall be taken to mean all of the entities or items of the defined class, collectively.

"Affiliate" of any Person shall mean any other Person which directly or indirectly controls, is controlled by or is under common control with such first Person. A Person shall be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of voting securities, by contract or otherwise.

"Collateral" shall mean all property and assets, and interests in property and assets, upon or in which the Grantors have granted a lien or security interest to the Collateral Agent to secure all or any part of the Obligations.

"Collateral Agent Expenses" shall mean, without limitation, all costs and expenses incurred by the Collateral Agent in connection with the performance of its duties under this Agreement, including the realization upon or protection of the Collateral or enforcing or defending any lien upon or security interest in the Collateral or any other action taken in accordance with the provisions of this Agreement, expenses incurred for legal counsel (including reasonable allocated costs of staff counsel) in connection with the foregoing, and any other costs, expenses or liabilities incurred by the Collateral Agent for which the Collateral Agent is entitled

to be reimbursed or indemnified by any Grantor pursuant to this Agreement or any Collateral Document or by the Creditors pursuant to this Agreement.

"Collateral Documents" shall mean all agreements, documents and instruments (including, without limitation, all pledge agreements, security agreements, mortgages, collateral assignments, financing statements, and other perfection documents) entered into, delivered or authorized from time to time by any Grantor in favor of the Collateral Agent in respect of the Obligations or otherwise entered into, delivered or authorized from time to time by a Grantor to secure all or any part of the Obligations, as each may be amended, restated, supplemented or otherwise modified from time to time.

"Enforcement" shall mean:

(a) for the Bank Agent or any Bank to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith or to call for funding of cash collateral for any Letter of Credit prior to being presented with a draft drawn thereunder (or in the event the draft is a time draft, prior to its due date), in each case on account of an "Event of Default" under and as defined in the Bank Credit Agreement;

(b) for any Noteholder to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under either Note Purchase Agreement, the Senior Notes, or the agreements, documents and instruments delivered in connection therewith;

(c) for the Bank Agent or any Bank to terminate its commitment to extend loans or other financial accommodations, including issuances of Letters of Credit, to the Company or any other Grantor prior to the final scheduled payment date for all Obligations thereunder or prior to the scheduled termination date for such commitment (as such scheduled termination date is in effect on the date hereof or, if later, such date to which any such scheduled termination date may hereafter be extended) , in each case on account of an "Event of Default" under and as defined in the Bank Credit Agreement;

(d) for the Bank Agent or any Bank to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, or to set off against any balances held by the Bank Agent or such Bank for the account of any Grantor or any other property at any time held or owing by the Bank Agent or such Bank to or for the credit or account of any Grantor;

(e) for any Noteholder to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, either Note Purchase Agreement, the Senior Notes, or any agreement, document or instrument delivered in connection therewith, or, if applicable, to set off against or appropriate any balances held by such Noteholder for the account of any Grantor or any other property at any time held or owing by such Noteholder to or for the credit or account of any Grantor;

(f) for the Collateral Agent to commence the judicial enforcement of any rights or remedies under any Collateral Document (other than an action solely for the purpose of establishing or defending the lien or security interest intended to be created by any Collateral Document upon or in any Collateral as against or from claims of third parties on or in such Collateral), to setoff against any balances held by it for the account of any Grantor or any other property at any time held or owing by it to or for the credit or for the account of any Grantor or to otherwise take any action to realize upon the Collateral (provided, however, that "Enforcement" shall not include the Bank Agent's charging of the Borrower's deposit account for non-accelerated amounts due in the ordinary course pursuant to the Credit Agreement); or

(g) the commencement by, against or with respect to any Grantor of any proceeding under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law or for the appointment of a receiver for any Grantor or its assets.

"Event of Default" shall mean (i) an "Event of Default" under and as defined in the Bank Credit Agreement, (ii) an "Event of Default" under and as defined in either Note Purchase Agreement or the Senior Notes, or (iii) any event, occurrence or action (or any failure to take any of the foregoing) that permits or automatically results in the acceleration of the repayment of any amount of Obligations under a Senior Indebtedness Document.

"Insolvent Entity" shall mean any entity that has (i) become or is insolvent or has a parent company that has become or is insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"L/C Interests" shall mean, with respect to any Bank, such Bank's direct or participation interests in all unpaid reimbursement obligations with respect to Letters of Credit, and such Bank's direct obligations or risk participations with respect to undrawn amounts of all outstanding Letters of Credit; provided, that the undrawn amounts of outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof.

"**Letters of Credit**" shall mean all letters of credit issued under the Bank Credit Agreement.

"Obligation Share" shall mean, with respect to any Creditor at any time, a fraction (expressed as a percentage), the numerator of which is the amount of Obligations owing to such Creditor at such time, and the denominator of which is the aggregate amount of all Obligations owing to all of the Creditors at such time.

"Obligations" shall mean each and every monetary obligation owed by a Grantor to the Creditors and the Collateral Agent under the Senior Indebtedness Documents, including,

without limitation, (1) the outstanding principal amount of, accrued and unpaid interest on, and any unpaid Yield-Maintenance Amount or other breakage or prepayment indemnification due with respect to Senior Indebtedness, (2) any unpaid reimbursement obligations with respect to any Letters of Credit, (3) any undrawn amounts of any outstanding Letters of Credit, and (4) any other unpaid amounts including amounts in respect of hedging obligations, foreign exchange obligations and treasury and cash management obligations permitted under the Senior Indebtedness Documents, and fees, expenses, indemnifications, and reimbursements due from the Grantors under any of the Senior Indebtedness Documents; provided that the undrawn amounts of any outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof. The term "Obligations" shall include all of the foregoing indebtedness, liabilities and obligations whether or not allowed as a claim in any bankruptcy, insolvency, receivership or similar proceeding.

"Person" shall mean any individual, corporation, partnership, limited liability company, trust or other entity.

"Principal Exposure" shall mean, with respect to any Creditor at any time, (i) if such Creditor is a Bank, the aggregate amount of such Bank's commitments to extend revolving credit (including letters of credit) under the Bank Credit Agreement plus, to the extent any term loans have been extended, the principal amount of such term loans, or, if the Banks shall then have terminated their commitments to extend credit under the Bank Credit Agreement, the sum of (x) the outstanding principal amount of all of such Bank's loans under the Bank Credit Agreement and (y) the outstanding face amount and/or principal amount of such Bank's L/C Interests at such time, and (ii) if such Creditor is a Noteholder, the outstanding principal amount of such Creditor's Senior Notes at such time.

"Pro Rata Share" shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor's Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all of the Creditors of the same class (i.e. Banks or Noteholders, as applicable) at such time.

"Pro Rata Expenses Share" shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor's Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all Creditors at such time.

"Qualified Creditor" shall mean any Creditor which is not an Affiliate of any Grantor.

"Required Creditors" shall mean, at any time, (i) Banks whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Banks and (ii) Noteholders whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Noteholders; provided, however, that only Pro Rata Shares of Senior Indebtedness held by Qualified Creditors shall be included in this determination; provided, further, that if at any time Obligations owing to Banks or Noteholders, as the case may be, are

less than both (A) $1,000,000, and (B) 10% of the aggregate Obligations (the Banks or the Noteholders, as the case may be, a "**Deminimis Group**"), then the Required Creditors shall be determined without regard to clause (i) if the Deminimis Group is the Banks, and clause (ii) if the Deminimis Group is the Noteholders.

"Specified Provisions" shall mean any of the terms relating to (i) amounts or timing of payment of interest or fees, (ii) terms relating to required payments or prepayments of any Obligations, (iii) financial and negative covenants set forth in the Senior Indebtedness Documents (including paragraph 6 of either Note Purchase Agreement and Article IX of the Bank Credit Agreement), (iv) covenants relating to the operations of the Company or its subsidiaries, (v) events of default, and (vi) definitions as used in any of the foregoing.

"Yield-Maintenance Amount" shall mean the "Yield-Maintenance Amount" as defined in either Note Purchase Agreement.

2. Appointment of Collateral Agent.

(a) Appointment of Collateral Agent. Subject in all respects to the terms and provisions of this Agreement, the Bank Agent, for itself and on behalf of the Banks, and the Noteholders hereby appoint U.S. Bank National Association to act as collateral agent for the benefit of the Creditors (the "**Collateral Agent**") with respect to the liens upon and the security interests in the Collateral and the rights and remedies granted under and pursuant to the Collateral Documents, and U.S. Bank National Association hereby accepts such appointment and agrees to act as such collateral agent. The agency created by this Section 2 shall in no way impair or affect any of the rights and powers of, or impart any duties or obligations upon, U.S. Bank National Association in its individual capacity as a lender or creditor under any Senior Indebtedness Document. To the extent legally necessary to enable the Collateral Agent to enforce or otherwise foreclose and realize upon any of the liens or security interests in the Collateral in any legal proceeding which the Collateral Agent either commences or joins as a party in accordance with the terms of this Agreement, each of the Creditors agrees to join as a party in such proceeding and take such action therein concurrently to enforce and obtain a judgment for the payment of the Obligations held by it.

(b) Duties of Collateral Agent. Subject to the Collateral Agent having been directed to take such action in accordance with the terms of this Agreement, each Creditor hereby irrevocably authorizes the Collateral Agent to take such action on its behalf under the provisions of the Collateral Documents and any other instruments, documents and agreements referred to in the Collateral Documents and to exercise such powers under the Collateral Documents as are specifically delegated to the Collateral Agent by the terms of the Collateral Documents and such other powers as are reasonably incidental thereto. Subject to the provisions of Section 11 of this Agreement, the Collateral Agent is hereby irrevocably authorized to take all actions on behalf of the Creditors to enforce the rights and remedies of the Collateral Agent and the Creditors provided for in the Collateral Documents or by applicable law with respect to the liens upon and security interests in the Collateral granted to secure the Obligations provided, however, that, notwithstanding any provision to the contrary in any Collateral Documents, (i) the Collateral Agent shall act solely at and in accordance with the written direction of the Required Creditors, (ii) the Collateral Agent shall not, without the written consent of all of the Qualified

Creditors, release or terminate by affirmative action or consent any lien upon or security interest in any Collateral granted under any Collateral Documents (except (x) upon (1) dispositions of Collateral by a Grantor and (2) removal of the Material Subsidiary (as defined in the Bank Credit Agreement) designation of a Subsidiary (as defined in the Bank Credit Agreement), in each case as permitted in accordance with the terms of all of the Senior Indebtedness Documents and prior to the occurrence of an Event of Default, (y) upon disposition of such Collateral after an Event of Default pursuant to direction given under clause (i) of this Section 2(b) and (x) to the extent authorized under the provisions of the last sentence of Section 12.1 of the Bank Credit Agreement, paragraph 11V of the March 11, 2011 Purchase Note Agreement and the comparable provision of the Additional Note Purchase Agreement), and (iii) the Collateral Agent shall not accept any Obligations in whole or partial consideration for the disposition of any Collateral without the written consent of all of the Qualified Creditors. The Collateral Agent agrees to make such demands and give such notices under the Collateral Documents as may be requested by, and to take such action to enforce the Collateral Documents and to foreclose upon, collect and dispose of the Collateral or of the Collateral Documents as may be directed by, the Required Creditors; provided, however, that the Collateral Agent shall not be required to take any action that is contrary to law or the terms of the Collateral Documents or this Agreement. Once a direction to take any action has been given by the Required Creditors to the Collateral Agent, and subject to any other directions which may be given from time to time by the Required Creditors, decisions regarding the manner in which any such action is to be implemented and conducted (with the exception of any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice) shall be made by the Collateral Agent, with the assistance and upon the advice of its counsel. Notwithstanding the provisions of the preceding sentence, any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice, which implements, approves or results in or has the effect of causing any release, change or occurrence, where such release, change or occurrence otherwise would require unanimous approval of all of the Qualified Creditors pursuant to the terms of this Agreement, also shall require the unanimous approval of all of the Qualified Creditors.

(c) Requesting Instructions. The Collateral Agent may at any time request directions from the Creditors as to any course of action or other matter relating to the performance of its duties under this Agreement and the Collateral Documents, and the Creditors shall respond to such request in a reasonably prompt manner.

(d) Emergency Actions. If the Collateral Agent has asked the Required Creditors for instructions following the receipt of any notice of an Event of Default and if the Required Creditors have not responded to such request within 30 days, the Collateral Agent shall be authorized to take such actions with regard to such Event of Default which the Collateral Agent, in good faith, believes to be reasonably required to protect the Collateral from damage or destruction; provided, however, that once instructions have been received from the Required Creditors, the actions of the Collateral Agent shall be governed thereby and the Collateral Agent shall not take any further action which would be contrary to such instructions.

(e) Collateral Document Amendments. An amendment, supplement, modification, restatement or waiver of any provision of any Collateral Document, any consent to any departure by any Grantor from any such provision, or the execution or acceptance by the Collateral Agent of any Collateral Document not in effect on the date of this Agreement shall be

effective if, and only if, consented to in writing by the Required Creditors (with the understanding that the Collateral Documents that are identified in Exhibit A hereto are hereby approved by the Required Creditors); provided, however, that, (i) no such amendment, supplement, modification, restatement, waiver, consent or such Collateral Document not in effect on the date of this Agreement which imposes any additional responsibilities upon the Collateral Agent shall be effective without the written consent of the Collateral Agent, and (ii) no such amendment, supplement, modification, waiver or consent shall release any Collateral from the lien or security interest created by any Collateral Document not subject to the exception in Section 2(b)(ii) of this Agreement or narrow the scope of the property or assets in which a lien or security interest is granted pursuant to any Collateral Document or change the description of the obligations secured thereby without the written consent of all Qualified Creditors.

(f) Administrative Actions. The Collateral Agent shall have the right to take such actions under this Agreement and under the Collateral Documents, not inconsistent with the instructions of the Required Creditors or the terms of the Collateral Documents and this Agreement, as the Collateral Agent deems necessary or appropriate to perfect or continue the perfection of the liens on the Collateral for the benefit of the Creditors.

(g) Collateral Agent Acting Through Others. The Collateral Agent may perform any of its duties under this Agreement and the Collateral Documents by or through attorneys (which attorneys may be the same attorneys who represent any Creditor), agents or other persons reasonably deemed appropriate by the Collateral Agent. In addition, the Collateral Agent may act in good faith reliance upon the opinion or advice of attorneys selected by the Collateral Agent. In all cases the Collateral Agent may pay reasonable fees and expenses of all such attorneys, agents or other persons as may be employed in connection with the performance of its duties under this Agreement and the Collateral Documents.

(h) Resignation of Collateral Agent.

(i) The Collateral Agent (A) may resign at any time upon notice to the Creditors, and (B) may be removed at any time upon the written request of the Required Creditors sent to the Collateral Agent and the other Creditors. For the purposes of any determination of Required Creditors under this Section 2(h)(i), the Pro Rata Share of any Insolvent Entity shall be disregarded.

(ii) If the Collateral Agent shall resign or be removed, the Required Creditors shall have the right to select a replacement Collateral Agent by notice to the Collateral Agent and the other Creditors.

(iii) Upon any replacement of the Collateral Agent, the Collateral Agent shall assign all of the liens upon and security interests in all Collateral under the Collateral Documents, and all right, title and interest of the Collateral Agent under all the Collateral Documents, to the replacement Collateral Agent, without recourse to the Collateral Agent or any Creditor and at the expense of the Company.

(iv) No resignation or removal of the Collateral Agent shall become effective until a replacement Collateral Agent shall have been selected as provided in this

Agreement and shall have assumed in writing the obligations of the Collateral Agent under this Agreement and under the Collateral Documents. In the event that a replacement Collateral Agent shall not have been selected as provided in this Agreement or shall not have assumed such obligations within 90 days after the resignation or removal of the Collateral Agent, then the Collateral Agent may apply to a court of competent jurisdiction for the appointment of a replacement Collateral Agent.

(v) Any replacement Collateral Agent shall be a bank, trust company, or insurance company having capital, surplus and undivided profits of at least $250,000,000.

(i) Indemnification of Collateral Agent. Each Grantor, by its consent to this Agreement, hereby agrees to indemnify and hold the Collateral Agent, its officers, directors, employees and agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) harmless against any and all costs, claims, damages, penalties, liabilities, losses and expenses (including, but not limited to, court costs and reasonable attorneys' fees) which may be incurred by or asserted against the Collateral Agent or any such officers, directors, employees and agents by reason of its status as agent under this Agreement or which pertain, whether directly or indirectly, to this Agreement, the Collateral Documents, or to any action or failure to act of the Collateral Agent as agent hereunder, except to the extent any such action or failure to act by the Collateral Agent constitutes gross negligence, willful misconduct or a breach of this Agreement. The obligations of the Grantor under this Section 2(i) shall survive the payment in full of the Obligations and the termination of this Agreement.

(j) Liability of Collateral Agent. In the absence of gross negligence, willful misconduct or a breach of this Agreement, the Collateral Agent will not be liable to any Creditor for any action or failure to act or any error of judgment, negligence, mistake or oversight on its part or on the part of any of its officers, directors, employees or agents. To the extent not paid by any Grantor, each Creditor hereby severally, and not jointly, agrees to indemnify and hold the Collateral Agent and each of its officers, directors, employees and agents (collectively, **"Indemnitees"**) harmless from and against any and all liabilities, costs, claims, damages, penalties, losses and actions of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for any Indemnitee) incurred by or asserted against any Indemnitee arising out of or in relation to this Agreement or the Collateral Documents or its status as agent under this Agreement or any action taken or omitted to be taken by any Indemnitee pursuant to and in accordance with any of the Collateral Documents and this Agreement, except to the extent arising from the gross negligence, willful misconduct or breach of this Agreement, with each Creditor being liable only for its Pro Rata Expenses Share of any such indemnification liability. The obligations of the Creditors under this Section 2(j) shall survive the payment in full of the Obligations and the termination of this Agreement.

(k) No Reliance on Collateral Agent. Neither the Collateral Agent nor any of its officers, directors, employees or agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) shall be deemed to have made any representations or warranties, express or implied, with respect to, nor shall the Collateral Agent or any such officer, director, employee or agent be liable to any Creditor or responsible for (i) any warranties or recitals made by any Grantor in the Collateral Documents or any other

agreement, certificate, instrument or document executed by any Grantor in connection with the Collateral Documents, (ii) the due or proper execution or authorization of this Agreement or any Collateral Documents by any party other than the Collateral Agent, or the effectiveness, enforceability, validity, genuineness or collectability as against any Grantor of any Collateral Document or any other agreement, certificate, instrument or document executed by any Grantor in connection with any Collateral Document, (iii) the present or future solvency or financial worth of any Grantor, or (iv) the value, condition, existence or ownership of any of the Collateral or the perfection of any lien upon or security interest in the Collateral (whether now or hereafter held or granted) or the sufficiency of any action, filing, notice or other procedure taken or to be taken to perfect, attach or vest any lien or security interest in the Collateral. Except as may be required by Section 2(b) of this Agreement, the Collateral Agent shall not be required, either initially or on a continuing basis, to (A) make any inquiry, investigation, evaluation or appraisal respecting, or enforce performance by any Grantor of, any of the covenants, agreements or obligations of any Grantor under any Collateral Document, or (B) undertake any other actions (other than actions expressly required to be taken by it under this Agreement). Nothing in any of the Collateral Documents, expressed or implied, is intended to or shall be so construed as to impose upon the Collateral Agent any obligations, duties or responsibilities except as set forth in this Agreement and in the Collateral Documents. The Collateral Agent shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, telecopy or other paper or document given to it by any person reasonably and in good faith believed by it to be genuine and correct and to have been signed or sent by such person. The Collateral Agent shall have no duty to inquire as to the performance or observance of any of the terms, covenants or conditions of any of the Senior Indebtedness Documents. Except upon the direction of the Required Creditors pursuant to Section 2(b) of this Agreement, the Collateral Agent shall not be required to inspect the properties or books and records of any Grantor for any purpose, including to determine compliance by any Grantor with its covenants respecting the perfection of security interests.

3. Lien Priorities. The parties to this Agreement expressly agree that the security interests and liens granted to the Collateral Agent shall secure the Obligations on a pari passu basis for the benefit of the Creditors and that, notwithstanding the relative priority or the time of grant, creation, attachment or perfection under applicable law of any security interests and liens, if any, of the Creditors upon or in any of the Collateral to secure any Obligations, whether such security interests and liens are now existing or hereafter acquired or arising and whether such security interests and liens are in or upon now existing or hereafter arising Collateral, such security interests and liens shall be first and prior security interests and liens (subject to security interests and liens permitted by the Senior Indebtedness Documents) in favor of the Collateral Agent to secure all of the Obligations on a pari passu basis for the benefit of the Creditors.

4. Certain Notices. Each of the Collateral Agent and each Creditor agrees to use its best efforts to give to the others (a) copies of any notice of the occurrence or existence of an Event of Default sent to any Grantor, simultaneously with the sending of such notice to such Grantor, (b) notice of the occurrence or existence of an Event of Default of which such party has knowledge, promptly after obtaining knowledge thereof, (c) notice of the refusal of any Bank to make any loan or extension of credit pursuant to the terms of any Senior Indebtedness Document, promptly after such refusal, and (d) notice of an Enforcement by such party

(excluding an Enforcement approved by the Required Creditors as required by this Agreement), prior to commencing such Enforcement, but the failure to give any of the foregoing notices shall not affect the validity of such notice of an Event of Default given to a Grantor or create a cause of action against or cause a forfeiture of any rights of the party failing to give such notice or create any claim or right on behalf of any third party. The Collateral Agent agrees to deliver to each Creditor a copy of each notice or other communication received by it under any Collateral Document as soon as practicable after receipt of such notice or communication and a copy of any Collateral Document executed after the date of this Agreement as soon as practicable after the execution thereof.

5. Distribution of Proceeds of Collateral and Payments and Collections After Enforcement.

(a) On and after the occurrence of an Event of Default (unless such Event of Default has been waived pursuant to the terms of the Bank Credit Agreement with the consent of the holders of a majority of the outstanding principal amount of the Senior Notes (in the case of an Event of Default under the Bank Credit Agreement) or waived pursuant to the terms of the applicable Note Purchase Agreement with the consent of the Required Lenders as defined in the Bank Credit Agreement (in the case of an Event of Default under a Note Purchase Agreement)), all proceeds of Collateral held or received by the Collateral Agent or any Creditor and any other collections or payments received, directly or indirectly, by the Collateral Agent or any Creditor on or with respect to any Obligations (including, without limitation, any amount of any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor setoff or appropriated by it, any payment under any guaranty constituting a Senior Indebtedness Document, any payment in an insolvency or reorganization proceeding and the proceeds from any sale of any Obligations or any interest therein to any Grantor or any Affiliate of any Grantor, but excluding, except as otherwise provided in paragraph (b) of this Section 5, amounts on deposit in the Special Cash Collateral Account provided for in paragraph (b) of this Section 5) shall be delivered to the Collateral Agent and distributed as follows:

(i) First, to the Collateral Agent in the amount of any unpaid Collateral Agent Expenses;

(ii) Next, to the extent proceeds remain, to the Creditors in the amount of any unreimbursed amounts paid by the Creditors to any Indemnitee pursuant to Section 2(j) of this Agreement, pro rata in proportion to the respective unreimbursed amounts thereof paid by each Creditor; and

(iii) Next, to the extent proceeds remain, to each Creditor an amount equal to its Obligation Share of such proceeds in respect of Obligations owing to it under the Senior Indebtedness Documents.

Notwithstanding the foregoing, with respect to any collections or payments received by any Creditor on or after the occurrence of an Event of Default but prior to the date of the occurrence of an Enforcement, (1) such collections and payments shall be subject to the distribution provisions of clauses (i) through (iii), above, only to the extent that the principal

amount of the Obligations owed to such Creditor on the date of such Enforcement is less than the principal amount of the Obligations owed to such Creditor on the date of such Event of Default, and (2) the amount of any such collections and payments subject to the distribution provisions of clause (i) through (iii) above, in accordance with clause (1) shall not be so distributed until the date of the occurrence of such Enforcement. For the purposes of the preceding sentence, any collection or payment received by the Bank Agent on behalf of the Banks shall be considered to have been received by the Banks, and applied to pay the Obligations owed to the Banks, to which such payment or collection relates whether or not distributed by the Bank Agent to the Banks.

After the Obligations have been finally paid in full in cash, the balance of proceeds of the Collateral, if any, shall be paid to any Grantor or as otherwise required by law.

(b) Any payment pursuant to clause (a)(iii) above with respect to undrawn amounts of outstanding Letters of Credit shall be paid to the Collateral Agent for deposit in an account (the "**Special Cash Collateral Account**") to be held as collateral for the Obligations and disposed of as provided herein. On each date after the occurrence of an Enforcement on which a payment is made to a beneficiary pursuant to a draw on a Letter of Credit, the Collateral Agent shall distribute from the Special Cash Collateral Account for application to the payment of the reimbursement obligation due to the Banks with respect to such draw an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account, and (2) a fraction, the numerator of which is the amount of such draw and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such draw. On each date after the occurrence of an Enforcement on which a reduction in the undrawn amount of any outstanding Letter of Credit occurs other than on account of a payment made to a beneficiary pursuant to a draw on a Letter of Credit, then the Collateral Agent shall distribute from the Special Cash Collateral Account an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account and (2) a fraction the numerator of which is the amount of such reduction and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such reduction, which amount shall be distributed as provided in clauses (a)(i) through (iii) above. At such time as the undrawn amount of outstanding Letters of Credit is reduced to zero, any amount remaining in the Special Cash Collateral Account, after the distribution therefrom as provided above, shall be distributed as provided in clauses (a)(i) through (iii) above.

(c) Any re-allocations of any payments or distributions initially made or received on any Obligations due to payments and transfers among the Creditors and the Collateral Agent under this Section 5 shall be deemed to reduce the Obligations of any Creditor receiving any such payment or other transfer under this Section 5 and shall be deemed to restore and reinstate the Obligations of any Creditor making any such payment or other transfer under this Section 5, in each case by the amount of such payment and other transfer; provided that if for any reason such restoration and reinstatement shall not be binding against the Company or any other Grantor, then the Creditors and the Collateral Agent agree to take such actions as shall have the effect of placing them in the same relative positions as they would have been if such restoration and reinstatement had been binding against the Company and the other Grantors.

6. Certain Credit Extensions and Amendments to Agreements by the Creditors; Actions Related to Collateral; Other Liens, Security Interests and Guaranties.

(a) The Bank Agent, on its behalf and on behalf of the Banks, agrees that, without the prior written consent of Noteholders holding a majority of the outstanding principal amount of the Senior Notes, it will not (i) amend, modify, supplement or restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement, or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary thereof or (B) any other provision of the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(b) Each Noteholder agrees that, without the prior written consent of Banks holding a majority of the outstanding principal amount of Obligations under and undrawn commitments to extend credit under the Bank Credit Agreement, it will not (i) amend, modify, supplement, restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary of the Company or (B) any other provision of a Note Purchase Agreement or Senior Notes if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by a Note Purchase Agreement and the Senior Notes or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(c) Each Creditor agrees that it will have recourse to the Collateral only through the Collateral Agent, that it shall have no independent recourse to the Collateral and that it shall refrain from exercising any rights or remedies under the Collateral Documents which have or may have arisen or which may arise as a result of an Event of Default or an acceleration of the maturities of the Obligations, except that, upon the direction of the Required Creditors, any Creditor may set off any amount of any balances held by it for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor, provided that the amount set off is delivered to the Collateral Agent for application pursuant to Section 5 of this Agreement. Without such direction, no Creditor shall set off any such amount. For the purposes of determining whether such direction to setoff has been given, any Creditor which has not voted in favor of or against such setoff within three business days of receiving

notice from another Creditor of its intent to setoff will be deemed to have voted in favor of such setoff. For the purposes of perfection any setoff rights which may be available under applicable law, any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by the Collateral Agent or any Creditor to or for the credit or account of any Grantor shall be deemed to be held as agent for all Creditors.

(d) No Creditor shall take or receive a security interest in or a lien upon any of the property or assets of any Grantor as security for the payment of any Obligations other than liens and security interests granted to the Collateral Agent in the Collateral pursuant to the Collateral Documents. The existence of a common law lien on deposit accounts shall not be prohibited by the provisions of this paragraph (d) provided that any realization on such lien and the application of the proceeds thereof shall be subject to the provisions of this Agreement.

(e) Nothing contained in this Agreement shall (i) prevent any Creditor from imposing a default rate of interest in accordance with any Senior Indebtedness Document or prevent a Creditor from raising any defenses in any action in which it has been made a party defendant or has been joined as a third party, except that the Collateral Agent may direct and control any defense directly relating to the Collateral or any one or more of the Collateral Documents as directed by the Required Creditors, which shall be governed by the provisions of this Agreement, or (ii) affect or impair the right any Creditor may have under the terms and conditions governing the Obligations to accelerate and demand repayment of such Obligations. Subject only to the express limitations set forth in this Agreement, each Creditor retains the right to freely exercise its rights and remedies as a general creditor of the Grantors in accordance with applicable law and agreements with the Grantors, including without limitation the right to file a lawsuit and obtain a judgment therein against the Grantors and to enforce such judgment against any assets of the Grantors other than the Collateral.

(e) Subject to the provisions set forth in this Agreement, each Creditor and its affiliates may (without having to account therefor to any Creditor) own, sell, acquire and hold equity and debt securities of the Grantors and lend money to and generally engage in any kind of business with the Grantors (as if, in the case of U.S. Bank National Association, it was not acting as Collateral Agent), and, subject to the provisions of this Agreement, the Creditors and their affiliates may accept dividends, interest, principal payments, fees and other consideration from the Grantors for services in connection with this Agreement or otherwise without having to account for the same to the other Creditors, provided that any such amounts which constitute Obligations are provided for in the applicable Senior Indebtedness Documents.

7. Accounting; Adjustments.

(a) The Collateral Agent and each Creditor agrees to render an accounting to any of the others of the amounts of the outstanding Obligations, receipts of payments from the Grantors or from the Collateral and of other items relevant to the provisions of this Agreement upon the reasonable request from one of the others as soon as reasonably practicable after such request, giving effect to the application of payments and collections as hereinbefore provided in this Agreement.

(b) Each party hereto agrees that to the extent any payment of any Obligations made to it hereunder is in excess of the amount due to be paid to it hereunder, or in the event any payment of any Obligations made to any party hereto is subsequently invalidated, declared fraudulent or preferential, set aside or required to be paid to a trustee, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause ("**Avoided Payments**"), then it shall pay to the other parties hereto (or in the case of Avoided Payments the other parties shall pay to it) such amounts so that, after giving effect to the payments hereunder by all parties, the amounts received by all parties are not in excess of the amounts to be paid to them hereunder as though any payment so invalidated, declared to be fraudulent or preferential, set aside or required to be repaid had not been made.

8. Notices. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, with proper postage prepaid, one business day after delivery to a courier for next day delivery, upon delivery by courier or upon transmission by telecopy or similar electronic medium (provided that a copy of any such notice sent by such transmission is also sent by one of the other means provided hereunder within one day after the date sent by such transmission) to the addresses set forth below the signatures hereto, with a copy to any person or persons set forth below such signature shown as to receive a copy, or to such other address as any party designates to the others in the manner herein prescribed. Any party giving notice to any other party hereunder shall also give copies of such notice to all other parties. Any notice delivered to the Bank Agent shall be deemed to be delivered to all of the Banks.

9. Contesting Liens or Security Interests; No Partitioning or Marshaling of Collateral; Contesting Obligations.

(a) No Creditor shall contest the validity, perfection, priority or enforceability of or seek to avoid, have declared fraudulent or have put aside any lien or security interest granted to the Collateral Agent and each party hereby agrees to cooperate in the defense of any action contesting the validity, perfection, priority or enforceability of such liens or security interests. Each party shall also use its best efforts to notify the other parties of any change in the location of any of the Collateral or the business operations of any Grantor or of any change in law which would make it necessary or advisable to file additional financing statements in another location as against any Grantor with respect to the liens and security interests intended to be created by the Collateral Documents, but the failure to do so shall not create a cause of action against the party failing to give such notice or create any claim or right on behalf of any other party to this Agreement and any third party.

(b) Notwithstanding anything to the contrary in this Agreement or in any Collateral Document, no Creditor shall have the right to have any of the Collateral, or any security interest or other property being held as security for all or any part of the Obligations by the Collateral Agent, partitioned, or to file a complaint or institute any proceeding at law or in equity to have any of the Collateral or any such security interest or other property partitioned, each Creditor hereby waives any such right. The Collateral Agent and each Creditor hereby waive any and all rights to have the Collateral, or any part thereof, marshaled upon any foreclosure of any of the liens or security interests securing the Obligations.

(c) Neither the Collateral Agent nor any Creditor shall contest the validity or enforceability of or seek to avoid, have declared fraudulent or have set aside any Obligations (including, without limitation, any guaranty thereof). In the event any Obligations are invalidated, avoided, declared fraudulent or set aside for the benefit of any Grantor, the Collateral Agent and the Creditors agree that such Obligations shall nevertheless be considered to be outstanding for all purposes of this Agreement.

10. No Additional Rights for Grantors Hereunder. Each Grantor, by its consent hereto, acknowledges that it shall have no rights under this Agreement. If the Collateral Agent or any Creditor shall violate the terms of this Agreement, each Grantor agrees, by its consent hereto, that it shall not use such violation as a defense to any enforcement by any such party against such Grantor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party.

11. Bankruptcy Proceedings. Nothing contained herein shall limit or restrict the independent right of any Creditor to initiate an action or actions in any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding in its individual capacity and to appear or be heard on any matter before the bankruptcy or other applicable court in any such proceeding, including, without limitation, with respect to any question concerning the post-petition usage of Collateral and post-petition financing arrangements, provided such initiating Creditor provides all other Creditors prior notice of the initiation of any such action. The Collateral Agent is not entitled to initiate such actions on behalf of any Creditor or to appear and be heard on any matter before the bankruptcy or other applicable court in any such proceeding as the representative of any Creditor. The Collateral Agent is not authorized in any such proceeding to enter into any agreement for, or give any authorization or consent with respect to, the post-petition usage of Collateral, unless such agreement, authorization or consent has been approved in writing by the Required Creditors. This Agreement shall survive the commencement of any such bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding.

12. Independent Credit Investigation. Neither the Collateral Agent nor any Creditor, nor any of its respective directors, officers, agents or employees, shall be responsible to any of the others for the solvency or financial condition of any Grantor or the ability of any Grantor to repay any of the Obligations, or for the value, sufficiency, existence or ownership of any of the Collateral, the perfection or vesting of any lien or security interest, or the statements of any Grantor, oral or written, or for the validity, sufficiency or enforceability of any of the Obligations, any Senior Indebtedness Document, any Collateral Documents, any document or agreement executed or delivered in connection with or pursuant to any of the foregoing, or the liens or security interests granted by the Grantors in connection therewith. Each of the Collateral Agent and each Creditor has entered into its respective financial agreements with the Grantors based upon its own independent investigation, and makes no warranty or representation to the other, nor does it rely upon any representation by any of the others, with respect to the matters identified or referred to in this Section.

13. Supervision of Obligations. Except to the extent otherwise expressly provided herein, each Creditor shall be entitled to manage, supervise, amend and modify

(including, without limitation, an amendment to increase the amount of such Obligations or waive an Event of Default) the obligations of the Grantors to it in accordance with applicable law and such Creditor's practices in effect from time to time without regard to the existence of any other Creditor.

14. Turnover of Collateral. If any Creditor acquires custody, control or possession of any Collateral or any proceeds thereof other than pursuant to the terms of this Agreement, such Creditor shall promptly cause such Collateral or the proceeds of such Collateral to be delivered to or put in the custody, possession or control of the Collateral Agent for disposition and distribution in accordance with the provisions of Section 5 of this Agreement. Until such time as such Creditor shall have complied with the provisions of the immediately preceding sentence, such Creditor shall be deemed to hold such Collateral and the proceeds thereof in trust for the parties entitled thereto under this Agreement.

15. Options to Purchase.

(a) After the occurrence of a Purchase Option Trigger Event (as defined below), each Bank shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Noteholders at a purchase price equal to 100% of the amount of such Obligations on the date of purchase (including all interest thereon to the date of purchase), plus an amount equal to the Yield-Maintenance Amount which would be payable under the applicable Note Purchase Agreement if the Senior Notes were prepaid pursuant to the optional prepayment provisions of the applicable Note Purchase Agreement on such date of purchase.

(b) After the occurrence of a Purchase Option Trigger Event, each Noteholder shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Banks at a purchase price equal to 100% of the amount thereof on the date of purchase (including all interest thereon to the date of purchase).

(c) Any Creditor desiring to exercise its option to purchase under this Section 15 may do so by giving notice to the Creditors whose Obligations are to be purchased. The closing of the purchase and sale shall take place on the fifth business day after such notice is given. At the closing, the buyer will pay the sellers the purchase price of the Obligations being purchased except that, with respect to the purchase of exposures in respect of outstanding but undrawn Letters of Credit, the purchase shall be a risk participation therein payable at the same time as the related Letters of Credit are drawn. Payment of such purchase price shall be made in the same manner as specified in the applicable Senior Indebtedness Documents. Any notice of exercise of any such option to purchase shall be irrevocable. In the event more than one notice of exercise of an option to purchase under this Section 15 is given, only the notice first given shall be effective and the other notices given shall be ineffective.

(d) For the purposes of this Section 15, a "Purchase Option Trigger Event" shall occur when (i) an Event of Default has occurred and is continuing, (ii) any Creditor has notified the Collateral Agent and each other Creditor of its desire to direct the Collateral Agent to take action hereunder, and (iii) within 60 days after the notice specified in clause (ii), the Required Creditors shall not have authorized the Collateral Agent to take such action and the

Creditor giving such notice shall not have withdrawn such notice by notice given to the Collateral Agent and the other Creditors.

16. Amendment. This Agreement and the provisions hereof may be amended, modified or waived only by a writing signed by the Collateral Agent, the Bank Agent, on its behalf and on behalf of the Banks, and each of the Noteholders.

17. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of each of the parties hereto, including subsequent holders of the Obligations and persons subsequently becoming parties to the Senior Indebtedness Documents as Creditors; provided that (a) neither the Collateral Agent nor any Creditor shall assign or transfer any interest in any Obligations or permit such person to become such a party to the applicable Senior Indebtedness Documents unless such transfer or assignment is made subject to this Agreement and such transferee, assignee or person assumes the obligations of the transferor or assignor or the obligations of a Creditor, as the case may be, hereunder from and after the time of such transfer or assignment or the time such person becomes a party to the applicable Senior Indebtedness Documents, as the case may be, and (b) the appointment of any replacement Collateral Agent shall be subject to the provisions of Section 2 of this Agreement.

18. Limitation Relative to Other Agreements. Nothing contained in this Agreement is intended to impair (a) as between the Noteholders and the Grantors, the rights of the Noteholders and the obligations of the Grantors under the Note Purchase Agreements and the Senior Notes, or (b) as between the Bank Agent, the Banks and the Grantors, the rights of the Bank Agent and the Banks and the obligations of the Grantors under the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith.

19. Counterparts. This Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one and the same instrument. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Any facsimile copy of a signature hereto shall have the same effect as the original thereof.

20. Governing Law. THIS AGREEMENT SHALL BE GOVERNED AS TO VALIDITY, INTERPRETATIONS, ENFORCEABILITY AND EFFECT BY THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS.

21. Confirmations and Agreements.

(i) The Bank Agent confirms that the Banks have approved this Agreement as of the date hereof.

(ii) Each party subject hereto agrees that it will not, and will use commercially reasonable efforts to cause its agents, employees, officers, directors, shareholders, partners, and its representatives associated with or acting on its behalf (collectively, the "**Representatives**"), and its sub-contractors, if any, not to, directly or indirectly through a third-party intermediary, in

connection with this Agreement and the transactions resulting herefrom, offer, pay, promise to pay, or authorize the giving of money or anything of value to any Government Official (as defined below) for the purpose of inducing such Government Official to use his or her influence or position with the government or instrumentality thereof to affect or influence any act or decision of such government or instrumentality, in order to assist in obtaining or retaining business for, directing business to, or securing an improper advantage for such party.

(b) Each party subject hereto will, and will use commercially reasonable efforts to cause its Representatives and sub-contractors, if any, to maintain books and records that accurately reflect any payment of money or thing of value to a Government Official, directly or indirectly, in connection with any matter relating to this Agreement.

(c) The term "Government Official" includes any employee, agent or representative of a non-US government, and any non-US political party, party official or candidate. Government Official may also include royalty, non-US legislators, representatives of non-US state-owned enterprises, employees of public international organizations (including but not limited to the United Nations, International Monetary Fund, World Bank and other international agencies and organizations), and employees and officers of foreign embassies or trade organizations having offices in the US, regardless of rank or position, and any individuals acting on behalf of a Government Official.

(d) On any date on which the Obligations or any other amounts need to be determined, the Collateral Agent shall use the rate of exchange specified in Section 5.6 of the Bank Credit Agreement to determine the U.S. Dollar equivalent of any foreign currency (if any) in which such Obligations or other amounts are denominated, and such U.S. Dollar equivalent shall be used for purposes of determining that portion of the Obligations or such other amounts denominated in the applicable foreign currencies on such date.

The remainder of this page is intentionally blank.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

U.S. BANK NATIONAL ASSOCIATION
as Bank Agent and Collateral Agent

By: _____
Name: _____
Title: _____

Notice information:

800 Nicollet Mall
Mail Code BC-MN-HO3P
Minneapolis, MN 55402
Attention: Michael J. Staloch
Telephone: (612) 303-3050
Fax: (612) 303-2265
E-mail: Michael.Staloch@usbank.com

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, as a Noteholder

By: _____

Vice President

Notice information:

The Prudential Insurance Company of America
c/o Prudential Capital Group
Two Prudential Plaza, Suite 5600
180 N. Stetson Avenue
Chicago, IL 60601

Attention: Managing Director

GIBRALTAR LIFE INSURANCE CO., LTD.,
as a Noteholder

THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD., as a Noteholder

By: Prudential Investment Management (Japan), Inc., as Investment Manager

By: Prudential Investment Management, Inc., as Sub-Adviser

By: _____
Vice President

Notice information:

Pruco Life Insurance Company
c/o Prudential Capital Group
Two Prudential Plaza, Suite 5600
180 N. Stetson Avenue
Chicago, IL 60601

Attention: Managing Director

FORETHOUGHT LIFE INSURANCE COMPANY,
as a Noteholder

RGA REINSURANCE COMPANY,
as a Noteholder

MTL INSURANCE COMPANY,
as a Noteholder

ZURICH AMERICAN INSURANCE COMPANY,
as a Noteholder

By: Prudential Private Placement Investors, L.P.
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.
(as its General Partner)

By: _____
Vice President

Notice information:

Prudential Retirement Insurance and Annuity Company
c/o Prudential Capital Group
Two Prudential Plaza, Suite 5600
180 N. Stetson Avenue
Chicago, IL 60601

Attention: Managing Director

EXHIBIT A

LIST OF COLLATERAL DOCUMENTS

Pledge Agreement, dated as of May 23, 2011, made by Graco Inc.

ACKNOWLEDGMENT OF AND CONSENT AND AGREEMENT TO INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT

Each of the undersigned, a Grantor described in the Intercreditor and Collateral Agency Agreement set forth above, acknowledges and, to the extent required, consents to the terms and conditions of the Intercreditor and Collateral Agency Agreement. Each of the undersigned Grantors does hereby further acknowledge and agree to its agreements under Sections 2(i), 5(c) and 10 of the Intercreditor and Collateral Agency Agreement and acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Intercreditor and Collateral Agency Agreement. Each of the undersigned confirms that the signatories to this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement constitute all of the Grantors in existence as of the date hereof.

This Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one of the same instrument. In proving this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

The remainder of this page is intentionally blank.

IN WITNESS WHEREOF, each party below has caused this Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement to be executed by its duly authorized officer as of May 23, 2011.

GRACO INC.
GRACO HOLDINGS INC.
GRACO MINNESOTA INC.
GRACO OHIO INC.

By: _____
Name: James A. Graner
Title: CFO & Treasurer

Exhibit B

FORM OF PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (this "Agreement"), dated as of May 23, 2011, is made and given by GRACO INC., a corporation organized under the laws of the State of Minnesota (the "Pledgor") to U.S. BANK NATIONAL ASSOCIATION as Collateral Agent (in such capacity, and together with any successors in such capacity, the "Secured Party") for the banks (the "Banks") from time to time party to the Credit Agreement defined below and the noteholders (the "Noteholders" and collectively with the Banks, the "Creditors") from time to time holding notes issued under the Note Purchase Agreements defined below.

RECITALS

A. Graco Inc., a Minnesota corporation (the "Borrower"), the Borrowing Subsidiaries from time to time party thereto, the Banks (as named therein from time to time) and U.S. Bank National Association, as Agent, have entered into a Credit Agreement dated as of May 23, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") pursuant to which the Banks have agreed to extend to the Borrower certain credit accommodations, including loan and letter of credit facilities.

B. The Borrower and the Noteholders named in the Purchaser Schedule attached thereto have entered into a Note Agreement dated as of March 11, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "March 11, 2011 Note Purchase Agreement").

C. It is contemplated that the Borrower will enter into a Note Agreement with one or more affiliates of The Prudential Insurance Company of America as Noteholders named in the Purchaser Schedule attached thereto (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Additional Note Purchase Agreement", together with the March 2011 Note Agreement, the "Note Purchase Agreements", and together with the Credit Agreement and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended, restated, supplemented or otherwise modified from time to time), the "Senior Indebtedness Documents").

D. The Agent, the Secured Party and the Noteholders have entered into an Intercreditor and Collateral Agency Agreement dated as of May 6, 2011 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), pursuant to which the Secured Party has been appointed Collateral Agent.

E. The Pledgor is the owner of the stock or other ownership or membership interests (the "Pledged Interests") described in Schedule I hereto issued by the issuers named thereon. The Pledgor may own stock or other ownership or membership interests in such issuers in excess of the percentage set forth on Schedule I, but the term "Pledged Interests" shall be limited to the percentage of stock or other ownership or membership interest listed on Schedule I, and all assets described in Sections 2(b) and (c) hereof consistent therewith.

F. It is a term and condition of the Senior Indebtedness Documents that Pledgor enter into this Agreement and grant the security interests and pledges provided herein.

G. The Pledgor finds it advantageous, desirable and in the best interests of the Pledgor to comply with the requirement that this Agreement be executed and delivered to the Secured Party.

H. The relative rights and priorities of the Creditors in respect of the Collateral (as defined below) are governed by the Intercreditor Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Creditors to continue to extend credit accommodations to the Borrower, the Pledgor hereby agrees with the Secured Party for the benefit of the Secured Party (on behalf of the Creditors) as follows:

Section 1. Defined Terms. As used in this Agreement, the following terms shall have the meanings indicated:

"Collateral" shall have the meaning given to such term in Section 2.

"Event of Default" shall have the meaning given to such term in the Intercreditor Agreement.

"Lien" shall mean any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device (including the interest of the lessors under capitalized leases), in, of or on any assets or properties of the Person referred to.

"Permitted Lien" shall have the meaning given to such term in Section 4(a).

"Pledged Interests" shall have the meaning given to such term in the Recitals.

"Secured Obligations" shall mean all of the "Obligations" under and as defined in the Credit Agreement and all of the obligations owing to the Noteholders under the Note Purchase Agreements, including, without limitation, all of the "Obligations" under and as defined in the Intercreditor Agreement.

"Security Interest" shall have the meaning given to such term in Section 2.

(a) Terms Defined in Uniform Commercial Code. All other terms used in this Agreement that are not specifically defined herein or the definitions of which are not incorporated herein by reference shall have the meaning assigned to such terms in Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota.

(b) Singular/Plural, Etc. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular, the plural and "or" has the inclusive meaning represented by the phrase "and/or." The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The words "hereof," "herein," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections are references to Sections in this Agreement unless otherwise provided.

Section 2. Pledge. As security for the payment and performance of all of the Secured Obligations, the Pledgor hereby pledges to the Secured Party for the benefit of the Secured Party and the Creditors and grants to the Secured Party for the benefit of the Secured Party and the Creditors a security interest (the "Security Interest") in the following, including any securities account containing a securities entitlement with respect to the following (the "Collateral"):

(a) The Pledged Interests and the certificates representing the Pledged Interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Interests.

(b) All additional shares of stock or ownership or membership interests of any issuer of the Pledged Interests from time to time acquired by the Pledgor in any manner in exchange for, as a dividend on, as a result of stock splits or combinations or otherwise in connection with the initial Pledged Interests, and the certificates representing such additional shares of stock or ownership or membership interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares of stock or ownership or membership interests.

(c) All proceeds of any and all of the foregoing (including proceeds that constitute property of types described above).

Section 3. Delivery of Collateral. All certificates and instruments representing or evidencing the Pledged Interests shall be delivered to the Secured Party contemporaneously with the execution of this Agreement. All certificates and instruments representing or evidencing Collateral received by the Pledgor after the execution of this Agreement shall be delivered to the Secured Party promptly upon the Pledgor's receipt thereof. All such certificates and instruments shall be held by or on behalf of the Secured Party pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Secured Party. With respect to all Pledged Interests consisting of uncertificated securities, book-entry securities or securities entitlements, the Pledgor shall either (a) execute and deliver, and cause any necessary issuers or securities intermediaries to execute and deliver, control agreements in form and substance reasonably satisfactory to the Secured Party covering such Pledged Interests, or (b) cause such Pledged Interests to be transferred into the name of the Secured Party. The Secured Party shall have the right at any time, when an Event of Default has occurred and is continuing, to cause any or all of the Collateral to be transferred of record into the name of the Secured Party or its nominee for the benefit of the Creditors (but subject to the rights of the Pledgor under Section 6) and to exchange certificates representing or evidencing Collateral for certificates of smaller or larger denominations. If the Collateral is in the possession of a bailee,

the Pledgor will join with the Secured Party in notifying the bailee of the interest of the Secured Party and in obtaining from the bailee an acknowledgment that it hold the Collateral for the benefit of the Secured Party.

Section 4. Certain Warranties and Covenants. The Pledgor makes the following warranties and covenants:

(a) The Pledgor has title to the Pledged Interests and will have title to each other item of Collateral hereafter acquired, free of all Liens except the Security Interest and liens permitted by the Senior Indebtedness Documents or that arise by operation of law ("Permitted Liens"). As of the date of this Agreement, the Pledgor is unaware of the existence of any such liens arising by operation of law.

(b) The Pledgor has full corporate power and authority to execute this Agreement, to perform the Pledgor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(c) No financing statement covering all or any part of the Collateral is on file in any public office (except for any financing statements filed by the Secured Party or as permitted by the Intercreditor Agreement).

(d) The Pledged Interests have been duly authorized and validly issued by the issuer thereof and are fully paid and non-assessable. The certificates representing the Pledged Interests are genuine.

(e) The Pledged Interests constitute the percentage of the issued and outstanding member interests of the respective issuers thereof indicated on Schedule I (if any such percentage is so indicated).

Section 5. Further Assurances. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or that the Secured Party may reasonably request, in order to perfect and protect the Security Interest or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral (but any failure to request or assure that the Pledgor execute and deliver such instruments or documents or to take such action shall not affect or impair the validity, sufficiency or enforceability of this Agreement and the Security Interest, regardless of whether any such item was or was not executed and delivered or action taken in a similar context or on a prior occasion).

Section 6. Voting Rights; Dividends; Etc.

(a) Subject to paragraph (d) of this Section 6, the Pledgor shall be entitled to exercise or refrain from exercising any and all voting and other consensual rights pertaining to the Pledged Interests or any other stock or member interests that becomes part of the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Senior Indebtedness Documents.

(b) Subject to paragraph (e) of this Section 6 and Section 3 hereof, the Pledgor shall be entitled to receive, retain, and use in any manner not prohibited by the Senior Indebtedness Documents any and all interest and dividends paid in respect of the Collateral.

(c) The Secured Party shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the voting and other rights that it is entitled to exercise pursuant to Section 6(a) hereof and to receive the dividends and interest that it is authorized to receive and retain pursuant to Section 6(b) hereof.

(d) Upon the occurrence and during the continuance of any Event of Default, the Secured Party shall have the right in its sole discretion, and the Pledgor shall execute and deliver all such proxies and other instruments as may be necessary or appropriate to give effect to such right, to terminate all rights of the Pledgor to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 6(a) hereof, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights; provided, however, that the Secured Party shall not be deemed to possess or have control over any voting rights with respect to any Collateral unless and until the Secured Party has given written notice to the Pledgor that any further exercise of such voting rights by the Pledgor is prohibited and that the Secured Party and/or its assigns will henceforth exercise such voting rights; and provided, further, that neither the registration of any item of Collateral in the Secured Party's name nor the exercise of any voting rights with respect thereto shall be deemed to constitute a retention by the Secured Party of any such Collateral in satisfaction of the Secured Obligations or any part thereof.

(e) Upon the occurrence and during the continuance of any Event of Default following written notice from the Secured Party to the Pledgor of revocation of the Pledgor's rights under Section 6(b) hereof (provided that no such notice shall be required in the case of an Event of Default under Section 10.1(e) or (f) of the Credit Agreement or Section 7A(viii), (ix) or (x) of the Note Purchase Agreements):

(i) all rights of the Pledgor to receive the dividends and interest that it would otherwise be authorized to receive and retain pursuant to Section 6(b) hereof shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to receive and hold such dividends as Collateral, and

(ii) all payments of interest and dividends that are received by the Pledgor contrary to the provisions of paragraph (i) of this Section 6(e) shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of the Pledgor and shall be forthwith paid over to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

Section 7. Transfers and Other Liens; Additional Member Interests.

(a) Except as may be permitted by the Senior Indebtedness Documents, the Pledgor agrees that it will not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any Lien, upon or with respect to any of the Collateral other than Permitted Liens to the extent that the holder thereof shall not be seeking enforcement thereof in any way.

(b) The Pledgor agrees that it will (i) cause each issuer of the Pledged Interests not to issue any additional stock or member interests that would cause the percentage of all such stock or membership interest represented by the Pledged Interests to be less than such percentage as of the date of this Agreement, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or member interests or other securities of each issuer of the Pledged Interests issued to or received by the Pledgor, provided, that at no time shall the Pledged Interests be required to exceed, on a percentage basis, 65% of all outstanding stock or membership interest of any issuer.

Section 8. Secured Party Appointed Attorney-in-Fact. As additional security for the Secured Obligations, the Pledgor hereby irrevocably appoints the Secured Party the Pledgor's attorney-in-fact, with full authority in the place and stead of such Pledgor and in the name of such Pledgor or otherwise, from time to time in the Secured Party's good-faith discretion, to take any action and to execute any instrument that the Secured Party may reasonably believe necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Pledgor under Section 6 hereof), in a manner consistent with the terms hereof, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

Section 9. Secured Party May Perform. The Pledgor hereby authorizes the Secured Party to file financing statements with respect to the Collateral. The Pledgor irrevocably waives any right to notice of any such filing. If the Pledgor fails to perform any agreement contained herein, the Secured Party may itself perform, or cause performance of, such agreement, and the reasonable expenses of the Secured Party incurred in connection therewith shall be payable by the Pledgor under Section 13 hereof.

Section 10. The Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its and the Creditors' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be deemed to have exercised reasonable care in the safekeeping of any Collateral in its possession if such Collateral is accorded treatment substantially equal to the safekeeping which the Secured Party accords its own property of like kind. Except for the safekeeping of any Collateral in its possession and the accounting for monies and for other properties actually received by it hereunder, neither the Secured Party nor any Creditor shall have any duty, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Secured Party or any

Creditor has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral. The Secured Party will take action in the nature of exchanges, conversions, redemption, tenders and the like requested in writing by the Pledgor with respect to any of the Collateral in the Secured Party's possession if the Secured Party in its reasonable judgment determines that such action will not impair the Security Interest or the value of the Collateral, but a failure of the Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care.

Section 11. Remedies upon Default. If any Event of Default shall have occurred and be continuing:

(a) The Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota (the "Code") in effect at that time, and may, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Secured Party may reasonably believe are commercially reasonable. The Secured Party agrees to give at least ten days' prior notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made, and the Pledgor agrees that such notice shall constitute reasonable notification. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives all requirements of law, if any, relating to the marshalling of assets which would be applicable in connection with the enforcement by the Secured Party of its remedies hereunder, absent this waiver. The Secured Party may disclaim warranties of title and possession and the like.

(b) The Secured Party may notify any Person obligated on any of the Collateral that the same has been assigned or transferred to the Secured Party and that the same should be performed as requested by, or paid directly to, the Secured Party, as the case may be. The Pledgor shall join in giving such notice, if the Secured Party so requests. The Secured Party may, in the Secured Party's name or in the Pledgor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such Collateral or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligation of any such Person.

(c) Any cash held by the Secured Party as Collateral and all cash proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, or then or at any time thereafter be applied in whole or in part by the

Secured Party against, all or any part of the Secured Obligations (including any expenses of the Secured Party payable pursuant to Section 13 hereof).

Section 12. Waiver of Certain Claims. The Pledgor acknowledges that because of present or future circumstances, a question may arise under the Securities Act of 1933, as from time to time amended (the "Securities Act"), with respect to any disposition of the Collateral permitted hereunder. The Pledgor understands that compliance with the Securities Act may very strictly limit the course of conduct of the Secured Party if the Secured Party were to attempt to dispose of all or any portion of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of the Collateral or any portion thereof may dispose of the same. There may be other legal restrictions or limitations affecting the Secured Party in any attempt to dispose of all or any portion of the Collateral under the applicable Blue Sky or other securities laws or similar laws analogous in purpose or effect. The Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account for investment only and not to engage in a distribution or resale thereof. The Pledgor agrees that the Secured Party shall not incur any liability, and any liability of the Pledgor for any deficiency shall not be impaired, as a result of the sale of the Collateral or any portion thereof at any such private sale in a manner that the Secured Party reasonably believes is commercially reasonable (within the meaning of Section 9-627 of the Uniform Commercial Code as adopted in the State of Minnesota). The Pledgor hereby waives any claims against the Secured Party arising by reason of the fact that the price at which the Collateral may have been sold at such sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Secured Party shall accept the first offer received and does not offer any portion of the Collateral to more than one possible purchaser. The Pledgor further agrees that the Secured Party has no obligation to delay sale of any Collateral for the period of time necessary to permit the issuer of such Collateral to qualify or register such Collateral for public sale under the Securities Act, applicable Blue Sky laws and other applicable state and federal securities laws, even if said issuer would agree to do so. Without limiting the generality of the foregoing, the provisions of this Section would apply if, for example, the Secured Party were to place all or any portion of the Collateral for private placement by an investment banking firm, or if such investment banking firm purchased all or any portion of the Collateral for its own account, or if the Secured Party placed all or any portion of the Collateral privately with a purchaser or purchasers.

Section 13. Costs and Expenses; Indemnity. The Pledgor will pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses (including in each case all filing and recording fees and taxes and all reasonable fees and expenses of counsel and of any experts and agents) incurred by the Secured Party in connection with the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest and the preparation, administration, continuance, amendment or enforcement of this Agreement, and all such costs and expenses shall be part of the Secured Obligations secured by the Security Interest. The Pledgor shall indemnify and hold the Secured Party and each Creditor harmless from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or the Secured Party's actions pursuant hereto, except claims, losses or liabilities resulting from the Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of

competent jurisdiction. Any liability of the Pledgor to indemnify and hold the Secured Party and each Creditor harmless pursuant to the preceding sentence shall be part of the Secured Obligations secured by the Security Interest. The obligations of the Pledgor under this Section shall survive any termination of this Agreement.

Section 14. Waivers and Amendments; Remedies. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party and the Pledgor. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Secured Party's option, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

Section 15. Notices. Any notice or other communication to any party in connection with this Agreement shall be sent as provided in the Intercreditor Agreement.

Section 16. Pledgor Acknowledgments. The Pledgor hereby acknowledges that (a) the Pledgor has been advised by counsel in the negotiation, execution and delivery of this Agreement, (b) the Secured Party has no fiduciary relationship to the Pledgor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Pledgor and the Secured Party.

Section 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing security interest in the Collateral and shall (a) subject to release by the Secured Party as provided in Section 13.16 of the Credit Agreement and Section 11V of the Note Purchase Agreements, remain in full force and effect until Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, (b) be binding upon the Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of, and be enforceable by, the Secured Party and its successors and permitted transferees and assigns. Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Senior Indebtedness Documents to any other Person to the extent and in the manner provided in the Senior Indebtedness Documents, and may similarly transfer all or any portion of its rights under this Agreement to such Persons.

Section 18. Termination of Security Interest. At such time as Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Secured Party will return to the Pledgor such of the Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination. Any reversion or return of the Collateral upon termination of this Agreement and any instruments of transfer or termination shall be at the expense of the Pledgor and shall be without warranty by, or recourse on, the

Secured Party. As used in this Section, "Pledgor" includes any assigns of Pledgor, any Person holding a subordinate security interest in any part of the Collateral or whoever else may be lawfully entitled to any part of the Collateral.

Section 19. Governing Law and Construction. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MINNESOTA; PROVIDED, HOWEVER, THAT NO EFFECT SHALL BE GIVEN TO CONFLICT OF LAWS PRINCIPLES OF THE STATE OF MINNESOTA, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE MANDATORILY GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF MINNESOTA. Whenever possible, each provision of this Agreement and any other statement, instrument or transaction contemplated hereby or relating hereto shall be interpreted in such manner as to be effective and valid under such applicable law, but, if any provision of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto shall be held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto.

Section 20. Consent to Jurisdiction. AT THE OPTION OF THE SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE PLEDGOR CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE PLEDGOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 21. Waiver of Jury Trial. EACH OF THE PLEDGOR AND THE SECURED PARTY, BY ITS ACCEPTANCE OF THIS AGREEMENT, IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 22. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart signature page to this Agreement by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Agreement.

Section 23. General. All representations and warranties contained in this Agreement or in any other agreement between the Pledgor and the Secured Party shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations. The Pledgor waives notice of the acceptance of this Agreement by the Secured Party. Captions in this Agreement are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Agreement.

Section 24. Collateral Agent. U.S. Bank National Association, in its capacity as Secured Party, has been appointed collateral agent for the Creditors hereunder pursuant to the Intercreditor Agreement. It is expressly understood and agreed by the parties to this Agreement that any authority conferred upon the Secured Party hereunder is subject to the terms of the delegation of authority made by the Creditors to the Secured Party pursuant to the Intercreditor Agreement, and that the Secured Party has agreed to act (and any successor Secured Party shall act) as such hereunder only on the express conditions contained in such Section 2. Any successor Secured Party appointed pursuant to the Intercreditor Agreement shall be entitled to all the rights, interests and benefits of the Secured Party hereunder. For the avoidance of doubt, each Pledgor hereby acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Intercreditor Agreement. If the Secured Party or any Creditor shall violate the terms of the Intercreditor Agreement, each Pledgor agrees, by its execution and delivery hereof, that it shall not use such violation as a defense to any enforcement by any such party against such Pledgor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party. No such violation shall limit or impair the rights of the Secured Party or any Creditor hereunder.

(signature page follows)

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

PLEDGOR:

GRACO INC.

By: _____
James A. Graner
Chief Financial Officer and Treasurer

Address for Pledgor:

88 11th Avenue N.E.
Minneapolis, MN 55413
Attention: Timothy Stoffel, Corporate Tax Director
Telephone: (612) 623-
Fax: (612) -

and

Attention: Karen Gallivan
Telephone: (612) 623-6604
Fax: (612) 623-6944

Accepted:

U.S. BANK NATIONAL ASSOCIATION,
Secured Party

By: _____

Title: _____

Address for Secured Party:
800 Nicollet Mall
Mail Code BC-MN-H03P
Minneapolis, MN 55402
Fax Number: (612) 303-2265

SCHEDULE I
TO
PLEDGE AGREEMENT
GRACO INC.

PLEDGED INTERESTS

Issuer:	Graco K.K.
Jurisdiction of Organization:	Japan
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	2B-001 through 2B-009; 3A-001 through 3A-008; 4A-001 through 4A-0034
Number of Units/Shares:	429,000
Issuer:	Graco Korea Inc.
Jurisdiction of Organization:	Korea
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	10,000-1 through 10,000-8; 1000-01; 100-1 through 100-5
Number of Units/Shares:	81,500
Issuer:	Graco N.V.
Jurisdiction of Organization:	Belgium
Type of Interest:	Uncertificated Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	N/A
Number of Units/Shares:	655,301

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 27, 2011

/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 27, 2011

/s/ James A. Graner

James A. Graner

Chief Financial Officer

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 27, 2011

/s/ Patrick J. McHale

Patrick J. McHale

President and Chief Executive Officer

Date: July 27, 2011

/s/ James A. Graner

James A. Graner

Chief Financial Officer

Exhibit 99.1

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

News Release

FOR IMMEDIATE RELEASE:
Wednesday, July 27, 2011

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

GRACO REPORTS SECOND QUARTER SALES AND EARNINGS
REVENUE GROWTH CONTINUES TO DRIVE STRONG BOTTOM-LINE RESULTS

MINNEAPOLIS, MN (July 27, 2011) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter and six months ended July 1, 2011.

Summary
$ in millions except per share amounts

	Thirteen Weeks Ended			Twenty-six Weeks Ended		
	July 1, 2011	June 25, 2010	% Change	July 1, 2011	June 25, 2010	% Change
Net Sales	$ 234.7	$ 192.1	22 %	$ 452.3	$ 356.8	27 %
Net Earnings	38.1	24.8	53 %	75.4	45.4	66 %
Diluted Net Earnings per Common Share	$ 0.61	$ 0.41	49 %	$ 1.22	$ 0.74	65 %

- All segments and regions had strong revenue growth for the quarter and year-to-date.
- The sales increase of 22 percent for the quarter included 4 percentage points from currency translation. Changes in translation rates increased net earnings for the quarter by approximately $4 million and increased year-to-date earnings by approximately $5 million.
- For both the quarter and year-to-date, gross margin rate was 3 percentage points higher than the rate for the comparable periods last year.
- Return on sales for the quarter was 3 percentage points higher than the second quarter last year. Year-to-date return on sales was close to 4 percentage points higher than the comparable period last year.
- Operating expenses for the quarter included $3 million related to the pending acquisition of ITW's finishing businesses.

"Sales gains for the quarter were strong worldwide, reflecting improved economic conditions, successful new product launches and continued progress on expanding our business outside of North America," said Patrick J. McHale, President and Chief Executive Officer. "Gross margins and operating margins were solid even as we drive additional investments to support our strategic growth initiatives in innovation, technology, business development and geographic expansion."

Consolidated Results

Sales for the quarter increased 22 percent (18 percent at consistent translation rates), including increases of 14 percent in the Americas, 32 percent in Europe (21 percent at consistent translation rates) and 34 percent in Asia Pacific (27 percent at consistent translation rates). Year-to-date sales increased 27 percent (24 percent at consistent translation rates), with increases of 23 percent in the Americas, 30 percent in Europe (24 percent at consistent translation rates) and 35 percent in Asia Pacific (29 percent at consistent translation rates).

More

Gross profit margin, expressed as a percentage of sales, was 56 1/2 percent for the quarter, up 3 percentage points from the second quarter last year. Year-to-date gross margin rate was 57 percent, also 3 percentage points higher than the rate for the comparable period last year. The favorable effects of higher volume, translation, and selling price increases were offset somewhat by higher material costs for both the quarter and the year-to-date.

Total operating expenses increased $11 million for the quarter and $22 million year-to-date. Selling, marketing and distribution expenses increased $7 million for the quarter and $15 million year-to-date, from translation, headcount increases (mostly in Europe and Asia Pacific) and higher marketing and promotion expenses (mainly in Contractor segment). General and administrative expense for the quarter increased $4 million, including $3 million related to the pending acquisition of ITW Finishing businesses.

The effective income tax rate of 32 percent for the quarter and 33 percent for the year-to-date is lower than the 35 percent rate for both the quarter and year-to-date periods last year. The decrease is mainly due to the federal R&D credit included in the 2011 rate (the federal R&D credit was not available in 2010 until the fourth quarter).

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)	$ 129.3	$ 80.7	$ 24.7	$ 252.1	$ 150.9	$ 49.3
Net sales percentage change from last year	29 %	9 %	38 %	28 %	21 %	41 %
Operating earnings as a percentage of net sales						
2011	35 %	20 %	16 %	36 %	18 %	19 %
2010	29 %	18 %	10 %	30 %	15 %	10 %

Industrial segment sales increased 29 percent for the quarter and 28 percent year-to-date, with more than 20 percent growth in all regions. Contractor segment sales increased 9 percent for the quarter and 21 percent year-to-date, with gains for the quarter of 29 percent in Europe (17 percent at consistent translation rates) and 23 percent in Asia Pacific (13 percent at consistent translation rates). Contractor sales for the quarter were flat in the Americas compared to the second quarter of 2010, which included substantial stocking shipments of new products. Lubrication segment sales increased 38 percent for the quarter and 41 percent year-to-date, with increases of at least 30 percent in all regions.

Higher volume and leveraging of expenses led to improved operating earnings in all segments compared to last year, particularly in the Industrial and Lubrication segments.

Outlook

"On a global basis we are seeing stable incoming order rates and expect market conditions in the second half of 2011 to be generally favorable, with the exception of the U.S. housing and commercial construction markets, which continue to be challenging," said Patrick J. McHale, President and Chief Executive Officer. "We expect percentage growth trends in the second half of 2011 to be lower as comparisons to prior year become more difficult. We continue to cooperate with the Federal Trade Commission staff to obtain regulatory approval to close the pending acquisition of ITW's finishing businesses."

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 the acquisition of the finishing businesses of ITW, 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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing businesses include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 (and most recent Form 10-Q) 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 28, 2011, 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 28, 2011, by dialing 800-406-7325, Conference ID #4454163, 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 August 2, 2011.

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 July 1, 2011	Thirteen Weeks Ended June 25, 2010	Twenty-six Weeks Ended July 1, 2011	Twenty-six Weeks Ended June 25, 2010
Net Sales	$ 234,663	$ 192,088	$ 452,342	$ 356,809
Cost of products sold	102,217	90,168	195,499	165,594
Gross Profit	132,446	101,920	256,843	191,215
Product development	10,354	9,472	20,285	18,946
Selling, marketing and distribution	39,582	32,647	77,065	61,807
General and administrative	24,255	20,592	44,169	38,547
Operating Earnings	58,255	39,209	115,324	71,915
Interest expense	1,732	1,041	2,348	2,121
Other expense, net	324	(268)	324	(107)
Earnings Before Income Taxes	56,199	38,436	112,652	69,901
Income taxes	18,100	13,600	37,300	24,500
Net Earnings	$ 38,099	$ 24,836	$ 75,352	$ 45,401
Net Earnings per Common Share				
Basic	$ 0.63	$ 0.41	$ 1.25	$ 0.75
Diluted	$ 0.61	$ 0.41	$ 1.22	$ 0.74
Weighted Average Number of Shares				
Basic	60,721	60,597	60,496	60,402
Diluted	62,070	61,184	61,715	60,948

Segment Information (Unaudited)

	Thirteen Weeks Ended July 1, 2011	Thirteen Weeks Ended June 25, 2010	Twenty-six Weeks Ended July 1, 2011	Twenty-six Weeks Ended June 25, 2010
Net Sales				
Industrial	$ 129,304	$ 100,461	$ 252,134	$ 197,253
Contractor	80,702	73,782	150,907	124,579
Lubrication	24,657	17,845	49,301	34,977
Total	$ 234,663	$ 192,088	$ 452,342	$ 356,809
Operating Earnings				
Industrial	$ 45,339	$ 29,565	$ 90,364	$ 60,039
Contractor	16,424	13,203	27,539	18,086
Lubrication	4,045	1,868	9,272	3,575
Unallocated corporate (expense)	(7,553)	(5,427)	(11,851)	(9,785)
Total	$ 58,255	$ 39,209	$ 115,324	$ 71,915

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 10/26/2011
Filed Period 09/30/2011

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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 30, 2011**

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

59,685,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of October 19, 2011.

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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 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net Sales	$ 227,347	$ 189,963	$ 679,689	$ 546,772
Cost of products sold	100,998	85,405	296,497	250,999
Gross Profit	126,349	104,558	383,192	295,773
Product development	10,423	9,263	30,708	28,209
Selling, marketing and distribution	36,673	33,280	113,738	95,087
General and administrative	22,451	18,592	66,620	57,139
Operating Earnings	56,802	43,423	172,126	115,338
Interest expense	3,125	1,038	5,473	3,159
Other expense, net	325	254	649	147
Earnings Before Income Taxes	53,352	42,131	166,004	112,032
Income taxes	16,800	11,700	54,100	36,200
Net Earnings	$ 36,552	$ 30,431	$ 111,904	$ 75,832
Basic Net Earnings per Common Share	$ 0.60	$ 0.51	$ 1.85	$ 1.26
Diluted Net Earnings per Common Share	$ 0.60	$ 0.50	$ 1.82	$ 1.25
Cash Dividends Declared per Common Share	$ 0.21	$ 0.20	$ 0.63	$ 0.60

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands)

	Sep 30, 2011	Dec 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 274,832	$ 9,591
Accounts receivable, less allowances of $5,400 and $5,600	156,430	124,593
Inventories	111,727	91,620
Deferred income taxes	18,904	18,647
Other current assets	3,305	7,957
Total current assets	565,198	252,408
Property, Plant and Equipment		
Cost	351,974	344,854
Accumulated depreciation	(217,549)	(210,669)
Property, plant and equipment, net	134,425	134,185
Goodwill	93,400	91,740
Other Intangible Assets, net	20,646	28,338
Deferred Income Taxes	15,230	14,696
Other Assets	10,710	9,107
Total Assets	$ 839,609	$ 530,474
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 8,088	$ 8,183
Trade accounts payable	29,889	19,669
Salaries and incentives	29,280	34,907
Dividends payable	12,608	12,610
Other current liabilities	48,618	44,385
Total current liabilities	128,483	119,754
Long-term Debt	300,000	70,255
Retirement Benefits and Deferred Compensation	77,564	76,351
Shareholders' Equity		
Common stock	59,811	60,048
Additional paid-in-capital	238,537	212,073
Retained earnings	84,648	44,436
Accumulated other comprehensive income (loss)	(49,434)	(52,443)
Total shareholders' equity	333,562	264,114
Total Liabilities and Shareholders' Equity	$ 839,609	$ 530,474

See notes to consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010
Cash Flows From Operating Activities		
Net Earnings	$ 111,904	$ 75,832
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	26,308	25,496
Deferred income taxes	(2,494)	(3,848)
Share-based compensation	8,821	7,339
Excess tax benefit related to share-based payment arrangements	(1,800)	(1,000)
Change in		
Accounts receivable	(31,852)	(34,845)
Inventories	(19,790)	(26,740)
Trade accounts payable	7,085	6,892
Salaries and incentives	(6,420)	14,637
Retirement benefits and deferred compensation	5,400	(2,810)
Other accrued liabilities	6,327	(258)
Other	5,281	1,744
Net cash provided by operating activities	108,770	62,439
Cash Flows From Investing Activities		
Property, plant and equipment additions	(17,334)	(9,416)
Proceeds from sale of property, plant and equipment	211	180
Acquisition of business	(2,139)	-
Investment in life insurance	(1,499)	(1,499)
Capitalized software and other intangible asset additions	(534)	(342)
Net cash used in investing activities	(21,295)	(11,077)
Cash Flows From Financing Activities		
Borrowings on short-term lines of credit	15,550	8,358
Payments on short-term lines of credit	(15,737)	(8,692)
Borrowings on long-term notes and line of credit	402,175	92,795
Payments on long-term line of credit	(172,430)	(89,055)
Payments of debt issuance costs	(1,131)	-
Excess tax benefit related to share-based payment arrangements	1,800	1,000
Common stock issued	20,563	9,667
Common stock repurchased	(35,250)	(24,218)
Cash dividends paid	(38,116)	(36,171)
Net cash provided by (used in) financing activities	177,424	(46,316)
Effect of exchange rate changes on cash	342	(792)
Net increase (decrease) in cash and cash equivalents	265,241	4,254
Cash and cash equivalents		
Beginning of year	9,591	5,412
End of period	$ 274,832	$ 9,666

See notes to consolidated financial statements.

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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 30, 2011 and the related statements of earnings for the thirteen and thirty-nine weeks ended September 30, 2011 and September 24, 2010, and cash flows for the thirty-nine weeks ended September 30, 2011 and September 24, 2010 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 30, 2011, and the results of operations and cash flows for all periods presented.

In the fourth quarter of 2010, the Company changed its cash flow presentation of notes payable activity, for all periods presented, to separately disclose borrowings and payments. The Company also changed the cash flow presentation of activity on the swingline portion of its long-term revolving credit arrangement by changing the method it uses to accumulate borrowing and payment amounts. In prior periods, such activity was disclosed on a net basis. The effect of this change was to increase both borrowings and payments on long-term line of credit by $83 million in the first nine months of 2010. These changes had no impact on net cash used in financing activities.

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 2010 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 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net earnings available to common shareholders	$ 36,552	$ 30,431	$ 111,904	$ 75,832
Weighted average shares outstanding for basic earnings per share	60,430	60,107	60,474	60,304
Dilutive effect of stock options computed using the treasury stock method and the average market price	985	517	1,141	536
Weighted average shares outstanding for diluted earnings per share	61,415	60,624	61,615	60,840
Basic earnings per share	$ 0.60	$ 0.51	$ 1.85	$ 1.26
Diluted earnings per share	$ 0.60	$ 0.50	$ 1.82	$ 1.25

Stock options to purchase 1,161,000 and 2,965,000 shares were not included in the 2011 and 2010 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 30, 2011 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 31, 2010	5,509	$ 30.42	2,980	$ 31.99
Granted	569	43.15		
Exercised	(479)	26.91		
Canceled	(39)	35.50		
Outstanding, September 30, 2011	5,560	$ 31.99	3,284	$ 32.03

The Company recognized year-to-date share-based compensation of $8.8 million in 2011 and $7.3 million in 2010. As of September 30, 2011, there was $9.7 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 30, 2011	Sep 24, 2010
Expected life in years	6.5	6.0
Interest rate	2.8 %	2.7 %
Volatility	33.7 %	34.0 %
Dividend yield	2.0 %	3.0 %
Weighted average fair value per share	$ 13.35	$ 7.38

Under the Company's Employee Stock Purchase Plan, the Company issued 313,000 shares in 2011 and 436,000 shares in 2010. 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 30, 2011	Sep 24, 2010
Expected life in years	1.0	1.0
Interest rate	0.3 %	0.3 %
Volatility	27.8 %	42.8 %
Dividend yield	2.1 %	2.9 %
Weighted average fair value per share	$ 10.05	$ 8.48

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 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Pension Benefits				
Service cost	$ 865	$ 1,038	$ 3,330	$ 3,173
Interest cost	3,076	3,160	9,816	9,575
Expected return on assets	(3,852)	(3,564)	(11,852)	(10,364)
Amortization and other	1,524	1,547	4,470	4,599
Net periodic benefit cost	$ 1,613	$ 2,181	$ 5,764	$ 6,983
Postretirement Medical				
Service cost	$ 202	$ 138	$ 452	$ 413
Interest cost	264	310	914	930
Amortization	(68)	(50)	(68)	(145)
Net periodic benefit cost	$ 398	$ 398	$ 1,298	$ 1,198

The Company paid $1.5 million in July 2011 and $1.5 million in June 2010 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 $7.3 million and $6.2 million is included in other assets in the consolidated balance sheets as of September 30, 2011 and December 31, 2010, respectively.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net earnings	$ 36,552	$ 30,431	$ 111,904	$ 75,832
Pension and postretirement medical liability adjustment	1,525	1,507	4,317	4,466
Gain on interest rate hedge contracts	-	763	454	2,401
Income taxes	(559)	(841)	(1,762)	(2,542)
Comprehensive income	$ 37,518	$ 31,860	$ 114,913	$ 80,157

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

	Sep 30, 2011	Dec 31, 2010
Pension and postretirement medical liability adjustment	$ (48,611)	$ (51,334)
Gain (loss) on interest rate hedge contracts	-	(286)
Cumulative translation adjustment	(823)	(823)
Total	$ (49,434)	$ (52,443)

6. The Company has three reportable segments: Industrial, Contractor and Lubrication. Sales and operating earnings by segment for the thirteen and thirty-nine weeks ended September 30, 2011 and September 24, 2010 were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net Sales				
Industrial	$ 124,502	$ 99,236	$ 376,636	$ 296,489
Contractor	77,757	70,362	228,664	194,941
Lubrication	25,088	20,365	74,389	55,342
Total	$ 227,347	$ 189,963	$ 679,689	$ 546,772
Operating Earnings				
Industrial	$ 42,632	$ 31,195	$ 132,996	$ 91,234
Contractor	16,700	13,753	44,239	31,839
Lubrication	4,380	2,751	13,652	6,326
Unallocated corporate (expense)	(6,910)	(4,276)	(18,761)	(14,061)
Total	$ 56,802	$ 43,423	$ 172,126	$ 115,338

Unallocated corporate in 2011 includes $3 million of expense for the quarter and $6 million year-to-date related to the pending acquisition of ITW's finishing businesses.

Assets by segment were as follows (in thousands):

	Sep 30, 2011	Dec 31, 2010
Industrial	$ 300,124	$ 270,160
Contractor	158,158	134,938
Lubrication	88,528	81,746
Unallocated corporate	292,799	43,630
Total	$ 839,609	$ 530,474

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

	Sep 30, 2011	Dec 31, 2010
Finished products and components	$ 57,701	$ 48,670
Products and components in various stages of completion	38,269	31,275
Raw materials and purchased components	54,378	46,693
	150,348	126,638
Reduction to LIFO cost	(38,621)	(35,018)
Total	$ 111,727	$ 91,620

8. Information related to other intangible assets follows (dollars in thousands):

	Estimated Life (years)	Original Cost	Accumulated Amortization	Foreign Currency Translation	Book Value
September 30, 2011					
Customer relationships	2 - 8	$ 40,925	$ (29,252)	$ (181)	$ 11,492
Patents, proprietary technology and product documentation	3 - 10	14,668	(10,090)	(87)	4,491
Trademarks, trade names and other	2 - 3	6,140	(4,657)	-	1,483
		61,733	(43,999)	(268)	17,466
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 64,913	$ (43,999)	$ (268)	$ 20,646
December 31, 2010					
Customer relationships	3 - 8	$ 41,075	$ (24,840)	$ (181)	$ 16,054
Patents, proprietary technology and product documentation	3 - 10	19,902	(13,956)	(87)	5,859
Trademarks, trade names and other	3 - 10	8,154	(4,909)	-	3,245
		69,131	(43,705)	(268)	25,158
Not Subject to Amortization:					
Brand names		3,180	-	-	3,180
Total		$ 72,311	$ (43,705)	$ (268)	$ 28,338

Amortization of intangibles was $2.6 million in the third quarter of 2011 and $8.4 million year-to-date. Estimated annual amortization expense is as follows: $10.9 million in 2011, $9.0 million in 2012, $4.3 million in 2013, $0.9 million in 2014, $0.5 million in 2015 and $0.2 million thereafter.

9. Components of other current liabilities were (in thousands):

	Sep 30, 2011	Dec 31, 2010
Accrued self-insurance retentions	$ 6,634	$ 6,675
Accrued warranty and service liabilities	6,753	6,862
Accrued trade promotions	4,771	5,947
Payable for employee stock purchases	4,904	5,655
Income taxes payable	3,168	733
Other	22,388	18,513
Total other current liabilities	$ 48,618	$ 44,385

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 30, 2011	Year Ended Dec 31, 2010
Balance, beginning of year	$ 6,862	$ 7,437
Charged to expense	3,641	3,484
Margin on parts sales reversed	2,168	3,412
Reductions for claims settled	(5,918)	(7,471)
Balance, end of period	$ 6,753	$ 6,862

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.

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. The notional amount of contracts outstanding as of September 30, 2011, totaled $21 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, including reference to market prices and financial models that incorporate relevant market assumptions. The fair market value and balance sheet classification of such instruments follows (in thousands):

	Balance Sheet Classification	Sep 30, 2011	Dec 31, 2010
Gain (loss) on interest rate hedge contracts	Other current liabilities	$ -	$ (454)
Gain (loss) on foreign currency forward contracts			
Gains		$ 989	$ 92
Losses		(26)	(284)
Net	Accounts receivable	$ 963	
	Other current liabilities		$ (192)

11. In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes (series A and B) in a private placement. In July 2011, the Company sold an additional $150 million in unsecured notes (series C and D). Proceeds were used to repay revolving line of credit borrowings and invested in cash and cash equivalents, mostly money market funds (carried at cost, which approximates market value).

Interest rates and maturity dates on the four series of notes are as follows (dollars in millions):

Series	Amount	Rate	Maturity
A	$ 75	4.00 %	March 2018
B	$ 75	5.01 %	March 2023
C	$ 75	4.88 %	January 2020
D	$ 75	5.35 %	July 2026

The notes have a carrying amount of $300 million and an estimated fair value of $320 million as of September 30, 2011. Estimated fair value is based on the present value of future cash flows and rates that would be available for issuance of debt with similar terms and remaining maturities.

The note agreement requires the Company to maintain certain financial ratios as to cash flow leverage and interest coverage. The Company is in compliance with all financial covenants of its debt agreements.

12. In April 2011, the Company entered into a definitive agreement to purchase the finishing businesses of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. Closing on the purchase is subject to regulatory reviews and other customary closing conditions. The Company is cooperating with the Federal Trade Commission to obtain clearance to close on the transaction. The Company plans to finance the acquisition through a new committed $450 million revolving credit facility that will be funded upon closing of the purchase, and funds available under the long-term notes referenced above.

Also in April 2011, the Company acquired the assets and assumed certain liabilities of Eccentric Pumps, LLC ("Eccentric") for approximately $2.1 million cash. Eccentric was engaged in the business of designing and selling peristaltic hose pumps for metering, dosing and transferring fluids. The Company expects to employ the Eccentric assets to expand and complement its Industrial segment business. The purchase price was allocated based on estimated fair values, including $1.7 million of goodwill and $0.7 million of other identifiable intangible assets.

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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 30, 2011	Sep 24, 2010	% Change	Sep 30, 2011	Sep 24, 2010	% Change
Net Sales	$ 227.3	$ 190.0	20%	$ 679.7	$ 546.8	24%
Net Earnings	$ 36.6	$ 30.4	20%	$ 111.9	$ 75.8	48%
Diluted Net Earnings per Common Share	$ 0.60	$ 0.50	20%	$ 1.82	$ 1.25	46%

All segments and geographic regions had revenue growth over last year for the quarter and year-to-date. Volume increases continued to drive improvement in net earnings. Changes in translation rates increased net earnings for the quarter by approximately $3 million and increased year-to-date earnings by approximately $7 million.

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Consolidated Results

Sales by geographic area were as follows (in millions):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Americas[1]	$ 122.8	$ 108.7	$ 364.1	$ 305.6
Europe[2]	51.1	43.4	162.4	129.2
Asia Pacific	53.4	37.9	153.2	112.0
Consolidated	$ 227.3	$ 190.0	$ 679.7	$ 546.8

[1] North and South America, including the U.S.
[2] Europe, Africa and Middle East

Sales for the quarter increased 20 percent (16 percent at consistent translation rates), including increases of 13 percent in the Americas, 18 percent in Europe (10 percent at consistent translation rates) and 41 percent in Asia Pacific (34 percent at consistent translation rates). Year-to-date sales increased 24 percent (21 percent at consistent translation rates), with increases of 19 percent in the Americas, 26 percent in Europe (19 percent at consistent translation rates) and 37 percent in Asia Pacific (31 percent at consistent translation rates).

Gross profit margin, expressed as a percentage of sales, was 56 percent for both the quarter and year-to-date, up 1/2 percentage point from the third quarter last year and 2 percentage points higher than last year-to-date. The favorable effects of translation and higher volume were partially offset by higher material costs for both the quarter and the year-to-date.

Total operating expenses increased $8 million for the quarter and $31 million year-to-date. Selling, marketing and distribution expenses were $3 million higher for the quarter and were up $19 million year-to-date. The increases came from translation, headcount increases (mostly in Asia Pacific) and higher marketing and promotion expenses (mainly in Contractor segment in the first half of the year). General and administrative expense for the quarter and year-to-date increased $4 million and $9 million, respectively, including $3 million for the quarter and $6 million year-to-date, related to the pending acquisition of ITW's finishing businesses.

The effective income tax rate of 32 percent for the quarter is higher than the 28 percent rate for third quarter last year. Last year's lower rate reflected the favorable effects of tax law rulings and expiring statutes of limitations. The effective rate of 33 percent for the year-to-date is consistent with the rate for the comparable period last year.

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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 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net sales (in millions)				
Americas	$ 53.8	$ 46.7	$ 162.6	$ 134.1
Europe	33.1	25.6	103.6	80.6
Asia Pacific	37.6	26.9	110.4	81.8
Total	$ 124.5	$ 99.2	$ 376.6	$ 296.5
Operating earnings as a percentage of net sales	34 %	31 %	35 %	31 %

Industrial segment sales for the quarter increased 15 percent in the Americas, 29 percent in Europe (21 percent at consistent translation rates) and 40 percent in Asia Pacific (34 percent at consistent translation rates). Year-to-date sales increased 21 percent in the Americas, 29 percent in Europe (22 percent at consistent translation rates) and 35 percent in Asia Pacific (30 percent at consistent translation rates).

Higher volume, expense leverage and currency translation contributed to the improvement in operating earnings as a percentage of sales.

Contractor

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net sales (in millions)				
Americas	$ 51.2	$ 46.8	$ 148.6	$ 130.2
Europe	16.0	16.2	52.3	44.1
Asia Pacific	10.6	7.4	27.8	20.6
Total	$ 77.8	$ 70.4	$ 228.7	$ 194.9
Operating earnings as a percentage of net sales	21 %	20 %	19 %	16 %

Contractor segment sales for the quarter increased 10 percent in the Americas and 43 percent in Asia Pacific (34 percent at consistent translation rates). Sales were down 2 percent in Europe (down 9 percent at consistent translation rates) compared to the third quarter of 2010, which included substantial stocking shipments of new products. Year-to-date sales increased 14 percent in the Americas, 19 percent in Europe (12 percent at consistent translation rates) and 35 percent in Asia Pacific (26 percent at consistent translation rates).

Higher volume, expense leverage and currency translation contributed to the improvement in operating earnings as a percentage of sales. Increased marketing, including product launch and promotion expenses in the first half of the year, moderated the improvement in 2011.

Lubrication

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 30, 2011	Sep 24, 2010	Sep 30, 2011	Sep 24, 2010
Net sales (in millions)				
Americas	$ 17.8	$ 15.2	$ 52.8	$ 41.2
Europe	2.1	1.6	6.6	4.5
Asia Pacific	5.2	3.6	15.0	9.6
Total	$ 25.1	$ 20.4	$ 74.4	$ 55.3
Operating earnings as a percentage of net sales	17 %	14 %	18 %	11 %

Lubrication segment sales for the quarter increased 17 percent in the Americas, 29 percent in Europe and 46 percent in Asia Pacific. Year-to-date sales increased 28 percent in the Americas, 46 percent in Europe and 56 percent in Asia Pacific.

Higher volume, expense leverage and currency translation contributed to the improvement in operating earnings as a percentage of sales. Increasing material and production costs moderated the improvement in the third quarter.

Liquidity and Capital Resources

Net cash provided by operating activities was $109 million in 2011 and $62 million in 2010.

Since the end of 2010, inventories increased by $20 million to meet higher demand, and accounts receivable increased by $32 million due to higher sales levels. The increases in inventories and receivables occurred in the first half of the year, with balances leveling off in the third quarter. The Company purchased and retired $38 million of Company common stock in the third quarter, of which $3 million settled in the first week of the fourth quarter and was included in accounts payable as of September 30, 2011.

At September 30, 2011, the Company had various lines of credit totaling $270 million, of which $264 million was unused.

In March 2011, the Company entered into a note agreement and sold $150 million of unsecured notes in a private placement. One series of notes totaling $75 million bears interest at 4.0 percent and matures in 2018. Another series of notes totaling $75 million bears interest at 5.01 percent and matures in 2023. Under terms of the agreement, the Company sold an additional $150 million of unsecured notes on July 26, 2011. One series of notes issued in July totaling $75 million bears interest at 4.88 percent and matures in 2020. Another series of notes issued in July totaling $75 million bears interest at 5.35 percent and matures in 2026. Proceeds were used to repay revolving line of credit borrowings and invested in cash and cash equivalents, mostly money market funds.

Under terms of the note agreement, interest is payable quarterly. The Company is required to maintain a cash flow leverage ratio of not more than 3.25 to 1.00 and an interest coverage ratio of not less than 3.00 to 1.00. If a significant acquisition is consummated, the agreement allows, for a one-year period, for a cash flow leverage ratio of 3.75 to 1.00 and an interest

coverage ratio of not less than 2.50 to 1.00. The note agreement contains covenants typical of unsecured credit facilities, including customary default provisions. If an event of default occurs, all outstanding obligations may become immediately due and payable. The Company was in compliance with all financial covenants at September 30, 2011.

In April 2011, the Company entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works Inc. (ITW) in a $650 million cash transaction. Closing on the purchase is subject to regulatory reviews and other customary closing conditions. On July 5, 2011, the Company received a request for additional information from the Federal Trade Commission. The issuance of this second request extends the waiting period to close the acquisition to thirty days after the Company and ITW have substantially complied with their respective requests. Both parties had certified to substantial compliance to the FTC's second requests as of October 18, 2011, and also agreed to extend the waiting period by an additional thirty days.

The Company plans to finance the acquisition with borrowings under the long-term notes referenced above and with borrowings under a new revolving credit facility that will be funded upon closing of the purchase. In May 2011, the Company entered into a credit agreement providing the Company access to a $450 million unsecured revolving credit facility until May 2016. The Company may not obtain any loans under the credit agreement until certain conditions are met, including the closing of the acquisition of ITW's finishing businesses and the Company receiving not less than $75 million in proceeds from the issuance of additional long-term notes.

Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2011.

Outlook

For the fourth quarter of 2011, management expects the global demand to be generally favorable compared to last year, with the exception of the U.S. housing and commercial construction markets, which remain at historic lows. Management is closely monitoring demand trends in Europe, watching for any order impact resulting from the Eurozone financial crisis. Fourth quarter percentage growth trends are expected to be lower, reflecting more difficult comparisons to the prior year and an additional week of shipments that occurred in the fourth fiscal quarter of 2010.

The pending acquisition of the ITW finishing businesses would advance all of the Company's stated core growth strategies, including new products and technology, geographic expansion, and new markets.

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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 the acquisition of the finishing businesses of ITW, 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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing businesses include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 and Item 1A of this Quarterly Report on Form 10-Q 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.

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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 2010 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, 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.

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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 2010 Annual Report on Form 10-K, except for the addition of the risk factor described below:

Pending Acquisition - Our pending acquisition of the finishing business operations of Illinois Tool Works Inc. is subject to regulatory approvals and the expected benefits from the acquisition may not be fully realized.

We have entered into a definitive agreement to purchase the finishing business of Illinois Tools Works Inc. (ITW) in a $650 million cash transaction. We cannot predict whether or when the required regulatory approvals will be obtained or if the closing conditions will be satisfied. If we terminate the agreement before April 1, 2012 due to failure to obtain regulatory approval, we will be required to pay a $20 million termination fee. After the transaction closes, significant changes to our financial condition as a result of global economic changes or difficulties in the integration of the newly acquired businesses may affect our ability to obtain the expected benefits from the transaction or to satisfy the financial covenants included in the terms of the financing arrangements.

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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)
Jul 2, 2011 – Jul 29, 2011	674	51.53	-	5,179,638
Jul 30, 2011 – Aug 26, 2011	748,550	36.76	748,550	4,431,088
Aug 27, 2011 – Sep 30, 2011	310,110	34.90	310,110	4,120,978

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Item 6. Exhibits

10.1	Amendment No. 1 Dated as of August 15, 2011 to Pledge Agreement Dated as of July 12, 2007.
10.2	Amendment No. 1 Dated as of August 15, 2011 to Pledge Agreement Dated as of May 23, 2011.
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification of President and Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Title 18, U.S.C.
99.1	Press Release, Reporting Third Quarter Earnings, dated October 26, 2011.
101	Interactive Data File.

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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 26, 2011 By: /s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 26, 2011 By: /s/ James A. Graner
James A. Graner
Chief Financial Officer
(Principal Financial Officer)

Date: October 26, 2011 By: /s/ Caroline M. Chambers
Caroline M. Chambers
Vice President and Controller
(Principal Accounting Officer)

Exhibit 10.1

AMENDMENT NO. 1

Dated as of August 15, 2011

to

PLEDGE AGREEMENT

Dated as of July 12, 2007

THIS AMENDMENT NO. 1 ("Amendment") is entered into as of August 15, 2011 by and between GRACO INC., a corporation organized under the laws of the State of Minnesota (the "Pledgor") and U.S. BANK NATIONAL ASSOCIATION, as Agent (in such capacity, and together with any successors in such capacity, the "Secured Party") for the banks (the "Banks") from time to time party to the Credit Agreement defined below.

PRELIMINARY STATEMENT

WHEREAS, pursuant to that certain Revolving Credit Agreement, dated as of July 12, 2007 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among the Pledgor, as Borrower, the Borrowing Subsidiaries from time to time party thereto, the Banks and the Secured Party, as Agent, the Pledgor and the Secured Party entered into a Pledge Agreement dated of even date therewith (as amended, restated, supplemented or otherwise modified from time to time, the "Pledge Agreement");

WHEREAS, the Pledgor has changed the organizational structure of one of the entities comprising the Pledged Interests under the Pledge Agreement, and the parties hereto have agreed to amend the Pledge Agreement pursuant to the terms and conditions set forth herein to reflect such change;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Pledge Agreement.

SECTION 2. Amendments to the Pledge Agreement. Effective as of the date first above written and subject to the satisfaction of the condition precedent set forth in Section 3 below, Schedule I to the Pledge Agreement setting forth the "Pledged Interests" thereunder is hereby replaced in its entirety with Schedule I attached hereto as Annex A, and Pledgor hereby affirms its grant of a security interest in the Collateral associated with such Pledged Interests for the ratable benefit of the Secured Party and

the Banks, to secure the prompt and complete payment and performance of the Secured Obligations.

SECTION 3. Condition of Effectiveness. This Amendment shall become effective as of the date first above written upon receipt by the Secured Party of counterparts of this Amendment duly executed by all of the parties hereto.

SECTION 4. Covenants, Representations and Warranties.

(a) The Pledgor represents and warrants that it has duly executed and delivered the Pledge Agreement (as amended by this Amendment) and the Pledge Agreement constitutes a legal, valid and binding obligation of the Pledgor, enforceable against it in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to general principles of equity.

(b) Upon the effectiveness of this Amendment, the Pledgor hereby (i) represents that no Event of Default exists, (ii) reaffirms all covenants, representations and warranties made in the Pledge Agreement, and (iii) agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment, unless and to the extent that such representation and warranty is stated to relate solely to an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date.

SECTION 5. Reference to the Pledge Agreement.

(a) Upon the effectiveness of this Amendment, on and after the date hereof, each reference in the Pledge Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Pledge Agreement, as amended and modified hereby.

(b) Except as specifically amended and modified above, the Pledge Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall neither, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Banks or the Secured Party, nor constitute a waiver of any provision of the Pledge Agreement, the Credit Agreement, or any other Loan Document.

SECTION 6. Costs and Expenses. The Pledgor will pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses (including in each case all filing and recording fees and taxes and all reasonable fees and expenses of counsel and of any experts and agents) incurred by the Secured Party in connection with the preparation, execution and delivery of this Amendment.

SECTION 7. Governing Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF MINNESOTA.

SECTION 8. Execution. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart signature page to this Amendment by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Amendment, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Amendment.

SECTION 9. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

[Remainder of page intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PLEDGOR:

GRACO INC.

By: /s/ James A. Graner

James A. Graner

Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION, Secured Party

By: /s/ Michael J. Staloch
Name: Michael J. Staloch
Title: Vice President

Exhibit 10.1

ANNEX A

SCHEDULE I
TO
PLEDGE AGREEMENT
GRACO INC.

PLEDGED INTERESTS

Issuer:	Graco K.K.
Jurisdiction of Organization:	Japan
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	2B-001 through 2B-009; 3A-001 through 3A-008; 4A-001 through 4A-0034
Number of Units/Shares:	429,000
Issuer:	Graco Korea Inc.
Jurisdiction of Organization:	Korea
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	10,000-1 through 10,000-8; 1,000-1; 100-1 through 100-5
Number of Units/Shares:	81,500
Issuer:	Graco BVBA
Jurisdiction of Organization:	Belgium
Type of Interest:	Uncertificated Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	N/A
Number of Units/Shares:	655,302

Exhibit 10.2

AMENDMENT NO. 1

Dated as of August 15, 2011

to

PLEDGE AGREEMENT

Dated as of May 23, 2011

THIS AMENDMENT NO. 1 ("Amendment") is entered into as of August 15, 2011 by and between GRACO INC., a corporation organized under the laws of the State of Minnesota (the "Pledgor") and U.S. BANK NATIONAL ASSOCIATION, as Collateral Agent (in such capacity, and together with any successors in such capacity, the "Secured Party") for the banks (the "Banks") from time to time party to the Credit Agreement defined below and the noteholders (the "Noteholders" and collectively with the Banks, the "Creditors") from time to time holding notes issued under the Note Purchase Agreements defined below.

PRELIMINARY STATEMENT

WHEREAS, the Pledgor, as borrower (the "Borrower"), the Borrowing Subsidiaries from time to time party thereto, the Banks and U.S. Bank National Association, as Agent, have entered into a Credit Agreement dated as of May 23, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, the Borrower and the Noteholders named in the Purchaser Schedule attached thereto have entered into a Note Agreement dated as of March 11, 2011, and it is contemplated that the Borrower will enter into a Note Agreement with one or more affiliates of The Prudential Insurance Company of America as Noteholders named in the Purchaser Schedule attached thereto (as each may be amended, restated, supplemented or otherwise modified from time to time, the "Note Purchase Agreements", and together with the Credit Agreement and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended, restated, supplemented or otherwise modified from time to time), the "Senior Indebtedness Documents");

WHEREAS, the Agent, the Secured Party and the Noteholders have entered into an Intercreditor and Collateral Agency Agreement dated as of May 23, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), pursuant to which the Secured Party has been appointed Collateral Agent;

WHEREAS, in consideration of the extensions of credit and other accommodations of the Creditors under the Senior Indebtedness Documents, the Pledgor has agreed to secure the Secured Obligations pursuant to that certain Pledge

Agreement dated as of May 23, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Pledge Agreement"); and

WHEREAS, the Pledgor has changed the organizational structure of one of the entities comprising the Pledged Interests under the Pledge Agreement, and the parties hereto have agreed to amend the Pledge Agreement pursuant to the terms and conditions set forth herein to reflect such change;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Pledge Agreement.

SECTION 2. Amendments to the Pledge Agreement. Effective as of the date first above written and subject to the satisfaction of the condition precedent set forth in Section 3 below, Schedule I to the Pledge Agreement setting forth the "Pledged Interests" thereunder is hereby replaced in its entirety with Schedule I attached hereto as Annex A, and Pledgor hereby affirms its grant of a security interest in the Collateral associated with such Pledged Interests for the ratable benefit of the Secured Party and the Creditors, to secure the prompt and complete payment and performance of the Secured Obligations.

SECTION 3. Condition of Effectiveness. This Amendment shall become effective as of the date first above written upon receipt by the Secured Party of counterparts of this Amendment duly executed by all of the parties hereto.

SECTION 4. Covenants, Representations and Warranties.

(a) The Pledgor represents and warrants that it has duly executed and delivered the Pledge Agreement (as amended by this Amendment) and the Pledge Agreement constitutes a legal, valid and binding obligation of the Pledgor, enforceable against it in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to general principles of equity.

(b) Upon the effectiveness of this Amendment, the Pledgor hereby (i) represents that no Event of Default exists, (ii) reaffirms all covenants, representations and warranties made in the Pledge Agreement, and (iii) agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment, unless and to the extent that such representation and warranty is stated to relate solely to an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date.

SECTION 5. Reference to the Pledge Agreement.

(a) Upon the effectiveness of this Amendment, on and after the date hereof, each reference in the Pledge Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Pledge Agreement, as amended and modified hereby.

(b) Except as specifically amended and modified above, the Pledge Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall neither, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Creditors or the Secured Party, nor constitute a waiver of any provision of the Pledge Agreement, the Credit Agreement, the Note Purchase Agreements, the Intercreditor Agreement or any other Senior Indebtedness Document.

SECTION 6. Costs and Expenses. The Pledgor will pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses (including in each case all filing and recording fees and taxes and all reasonable fees and expenses of counsel and of any experts and agents) incurred by the Secured Party in connection with the preparation, execution and delivery of this Amendment.

SECTION 7. Governing Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF MINNESOTA.

SECTION 8. Execution. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart signature page to this Amendment by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Amendment, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Amendment.

SECTION 9. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

[Remainder of page intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PLEDGOR:

GRACO INC.

By: /s/ James A. Graner
James A. Graner
Chief Financial Officer

U.S. BANK NATIONAL
ASSOCIATION, Secured Party

By: /s/ Michael J. Staloch
Name: Michael J. Staloch
Title: Senior Vice President

Exhibit 10.2

ANNEX A

SCHEDULE I
TO
PLEDGE AGREEMENT
GRACO INC.

PLEDGED INTERESTS

Issuer:	Graco K.K.
Jurisdiction of Organization:	Japan
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	2B-001 through 2B-009; 3A-001 through 3A-008; 4A-001 through 4A-0034
Number of Units/Shares:	429,000
Issuer:	Graco Korea Inc.
Jurisdiction of Organization:	Korea
Type of Interest:	Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	10,000-1 through 10,000-8; 1,000-1; 100-1 through 100-5
Number of Units/Shares:	81,500
Issuer:	Graco BVBA
Jurisdiction of Organization:	Belgium
Type of Interest:	Uncertificated Common Stock
Percentage Ownership:	65.00%
Certificate No(s).:	N/A
Number of Units/Shares:	655,302

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 26, 2011

/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 26, 2011

/s/ James A. Graner

James A. Graner

Chief Financial Officer

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 26, 2011

/s/ Patrick J. McHale

Patrick J. McHale

President and Chief Executive Officer

Date: October 26, 2011

/s/ James A. Graner

James A. Graner

Chief Financial Officer

Exhibit 99.1

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

News Release

FOR IMMEDIATE RELEASE:
Wednesday, October 26, 2011

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

GRACO REPORTS THIRD QUARTER SALES AND EARNINGS
STRONG THIRD QUARTER SALES CONTINUE TO DRIVE EARNINGS GROWTH

MINNEAPOLIS, MN (October 26, 2011) - Graco Inc. **(NYSE: GGG)** today announced results for the quarter and nine months ended September 30, 2011.

Summary
$ in millions except per share amounts

	Thirteen Weeks Ended			Thirty-nine Weeks Ended		
	Sep 30, 2011	Sep 24, 2010	% Change	Sep 30, 2011	Sep 24, 2010	% Change
Net Sales	$ 227.3	$ 190.0	20 %	$ 679.7	$ 546.8	24 %
Net Earnings	36.6	30.4	20 %	111.9	75.8	48 %
Diluted Net Earnings per Common Share	$ 0.60	$ 0.50	20 %	$ 1.82	$ 1.25	46 %

- All segments and regions had revenue growth for the quarter and year-to-date. Growth for the quarter was particularly strong in the Industrial and Lubrication segments and in Asia Pacific.
- Gross margin rate remained strong at 56 percent for both the quarter and year-to-date.
- Operating profit margin rate of 25 percent for both the quarter and year-to-date is 2 percentage points higher than third quarter last year and 4 percentage points higher than last year-to-date.
- Sales increases of 20 percent for the quarter and 24 percent year-to-date included 4 percentage points and 3 percentage points, respectively, from currency translation. Changes in translation rates increased net earnings for the quarter by approximately $3 million and increased year-to-date earnings by approximately $7 million.
- Operating expenses included $3 million for the quarter and $6 million year-to-date, related to the pending acquisition of ITW's finishing businesses.
- Interest expense was $2 million higher than last year for both the quarter and year-to-date.
- The effective income tax rate of 32 percent for the quarter was 4 percentage points higher than the third-quarter rate last year, which included favorable effects of tax law rulings and expiring statutes of limitation.

"I am very pleased with the Company's results in the third quarter, driven by strong execution throughout the organization," said Patrick J. McHale, President and Chief Executive Officer. "Sales growth for the quarter was broad-based, with double-digit increases in all segments and regions compared to the third quarter of 2010. Gross margins and operating margins continue to be strong, reflecting the solid top-line performance and the Company's commitment to profitable growth through investments in new products and geographic expansion."

More □

Consolidated Results

Sales for the quarter increased 20 percent (16 percent at consistent translation rates), including increases of 13 percent in the Americas, 18 percent in Europe (10 percent at consistent translation rates) and 41 percent in Asia Pacific (34 percent at consistent translation rates). Year-to-date sales increased 24 percent (21 percent at consistent translation rates), with increases of 19 percent in the Americas, 26 percent in Europe (19 percent at consistent translation rates) and 37 percent in Asia Pacific (31 percent at consistent translation rates).

Gross profit margin, expressed as a percentage of sales, was 56 percent for both the quarter and year-to-date, up 1/2 percentage point from the third quarter last year and 2 percentage points higher than last year-to-date. The favorable effects of translation and higher volume were partially offset by higher material costs for both the quarter and the year-to-date.

Total operating expenses increased $8 million for the quarter and $31 million year-to-date. Selling, marketing and distribution expenses were $3 million higher for the quarter and were up $19 million year-to-date. The increases came from translation, headcount increases (mostly in Asia Pacific) and higher marketing and promotion expenses (mainly in Contractor segment in the first half of the year). General and administrative expense for the quarter increased $4 million, including $3 million related to the pending acquisition of ITW's finishing businesses.

The effective income tax rate of 32 percent for the quarter is higher than the 28 percent rate for third quarter last year. Last year's lower rate reflected the favorable effects of tax law rulings and expiring statutes of limitations. The effective rate of 33 percent for the year-to-date is consistent with the rate for the comparable period last year.

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)	$ 124.5	$ 77.8	$ 25.1	$ 376.6	$ 228.7	$ 74.4
Net sales percentage change from last year	25 %	11 %	23 %	27 %	17 %	34 %
Operating earnings as a percentage of net sales						
2011	34 %	21 %	17 %	35 %	19 %	18 %
2010	31 %	20 %	14 %	31 %	16 %	11 %

Industrial segment sales increased 25 percent for the quarter and 27 percent year-to-date, with increases for the quarter ranging from 15 percent in the Americas to 40 percent in Asia Pacific (34 percent at consistent translation rates). Contractor segment sales increased 11 percent for the quarter and 17 percent year-to-date, with gains for the quarter of 10 percent in the Americas and 43 percent in Asia Pacific (34 percent at consistent translation rates). Contractor sales for the quarter were down 2 percent in Europe (down 9 percent at consistent translation rates) compared to the third quarter of 2010, which included substantial stocking shipments of new products. Lubrication segment sales increased 23 percent for the quarter and 34 percent year-to-date, with double-digit percentage growth in all regions.

Higher volume and leveraging of expenses led to improved operating earnings in all segments compared to last year, particularly in the Industrial and Lubrication segments.

More □

Outlook

"Incoming order rates worldwide remained strong throughout the quarter, particularly in Asia Pacific," said McHale. "For the fourth quarter of 2011, we continue to expect global demand to be generally favorable to the prior year, with the exception of the U.S. housing and commercial construction markets, which remain at historic lows. We are cautious regarding demand trends in Europe and are closely watching for any order impact resulting from the Eurozone financial crisis. We expect fourth quarter percentage growth trends will be lower, reflecting more difficult comparisons to the prior year and an additional week of shipments that occurred in the fiscal fourth quarter of 2010."

The Company continues to cooperate with the Federal Trade Commission ("FTC") to obtain regulatory approval to close the pending acquisition of ITW's finishing businesses. Earlier this month, both Graco and ITW submitted responses to the FTC's request for additional information in their review of the acquisition.

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 the acquisition of the finishing businesses of ITW, 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. In addition, risk factors related to the Company's pending acquisition of the ITW finishing businesses include: whether and when the required regulatory approvals will be obtained, whether and when the closing conditions will be satisfied and whether and when the transaction will close, the ability to close on committed financing on satisfactory terms, the amount of debt that the Company will incur to complete the transaction, completion of purchase price valuation for acquired assets, whether and when the Company will be able to realize the expected financial results and accretive effect of the transaction, how customers, competitors, suppliers and employees will react to the transaction, and economic changes in global markets. Please refer to Item 1A of, and Exhibit 99 to, the Company's Annual Report on Form 10-K for fiscal year 2010 (and most recent Form 10-Q) 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.

More □

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, October 27, 2011, 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 27, 2011, by dialing 800-406-7325, Conference ID #4478419, 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 30, 2011.

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 30, 2011	Thirteen Weeks Ended Sep 24, 2010	Thirty-nine Weeks Ended Sep 30, 2011	Thirty-nine Weeks Ended Sep 24, 2010
Net Sales	$ 227,347	$ 189,963	$ 679,689	$ 546,772
Cost of products sold	100,998	85,405	296,497	250,999
Gross Profit	126,349	104,558	383,192	295,773
Product development	10,423	9,263	30,708	28,209
Selling, marketing and distribution	36,673	33,280	113,738	95,087
General and administrative	22,451	18,592	66,620	57,139
Operating Earnings	56,802	43,423	172,126	115,338
Interest expense	3,125	1,038	5,473	3,159
Other expense, net	325	254	649	147
Earnings Before Income Taxes	53,352	42,131	166,004	112,032
Income taxes	16,800	11,700	54,100	36,200
Net Earnings	$ 36,552	$ 30,431	$ 111,904	$ 75,832
Net Earnings per Common Share				
Basic	$ 0.60	$ 0.51	$ 1.85	$ 1.26
Diluted	$ 0.60	$ 0.50	$ 1.82	$ 1.25
Weighted Average Number of Shares				
Basic	60,430	60,107	60,474	60,304
Diluted	61,415	60,624	61,615	60,840

Segment Information (Unaudited)

	Thirteen Weeks Ended Sep 30, 2011	Thirteen Weeks Ended Sep 24, 2010	Thirty-nine Weeks Ended Sep 30, 2011	Thirty-nine Weeks Ended Sep 24, 2010
Net Sales				
Industrial	$ 124,502	$ 99,236	$ 376,636	$ 296,489
Contractor	77,757	70,362	228,664	194,941
Lubrication	25,088	20,365	74,389	55,342
Total	$ 227,347	$ 189,963	$ 679,689	$ 546,772
Operating Earnings				
Industrial	$ 42,632	$ 31,195	$ 132,996	$ 91,234
Contractor	16,700	13,753	44,239	31,839
Lubrication	4,380	2,751	13,652	6,326
Unallocated corporate (expense)	(6,910)	(4,276)	(18,761)	(14,061)
Total	$ 56,802	$ 43,423	$ 172,126	$ 115,338

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 2011 Annual Meeting of Shareholders

GRACO INC (GGG)

DEF 14A

Definitive proxy statements
Filed on 03/07/2011
Filed Period 04/21/2011

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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:

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GRACO INC.

88 Eleventh Avenue N.E.

Minneapolis, MN 55413

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

Please join us on Thursday, April 21, 2011, at 2:00 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 three 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 2011.
3. An advisory, non-binding resolution to approve our executive compensation.
4. An advisory, non-binding vote on the frequency for which shareholders will have an advisory, non-binding vote on our executive compensation.
5. Vote on a shareholder proposal, if properly presented at the meeting.
6. Transaction of such other business as may properly come before the meeting.

Shareholders of record at the close of business on February 22, 2011 are entitled to vote at this meeting or any adjournment.

We encourage you to join us and vote at the meeting. Regardless of whether you plan on attending the meeting, we encourage you 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,

Patrick J. McHale
President and Chief

Executive Officer

Karen Park Gallivan
Secretary

March 7, 2011

Minneapolis, Minnesota

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GENERAL REQUESTS FOR 2010 GRACO INC. ANNUAL REPORT ON FORM 10-K

The 2010 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 21, 2011

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 21, 2011 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. 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 8, 2011, 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, the advisory vote on our executive compensation, the advisory vote on the frequency of the advisory vote on our executive compensation and the shareholder proposal to adopt majority voting for the election of directors 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.

The vote required for the election of directors is a plurality of votes cast. The vote required to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year 2011 and the vote on the shareholder proposal require 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. The advisory vote on our executive compensation and the advisory vote on the frequency of the advisory vote on our executive compensation are advisory and non-binding. However, the Board will consider shareholders to have approved our executive compensation if the number of the votes cast "for" that proposal exceeds the number of votes cast "against" that proposal. Similarly, the Board will consider shareholders to have selected the frequency option for advisory votes on our executive compensation that receives the most votes.

Only shareholders of record as of the close of business on February 22, 2011 may vote at the Meeting or at any adjournment. As of that date, there were issued and outstanding 60,177,653 common shares of Graco Inc. (which we refer to in this Proxy Statement as "us," "we," "our Company" or "the 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 they include 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, which 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 Thursday, April 21, 2011, at 2:00 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 nine; there are currently nine 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 that a director shall retire from the Board effective upon the conclusion of the term for which the director is serving when the director reaches age 72, unless our Board waives this requirement. At the Meeting, three 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 Patrick J. McHale, Lee R. Mitau, and Marti Morfitt for three-year terms expiring in the year 2014. Mr. McHale, Mr. Mitau and Ms. Morfitt, whose current terms expire at the Meeting, have previously been elected as directors by the shareholders 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 with respect to the three 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 2014:

Patrick J. McHale

Mr. McHale, 49, 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, 62, is 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 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, 53, 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 Life Time Fitness, Inc. and lululemon athletica inc. From 1998 until 2007, she served as director of CNS, Inc.; from 2005 until 2006, she served as a director of Intrawest Corporation; and from 2007 until 2010, she served as director of Solta Medical, Inc. f/k/a Thermage, Inc.

Directors whose terms continue until 2012:

William J. Carroll

Mr. Carroll, 66, was appointed Chief Executive Officer of Limo-Reid, Inc. d/b/a NRG Dynamix, 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 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 President — Automotive Systems Group of Dana Corporation. Mr. Carroll has been a director of Graco since June 1999.

Jack W. Eugster

Mr. Eugster, 65, was Chairman, President and Chief Executive Officer of Musicland Stores Corporation, 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, 72, 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 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, and from 2003 until November 2005, Mr. Van Sant was Chairman and Chief Executive Officer, of Paladin Brands, LLC. 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.

Directors whose terms continue until 2013:

Eric P. Etchart

Mr. Etchart, 54, is President of the Manitowoc Cranes Group, a business segment of The Manitowoc Company, Inc., and a Senior Vice President of The Manitowoc Company, Inc., a manufacturer of cranes and foodservice equipment. He has held these positions since 2007. From 2001 to 2007, Mr. Etchart was Executive Vice President, Asia Pacific and President, Zhang Jia Gang Company of the Manitowoc Crane Group, in Shanghai, China. Prior to that, Mr. Etchart held various management positions at Potain S.A., until it was acquired by Manitowoc in 2001, and PPM Cranes S.A.

J. Kevin Gilligan

Mr. Gilligan, 56, is Chairman and Chief Executive Officer of Capella Education Company, an online education provider, a position he has held since March 5, 2009. Mr. Gilligan was 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, 65, 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.

The Board of Directors, upon recommendation of the Governance Committee, recommends that shareholders vote FOR the election of Messrs. McHale and Mitau and Ms. Morfitt to terms expiring in 2014.

DIRECTOR INDEPENDENCE

Our Board of Directors has determined that Mr. Carroll, Mr. Etchart, 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 non-employee 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 $85,000 in 2010 for transactional deposit services, including those related to cash receipts, credit card processing and letters of credit. Our Company paid approximately $50,000 of fees to U.S. Bancorp in the first half of 2010 for directed trustee services, but we terminated that relationship in May 2010. Our Company also paid U.S. Bancorp approximately $160,000 for interest expense, and approximately $65,000 for service fees related to our revolver and credit lines in 2010. None of the revolver services provided by U.S. Bancorp during 2010 were advisory in nature, involved access to sensitive or strategic Company information, or involved commission-based payments. 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 any way in the negotiation of our business terms or relationships with U.S. Bancorp. The total amount our Company paid to U.S. Bancorp in 2010, approximately $360,000, falls significantly below 2 percent of U.S. Bancorp's 2010 gross revenues, or $363 million, which is 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, during difficult or volatile economic times such as those we recently experienced, it is desirable to have our CEO focused on the management and operation of our business without the additional responsibilities of Chairman. Moreover, 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 for approval to ensure completeness, appropriate oversight and review. While our Board leadership structure results from the considerations described above, we believe that the active oversight role played by our Audit Committee, which consists solely of independent directors, provides the appropriate level of independent oversight of risk within our Company.

MEETINGS OF THE BOARD OF DIRECTORS

During 2010, our Board of Directors met six times. Attendance of our directors at all Board and Committee meetings averaged 99 percent. During 2010, 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. Our Corporate Governance Guidelines require that each director make all reasonable efforts to attend the Company's Annual Meeting of Shareholders. In 2010, all of the then-serving 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, 2011, 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	Eric P. Etchart
Eric P. Etchart	Marti Morfitt	J. Kevin Gilligan
Jack W. Eugster	William G. Van Dyke	Lee R. Mitau
J. Kevin Gilligan	R. William Van Sant	Marti Morfitt
William G. Van Dyke		

Audit Committee (8 meetings in fiscal year 2010)

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. Our Board has appointed Mr. Carroll as Audit Committee Chair effective April 21, 2011.

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 18, 2011.

Governance Committee (4 meetings in fiscal year 2010)

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 year 2010)

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 18, 2011.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Board who served on the Management Organization and Compensation Committee during 2010 has ever been an officer or employee of our Company or any of its subsidiaries.

DIRECTOR QUALIFICATIONS AND SELECTION PROCESS

Qualification Standards

Our Company 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 upon the conclusion of the term for which the director is serving when the director reaches age 72, 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 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, Inc. d/b/a NRG Dynamix.

- Mr. Etchart, a member of our Audit and Management Organization and Compensation Committees, has twenty-eight years of global experience with manufacturing companies, including as President and General Manager of the Manitowoc Crane Group of The Manitowoc Company, Inc. He has extensive knowledge of and expertise in finance and marketing. Mr. Etchart, a French-national with twenty-five years of experience in management positions outside of the U.S., including positions in China, Singapore, Italy, France and the Middle East, is particularly well suited to provide an international perspective to the Board as we develop our business in global markets.

- 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 Corporation. 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, of 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 Chairman and

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 over 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 over 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, 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

Director compensation in 2010 remained unchanged from 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 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. The meeting fee for attendance by telephone at any in-person or telephonic Board or Committee meeting is one-half of the fee for in-person attendance. All retainer and meeting fees are paid in arrears.

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.

Non-employee directors receive an annual option grant. In 2010, 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 shares. Mr. Etchart received an option grant of 8,600 shares on December 2, 2010. Options granted to non-employee directors are issued under the Stock Incentive 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 retained Towers Watson to conduct a peer group comparison of director compensation and present such data at its February 2011 meeting. The peer companies used for the 2011 benchmarking study matched the peer group identified for executives on page 20 the Compensation Discussion & Analysis section of this Proxy. In reviewing the peer group comparison, the Governance Committee concluded that the current base retainer and Audit Committee retainer fell below the median of the peer group. As a result, the Board of Directors, upon recommendation of the Governance Committee, determined that, effective May 1, 2011, the annual base retainer for non-employee directors (excluding the Chairman) will increase from $32,000 to the peer group median of $38,000, and the Audit Committee Chair annual retainer will increase from $7,500 to the peer group median of $10,000. In addition, our Board determined that its methodology for setting the annual stock option award for the non-employee directors will change from a fixed share to an economic value approach to reduce director compensation volatility. Our Board set the economic value for their next stock option award, to occur immediately following the Annual Meeting, at $100,000, which is approximately at the 75th percentile of the peer group. 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. Shares of common stock directly and beneficially owned, as well as phantom stock shares, are used to calculate each director's ownership level; stock options are not used. Directors have five years from their initial date of appointment to reach the minimum ownership level. All of our directors who have served for at least five years exceed this ownership requirement.

In February 2001, our Board terminated the retirement benefit for non-employee directors, which provided that, upon cessation of service, a non-employee director who has served for five full years or more 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 31, 2010

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 31, 2010.

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	53,000	—	88,631	—	141,631
Eric P. Etchart	5,983	5,918	90,254	—	102,155
Jack W. Eugster	9,875	48,825	88,631	—	147,331
J. Kevin Gilligan	—	50,600	88,631	—	139,231
Lee R. Mitau	—	97,400	88,631	1,000	187,031
Martha A. Morfitt	—	49,400	88,631	1,000	139,031
William G. Van Dyke	53,000	—	88,631	1,000	142,631
R. William Van Sant	—	59,900	88,631	—	148,531

(1) Mr. Carroll and Mr. Van Dyke elected to receive all retainer and meeting fees in cash. Mr. Eugster elected to receive 25 percent of his retainer in cash and 75 percent in deferred stock. Mr. Etchart elected to receive 50 percent of his retainer and meeting fees in cash and 50 percent in shares of stock plus cash in lieu of any fractional share. 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, 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 2010 year end are as follows:

	Account Balance
Mr. Carroll	13,179 shares
Mr. Eugster	8,881 shares
Mr. Gilligan	16,146 shares
Mr. Mitau	38,728 shares
Ms. Morfitt	22,405 shares
Mr. Van Dyke	23,018 shares
Mr. Van Sant	11,611 shares

(3) Each then-serving non-employee director, except for Mr. Etchart, received an annual option grant of 8,600 shares on April 23, 2010, the date of the annual meeting of shareholders. Mr. Etchart, who joined the Board on December 2, 2010, received an initial stock option grant of 8,600 shares on his date of election.

The amounts reported in the Option Awards column represent the aggregate grant date fair value of stock options granted in 2010, computed in accordance with financial accounting principles, which is based on a per share value of $10.31 for options granted on April 23, 2010 and $10.49 for options granted on December 2, 2010. 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 2010 Annual Report on Form 10-K. The aggregate number of outstanding option grants at year-end 2010 are as follows:

	Unvested Shares	Exercisable Shares
Mr. Carroll	20,250	28,725
Mr. Etchart	8,600	0
Mr. Eugster	20,250	23,850
Mr. Gilligan	20,250	28,725
Mr. Mitau	20,250	34,350

	Unvested Shares	Exercisable Shares
Ms. Morfitt	20,250	17,200
Mr. Van Dyke	20,250	34,350
Mr. Van Sant	20,250	23,850

(4) Prior to February 2001, non-employee directors who served five or more 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. The underlying plan provides that, upon retirement, an eligible non-employee director shall receive quarterly payments for five years equal to one-fourth of the annual base retainer of the non-Chairman directors in effect immediately prior to the director's retirement.

(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: 5.50 percent as of December 31, 2010
- 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, 2010.
- Form of payment: Five-year certain (payable quarterly)

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-employee 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 31, 2010 ("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 31, 2010, be included in the Company's 2010 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. Eric P. Etchart

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 31, 2010 and December 25, 2009. 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 12/31/10	Fiscal Year Ended 12/25/09
Audit Fees	$765,000	$715,000
Audit-Related Fees	—	—
Tax Fees[1]	31,000	110,000
Total	$796,000	$825,000

(1) Includes fees for tax compliance services of $27,000 and $72,000, and tax advice of $4,000 and $38,000, in 2010 and 2009, 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 the 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 2011, 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 will 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 2011.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

In 2010, the Company exceeded its financial objectives despite an unpredictable economic environment. The Company achieved financial results that exceeded expectations while maintaining a long-term focus of investing in products and initiatives that position the Company for growth. The short-term cash incentive plans retained net sales and earnings per share ("EPS") as metrics in 2010 to encourage top-line sales growth, as well as bottom-line earnings, both of which form the basis for long-term shareholder value growth. The Company exceeded its net sales and EPS annual performance targets as detailed below.

Financial Metric	Metric Weighting	2010 Actual Result As % of 2010 Target Performance	2010 Actual Result As % of 2009 Actual Result
CEO, CFO, and Function Executives (HR, Legal, and Manufacturing)			
Corporate Net Sales	50%	117%	129%
Corporate EPS	50%	141%	209%
Division and Region Executives			
Corporate Net Sales	25%	117%	129%
Corporate EPS	25%	141%	209%
Worldwide Division or Region Net Sales	25%	112 – 130%	123 – 146%
Worldwide Division or Region EPS	25%	98 – 300%	127 – 400%

The Management Organization and Compensation Committee (for purposes of this Executive Compensation section, the "MOCC") targets a competitive and equitable executive compensation program that rewards Company (or, in some cases, region or division) performance and individual performance. The total annual direct compensation opportunity for our executive officers consists of base salary, short-term incentive target, and a long-term incentive award in the form of stock options. Although the MOCC does not establish a set pay mix for our executives, it strives to maintain a reasonable and competitive balance between the fixed and variable components. In addition, the MOCC seeks to closely align the interests of our executives with our shareholders through performance-based annual incentive and stock options. For 2010, on average, 63 percent of our current executive officers' target total direct compensation was linked to the Company's performance in the form of short- and long-term incentive programs. Below are tables that display the Company's performance and each named executive officer's short-term incentive compensation, long-term incentive compensation, and total direct compensation (annual base salary, short-term incentive compensation, and long-term incentive compensation) for the past three fiscal years.

Our Company's Three-Year Financial Performance

	2010	2009	2008
Worldwide Net Sales – Annual Bonus Plan Metrics	$744.1 million	$579.2 million	$817.3 million
Net Sales Results – Relative to Annual Bonus Financial Target	*117%*	*71%*	*93%*
Worldwide EPS – Annual Bonus Plan Metrics	$ 1.69	$ 0.81	$ 1.99
EPS Results – Relative to Annual Bonus Financial Target	*141%*	*41%*	*81%*

Short-Term Incentive Awards

	2010	2009	2008
Patrick J. McHale	$ 962,550	$ 0[1]	$ 0
James A. Graner	$ 361,725	$ 30,525	$ 0
Dale D. Johnson	$ 293,379	$ 27,436	$ 0
Simon J.W. Paulis [2]	$ 312,263	$ 28,419	$ 0
David M. Lowe	$ 276,057	$ 23,296	$ 0

Long-Term Incentive Awards (Stock Options) [3]

	2010	2009	2008
Patrick J. McHale	$ 1,032,975	$ 958,185	$ 1,257,480
James A. Graner	$ 325,062	$ 200,154	$ 326,945
Dale D. Johnson	$ 216,708	$ 200,154	$ 251,496
Simon J.W. Paulis [2]	$ 216,708	$ 200,154	$ 251,496
David M. Lowe	$ 216,708	$ 200,154	$ 251,496

Total Direct Compensation

(Annual base salary, short-term incentive compensation, and long-term incentive compensation)

	2010	2009	2008
Patrick J. McHale	$ 2,637,225	$ 1,599,885	$ 1,877,480
James A. Graner	$ 1,031,287	$ 575,180	$ 624,022
Dale D. Johnson	$ 819,722	$ 537,225	$ 550,660
Simon J.W. Paulis [(2)]	$ 852,355	$ 568,028	$ 592,243
David M. Lowe	$ 755,677	$ 486,362	$ 505,517

(1) Mr. McHale declined to accept any bonus payout under the Executive Officer Annual Incentive Bonus Plan for 2009 and accordingly received no cash bonus for that year.

(2) Amounts for Mr. Paulis reflect average exchange rates of 1.328, 1.394, and 1.472 US dollar-to-euro for 2010, 2009, and 2008, respectively.

(3) Long-term incentive award values equal the number of shares granted multiplied by the Black-Scholes value on the grant date.

We conduct a review of our executive compensation program and philosophy on an annual basis to ensure each component is in alignment with the best interests of our shareholders and current market practices. Upon review, in 2010, we made the following changes:

- **Stock Holding Policy:** A newly implemented policy requires executive officers below the CEO level to retain 50 percent of net shares from awards granted under the Company's equity programs up to three times the current base salary for individuals reporting directly to the CEO and two times the current base salary for individuals reporting to someone other than the CEO. This action followed the adoption of a separate holding policy for the CEO in 2009. More detailed information regarding these two policies is discussed in the Long-Term Incentives section on page 25.

- **Recoupment Policy:** Effective February 2010, the MOCC adopted an incentive compensation recoupment policy that applies to short-term incentive awards granted under our short-term incentive programs. The policy requires an executive officer to pay back to the Company the amount of any short-term incentive award that would not have been earned, or the total amount of the incentive award, in the event of a material restatement due to an executive officer's intentional misconduct or fraud. More detailed information regarding this policy is discussed in the Short-Term Incentives section on page 24.

Compensation Philosophy

Attraction and Retention	Graco's executive compensation programs are designed to achieve the Company's goal of attracting, developing, and retaining global business leaders who can drive financial and strategic growth objectives that are intended to build long-term shareholder value.
Competitiveness	All components of compensation should be set competitively as compared against manufacturing companies of comparable sales volume and financial performance in order to attract, retain and motivate high performing executives in an environment where companies are increasingly competing for high caliber talent.
Pay-for-Performance	All components of compensation should be tied to the performance of the Company, division, or region and the performance of the individual executive officer.
Accountability for Short- and Long-Term Performance	Annual performance bonuses and long-term incentives should reward a reasonable and competitive balance of short- and long-term financial and strategic business results, with an emphasis on managing the business for the long-term.
Alignment to Shareholders' Interests	Long-term incentives should align the interests of individual executive officers with the long-term interests of the Company's shareholders.
Reducing the Possibility for Excessive Risk-Taking	The Company's executive compensation program, which is reviewed and approved by the MOCC, is designed to motivate and reward the executive officers for their performance during the fiscal year and over the long-term, and for taking appropriate risks toward achieving the long-term financial and strategic growth objectives of the Company. The following characteristics of the Company's executive compensation program work to minimize executive officers, either individually or as a group, from making excessively risky business decisions that could maximize short-term results at the expense of long-term value: • Balanced Mix of Pay Components: The target compensation mix is not heavily weighted towards annual incentive awards, but rather represents a balance of salary, short-term

cash incentive and long-term equity-based compensation that typically vests over four years.

- Vesting Schedules: The vesting schedules for long-term incentives overlap and, therefore, reduce an executive officer's motivation to maximize performance in any one period.

- Capped Incentive Awards: Annual short-term incentives are capped at 150 percent of the target bonus opportunity for executive officers.

- Recoupment Policy: Requires our executives to pay back to the Company any unearned short-term incentive award amount in the event of a material restatement due to an executive officer's intentional misconduct or fraud.

- Stock Ownership Guidelines: Requires the CEO to retain 50 percent of net shares from awards granted under the Company's equity programs. Executive officers below the CEO level are required to retain 50 percent of net shares from awards granted under the Company's equity programs up to three times the current base salary for individuals reporting directly to the CEO and two times the current base salary for individuals reporting to someone other than the CEO.

Executive Officer Compensation Processes

The MOCC 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 MOCC 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 by 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 MOCC 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. The MOCC retained Towers Watson (formerly Towers Perrin) as its independent outside executive compensation consultant to advise the MOCC on matters relating to the determination of base salary, short-term incentive and long-term incentive programs for the Company's executive officers.

In its capacity as the executive compensation consultant, Towers Watson advises the MOCC on the following matters:

- Preparing a competitive compensation review of the CEO and other executive officer positions, including a peer group analysis on a periodic basis;
- Providing advice and guidance with respect to trends and regulatory issues related to executive compensation; and
- Reviewing the composition of the industry peer group used to benchmark executive compensation on a periodic basis.

Our Company's management engaged Towers Watson to perform certain non-executive compensation services in 2010. 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 and Corporate Communications ("Vice President HR") and the Compensation Manager develop and oversee the creation of written background and supporting materials for distribution to the MOCC prior to its meetings;
- The CEO, the Vice President HR, the Vice President, General Counsel and Secretary, and the Compensation Manager attend the MOCC'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, the Vice President HR, and the Compensation Manager review executive officer compensation competitive analyses and annually present and make recommendations to the MOCC relating to short- and long-term incentive plan designs and changes, if warranted;
- The CEO annually recommends to the MOCC base salary adjustments and long-term incentive awards in the form of stock-based grants for all executive officers, excluding the CEO (management does not make a recommendation on CEO pay or pay components); and
- Following the MOCC's executive sessions, the Chair of the MOCC provides the Vice President HR with a summary of the executive session decisions, actions and underlying rationale for implementation, as appropriate.

Benchmarking

The MOCC annually retains Towers Watson to provide survey market data of manufacturing companies with similar revenues for all executive officer positions. United States market data is used for all U.S. executive officers and Belgian market data is used for the European region executive. Typically, the MOCC meets in the fall of each year to review this survey data. The survey data is derived from Towers Watson's database and is statistically adjusted to reflect variation in revenues among the companies. The MOCC is presented with data showing total direct compensation amounts at the 50th and 75th percentiles of the survey data. In addition, the MOCC considers data from this survey reflecting the general mix of compensation elements among base salary, short-term incentives and long-term incentives. At the same time, the MOCC reviews information showing where the compensation of the Company's named executive officers fell in relation to the survey data. When reviewing the relative positioning of each named executive officer's total direct compensation level, the MOCC compares each named executive officer to generally comparable positions identified within the survey data. The purpose of this review conducted each fall is to gather a general sense for whether the Company's compensation levels and mix of compensation elements are generally consistent with this market data, with a general expectation that total direct compensation should be between the 50th and the 75th percentiles of the survey data depending on the Company's performance. At the same time, Towers Watson provides general information to the MOCC about market trends and expected compensation level changes for the upcoming fiscal year ("Merit Increase Projection").

At the MOCC's last meeting of each fiscal year, the MOCC sets base salaries for executive officers for the upcoming fiscal year. The decisions about the specific base salary levels are made with the goal of approaching the 50th percentile without a specific market position targeted.

At the MOCC's first meeting of each fiscal year, the MOCC approves short-term incentive target opportunities and long-term incentive awards. The target short-term cash award is determined as a percentage of base salary for the Annual Incentive Plans, which percentage has remained constant for several years, as set forth below in the 2010 Short-Term Cash Incentive Payout Design table. The MOCC targets the value of the long-term incentive award for the CEO at the 75th percentile for a chief executive officer position within the Towers Watson database, and the number of shares granted may be adjusted downward based on the Company's stock dilution guidelines. The MOCC targets the value of the long-term incentive award for our CFO at the 75th percentile for a chief financial officer position within the Towers Watson database, and the number of shares granted may be adjusted downward based on the Company's stock dilution guidelines and internal equity. The value of the long-term incentive award for each named executive officer other than the CEO and CFO is set at the 75th percentile for a profit center head position within the Towers Watson database. The reason for targeting the 75th percentile is to account for the fact that the Company has a higher market capitalization-to-revenue ratio compared to the other companies in the database with similar revenues. In addition, the MOCC believes that the opportunity for above-market compensation should be primarily earned in the area of long-term performance. Once the value of the long-term incentive award is determined, the number of shares subject to

the equity awards granted to each named executive officer is determined by dividing the long-term incentive award value by a projected Black-Scholes value based on internal standard accounting assumptions.

Refer to the discussions of each compensation element below, as well as the "Compensation of Individual Named Executive Officers" section below, for specific information on how this benchmarking process applies to specific compensation decisions for our named executive officers for 2010 and 2011.

Our Company's Peer Group

At its February 2009 meeting, the MOCC engaged Towers Watson to assist in the review of our list of peer companies. A list of twenty companies was recommended by Towers Watson and approved by the MOCC in September 2009. The new peer group was selected based on similarity to us on a variety of factors, including industry, revenue, location and market capitalization. The following table lists the companies in our Company's peer group (the "Graco Peer Group") and their respective financial data:

	Provided by Towers Watson (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
50th Percentile	790	1,020
75th Percentile	1,415	1,335
Graco Inc.	817	1,412

There are significant differences among the businesses conducted by the companies in the Graco Peer Group, and the executive compensation information for these companies is limited to those executive officers identified in their filings, whose positions may or may not correspond to the positions held by, and responsibilities of, our named executive officers. Therefore, the Graco Peer Group information is not a primary source of data for the MOCC's compensation decisions. However, on a periodic basis, the MOCC reviews executive compensation data of companies in the Graco Peer Group to ensure that our compensation practices are generally in alignment with these peer companies. This information was reviewed by the MOCC in December 2009 to provide general information as the MOCC commenced its compensation setting process for fiscal 2010.

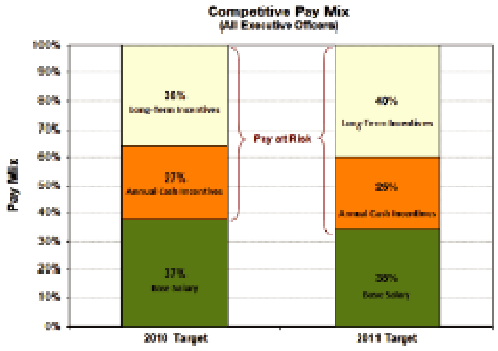
Components of the Executive Compensation Programs

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	Form(s) of Compensation	Purpose	Key Characteristics
Base Salary	Cash	Recognizes individual work experience, performance, skill, and level of responsibility	Fixed compensation Guided by the 50th percentile market data but subject to individual performance in prior year and budget constraints Used to compute other components of compensation
Short-Term Incentives (STI)	Cash	Establishes a strong link 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 percentage of base salary
Long-Term Incentives (LTI)	Stock options	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 Annual vesting of 25% over a four-year period from grant date Stock options expire ten years from grant date

In addition to reviewing the benchmark data described above, the MOCC 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 and involuntary and voluntary terminations. Specifically, the tally sheets reviewed by the MOCC in September 2010 provided actual compensation for 2008 and 2009 and target annual compensation for 2010. These tally sheets also provided retirement balances as of December 31, 2009 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 MOCC members, the MOCC reviews the dollar allocation among each of the three components. Although the MOCC 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 MOCC believes the compensation mix and amount paid to each of our executive officers is market based, reasonable and competitive. The 2010 and 2011 average pay mix at target for our executive officers is displayed below. The percentage allocation among each pay element may vary based on an individual's experience, responsibilities, performance and corporate/division/region results. The "at risk" pay components comprise more than 60 percent of the total target annual direct compensation to align our executive officers' compensation with the performance of the Company and long-term shareholder value.



Base Salary

Base salary is fixed compensation. Annual salary increases are predominately driven by individual performance, taking into account factors related to the executive officer's areas of responsibility, the executive officer's ability to contribute to our future success, and budgetary constraints. Based on these key factors, a salary increase could be made if the salary is significantly outside of a range around the 50th percentile of the market data.

For 2010, merit increases were given to executive officers whose base salaries were below the 50th percentile of the market data. No merit increases were given to executive officers whose base salaries were at or above the 50th percentile. The MOCC believed that merit increases would not be appropriate for base salaries already at a competitive level due to economic conditions and the internal workforce reductions that occurred in 2009 (the "2009 Economic Conditions"). None of our named executive officers received a merit increase in 2010.

For 2011, the merit increase decisions for the executive officers were based on the criteria identified above. The merit increase for the CEO was in line with the Merit Increase Projection. Merit increases for the other executive officers were slightly above the Merit Increase Projection because most of our executive officers in 2010 received a zero merit increase, including our named executive officers.

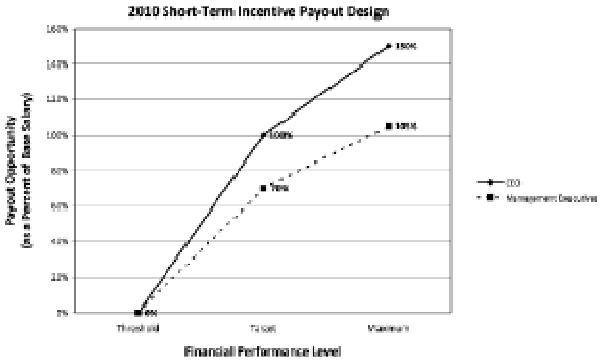
Refer to the "Compensation of Individual Named Executive Officers" section of this discussion and analysis for detailed information on individual salary adjustments in 2010 and 2011.

Short-Term Incentives (STI)

An annual incentive plan (the "Executive Officer Annual Incentive Bonus Plan") has been created for those designated by the MOCC, including the CEO, to qualify the participant's short-term incentive as performance-based compensation 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. 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 executive officers 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, which percentages have remained constant within each level (CEO and other executive officers) for several years. Specific financial performance thresholds must be attained in order for the executive officers to earn an incentive payment. 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 MOCC's determination of actual performance against pre-established targets.

At its meeting in February 2010, the MOCC approved participation of the CEO and other executive officers in their respective Annual Incentive Plans for 2010. Mr. McHale was the only person designated as a participant in the Executive Officer Annual Incentive Bonus Plan. All other executive officers reporting directly to the CEO and serving on the executive management team (the "Management Executives") participate in the Executive Officer Bonus Plan. The threshold, target and maximum payout levels for 2010 are displayed below. Achievement of performance levels between threshold and target, and target and maximum, result in a payout that is interpolated based on the level of performance, and permit a partial payout as soon as the threshold level of achievement has been exceeded.



The MOCC established two financial measures for the Annual Incentive Plans: 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 executive officers' performance for the Annual Incentive Plans because the MOCC desires to motivate the officers to achieve profitable business growth consistent with our long-term financial objectives. Although the MOCC historically has set target performance levels based on multiples of forecasted real U.S. Gross Domestic Product (GDP) growth, due to economic uncertainties the MOCC used its discretion when setting the 2010 performance targets.

The 2010 incentive award payouts were based upon the achievement of specified levels of net sales and EPS at the corporate and division/region levels. Financial performance levels and actual results for the 2010 Annual Incentive Plans were as follows:

Financial Metric	Metric Weighting	2010 Target Performance Level (As % of 2009 Actual Results)	2010 Threshold Performance Level (As % of 2010 Target Performance)	2010 Maximum Performance Level (As % of 2010 Target Performance)	2010 Actual Results (As % of 2010 Target Performance)
CEO, CFO, and Function Executives (HR, Legal, and Manufacturing)					
Corporate Net Sales	50%	110%	90%	105%	117%
Corporate EPS	50%	148%	71%	108%	141%
Division and Region Executives					
Corporate Net Sales	25%	110%	90%	105%	117%
Corporate EPS	25%	148%	71%	108%	141%
Worldwide Division or Region Net Sales	25%	109 - 113%	90%	105%	112 - 130%
Worldwide Division or Region EPS	25%	115 - 200%	60 - 77%	107 - 140%	98 - 300%

The 2010 financial results provided a 150 percent of total target award paid out to the CEO, CFO, and function executives under the Annual Incentive Plans. Division and region executives received 150 percent of the total target opportunity award under the Annual Incentive Plans based on the financial results described above, with the exception of Messrs. Johnson and Paulis. Mr. Johnson received 135 percent of his total target opportunity award under the Annual Incentive Plans based on the financial results for corporate net sales, corporate EPS, worldwide Contractor Equipment Division net sales and worldwide Contractor Equipment Division EPS. Mr. Paulis received 146 percent of his total target opportunity award under the Annual Incentive Plans based on the financial results for corporate net sales, corporate EPS, European regional net sales and European regional EPS. The MOCC 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 for 2010. Additionally, the MOCC has the authority to award special bonuses to individual executive officers.

At its February 2011 meeting, the MOCC again approved corporate net sales, corporate EPS, worldwide division and region net sales, and worldwide division and region EPS as the 2011 performance metrics. Division and region EPS numbers are computed

using division and region net earnings divided by estimated diluted outstanding shares. The 2011 financial performance targets were set with reference to 2010 actual Company performance and estimates of 2011 economic growth and market conditions. The Annual Incentive Plans for our CEO and Management Executives consist of the following design, consistent with 2010, 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

The payout levels and design for the 2011 awards under the Annual Incentive Plans remains consistent with the 2010 Short-Term Incentive Payout Design table shown above.

In February 2010, the MOCC 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 MOCC has discretion to reduce the amount required to be paid back as it deems appropriate. The recoupment policy applies to awards earned and approved under the Annual Incentive Plans beginning in fiscal 2010.

Long-Term Incentives (LTI)

The MOCC typically grants long-term incentive awards in the form of stock options to each executive officer at its regularly scheduled February meeting based on the review of the market data as described above. The Board sets the February meeting date several months in advance. The stock option awards are designed to promote the interests of the Company and its shareholders through the attraction and retention of experienced and capable leaders. The MOCC believes that executive officers who have 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.

In December 2007, the MOCC granted a long-term incentive award to some of our named executive officers in the form of restricted stock. The MOCC 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 MOCC based on its consideration of the named executive officer's individual responsibilities and ability to significantly impact key company initiatives. These shares vested in December 2010 and were not subject to accelerated vesting upon retirement. Mr. Graner did not receive a restricted stock award in 2007 due to his retirement plans at that time.

Under the terms of the Graco Inc. Amended and Restated Stock Incentive Plan (2006) (the "2006 Plan"), the MOCC must approve all stock option grants to officers. In February 2010, 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 2006 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.

In 2010, the MOCC granted the same number of shares to each of the Management Executives, except for the CEO and CFO, given its determination that each of the officers has similar impact on our performance. The CEO and CFO received different number of shares of stock options to maintain the market competitiveness for these two positions. The MOCC considers, except in the case of the award to the CEO, the recommendation of the CEO for such awards. The MOCC also considers the dilutive effect on our shareholders in determining the number of stock options granted to each executive officer.

The number of shares subject to stock options granted to the named executive officers in 2010 decreased from the prior year's grants due to the increase in the Black-Scholes value; however, the 2010 stock options granted to the executive officers have an

economic value equivalent to the options granted in 2009. The grant date fair value of the options awarded calculated in accordance with U.S. accounting standards was $7.22 per share.

At the April 2010 Meeting, the shareholders approved the Graco Inc. 2010 Stock Incentive Plan (the "2010 Plan") upon recommendation of the Company's Board of Directors. The key terms of the 2010 Plan are essentially identical to the terms of the 2006 Plan. As proposed and approved, 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 2006 Plan. As a result, all option grants to our executive officers in February 2011 were made under the 2010 Plan with a grant date fair value of $13.20 per share.

Upon recommendation of the Governance Committee, the Board approved a stock holding policy for the CEO, effective February 13, 2009, by which the CEO is required to retain, until twelve months following retirement or other termination of employment, an amount equal to 50 percent of the 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 equity awards to the CEO, whether granted before or after the effective date of the policy.

Effective April 23, 2010, our Board approved a stock holding policy for all executive officers below the CEO level by which each officer is required to retain 50 percent of net shares from awards granted under the Company's equity programs. Net shares shall include, but are not 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 the Company incentive plans; and (e) stock splits with respect to shares acquired through any of the foregoing. Transactions related to equity awards are exempt from this policy so long as the executive officers remain at or above the ownership threshold. The ownership threshold is defined as owning shares of the Company having a fair market value equal to three times the current base salary for executive officers reporting directly to the CEO and two times the current base salary for executive officers reporting to someone other than the CEO. To mitigate the effects of stock price volatility, compliance with these guidelines will 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. The foregoing policy applies to all executive officer equity awards granted on or after April 23, 2010, the first of which was made on February 18, 2011.

At the February 2011 meeting, the MOCC approved two changes to the form of stock option agreements for executive officers. An executive officer who terminates employment for reasons other than for gross and willful misconduct, death, retirement or disability will have 90 days to exercise vested options, rather than 30 days. In addition, upon death, an executive officer's heirs will have the remaining life of the option to exercise, rather than a one-year period following the death of the executive officer. These changes went into effect February 18, 2011.

Compensation of Individual Named Executive Officers

Mr. Patrick J. McHale

President and Chief Executive Officer

Mr. McHale's base salary as of December 2009 was below the 50th percentile of the 2009 Towers Watson survey data for chief executive officers of manufacturing companies with similar sales volume. At Mr. McHale's request, the MOCC determined that Mr. McHale would receive no salary increase in 2010 because of the 2009 Economic Conditions. As a result, his base salary remained unchanged at $641,700. Based on the 2010 corporate net sales and corporate EPS maximum performance results, the MOCC awarded Mr. McHale a $962,550 cash bonus award under the Executive Officer Annual Bonus Plan. Mr. McHale's bonus payout represented 150 percent of his target award. Application of the process described above for setting long-term incentive awards resulted in a grant to Mr. McHale of a stock option award of 143,000 shares for 2010.

Effective January 1, 2011, the MOCC increased Mr. McHale's base salary 2.5 percent to $657,743. The increase aligned with the market rate of increase expected by the Merit Increase Projection. Mr. McHale's 2011 base salary is below the 50th percentile of the 2010 Towers Watson Survey. His target annual cash incentive payout remains unchanged at 100 percent of his base salary. In February 2011, the MOCC granted Mr. McHale a stock option award of 126,000 shares.

On February 28, 2011, the MOCC approved a grant of a performance-based restricted stock award to Mr. McHale. The award is intended to recognize Mr. McHale for his leadership of the Company over the last several years, including the 2009 Economic Conditions. The MOCC particularly noted his leadership among our executives and employees through his recommendation to keep his base salary flat in 2010 and his decision to decline any bonus award for 2009. The restricted stock award vests in full at the end of fiscal 2013 if the Company achieves a certain net sales performance objective in fiscal 2013.

Mr. James A. Graner

Chief Financial Officer and Treasurer

Mr. Graner's base salary as of December 2009 approximated the 50th percentile of the 2009 Towers Watson survey data for chief financial officers of manufacturing companies with similar sales volume. In December 2009, the MOCC approved no increase to Mr. Graner's base salary for 2010 because of the 2009 Economic Conditions and because his base salary approximated the 50th percentile. As a result, his base salary remained unchanged at $344,500 for 2010. Based on the 2010 corporate net sales and corporate EPS actual maximum performance results, the MOCC awarded Mr. Graner a $361,725 cash bonus award under the Executive Officer Bonus Plan. Mr. Graner's bonus payout represents 150 percent of his target award. Application of the process described above for setting long-term incentive awards resulted in a grant to Mr. Graner of a stock option for 45,000 shares.

Effective January 1, 2011, the MOCC increased Mr. Graner's base salary 5.0 percent to $361,725, which maintains his base salary at approximately the 50th percentile of the 2010 Towers Watson survey data. His target annual cash incentive payout remains unchanged at 70 percent of his base salary. In February 2011, the MOCC granted Mr. Graner a stock option award of 27,000 shares.

Mr. Dale D. Johnson

Vice President and General Manager, Contractor Equipment Division

Mr. Johnson's base salary as of December 2009 was above the 50th percentile of the 2009 Towers Watson survey data for a profit center head of manufacturing companies with similar sales volume. His highly competitive base compensation is based on key factors such as long tenure, strong past performance and individual contributions to the Company. In December 2009, the MOCC approved no increase to Mr. Johnson's base salary for 2010 because of the 2009 Economic Conditions and because he already received a competitive base salary. As a result, his base salary remained unchanged at $309,635 for 2010. Based on the maximum performance results for 2010 corporate net sales, corporate EPS, and worldwide Contractor Equipment Division net sales, and 98 percent of target performance for 2010 worldwide Contractor Equipment Division EPS actual result, the MOCC awarded Mr. Johnson a $293,379 cash bonus award under the Executive Officer Bonus Plan. Mr. Johnson's bonus payout represented 135 percent of his target award. Application of the process described above for setting long-term incentive awards resulted in a grant to Mr. Johnson, along with the other division and region executives, of a stock option award of 30,000 shares.

The MOCC, upon the recommendation of Mr. McHale, approved a discretionary award to Mr. Johnson in the amount of $20,000 at its February 18, 2011 meeting. Mr. Johnson received this award for his role in the launch of the first-ever professional grade hand-held paint sprayers in 2010.

Effective January 1, 2011, the MOCC increased Mr. Johnson's base salary 4.0 percent to $322,020 because he did not receive a merit increase in 2010. His target annual cash incentive payout remains unchanged at 70 percent of his base salary. In February 2011, the MOCC granted Mr. Johnson a stock option award of 18,000 shares.

Mr. Simon J.W. Paulis

Vice President and General Manager, Europe

The base salary for Mr. Paulis, who is employed by Graco N.V., a wholly owned subsidiary, as of December 2009 was above the 50th percentile of the 2009 Towers Watson survey data for a profit center head with similar sales volume in Belgium. From year to year, Mr. Paulis' base salary-to-market position has changed due to fluctuations in market data of his benchmark position. In December 2009, the MOCC approved no increase to Mr. Paulis's base salary for 2010 because of the 2009 Economic Conditions and because of his competitive base salary. In addition, there was no cost of living indexation adjustment mandated by the Belgium government for 2010. As a result, his base salary remained unchanged at €243,512 for 2010. Based on the maximum performance results for 2010 corporate net sales, corporate EPS, and European regional net sales, and a 105 percent of target performance for 2010 European regional EPS actual result, the MOCC awarded Mr. Paulis a €235,138 cash bonus award under the Executive Officer Bonus Plan. Mr. Paulis' bonus payout represented 146 percent of his target award. Application of the process described above for setting long-term incentive awards resulted in a grant to Mr. Paulis, along with the other division and region executives, of a stock option award of 30,000 shares.

Effective January 1, 2011, the MOCC increased Mr. Paulis's base salary 4.0 percent to €253,252, which adjustment included the 2.49 percent cost of living index adjustment mandated by the Belgium government. Mr. Paulis's 2011 base salary is above the 50th percentile of the 2010 Towers Watson survey data. Mr. Paulis's target annual cash incentive payout remains unchanged at 70 percent of his base salary. In February 2011, the MOCC granted Mr. Paulis a stock option award of 18,000 shares.

Mr. David M. Lowe

Vice President and General Manager, Industrial Products Division

Mr. Lowe's base salary as of December 2009 approximated the 50th percentile of the 2009 Towers Watson survey data for a profit center head of manufacturing companies with similar sales volume. In December 2009, the MOCC approved no increase to Mr. Lowe's base salary for 2010 because of the 2009 Market Conditions and because of his competitive base salary. As a result, his base salary remained unchanged at $262,912 for 2010. Based on the 2010 corporate and worldwide Industrial Products Division net sales and corporate and worldwide Industrial Products Division EPS maximum performance results, the MOCC awarded Mr. Lowe a $276,057 cash bonus award under the Executive Officer Bonus Plan. Mr. Lowe's bonus payout represented 150 percent of his target award. Application of the process described above for setting long-term incentive awards resulted in a grant to Mr. Lowe, along with the other division and region executives, of a stock option award of 30,000 shares.

Effective January 1, 2011, the MOCC increased to Mr. Lowe's base salary 4.0 percent to $273,428 because he did not receive a merit increase in 2010. Mr. Lowe's 2011 base salary approximates the 50th percentile of the 2010 Towers Watson survey data. His target annual cash incentive payout remains unchanged at 70 percent of his base salary. In February 2011, the MOCC granted Mr. Lowe a stock option award of 18,000 shares.

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, are 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 2010, 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 MOCC 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 involuntarily terminated 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 MOCC 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.

The MOCC 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 MOCC believes each executive officer's full attention and dedication to our Company will be enhanced. The MOCC also believes the officers' dedication will help the Company appropriately evaluate and complete a change of control transaction, and facilitate an orderly transition. 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 MOCC believes this "double-trigger" approach is most consistent with the objectives described above. The MOCC 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 MOCC 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 MOCC 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 MOCC 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 MOCC 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.

In 2010, the MOCC retained Towers Watson to conduct a competitive analysis of key agreements. At the September 2010 meeting, as recommended by Towers Watson, the MOCC approved no changes to the key terms of the employee agreements.

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 MOCC believes all compensation paid to the executive officers for fiscal year 2010 will be deductible for federal income tax purposes. However, the MOCC reserves the flexibility to approve elements of compensation for specific officers in the future which may not be fully deductible should the MOCC deem 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. Eric P. Etchart

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 31, 2010[1].

Name and Principal Position	Year	Salary[2] ($)	Bonus[3] ($)	Option Awards[4] ($)	Non-Equity Incentive Plan Compensation[5] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[6] ($)	All Other Compensation[8] ($)	Total ($)
Patrick J. McHale	2010	641,700	—	1,032,975	962,550	311,000	11,854	2,960,079
President and Chief	2009	641,700	—	958,185	—	174,000	11,854	1,785,739
Executive Officer	2008	620,000	—	1,257,480	—	230,000	17,593	2,125,073
James A. Graner	2010	344,500	—	325,062	361,725	136,000[7]	23,714	1,191,001
Chief Financial Officer and	2009	357,750	520	200,154	30,525	16,000	23,596	628,545
Treasurer	2008	297,077	—	326,945	—	167,000	20,232	811,254
Dale D. Johnson	2010	309,635	20,000	216,708	293,379	341,000	15,097	1,195,819
Vice President and General	2009	309,635	—	200,154	27,436	154,000	14,142	705,367
Manager, Contractor Equipment Division	2008	299,164	—	251,496	—	222,000	22,583	795,243
Simon J.W. Paulis[9]	2010	323,383	—	216,708	312,263	88,851	107,632	1,048,837
Vice President and General	2009	339,455	—	200,154	28,419	86,083	104,176	758,287
Manager, Europe	2008	340,747	—	251,496	—	78,308	95,834	766,385
David M. Lowe	2010	262,912	—	216,708	276,057	109,000	14,800	879,477
Vice President and General	2009	262,912	—	200,154	23,296	52,000	21,756	560,118
Manager, Industrial Products Division								

(1) Also includes information with respect to the fiscal years ended December 26, 2008 and December 25, 2009 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 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.

(4) 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 2010 Annual Report on Form 10-K.

(5) The amounts reported in the Non-Equity Incentive Plan Compensation column represent awards earned under the Executive Officer Annual Incentive Bonus Plan or the Executive Officer Bonus Plan, as applicable. 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 31. At its February 18, 2011 meeting, the Committee certified that the NEOs who participated in the Annual Incentive Plans for 2010 were entitled to a payout as follows:

2010 Executive Officer Annual Incentive Bonus Plan

Named Executive Officers	Payout as a Percent of Target Opportunity	Payout as a Percent of 2010 Established Base Salary
Mr. McHale	150%	150%

2010 Executive Officer Bonus Plan

Named Executive Officers	Payout as a Percent of Target Opportunity	Payout as a Percent of 2010 Established Base Salary
Mr. Graner	150%	105%
Mr. Johnson	135%	95%
Mr. Paulis	146%	102%
Mr. Lowe	150%	105%

Given the 2009 Economic 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.

(6) 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. At December 31, 2010, the changes were as follows: Mr. McHale: $91,000 (qualified pension) and $220,000 (nonqualified restoration); Mr. Graner: $108,000 (qualified pension) and $28,000 (nonqualified restoration); Mr. Johnson: $177,000 (qualified pension) and $164,000 (nonqualified restoration); and Mr. Lowe: $72,000 (qualified pension) and $37,000 (nonqualified restoration). The amount shown for Mr. Paulis reflects the change in present value of $86,886 attributable to the fully insured pension through Delta Lloyd N.V. and the change in present value of $1,965 attributable to the sector pension plan.

(7) The amount reported as Mr. Graner's earnings in 2009 has been amended to reflect an additional $13,250, which was not included in the calculation of his 2009 change in pension value. Furthermore, the 2009 present value was based on a discount rate of 6 percent, while in 2010 the discount rate was 5.5 percent. These discount rates are based on year-end interest rates and are subject to change on an annual basis.

(8) The amounts shown in the All Other Compensation column for 2010 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	16,364	7,747	7,450
Total	$ 11,854	$ 23,714	$ 15,097	$ 14,800

The Other Perquisites consist of company-provided incremental cost for long-term disability coverage, financial planning, and executive physical. 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 2010 reflects the following for Mr. Paulis:

Insurance Premium for Pension, Medical and Life	$	65,327
Incremental Cost for Long Term Disability Coverage		9,999
Metal Trade Sector Retirement Contribution		1,617
Other Perquisites		30,689
Total	$	107,632

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 average exchange rates of 1.328, 1.394 and 1.472 U.S. dollar-to-euro for 2010, 2009 and 2008 respectively.

Grants of Plan-Based Awards in 2010

On February 12, 2010, 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 zero 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 zero percent to a maximum of 105 percent of their earned base salary.

Grants of Plan-Based Awards for Fiscal Year Ended December 31, 2010

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option	Closing Market Price of Common Stock on Grant	Grant Date Fair Value of Stock or Option
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Options (#)	Awards[1] ($/sh)	Date[1] ($/sh)	Award[2] ($)
Patrick J. McHale	2/12/2010	0	641,700	962,550	143,000	27.17	27.32	1,032,975
James A. Graner	2/12/2010	0	241,150	361,725	45,000	27.17	27.32	325,062
Dale D. Johnson	2/12/2010	0	216,745	325,117	30,000	27.17	27.32	216,708
Simon J.W. Paulis[3]	2/12/2010	0	213,879	320,819	30,000	27.17	27.32	216,708
David M. Lowe	2/12/2010	0	184,038	276,058	30,000	27.17	27.32	216,708

(1) 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.

(2) The aggregate grant date fair value of the award was calculated in accordance with U.S. accounting standards using a value per share of $7.22.

(3) The established base salary used in the computation for Mr. Paulis reflects an average exchange rate of 1.328 U.S. dollar-to-euro for 2010.

Outstanding Equity Awards at Fiscal Year Ended December 31, 2010

The following table summarizes the outstanding equity awards held by each Named Executive Officer on December 31, 2010.

		Option Awards			
		Number of Securities Underlying Unexercised Options[1,2]		Option Exercise Price ($)	Option Expiration Date
Name	Grant Date	(#) Exercisable	(#) Unexercisable		
Patrick J. McHale	2/12/2010	0	143,000	27.17	2/12/2020
	2/13/2009	56,250	168,750	20.80	2/13/2019
	2/15/2008	75,000	75,000	35.90	2/15/2018
	6/14/2007	56,250	18,750	40.53	6/14/2017
	2/16/2007	16,875	5,625	41.36	2/16/2017
	2/17/2006	22,500	0	40.68	2/17/2016
	2/18/2005	22,500	0	38.13	2/18/2015
	2/20/2004	27,000	0	27.91	2/20/2014
	2/21/2003	22,500	0	17.34	2/21/2013
	2/22/2002	12,656	0	18.39	2/22/2012
	2/23/2001	8,436	0	11.71	2/23/2011
James A. Graner	2/12/2010	0	45,000	27.17	2/12/2020
	2/13/2009	11,750	35,250	20.80	2/13/2019
	2/15/2008	19,500	19,500	35.90	2/15/2018
	2/16/2007	16,875	5,625	41.36	2/16/2017
	2/17/2006	22,500	0	40.68	2/17/2016
	2/18/2005	15,000	0	38.13	2/18/2015
	2/20/2004	18,000	0	27.91	2/20/2014
	2/21/2003	18,000	0	17.34	2/21/2013
	2/22/2002	11,250	0	18.39	2/22/2012
Dale D. Johnson	2/12/2010	0	30,000	27.17	2/12/2020
	2/13/2009	11,750	35,250	20.80	2/13/2019
	2/15/2008	15,000	15,000	35.90	2/15/2018
	2/16/2007	16,875	5,625	41.36	2/16/2017
	2/17/2006	22,500	0	40.68	2/17/2016
	2/18/2005	22,500	0	38.13	2/18/2015
	2/20/2004	27,000	0	27.91	2/20/2014
	2/21/2003	27,000	0	17.34	2/21/2013
	2/22/2002	22,500	0	18.39	2/22/2012
	2/23/2001	45,000	0	11.71	2/23/2011
Simon J.W. Paulis	2/12/2010	0	30,000	27.17	2/12/2020
	2/13/2009	0	35,250	20.80	2/13/2019
	2/15/2008	15,000	15,000	35.90	2/15/2018
	2/16/2007	16,875	5,625	41.36	2/16/2017
	2/17/2006	22,500	0	40.68	2/17/2016
	2/20/2004	6,750	0	27.91	2/20/2014
David M. Lowe	2/12/2010	0	30,000	27.17	2/12/2020
	2/13/2009	11,750	35,250	20.80	2/13/2019
	2/15/2008	15,000	15,000	35.90	2/15/2018
	2/16/2007	16,875	5,625	41.36	2/16/2017
	2/17/2006	22,500	0	40.68	2/17/2016
	2/18/2005	22,500	0	38.13	2/18/2015
	2/20/2004	22,500	0	27.91	2/20/2014
	2/21/2003	22,500	0	17.34	2/21/2013
	2/22/2002	16,875	0	18.39	2/22/2012

(1) All data reflect the three-for-two stock splits distributed on June 6, 2002 and March 30, 2004.

(2) All options have a 10-year term and become exercisable in equal installments over four years, beginning with the first anniversary of the grant date.

Option Exercises and Stock Vested in 2010

The following table summarizes the options exercised by each Named Executive Officer in 2010.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) [1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) [2]
Patrick J. McHale	—	—	—	—
James A. Graner	11,250	298,576	—	—
Dale D. Johnson	55,938	1,015,915	4,000	153,640
Simon J.W. Paulis	11,750	79,683	4,000	153,640
David M. Lowe	42,187	851,493	4,000	153,640

(1) The value realized on the exercise of stock options is the difference between the closing market price of Graco Common Stock on the date of exercise and the exercise price contained in the award agreement for the stock option.

(2) The value realized on the vesting of stock awards is the closing market price of a share of Graco Common Stock on the date of vesting multiplied by the number of vested shares. Stock awards were granted on December 7, 2007 and vested on December 6, 2010.

Change of Control and Post-Termination Payments

Summary of the Key Employee Agreement

The Key Employee Agreement provides for payment of the following benefits if the Company terminates the employment of a Management Executive involuntarily 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, the Company without cause terminates an executive officer's employment involuntarily 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 (the "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 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 has been provided to all executive officers, except that an executive officer who is a resident of a foreign country received a version of the agreement that was modified as necessary to take into account local laws and prevent the duplication of any benefits.

Other Compensation and Benefits Payable Upon a Change of Control or Certain Terminations

Each NEO 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 an employment 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 employment 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 employment 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 31, 2010.

Potential Payments Upon Termination or Following a Change of Control at December 31, 2010

Name	Involuntary (Not for Cause) or Good Reason Termination Following Change of Control[1,4] ($)	Involuntary (Not for Cause) Termination[2,4] ($)	Retirement[4] ($)	Death[3,4] ($)	Disability[3,4] ($)
Patrick J. McHale	12,206,770	2,705,242	101,000	101,000	352,196
James A. Graner	3,330,019	704,546	105,800	105,800	355,658
Dale D. Johnson	2,317,365	679,301	134,200	134,200	360,712
Simon J.W. Paulis	2,263,565	553,571	781,143	1,345,275	811,144
David M. Lowe	2,035,677	488,157	28,200	28,200	222,582

(1) The amounts represent aggregated payments if a change of control and qualifying termination of employment occurred on December 31, 2010, which include:

- 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.
- The intrinsic value (or spread between the exercise and market price) of the stock options whose exercisability would be accelerated. The value of accelerated stock options is determined by multiplying the number of unvested options by the difference between the closing share price on December 31, 2010 and the option exercise price.
- 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 38. The incremental benefit amount was determined using additional pay and earnings based on December 31, 2010 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 31, 2010 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 29.
- Gross-up of income taxes and related excise taxes.
- 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 and 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) Assumes NEO is not age 65 or above 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.

(4) Applicable terms and conditions for Mr. Paulis upon Termination or Following a Change of Control:

- Involuntary (Not for Cause) or Good Reason Termination Following Change of Control

i. The health, 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 Belgian 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.

- Involuntary (Not for Cause) Termination - Under Belgian 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.

- Retirement - The amount reflects the lump sum payable to Mr. Paulis upon his normal retirement date. $766,903 is attributable to the fully insured benefit provided to him by Delta Lloyd N.V. and $14,240 is attributable to the sector pension plan.

- 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 his 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.

- Disability - This number reflects the lump sum of $629,751 payable from the pension plan due to disability, plus the annual disability benefit of $181,393 payable through the disability contract.

- Exchange Rates - All amounts in this table reflect an average exchange rate of 1.328 U.S. dollar-to-euro for 2010.

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 a 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 or older 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 benefits 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 Code and the compensation limitations of Section 401(a)(17) of the 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 unless the participant elected a lump sum for the prospective benefits earned after December 31, 2010.

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 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, 2010 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 2010 table below. The actuarial present values are based on the valuation method and the assumptions applied in the calculations.

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. Graco N.V pays the premium for this benefit.

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. $181,393. Graco N.V pays the premium.

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 31, 2010

Name	Plan Name	Years Credited Service (#)	Present Value of Accumulated Benefit[1], [5] ($)	Payments During Last Fiscal Year ($)
Patrick J. McHale	Graco Employee Retirement Plan (1991 Restatement)	21.1	409,000	—
	Graco Inc. Restoration Plan (2005 Statement)	21.1	774,000	—
James A. Graner[2]	Graco Employee Retirement Plan (1991 Restatement)	36.8	1,223,000	—
	Graco Inc. Restoration Plan (2005 Statement)	36.8	1,159,000	—
Simon J.W. Paulis[3]	Group Insurance/Benefit Plan for the benefit of Graco N.V.	N/A[4]	560,650	—
	Sector Pension Plan Agoria	N/A[4]	11,621	—
Dale D. Johnson[2]	Graco Employee Retirement Plan (1991 Restatement)	34.9	964,000	—
	Graco Inc. Restoration Plan (2005 Statement)	34.9	1,200,000	—
David M. Lowe	Graco Employee Retirement Plan (1991 Restatement)	15.9	316,000	—
	Graco Inc. Restoration Plan (2005 Statement)	15.9	225,000	—

(1) For details regarding the assumptions, please refer to the Graco Inc. 2010 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 Delta Lloyd 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) 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. Mr. Graner was and Mr. Johnson will be 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 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 his or her 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 31, 2010, no executive officers were contributing to the Deferred Compensation Plan.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year[1] ($)	Aggregate Withdrawals/Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
James A. Graner	0[2]	—	6,917	—	255,926

(1) The measurement funds available under the Graco Deferred Compensation Plan (2005 Statement), and their annualized returns as of December 31, 2010, were as follows:

Fund	Asset Category	Ticker	Rate of Return (%)
American Beacon Large Cap Value-Inst	Large Value Fund	AADEX	14.56
American Funds EuroPacific Growth- R4	Foreign Large Blend	REREX	9.39
American Funds Growth Fund of America -R5	Large Growth	RGAFX	12.63
Columbia Acorn USA -Z	Small Growth	AUSAX	23.16
Vanguard Institutional Index	Large Blend	VINIX	15.05
Vanguard Small- Cap Index Inv	Small Blend	NAESX	27.72
Vanguard Total Bond Market Index-Inv	Intermediate Bond	VBMFX	6.42
Wells Fargo Stable Return	Stable Value	N/A	2.81
Western Asset Core Plus Bond Portfolio-Inst	Intermediate Bond	WACPX	11.98

(2) Mr. Graner did not contribute to the Graco Deferred Compensation Plan (2005 Statement) during 2010 and has not since inception of this Plan. Any contributions would have been reported as salary or bonus in the year earned. The Company has never made any contributions to Mr. Graner's account and he has never earned any above-market interest.

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 CEO 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 CEO 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 31, 2010.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	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	4,998,328	30.02	5,662,882
Equity compensation plans not approved by security holders[1]	510,439	34.34	—
Total	5,508,767	30.42	5,662,882

(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.

BENEFICIAL OWNERSHIP OF SHARES

Director and Executive Officer Beneficial Ownership

The following information, furnished as of February 22, 2011, 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	52,946		13,247
Eric P. Etchart	150		—
Jack W. Eugster	42,900		9,230
J. Kevin Gilligan	40,140		16,533
James A. Graner[2,5]	241,328		—
Dale D. Johnson	225,336		—
David M. Lowe[5]	299,092		—
Lee R. Mitau	87,288		39,536
Patrick J. McHale[2]	483,893		—
Marti Morfitt	72,600		22,823
Simon J.W. Paulis	74,725		—
William G. Van Dyke	62,334		23,136
R. William Van Sant	31,900		12,037
All directors and executive officers as a group (20 persons)[5, 6]	2,468,252	3.97%	

(1) Includes 1,726,942 shares with respect to which executive officers, and 201,150 shares with respect to which non-employee directors, have a right, as of April 23, 2011, to acquire beneficial ownership upon the exercise of vested stock options. Such shares are held by the following directors and named executive officers in the following amounts: Mr. Carroll (31,775 shares), Mr. Etchart (0 shares), Mr. Eugster (26,900 shares), Mr. Gilligan (31,775 shares), Mr. Graner (171,250 shares), Mr. Johnson (197,500 shares), Mr. Lowe (182,875 shares), Mr. Mitau (31,775 shares), Mr. McHale (446,656 shares), Ms. Morfitt (20,250 shares), Mr. Paulis (66,750 shares), Mr. Van Dyke (31,775 shares), and Mr. Van Sant (26,900 shares).

(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) 17,606 shares held by The Graco Foundation, as to which Messrs. McHale and Lowe share voting and investment power as directors.

(3) Beneficial ownership excludes units shown as phantom stock units, held by each individual non-employee director listed as of February 22, 2011. 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 and 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 22, 2011. 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 23,984 shares of Graco common stock for lines of credit and 21,816 shares of Graco common stock for a margin loan. Mr. Lowe pledged 85,774 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 2,834,606 shares, or 4.6 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, 2010, 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	3,212,356[2]	5.4%
BlackRock, Inc. [1] 40 East 52nd Street New York, NY 10022	3,058,226	5.1%

(1) Based on information of beneficial ownership as of December 31, 2010 included in a Schedule 13G filed by each shareholder on or before February 14, 2011.

(2) Mairs and Power, Inc. has sole voting power of 2,351,200 shares, shared voting power over 0 shares and sole dispositive power over all 3,212,356 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 2010, except: (a) a Form 4 for each of Mr. Carroll, Mr. Eugster, Mr. Gilligan, Mr. Mitau, Ms. Morfitt, Mr. Van Dyke and Mr. Van Sant to report the non-employee director stock option grants on April 23, 2010 to each individual(the grants were reported on Form 4s filed on July 8, 2010); and (b) a Form 4 for each of Mr. Eugster, Mr. Gilligan, Mr. Mitau, Ms. Morfitt and Mr. Van Sant to report the issuance of phantom stock units to them on April 1, 2010 (the awards were reported on Form 4s filed on April 6, 2010).

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, his or her 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

ADVISORY VOTE ON OUR EXECUTIVE COMPENSATION

The Company is providing shareholders with an advisory, non-binding vote on the executive compensation of the Named Executive Officers (commonly referred to as a "say on pay"). Accordingly, shareholders will vote on approval of the following resolution:

RESOLVED, that the shareholders approve, on an advisory basis, the compensation of the Company's Named Executive Officers as disclosed in the Compensation Discussion and Analysis section, the accompanying compensation tables and the related narrative disclosure in this Proxy Statement.

This vote is non-binding. The Board of Directors and the Management Organization and Compensation Committee expect to take the outcome of the vote into account when considering future executive compensation decisions to the extent they can determine the cause or causes of any significant negative voting results.

As described in detail under the Compensation Discussion and Analysis section of this Proxy Statement, our compensation programs are designed to achieve the Company's goal of attracting, developing and retaining global business leaders who can drive financial and strategic growth objectives that are intended to build long-term shareholder value. Our executive compensation framework includes the following elements:

- Competitive compensation as compared against manufacturing companies of comparable sales volume and financial performance;

- All elements of compensation are tied to the performance of the Company, a division, a region and/or the performance of the individual executive officer;
- Appropriate balance of short- and long-term financial and strategic business results, with an emphasis on managing the business for the long-term;
- Long-term incentives that align the interests of executive officers with the long-term interests of shareholders; and
- Compensation designed to reduce the possibility of excessive risk-taking, such as through our stock holding policy and recoupment policy.

Shareholders are encouraged to read the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure to better understand the compensation of our Named Executive Officers.

Our Board of Directors, upon recommendation of the Management Organization and Compensation Committee, recommends that shareholders vote FOR the advisory vote on executive compensation.

PROPOSAL 4

ADVISORY VOTE ON THE FREQUENCY OF THE ADVISORY VOTE ON OUR EXECUTIVE COMPENSATION

The Company is required to seek an advisory, non-binding shareholder vote on the frequency of submission to shareholders of the advisory vote on executive compensation at least once every six years. Shareholders have the opportunity to vote on whether the so-called "say on pay" vote will occur once every year, every two years or every three years.

This vote is non-binding. The Board and the Governance Committee will review the voting results and expects to take the outcome of the vote into account when selecting the frequency of advisory votes on executive compensation.

The Board of Directors recognizes the importance of receiving regular input from our shareholders on important issues such as executive compensation. Accordingly, the Board is recommending that shareholders vote for the option of once every year as the frequency with which shareholders will have a "say on pay". The Board believes that an annual advisory vote on executive compensation is consistent with the Company's policy of seeking input from, and engaging in discussions with, our shareholders on corporate governance matters. The Board understands that thoughtful analysis of executive compensation can be time-consuming for shareholders and that it may be difficult to assess the impact of any changes to our compensation practices within a one-year period. Accordingly, the Board understands that shareholders may have different views on the appropriate frequency for the "say on pay" vote and looks forward to receiving shareholder input on this matter.

Although the Board is recommending shareholders vote for the option of once every year, for purposes of this proposal, shareholders are entitled to vote for any of the frequency alternatives and you are not voting on the Board's recommendation. The Company will report its determination about the frequency of the advisory vote on executive compensation in a Form 8-K or amendment to a Form 8-K filed within 150 days following the Meeting.

Our Board of Directors, upon recommendation of the Governance Committee, recommends that shareholders vote for the option of once every year as the frequency with which shareholders will have an advisory, non-binding vote on executive compensation.

PROPOSAL 5

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 202,780 shares of Graco common stock as of November 8, 2010, 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 shareowners in uncontested elections. A plurality vote standard, however, will apply to 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. This proposal 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 who is unsatisfactory to the majority of shareowners who cast votes.

Accordingly, a substantial number of companies already have adopted this form of majority voting. More than 80% of the companies in the S&P 500 have adopted a form of 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 shareowners casting a vote. 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 also the power to heighten director accountability through 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 for uncontested director elections. 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

Our Board has carefully considered the issue of majority voting in the election of directors. For the reasons outlined below, we continue to believe that the adoption of majority voting is not in the best interests of the Company's shareholders. We believe the plurality voting standard continues to be the best standard for electing our Company's directors.

Majority Voting May Have Unintended Negative Consequences **-** Our Board continues to be concerned about the unintended and undesirable 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. We do not believe that this proposal has been submitted based on concerns regarding the current plurality voting standard as applied to our Company and is not based upon the contribution of our directors. Our Board believes it is unlikely shareholders generally want the consequence of a single-issue agenda to be the failure to elect a productive 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 **-** Following the elimination of broker discretionary voting in the election of directors last year, it has become more difficult to obtain a high voter turnout for the election of directors. When combined with a higher voting threshold, this would inevitably increase the Company's costs in connection with its annual meetings by requiring us to conduct 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 a Form 8-K within four business days after our annual meeting. As a result, there is significant visibility of any director who receives a significant number of "withhold" votes. Our Nominating Committee reviews the voting results from each annual meeting.

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 relationships that might impair their ability to challenge our management. 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 a majority of the votes cast on the election of directors. Accordingly, the implementation of a majority voting standard in any of these elections would not have impacted the outcome of the election.

Recent Corporate Governance Developments Refused to Mandate Majority Voting - The discussions surrounding the adoption of the Dodd-Frank Act in 2010 included discussions about whether majority voting should be mandatory for all public companies. However, Congress did not include mandatory majority voting in the Dodd-Frank Act. We believe that this decision supports the proposition that majority voting is not necessarily appropriate for all companies. For the reasons stated above, we do not believe that majority voting is appropriate for Graco.

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 unintended consequences, and is unnecessary and disadvantageous to the Company and our shareholders. Our Board will continue to monitor corporate governance developments and will consider majority voting in the context of these developments.

Our Board of Directors recommends that shareholders vote AGAINST the shareholder proposal.

SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING IN THE YEAR 2012

Any shareholders wishing to have a matter considered for inclusion in the proxy statement for the Annual Meeting in the year 2012 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 9, 2011.

Any shareholder proposal for the Annual Meeting in year 2012 not included in the Proxy Statement must be submitted by written notice to the Secretary of the Company by January 21, 2012 to be considered.

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,

Karen Park Gallivan

Secretary

Dated March 7, 2011

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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:

M30367-P06073 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:**	**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	☐	☐	☐	_____

Nominees

01) Patrick J. McHale
02) Lee R. Mitau
03) Marti Morfitt

The Board of Directors recommends you vote FOR the following proposals:	**For**	**Against**	**Abstain**
2. Ratification of appointment of Deloitte & Touche LLP as the independent registered public accounting firm.	☐	☐	☐
3. Advisory, non-binding resolution to approve our executive compensation.	☐	☐	☐

The Board of Directors recommends you vote 1 year on the following proposal:	**1 Year**	**2 Years**	**3 Years**	**Abstain**
4. Advisory, non-binding vote on the frequency for which shareholders will have an advisory, non-binding vote on our executive compensation.	☐	☐	☐	☐

The Board of Directors recommends you vote AGAINST the following proposal:	**For**	**Against**	**Abstain**
5. Shareholder proposal to adopt majority voting for the election of directors.	☐	☐	☐

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

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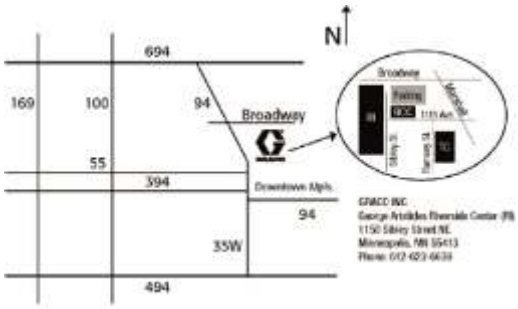

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement, Form 10-K and Annual Report are available at www.proxyvote.com.

M30368-P06073

GRACO INC.
Annual Meeting of Shareholders
April 21, 2011 2:00 p.m. Central Time
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 Thursday, April 21, 2011, at 2:00 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 18, 2011, 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