

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **June 27, 2003**

Commission File Number: 001-9249

**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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

45,800,000 common shares were outstanding as of July 25, 2003.

# GRACO INC. AND SUBSIDIARIES

## INDEX

Page Number

### **PART I FINANCIAL INFORMATION**

Item 1.	Financial Statements	
	Consolidated Statements of Earnings	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6-9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10-12
Item 4.	Controls and Procedures	13

### **PART II OTHER INFORMATION**

Item 4.	Submission of Matters to a Vote of Security Holders	14
Item 6.	Exhibits and Reports on Form 8-K	14

<b>SIGNATURES</b>		15
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### **EXHIBITS**

## PART I

### GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands except per share amounts)

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>	<u>June 27, 2003</u>	<u>June 28, 2002</u>
Net Sales	\$146,364	\$132,796	\$266,024	\$240,653
Cost of products sold	<u>70,432</u>	<u>65,655</u>	<u>127,089</u>	<u>118,349</u>
Gross Profit	75,932	67,141	138,935	122,304
Product development	4,328	4,527	8,801	8,688
Selling, marketing and distribution	25,288	22,096	48,185	41,888
General and administrative	<u>10,057</u>	<u>8,785</u>	<u>18,569</u>	<u>16,502</u>
Operating Earnings	36,259	31,733	63,380	55,226
Interest expense	112	110	240	260
Other expense (income), net	<u>84</u>	<u>207</u>	<u>(17)</u>	<u>204</u>
Earnings Before Income Taxes	36,063	31,416	63,157	54,762
Income taxes	<u>11,600</u>	<u>9,900</u>	<u>20,500</u>	<u>17,700</u>
Net Earnings	<u>\$ 24,463</u>	<u>\$ 21,516</u>	<u>\$ 42,657</u>	<u>\$ 37,062</u>
Basic Net Earnings				
Per Common Share	\$ .54	\$ .45	\$ .92	\$ .78
Diluted Net Earnings				
Per Common Share	\$ .53	\$ .44	\$ .90	\$ .77
Cash Dividends Declared				
Per Common Share	\$ .08	\$ .07	\$ .17	\$ .15

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)  
(In thousands)

	<u>June 27, 2003</u>	<u>Dec. 27, 2002</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 58,746	\$ 103,333
Accounts receivable, less allowances of \$6,100 and \$5,600	103,556	93,617
Inventories	36,549	30,311
Deferred income taxes	13,446	12,022
Other current assets	<u>1,568</u>	<u>1,241</u>
Total current assets	213,865	240,524
Property, Plant and Equipment:		
Cost	224,799	219,427
Accumulated depreciation	<u>(130,088)</u>	<u>(124,474)</u>
	94,711	94,953
Intangible Assets, net	20,996	11,860
Other Assets	<u>7,658</u>	<u>8,513</u>
	<u>\$ 337,230</u>	<u>\$ 355,850</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Notes payable to banks	\$ 6,015	\$ 13,204
Trade accounts payable	12,662	13,031
Salaries, wages and commissions	12,185	14,490
Accrued insurance liabilities	10,318	10,251
Accrued warranty and service liabilities	6,730	6,294
Income taxes payable	8,232	5,583
Dividends payable	3,773	3,922
Other current liabilities	<u>12,712</u>	<u>13,439</u>
Total current liabilities	72,627	80,214
Retirement Benefits and Deferred Compensation	29,349	28,578
Deferred Income Taxes	1,788	1,652
Shareholders' Equity		
Common stock	45,727	47,533
Additional paid-in capital	75,503	71,277
Retained earnings	113,336	128,125
Other, net	<u>(1,100)</u>	<u>(1,529)</u>
Total shareholders' equity	<u>233,466</u>	<u>245,406</u>
	<u>\$ 337,230</u>	<u>\$ 355,850</u>

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)  
(In thousands)

	<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>
<b>Cash Flows from Operating Activities</b>		
Net Earnings	\$ 42,657	\$ 37,062
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	9,199	9,416
Deferred income taxes	(1,214)	(719)
Tax benefit related to stock options exercised	1,200	3,300
Change in:		
Accounts receivable	(6,472)	(9,197)
Inventories	(3,042)	1,677
Trade accounts payable	(1,779)	1,551
Salaries, wages and commissions	(2,547)	(970)
Retirement benefits and deferred compensation	1,459	(189)
Other accrued liabilities	1,852	(2,886)
Other	(89)	(275)
	<u>41,224</u>	<u>38,770</u>
<b>Cash Flows from Investing Activities</b>		
Property, plant and equipment additions	(7,298)	(3,926)
Proceeds from sale of property, plant and equipment	102	271
Acquisition of business	(13,514)	-
	<u>(20,710)</u>	<u>(3,655)</u>
<b>Cash Flows from Financing Activities</b>		
Borrowings on notes payable and lines of credit	9,625	11,736
Payments on notes payable and lines of credit	(16,947)	(12,329)
Payments on long-term debt	-	(50)
Common stock issued	6,772	11,567
Common stock retired	(55,496)	(1,028)
Cash dividends paid	(7,686)	(6,905)
	<u>(63,732)</u>	<u>2,991</u>
Effect of exchange rate changes on cash	(1,369)	(771)
Net increase (decrease) in cash and cash equivalents	(44,587)	37,335
Cash and cash equivalents		
Beginning of year	<u>103,333</u>	<u>26,531</u>
End of period	<u>\$ 58,746</u>	<u>\$ 63,866</u>

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of June 27, 2003, and the related statements of earnings for the thirteen and twenty-six weeks ended June 27, 2003 and June 28, 2002, and cash flows for the twenty-six weeks ended June 27, 2003 and June 28, 2002 have been prepared by the Company without being audited.

In the opinion of management, these consolidated statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of June 27, 2003, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 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.

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

2. The Company accounts for stock option and purchase plans using the intrinsic value method and has adopted the "disclosure only" provisions of Statement of Financial Accounting Standards (SFAS) No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." No compensation cost has been recognized for the Employee Stock Purchase Plan and stock options granted under the various stock incentive plans.

Had compensation cost been determined based upon fair value (using the Black-Scholes option-pricing method) at the grant date for awards under these plans, the Company's net earnings and earnings per share would have been reduced as follows (in thousands, except per share amounts):

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>	<u>June 27, 2003</u>	<u>June 28, 2002</u>
<b>Net earnings</b>				
As reported	\$ 24,463	\$ 21,516	\$ 42,657	\$ 37,062
Stock-based compensation, net of related tax effects	<u>1,037</u>	<u>1,058</u>	<u>2,074</u>	<u>2,116</u>
Pro forma	<u>\$ 23,426</u>	<u>\$ 20,458</u>	<u>\$ 40,583</u>	<u>\$ 34,946</u>
<b>Net earnings per common share</b>				
Basic as reported	\$ .54	\$ .45	\$ .92	\$ .78
Basic pro forma	.51	.43	.87	.74
Diluted as reported	.53	.44	.90	.77
Diluted pro forma	.50	.42	.86	.73

3. Total comprehensive income in 2003 was \$24.5 million in the second quarter and \$42.9 million year-to-date. In 2002, comprehensive income was \$21.5 million for the second quarter and \$37.1 million for the six-month period. There have been no significant changes to the components of comprehensive income from those noted on the 2002 Form 10-K .

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

4. The Company has three reportable segments; Industrial/Automotive, Contractor and Lubrication. The Company does not identify assets by segment. Sales and operating earnings by segment for the thirteen and twenty-six weeks ended June 27, 2003 and June 28, 2002 were as follows (in thousands):

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>	<u>June 27, 2003</u>	<u>June 28, 2002</u>
<b>Net Sales</b>				
Industrial/Automotive	\$ 57,685	\$ 50,759	\$ 110,102	\$ 96,862
Contractor	76,906	68,593	131,744	119,728
Lubrication	<u>11,773</u>	<u>13,444</u>	<u>24,178</u>	<u>24,063</u>
Consolidated	<u>\$ 146,364</u>	<u>\$ 132,796</u>	<u>\$ 266,024</u>	<u>\$ 240,653</u>
<b>Operating Earnings</b>				
Industrial/Automotive	\$ 15,284	\$ 13,223	\$ 29,272	\$ 24,960
Contractor	19,936	17,243	30,693	28,108
Lubrication	2,440	3,129	5,587	5,521
Unallocated Corporate expenses	<u>(1,401)</u>	<u>(1,862)</u>	<u>(2,172)</u>	<u>(3,363)</u>
Consolidated	<u>\$ 36,259</u>	<u>\$ 31,733</u>	<u>\$ 63,380</u>	<u>\$ 55,226</u>

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

	<u>June 27, 2003</u>	<u>Dec. 27, 2002</u>
Finished products and components	\$ 32,307	\$ 26,199
Products and components in various stages of completion	17,140	17,219
Raw materials and purchased components	<u>17,868</u>	<u>18,021</u>
	67,315	61,439
Reduction to LIFO cost	<u>(30,766)</u>	<u>( 31,128)</u>
	<u>\$ 36,549</u>	<u>\$ 30,311</u>



**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

6. At the beginning of the second quarter, the Company purchased certain assets and assumed certain liabilities of Sharpe Manufacturing Company for \$13.5 million cash. Sharpe manufactures spray guns and related parts and accessories for the automotive refinishing market, where the Company had no previous presence. Sharpe had sales of approximately \$11 million in 2002. Results of Sharpe's operations have been included in the Industrial/Automotive segment since the date of acquisition.

Based on the results of an independent appraisal, the purchase price was allocated as follows (in thousands):

Accounts receivable	\$ 1,300
Inventories	3,000
Property, plant and equipment	600
Identifiable intangible assets	8,900
Goodwill	<u>1,300</u>
Total purchase price	15,100
Liabilities assumed	<u>(1,600)</u>
Net assets acquired	<u>\$13,500</u>

Identifiable intangible assets include Sharpe's distribution network, non-compete agreements and manufacturing documentation, which are being amortized over a weighted-average estimated useful life of 5 years. Also included in identifiable intangible assets is \$5.3 million assigned to the Sharpe brand name, which has an indefinite useful life. Goodwill is expected to be fully deductible for tax purposes.

7. Components of intangible assets were (in thousands):

	<u>June 27, 2003</u>	<u>Dec. 27, 2002</u>
Goodwill	\$ 9,199	\$ 7,939
Other identifiable intangibles, net of accumulated amortization of \$7,100 and \$6,100	<u>11,797</u>	<u>3,921</u>
	<u>\$ 20,996</u>	<u>\$ 11,860</u>

Amortization of intangibles was \$618,000 in the second quarter of 2003 and \$1,029,000 year-to-date. Estimated annual amortization is as follows: \$2,200,000 in 2003, \$1,700,000 in 2004, \$1,100,000 in 2005, \$900,000 in 2006 and \$900,000 in 2007.

**Item 2.**

**GRACO INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Results of Operations**

The following table sets forth items from the Company's Consolidated Statements of Earnings as percentages of net sales:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>	<u>June 27, 2003</u>	<u>June 28, 2002</u>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	48.1	49.4	47.8	49.2
Product development	2.9	3.4	3.3	3.6
Selling, marketing and distribution	17.3	16.7	18.1	17.4
General and administrative	<u>6.9</u>	<u>6.6</u>	<u>7.0</u>	<u>6.9</u>
Operating Earnings	24.8	23.9	23.8	22.9
Interest expense	0.1	0.1	0.1	0.1
Other (income) expense, net	<u>0.1</u>	<u>0.1</u>	<u>—</u>	<u>—</u>
Earnings Before Income Taxes	24.6	23.7	23.7	22.8
Income taxes	<u>7.9</u>	<u>7.5</u>	<u>7.7</u>	<u>7.4</u>
Net Earnings	<u>16.7%</u>	<u>16.2%</u>	<u>16.0%</u>	<u>15.4%</u>

**Net Sales**

Sales by segment and geographic area were as follows (in thousands):

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 27, 2003</u>	<u>June 28, 2002</u>	<u>June 27, 2003</u>	<u>June 28, 2002</u>
<b>By Segment</b>				
Industrial/Automotive	\$ 57,685	\$ 50,759	\$ 110,102	\$ 96,862
Contractor	76,906	68,593	131,744	119,728
Lubrication	<u>11,773</u>	<u>13,444</u>	<u>24,178</u>	<u>24,063</u>
Consolidated	<u>\$ 146,364</u>	<u>\$ 132,796</u>	<u>\$ 266,024</u>	<u>\$ 240,653</u>
<b>By Geographic Area</b>				
Americas	\$ 102,805	\$ 97,220	\$ 184,995	\$ 175,798
Europe	27,172	22,942	50,737	42,744
Asia Pacific	<u>16,387</u>	<u>12,634</u>	<u>30,292</u>	<u>22,111</u>
Consolidated	<u>\$ 146,364</u>	<u>\$ 132,796</u>	<u>\$ 266,024</u>	<u>\$ 240,653</u>

Industrial/Automotive segment sales increased 14 percent for both the quarter and year-to date. Sales measured in local currencies increased 6 percent for both the quarter and year-to-date. Most of the currency translation effect came from Europe, where sales for the quarter were down 4 percent in local currencies but increased by 16 percent when translated to U.S. dollars. Industrial/Automotive sales volume increased in Asia Pacific and sales were up in the Americas primarily due to the Sharpe acquisition.

Contractor segment sales increased 12 percent for the quarter, 10 percent year-to-date (9 percent and 7 percent respectively, measured in local currencies). In the Americas, sales were higher in both the paint store and home center channels. Demand for new and existing products in the paint store channel more than offset the ongoing impacts of poor weather conditions and a weak commercial construction market in the United States. In the home center channel, sales were up for the quarter due to the introduction of a new model, marketing initiatives and more stores carrying the complete line of product. Asia Pacific posted strong volume gains while Europe experienced modest growth.

Lubrication segment sales were down 12 percent for the quarter and were essentially flat year-to-date. Sales in the second quarter last year were influenced by a sales promotion that was not repeated in the second quarter of 2003.

### **Gross Profit**

Higher gross profit margin percentages were mainly due to favorable currency translation rates, which, combined with some pricing effect, more than offset the effects of increased costs.

### **Operating Expenses**

Total operating expenses in the first half of 2003 increased 13 percent from 2002. Much of the increase is from payroll-related costs (salaries, incentives and benefits) and also includes Sharpe operations and higher sales meeting, travel, product introduction and warranty expenses. Changes in exchange rates used to translate expenses incurred in foreign currencies also had the effect of increasing expenses as reported in U.S. dollars. The Company's contribution to the Graco Foundation, included in general and administrative expense, decreased by \$1 million compared to the first six months of 2002.

Year-to-date operations include \$.9 million of pension expense related to the Company's U.S. defined benefit pension plan, compared to a \$.5 million credit in the same period last year. This change resulted from recognition of investment losses attributable to pension plan assets. Pension expense/income is allocated to cost of products sold and operating expenses based on salaries and wages.

## **Liquidity and Capital Resources**

In March 2003, the Company repurchased 2.2 million shares of its common stock for \$54.8 million from David A. Koch, a former Chairman and Chief Executive Officer of the Company, his wife, and a family trust and family foundation. The Company used available cash balances to fund the repurchase.

In the second quarter of 2003, the Company acquired the operations of Sharpe Manufacturing Company, utilizing available cash of \$13.5 million and assuming liabilities totaling \$1.6 million.

The Company had unused lines of credit available at June 27, 2003 totaling \$56 million. Cash balances of \$59 million at June 27, 2003, internally generated funds and unused financing sources provide the Company with the financial flexibility to meet liquidity needs.

## **Outlook**

Despite ongoing soft conditions in its two largest geographic markets, the Company is on track to make 2003 a year of sales and earnings growth. In North America, demand remains flat for Industrial/Automotive and Lubrication products while the Contractor Equipment Division continues to benefit from a combination of a strong housing market and successful new product launches. Conditions throughout Europe remain weak and management expects that to continue for at least the balance of this year. Contractor business in Europe is a bright spot, growing from new product introductions. Asia, except for Japan, remains strong with higher demand for the Company's products as companies continue to invest in infrastructure and durable goods output increases. While current economic conditions make growth difficult in most regions of the world, year-to-date results give management confidence that its long-term growth strategies of introducing new products, expanding and enhancing distribution, entering new markets and making strategic acquisitions are paying off.

## **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, as well as in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Exhibit 99 to the Company's Annual Report on Form 10-K for fiscal year 2002 for a more comprehensive discussion of these and other risk factors.

**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 pursuant to Exchange Act Rule 13a-15. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, Vice President and Controller, Vice President and Treasurer, and Vice President, General Counsel and Secretary. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

**Changes in internal controls**

During the quarter, there were no significant changes in the Company's internal control over financial reporting.

## PART II

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

At the Annual Meeting of Shareholders held on May 6, 2003, Robert G. Bohn and William J. Carroll were elected to the Board of Directors with the following votes:

	<u>For</u>	<u>Withheld</u>
Robert G. Bohn	43,169,254	450,398
William J. Carroll	42,444,773	1,174,879

At the same meeting, the Executive Officer Annual Incentive Bonus Plan was approved, with the following votes:

<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker Non-Vote</u>
42,134,298	1,074,415	410,939	—

Also, at the same meeting, the selection of Deloitte & Touche LLP as independent auditors for the current year was approved and ratified, with the following votes:

<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker Non-Vote</u>
41,720,991	1,774,510	124,152	—

No other matters were voted on at the meeting.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 11 Computation of Net Earnings per Common Share
- 31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Vice President and Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of Vice President and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of President and Chief Executive Officer, Vice President and Controller, and Vice President and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The following Current Report on Form 8-K was filed during the quarter ended June 27, 2003: On April 17, 2003, Graco Inc. filed a current report on Form 8-K to furnish its earnings release for the first quarter of 2003.



# 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: \_\_\_\_\_

By: \_\_\_\_\_

David A. Roberts  
President and Chief Executive Officer

Date: \_\_\_\_\_

By: \_\_\_\_\_

James A. Graner  
Vice President and Controller

Date: \_\_\_\_\_

By: \_\_\_\_\_

Mark W. Sheahan  
Vice President and Treasurer



**GRACO INC. AND SUBSIDIARIES**  
**COMPUTATION OF NET EARNINGS PER COMMON SHARE**

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 27, 2003	June 28, 2002	June 27, 2003	June 28, 2002
	(in thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	\$24,463	\$21,516	\$42,657	\$37,062
Weighted average shares outstanding for basic earnings per share	45,663	47,563	46,448	47,261
Dilutive effect of stock options computed using the treasury stock method and the average market price	737	811	702	866
Weighted average shares outstanding for diluted earnings per share	46,400	48,374	47,150	48,127
Basic earnings per share	\$0.54	\$0.45	\$0.92	\$0.78
Diluted earnings per share	\$0.53	\$0.44	\$0.90	\$0.77

## CERTIFICATIONS

I, David A. Roberts, 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 officers 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)) 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) 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
  - c) 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 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 officers 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: \_\_\_\_\_

David A. Roberts  
President and Chief Executive Officer

## CERTIFICATIONS

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 officers 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)) 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) 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
  - c) 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 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 officers 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: \_\_\_\_\_

James A. Graner  
Vice President and Controller

## CERTIFICATIONS

I, Mark W. Sheahan, 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 officers 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)) 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) 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
  - c) 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 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 officers 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: \_\_\_\_\_

Mark W. Sheahan  
Vice President and Treasurer

CERTIFICATION UNDER SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Graco Inc. and will be retained by Graco Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: \_\_\_\_\_

\_\_\_\_\_  
David A. Roberts  
President and Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_  
James A. Graner  
Vice President and Controller  
Chief Accounting Officer

Date: \_\_\_\_\_

\_\_\_\_\_  
Mark W. Sheahan  
Vice President and Treasurer  
Principal Financial Officer

July 30, 2003

**Electronically Filed**

Securities and Exchange Commission  
Judiciary Plaza  
450 Fifth Street NW  
Washington, DC 20549

Re: Graco Inc.  
Second Quarter Report on Form 10-Q  
File No. 001-9249  
CIK No. 0000042888

Gentlemen/Ladies:

Enclosed for filing is the Graco Inc. Quarterly Report on Form 10-Q for the Quarter ended June 27, 2003.

Sincerely,

Robert M. Mattison  
Vice President, General Counsel and Secretary

Enclosure

RMM/ajp