

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 17, 2006**

Graco Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction
of Incorporation)

001-9249

(Commission
File Number)

41-0285640

(I.R.S. Employer
Identification No.)

**88-11th Avenue Northeast
Minneapolis, Minnesota**

(Address of principal executive offices)

55413

(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 1.01 Entry into a Material Definitive Agreement

A. On February 17, 2006, the Management Organization and Compensation Committee (the "Compensation Committee") of the Board of Directors of the Company took the following actions:

(1) Designated the following named executive officers of the Company as participants in the Executive Officer Bonus Plan for 2006: Dale D. Johnson, Patrick J. McHale, Fred A. Sutter, and Charles L. Rescorla. The Compensation Committee approved 2006 performance targets for the participants. The financial measures selected for all participants are growth in corporate net earnings and corporate net sales, weighted equally. Payouts may range from a minimum of 0 percent to a maximum of 105 percent of each participant's base salary, depending upon the percentage attainment of each designated performance measure.

(2) Designated the following executive officers of the Company as participants in the Executive Officer Annual Incentive Bonus Plan for 2006: David A. Roberts, Chief Executive Officer and President. The Compensation Committee approved 2006 performance targets for the participant. The financial measures selected are growth in corporate net earnings and corporate net sales, weighted equally. Payouts may range from a minimum of 0 percent to a maximum of 150 percent of the participant's base salary, depending upon the percentage attainment of each designated performance measure.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

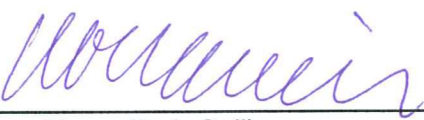
None

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 23, 2006

By: 

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



February 23, 2006

Electronically Filed

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, DC 20549

Re: Graco Inc.
File No. 001-9249

Gentlemen:

Enclosed is a Form 8-K for Graco Inc. filed in connection with a material definitive agreement.

Very truly yours,

A handwritten signature in purple ink, appearing to read 'K. Park Gallivan'.

Karen Park Gallivan
Vice President, General Counsel
and Secretary

KPG:mas

Enclosures