

GRACO INC  
Form 10-Q  
October 24, 2012

**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 28, 2012**

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)

(612) 623-6000

55413  
(Zip Code)

(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).

Edgar Filing: GRACO INC - Form 10-Q

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  

60,673,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of October 18, 2012.

## INDEX

Page Number

### PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Statements of Earnings</u>	3
	<u>Consolidated Statements of Comprehensive Income</u>	3
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About</u>	
	<u>Market Risk</u>	26
Item 4.	<u>Controls and Procedures</u>	26

### PART II OTHER INFORMATION

Item 1A.	<u>Risk Factors</u>	27
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 6.	<u>Exhibits</u>	29

### SIGNATURES

### EXHIBITS

**Item 1.**

**PART I**  
**GRACO INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS**

(Unaudited) (In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 28, 2012	Sep 30, 2011	Sep 28, 2012	Sep 30, 2011
Net Sales	\$ 256,472	\$ 227,347	\$ 758,778	\$ 679,689
Cost of products sold	116,539	100,998	347,136	296,497
Gross Profit	139,933	126,349	411,642	383,192
Product development	12,485	10,423	36,625	30,708
Selling, marketing and distribution	41,230	36,673	121,803	113,738
General and administrative	29,887	22,451	86,439	66,620
Operating Earnings	56,331	56,802	166,775	172,126
Interest expense	5,233	3,125	14,281	5,473
Other expense (income), net	(3,233)	325	(6,170)	649
Earnings Before Income Taxes	54,331	53,352	158,664	166,004
Income taxes	17,200	16,800	51,800	54,100
Net Earnings	\$ 37,131	\$ 36,552	\$ 106,864	\$ 111,904
Per Common Share				
Basic net earnings	\$ 0.61	\$ 0.60	\$ 1.77	\$ 1.85
Diluted net earnings	\$ 0.60	\$ 0.60	\$ 1.73	\$ 1.82
Cash dividends declared	\$ 0.23	\$ 0.21	\$ 0.68	\$ 0.63

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited) (In thousands)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 28, 2012	Sep 30, 2011	Sep 28, 2012	Sep 30, 2011
Net Earnings	\$ 37,131	\$ 36,552	\$ 106,864	\$ 111,904
Other comprehensive income (loss)				
Cumulative translation adjustment	3,440	-	(6,018)	-

Edgar Filing: GRACO INC - Form 10-Q

Pension and postretirement medical liability adjustment	2,394	1,525	7,203	4,317
Gain (loss) on interest rate hedge contracts	-	-	-	454
Income taxes	(862)	(559)	(2,593)	(1,762)
Other comprehensive income (loss)	4,972	966	(1,408)	3,009
Comprehensive Income	\$ 42,103	\$ 37,518	\$ 105,456	\$ 114,913

See notes to consolidated financial statements.

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

(Unaudited)

(In thousands)

	Sep 28, 2012	Dec 30, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 27,315	\$ 303,150
Accounts receivable, less allowances of \$5,900 and \$5,500	174,939	150,912
Inventories	120,586	105,347
Deferred income taxes	20,229	17,674
Investment in businesses held separate	426,813	-
Other current assets	6,124	5,887
Total current assets	776,006	582,970
Property, Plant and Equipment		
Cost	385,025	358,235
Accumulated depreciation	(232,159)	(219,987)
Property, plant and equipment, net	152,866	138,248
Goodwill	171,883	93,400
Other Intangible Assets, net	154,697	18,118
Deferred Income Taxes	30,001	29,752
Other Assets	14,515	11,821
Total Assets	\$ 1,299,968	\$ 874,309
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Notes payable to banks	\$ 7,611	\$ 8,658
Trade accounts payable	28,587	27,402
Salaries and incentives	31,455	32,181
Dividends payable	13,634	13,445
Other current liabilities	62,511	49,596
Total current liabilities	143,798	131,282
	589,620	300,000

Edgar Filing: GRACO INC - Form 10-Q

Long-term Debt		
Retirement Benefits and Deferred Compensation	121,314	120,287
Deferred Income Taxes	17,755	-
Shareholders' Equity		
Common stock	60,669	59,747
Additional paid-in-capital	281,822	242,007
Retained earnings	162,880	97,467
Accumulated other comprehensive income (loss)	(77,890)	(76,481)
Total shareholders' equity	427,481	322,740
Total Liabilities and Shareholders' Equity	\$ 1,299,968	\$ 874,309

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited) (In thousands)

	Thirty-nine Weeks Ended	
	Sep 28, 2012	Sep 30, 2011
<b>Cash Flows From Operating Activities</b>		
Net Earnings	\$ 106,864	\$ 111,904
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	28,444	26,308
Deferred income taxes	(4,663)	(2,494)
Share-based compensation	10,035	8,821
Excess tax benefit related to share-based payment arrangements	(3,300)	(1,800)
Change in		
Accounts receivable	(5,517)	(31,852)
Inventories	6,580	(19,790)
Trade accounts payable	(1,203)	7,085
Salaries and incentives	(6,675)	(6,420)
Retirement benefits and deferred compensation	746	5,400
Other accrued liabilities	(781)	6,327
Other	1,471	5,281
<b>Net cash provided by operating activities</b>	<b>132,001</b>	<b>108,770</b>
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment additions	(13,780)	(17,334)
Proceeds from sale of property, plant and equipment	212	211
Acquisition of businesses, net of cash acquired	(240,068)	(2,139)
Investment in businesses held separate	(426,813)	-
Investment in life insurance	-	(1,499)
Capitalized software and other intangible asset additions	(2,328)	(534)
<b>Net cash used in investing activities</b>	<b>(682,777)</b>	<b>(21,295)</b>
<b>Cash Flows From Financing Activities</b>		
Borrowings on short-term lines of credit	11,465	15,550
Payments on short-term lines of credit	(12,581)	(15,737)
Borrowings on long-term notes and line of credit		