

GRACO INC  
Form 10-Q  
July 27, 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  
(State of incorporation)

41-0285640  
(I.R.S. Employer Identification Number)

88 - 11<sup>th</sup> Avenue N.E.

Minneapolis, Minnesota  
(Address of principal executive offices)

55413  
(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes  X  No    

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

Yes  X  No



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**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

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Cash Dividends Declared per Common Share	\$ 0.21	\$ 0.20	\$ 0.42	\$ 0.40
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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
<b>ASSETS</b>		
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		

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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)
<b>Total shareholders equity</b>	<b>342,737</b>	<b>264,114</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 692,269</b>	<b>\$ 530,474</b>

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
<b>Cash Flows From Operating Activities</b>		
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
<b>Net cash provided by operating activities</b>	<b>43,891</b>	<b>28,045</b>
<b>Cash Flows From Investing Activities</b>		
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)
<b>Net cash used in investing activities</b>	<b>(12,435)</b>	<b>(7,501)</b>
<b>Cash Flows From Financing Activities</b>		
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)



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Cash dividends paid	(25,342)	(24,122)
<b>Net cash provided by (used in) financing activities</b>	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.

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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		