UNITED STATES

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1999 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. 001-9249

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.)

4050 Olson Memorial Highway

Golden Valley, Minnesota 55422-2332
(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

As of March 3, 2000, 20,494,563 Common Stock were outstanding.

Indicate by a 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 X 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 [ ]

The aggregate market value of approximately 17,675,339 shares held by non-affiliates of the registrant was approximately $542 million on March 3, 2000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 2, 2000, are incorporated by reference into Part III, as specifically set forth in said Part III.

GRACO INC.

INDEX TO ANNUAL REPORT

ON FORM 10-K

Part III

Part IV

NOTE: Certain exhibits listed in the Index to Exhibits beginning on page 32, and filed with the Securities and Exchange Commission, have been omitted. Copies of such exhibits may be obtained upon written request directed to:

Treasurer
Graco Inc.
P.O. Box 1441
Minneapolis, Minnesota
55440-1441

Part I

Item 1. Business

General Information

Graco Inc. ("Graco" or "the Company") supplies technology and expertise for the management of fluids in both industrial/automotive and commercial settings. The Company helps customers solve difficult manufacturing problems, increase productivity, improve quality, conserve energy, save expensive material, control environmental emissions and reduce labor costs. Graco is the successor to Gray Company, Inc., which was incorporated in 1926 as a manufacturer of automobile lubrication equipment, and became a public company in 1969.

Based in Minneapolis, Minnesota, Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. It designs, manufactures and markets systems, products and technology to move, measure, control, dispense and spray a wide variety of fluids and viscous materials.

It is Graco's strategic objective to be the highest quality, lowest cost, most responsive supplier in the world for its principal products. In working to achieve its goal to be a world-class manufacturer, Graco has organized its manufacturing operations around product focused factories which contain product-based cells. The Company continues to refine these factories as new products are introduced and new equipment is purchased with the ultimate goal of creating factories which function independently.

Operating Segment Information

Graco's businesses are classified by management into three primary operating segments: (1) Industrial/Automotive Equipment, (2) Contractor Equipment, and (3) Lubrication Equipment. Financial information concerning these operating segments is set forth in Part II, Item 7, at page 10.

Industrial/Automotive Equipment

Graco's Industrial/Automotive Equipment segment designs and markets fluid application systems, primarily for paints, coatings, sealants and adhesives. The markets served include automotive assembly and components plants, wood products, rail, marine, aerospace, farm and construction equipment, truck, bus and recreational vehicles and approximately thirty other industries.

Worldwide, Industrial/Automotive Equipment is sold through general and specialized distribution and integrators as well as directly to automotive assembly plants. Distributors promote and sell the equipment, provide expertise to customers in its application, and offer integration capabilities, on-site service and technical support.

Products for the industrial/automotive markets are manufactured by product focused factories in Minneapolis and Rogers, Minnesota, Sioux Falls, South Dakota and Bielefeld, Germany. Assembly of certain products for the European market is performed in Maasmechelen, Belgium.

Recent Developments. Graco continues to develop its strategy of serving the automotive market through the sale of pre-engineered packages and modules sold directly to automotive assembly plants and through independent distributors, integrators and robot companies. Specialized automotive marketing personnel are responsible for identifying and developing new products for automotive plants and an experienced specialized sales force serves the unique needs of integrators, robotic companies as well as automotive assembly plants.

In the industrial market, Graco is focusing its product design and marketing efforts on four key product areas: sealants and adhesives, air-operated diaphragm pumps, finishing and protective coatings. A major driver of product development in the industrial/automotive area is the need to reduce the emission of volatile organic compounds ("VOCs") from coatings during the application process in order to meet environmental regulations. The industrial sales force delivers products to customers in over thirty industries, with significant efforts being devoted to wood products, rail, marine, aerospace, farm and construction equipment, truck, bus and recreational vehicles. In the international arena, Graco is developing products and expanding its specialized distribution to achieve maximum coverage in these industries.

In 1999, Graco introduced PrecisionSwirl(TM), an electric orbital applicator used to produce a variety of open and closed loop patterns for sealants and adhesives. The technology improves the material's performance and production characteristics while reducing material usage and overspray. When used with Graco's PrecisionFlo(TM) or PrecisionFlo Plus dispensing units, PrecisionSwirl effectively minimizes bead variations and decreases material usage, manual touch-up and rework, thereby lowering manufacturing costs and improving product quality and reliability.

The PrecisionMix(R) II was introduced for use in the industrial/automotive markets in the summer of 1999. PrecisionMix II, an advance over the PrecisionMix I, is an electronically-controlled plural component proportioning controller with a global platform which makes it highly configurable by end users in all electrical environments worldwide. It offers end users the ability to perform color changes quickly and to use the equipment in robotic applications.

In June of 1999, Graco acquired certain assets of Bollhoff Verfahrenstechnik, located in Bielefeld, Germany. Its principal products include piston pumps, diaphragm pumps, two-component proportioning equipment and applicators used in the automotive and industrial markets, primarily in Europe. This acquisition added market share for Graco's European operations, especially in Germany.

The Falcon(TM), a compact entry-level sprayer for medium-sized wood finishing customers, was introduced in August 1999. The Falcon package contains the Alpha(TM), an ergonomically-designed air-assisted airless spray gun, and an all-stainless steel lower pump. It provides excellent finish quality with high transfer efficiency.

Products. Products offered by the Industrial/Automotive segment include high and low pressure air-powered, electric, and hydraulic pumps that pressurize and transfer paints, stains, chemicals, sealants, adhesives, food, and other viscous materials through various application devices, including air, airless, air-airless, electrostatic, and high-volume-low-pressure ("HVLP") spray guns. Fluid pressures ranging from 20 to more than 6,000 pounds per square inch and flow rates from under 1 gallon to 275 gallons per minute are available. Sealant and adhesive, paint circulating and plural component packages and modules and a complete line of parts and accessories are also offered.

Contractor Equipment

Graco's Contractor Equipment segment designs and markets sprayers for the application of paint and other architectural coatings, and for the high-pressure cleaning of equipment and structures. The segment offers its equipment to distributors selling to contractors in the painting, roofing, texture, corrosion control and line striping markets.

The equipment is sold primarily through retail stores which also sell paint and other coatings, and secondarily through general equipment distributors. In 1999, sales to The Sherwin-Williams Company, a paint manufacturer and retailer in the Contractor segment, totaled 11% of the Company's consolidated sales. Manufacturers' representatives are used to sell the Company's equipment to the rental market.

Products for the contractor equipment markets are manufactured by product focused factories in Rogers, Minnesota, and Sioux Falls, South Dakota. Assembly of certain products for the European market is performed in Maasmechelen, Belgium.

Recent Developments. The Magnum(TM) line of airless sprayers and accessories for the entry-level painting contractor and remodeler will be introduced in early 2000 and will be distributed through Home Depot(R) stores throughout the United States and Canada as well as retail paint stores.

The Mark V, a unit that can spray either texture coatings or paint by changing the spray gun, was introduced during 1999. The LineLazer II(TM) gas-operated line stripers introduced in 1999 offer enhanced stability for straighter, more consistent lines. A new reversible tip for airless spray guns, the RAC(TM) 5 Reverse-A-Clean(R) Switch Tip(TM) was launched in 1999. This new tip comes with a Handtite(TM) TipGuard which permits installation without tools and a single seal for all fluids, making assembly and clean up easier.

Products. The segment's primary product lines are airless paint sprayers and associated accessories such as spray guns, filters, valves and tips, pressure washers and specialized spraying equipment for the application of roofing materials, texture coatings and traffic paint. Fluid pressures ranging from 5 to more than 4,000 pounds per square inch and flow rates up to 4 gallons per minute are available. Pumps are electric, hydraulic and air-powered models in addition to gasoline-powered models, increasing the flexibility of contractors in areas where electricity is not readily available. High-volume-low-pressure ("HVLP") equipment has become increasingly popular as regulation of volatile emissions has increased. Replacement and maintenance parts, such as packings, seals and hoses, which must be replaced periodically in order to maintain efficiency and prevent loss of material, are also offered for sale.

Lubrication Equipment

The Lubrication Equipment segment designs and markets products for the lubrication and maintenance of vehicles and other equipment. The markets for the segment's products include fast oil change facilities, service garages, fleet service centers, automobile dealerships and the mining industry. The purchase of vehicle lubrication equipment is often funded by major oil companies for their customers as a marketing tool.

Products are distributed primarily through independent distributors worldwide, which are serviced by a network of independent sales representatives. The number and quality of distributors serving the mining industry in North America and Australia has increased significantly in recent years.

Recent Developments. A key product line being marketed to the mining industry is a heavy duty on-board automatic lubrication system for haul trucks. The Graco system automatically dispenses grease to critical vehicle components at timed intervals, thereby reducing downtime and improving productivity. The system includes externally adjustable high pressure injectors with visual operation indicators, a compact reliable solid state full-function timer, and a large capacity reservoir, vent valve and Fireball(TM) pump module.

In 1999, the OilAce(TM) Pressurized Oil Drain was introduced. With a 24 gallon capacity, this product collects waste oil as it is drained from a vehicle. When full, standard shop compressed air can be used to evacuate the waste oil into a central holding tank for disposal. The 250 Series Hose Reel, a new line of hose reels targeted at fast oil change facilities, service garages, automobile dealerships and pump tank packages, with heavy duty positive latching mechanisms and springs, was launched during the year.

Products. The Lubrication Equipment segment offers a full line of lubrication pumps (air and hydraulic-powered), meters, fluid and air pressure gauges, fluid management systems, hose reels and dispense valves. The segment sells a fluid management system for the vehicle services market, which tracks and records inventories of lubricants and the quantities dispensed. It continues to develop its capability to service the mining industry with automatic lubrication systems. A complete line of parts and accessories is also offered.

Products for the Lubrication Equipment markets are manufactured by product focused factories in Minneapolis, Minnesota.

Marketing and Distribution

Graco's operations are organized to sell its full line of products in each of the major geographic markets: the Americas (North, Central and South America), Europe (including the Middle East and Africa), and Asia Pacific. The Industrial/Automotive Equipment segment, Contractor Equipment segment, and the Lubrication Equipment segment provide worldwide marketing direction and product design and application assistance to each of these geographic markets.

Graco sells its equipment worldwide principally through independent distributors. In Japan, Korea, and Europe, Graco equipment is sold to distribution through sales subsidiaries. Manufacturers' representatives are used in the Lubrication Equipment segment and in the Contractor Equipment segment for sales to the rental market.

In 1999, Graco's net sales in the Americas were $308,144,000 or approximately 70 percent of the Company's consolidated net sales; in Europe net sales were $88,470,000 or approximately 20 percent; and in the Asia Pacific Region, net sales were $45,860,000 approximately 10 percent.

Consolidated backlog at December 31, 1999, was $21 million compared to $13 million at the end of 1998.

Research, Product Development and Technical Services

Graco's research, development and engineering activities are organized by operating segment. The engineering group in each segment focuses on new product design, product improvements, applied engineering and strategic technologies for its specific customer base. During 1999, the marketing groups for both the Industrial/Automotive and the Lubrication segments moved into the same facility with their respective engineering groups, increasing the opportunities for collaboration. It is one of Graco's goals to generate 30 percent of each year's sales from products introduced in the prior three years. All major research and development activities are conducted in facilities located in Minneapolis, and Rogers, Minnesota. Total research and development expenditures were $19,688,000, $18,213,000 and $17,817,000 for 1999, 1998 and 1997.

Intellectual Property

Graco owns a number of patents and has patent applications pending both in the United States and in foreign countries, licenses its patents to others, and is licensed under patents owned by others. In the opinion of the Company, its business is not materially dependent upon any one or more of these patents or licenses. The Company also owns a number of trademarks in the United States and foreign countries, including the registered trademarks for "GRACO," several forms of a capital "G" and various product trademarks which are material to the business of the Company inasmuch as they identify Graco and its products to its customers.

Competition

Graco faces substantial competition in all of its markets. The nature and extent of this competition varies in different markets due to the diversity of the Company's products. Product quality, reliability, design, customer support and service, specialized engineering and pricing are the major competitive factors. Although no competitor duplicates all of Graco's products, some competitors are larger than the Company, both in terms of sales of directly competing products and in terms of total sales and financial resources. In foreign markets, the Company faces indigenous competitors with different cost structures and expectations of profitability. Graco believes it is one of the world's leading producers of high-quality specialized fluid management equipment. It is impossible, because of the absence of reliable industry-wide third-party data, to determine its relative market position.

Environmental Protection

During the fiscal year ended December 31, 1999, the amounts incurred to comply with federal, state and local legislation pertaining to environmental standards did not have a material effect upon the capital expenditures or earnings of the Company.

Employees

As of December 31, 1999, the Company employed approximately 1,980 persons on a full-time basis. Of this total, approximately 359 were employees based outside the United States, and 816 were hourly factory workers in the United States.

Item 2. Properties

As of December 31, 1999, the Company's principal operations that occupy more than 10,000 square feet were conducted in the following facilities:

Type of Facility	Location	Gross Square Footage
Owned		
Distribution/Manufacturing/Office	Rogers, Minnesota	333,000
Manufacturing/Office	Minneapolis, Minnesota	242,300
Manufacturing/Office	Minneapolis, Minnesota	202,300
Research & Development/Office	Minneapolis, Minnesota	138,700
Assembly/European Headquarters/Warehouse	Maasmechelen, Belgium	75,175
Corporate Headquarters	Golden Valley, Minnesota	73,800
Manufacturing/Office	Sioux Falls, South Dakota	55,100
Leased		
Manufacturing/Office	Bielefeld, Germany	69,400
Office/Warehouse	Yokohama, Japan (2 facilities)	32,837
Office/Warehouse	Gwangju-Gun, Korea	10,549
Office	Plymouth, Michigan	21,000

A 106,000 square foot building in Plymouth, Michigan and a 21,000 square foot building in Los Angeles, California were sold during second quarter 1999.

The Company leases space for liaison offices in China.

Graco's facilities are in satisfactory condition, suitable for their respective uses and are sufficient and adequate to meet current needs. Manufacturing capacity met business demand in 1999. Production requirements in the immediate future are expected to be met through existing production capabilities, efficiency and productivity improvements and the use of available subcontract services. Management is currently evaluating options for future facility needs due to the planned growth of the business.

Item 3. Legal Proceedings

The Company is engaged in routine litigation incident to its business, which management believes will not have a material adverse effect upon its operations or consolidated financial position.

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

No issues were submitted to a vote of security holders during the fourth quarter of 1999.

Executive Officers of the Company

The following are all the executive officers of the Company as of March 3, 2000.

George Aristides, 64, was elected Chief Executive Officer effective January 3, 2000. From March 1, 1999 to December 29, 1999, he was Vice Chairman. From January 1, 1996 to February 28, 1999 he was Chief Executive Officer. From 1993 to 1997 he was President. From 1993 to 1996 he was President and Chief Operating Officer. He joined the Company in 1973 as Corporate Controller and became Vice President and Controller in 1980. He has served as a director of the Company since 1993.

James A. Graner, 55, was elected Vice President and Controller in February 1994. He became Treasurer in May 1993. Prior to becoming Assistant Treasurer in 1988, he held various managerial positions in the treasury, accounting and information systems departments. He joined Graco in 1974.

Dale D. Johnson, 45, was elected President and Chief Operating Officer effective January 14, 2000. 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.

D. Christian Koch, 35, was appointed Vice President, Lubrication Equipment Division effective February 15, 2000. From August 1999 to February 2000, he was the Director, Industrial Global Sales and Marketing. From December 1998 to August 1999 he was Director, Lubrication Marketing. Prior to joining the Company in December 1998, he was employed by H.B. Fuller Company, where he held various positions, including President and Division Manager of TEC Incorporated and Vice President and Business Unit Manager of Foster Products Corporation. (Mr. Koch is not related to David A. Koch, Chairman of the Board.)

David M. Lowe, 44, became Vice President and General Manager, European Operations effective September 1, 1999. Mr. Lowe was Vice President, Lubrication Equipment Division from December 1996 to September 1999. From February 1995 to December 1996 he was Treasurer. Prior to joining the Company in 1995, he was employed by Ecolab Inc., where he held various positions in the Treasury Department, including Manager, Corporate Finance; Director, Corporate Finance; and Director, Corporate Development.

Robert M. Mattison, 52, was first elected Vice President, General Counsel and Secretary, in January 1992, a position which he holds today.

Patrick J. McHale, 38, was appointed Vice President, Contractor Equipment Division effective February 15, 2000. Mr. McHale was Vice President, Lubrication

Equipment Division from September 1999 to February 2000. He was Contractor Equipment Manufacturing - Distribution Operations Manager from February 1998 to September 1999. From March 1997 to February 1998 he was Director of Michigan Operations. From February 1996 to March 1997 he was Contractor Equipment Manufacturing Operations Manager and from January 1994 to February 1996 he was the Sioux Falls Plant Manager. Mr. McHale joined the Company in December 1989.

Charles L. Rescorla, 48, is Vice President, Manufacturing and Distribution Operations, a position to which he was first elected on May 5, 1998. Mr. Rescorla was previously appointed to that position on January 1, 1995. Prior to becoming the Director of Manufacturing in March 1994, he was the Director of Engineering, Industrial/Automotive Division, a position which he assumed in 1988 when he joined the Company.

Mark W. Sheahan, 35, was elected Vice President and Treasurer on December 11, 1998. Effective December 17, 1996, he was elected Treasurer. Prior to joining the Company as Treasury Operations Manager in 1995, he was a Senior Manager with KPMG Peat Marwick LLP.

Fred A. Sutter, 39, was appointed Vice President, Asia Pacific and Latin America effective March 1, 1999. From March 1995 to February 28, 1999 he was Director of Industrial Marketing. Prior to joining the Company in 1995, he held various positions with Fisher-Rosemount, most recently as Director of Marketing.

The Board of Directors elected Messrs. Aristides, Graner, Lowe, Mattison, Rescorla and Sheahan on May 4, 1999, all to hold office until the next annual meeting of directors or until their successors are elected and qualify. Mr. Aristides resigned as Vice Chairman effective December 29, 1999, and was elected Chief Executive Officer on January 3, 2000. Mr. Johnson was elected to the position of President and Chief Operating Officer on January 14, 2000.

PART II

Item 5. Market for the Company's Common Stock and Related Stockholder Matters

Graco Common Stock. Graco common stock is traded on the New York Stock Exchange under the ticker symbol "GGG." As of March 3, 2000, there were 20,494,563 shares outstanding and 6,416 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 4,159 beneficial owners.

Quarterly Financial Information.
(In thousands, except per share amounts)

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$103,241	$114,703	$110,076	$114,454
Gross profit	52,857	59,619	57,510	61,149
Net earnings	11,201	17,961	15,043	15,136
Per common share:				
Basic net earnings	0.56	0.89	0.74	0.74
Diluted net earnings	0.54	0.86	0.72	0.72
Dividends declared	0.11	0.11	0.11	0.14
Stock price (per share)				
High	$ 30.25	$ 32.63	$ 34.88	$ 35.88
Low	20.00	21.50	28.50	31.94
Close*	21.44	29.31	33.06	35.88
Volume (# of shares)	2,859	2,997	2,335	2,528

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$105,717	$115,153	$106,202	$105,113
Gross profit	51,945	58,087	53,981	55,388
Net earnings	8,947	12,765	11,073	14,478
Per common share:				
Basic net earnings	0.35	0.49	0.54	0.72
Diluted net earnings	0.34	0.48	0.53	0.70
Dividends declared	0.11	0.11	0.11	0.11
Stock price (per share)				
High	$ 31.19	$ 36.50	$ 35.31	$ 30.13
Low	22.83	29.25	24.13	19.88
Close*	30.31	34.88	23.25	29.50
Volume (# of shares)	2,499	3,478	3,350	2,756

*As of the last trading day of the calendar quarter.

Item 6. Selected Financial Data

Graco Inc. & Subsidiaries (In thousands, except per share amounts)	1999	1998	1997	1996	1995
Net sales	$442,474	$432,185	$413,897	$391,756	$386,314
Net earnings	59,341	47,263	44,716	36,169	27,706
Per common share:					
Basic net earnings	$ 2.93	$ 2.06	$ 1.75	$ 1.40	$ 1.07

Diluted net earnings	2.84	2.01	1.71	1.38	1.06
Total assets	$236,033	$233,702	$264,532	$247,814	$217,833
Long-term debt (including current portion)	66,910	115,739	7,959	9,920	12,009
Cash dividends declared per common share	$ 0.44	$ 0.44	$ 0.38	$ 0.33	$ 0.30

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S REVIEW AND DISCUSSION

Graco's net earnings of $59.3 million in 1999 are 25.5 percent higher than the $47.3 million earned in 1998 and are 32.7 percent higher than the $44.7 million recorded in 1997. The increases in 1999 and 1998 are primarily due to enhanced profit margins resulting from many factors, including exiting the custom systems business, closing facilities, improved manufacturing efficiencies and price increases.

The table below reflects the percentage relationship between income and expense items included in the Consolidated Statements of Earnings for the three fiscal years and the percentage changes in those items for such years.

	Revenue & Expense Item As a Percentage of Net Sales			Revenue & Expense Item Percentage Increase (Decrease)	
	1999	1998	1997	99/98	98/97
Net Sales	100.0	100.0	100.0	2	4
Cost of products sold	47.8	49.2	51.0	(1)	1
Product development	4.4	4.2	4.3	8	2
Selling, marketing and distribution	18.1	19.2	21.1	(4)	(5)
General and administrative	8.7	9.6	7.8	(7)	28
Operating profit	21.0	17.8	15.8	21	17
Interest expense	1.6	1.3	0.2	32	*
Other expense (income), net	(0.6)	--	0.3	*	*
Earnings before income taxes	20.0	16.5	15.3	24	12
Income taxes	6.6	5.6	4.5	22	28
Net Earnings	13.4	10.9	10.8	26	6

* Not a meaningful figure.

NET SALES

Worldwide net sales in 1999 reached a record $442.5 million, a 2.4 percent increase over 1998 sales of $432.2 million. Foreign currency translations had no net impact on reported sales in 1999 when compared to 1998. By segment, 1999 net sales versus 1998 increased in the Contractor Equipment segment by 11.6 percent, while sales in the Industrial/Automotive Equipment and Lubrication Equipment segments were 3.3 percent and 1.1 percent lower, respectively. The Company's decision to exit the custom-engineered systems business reduced Industrial/Automotive Equipment sales.

Geographically, sales outside of the Americas represented 30.4 percent of total sales in 1999, compared to 30.6 percent in 1998. Net sales gains in Asia Pacific were offset by lower sales in Europe. In the Americas, 1999 sales increased 2.7 percent for the year, primarily due to strong sales in the Company's Contractor Equipment business segment, offset by sales declines in the Industrial/Automotive Equipment and Lubrication Equipment business segments. In Europe, local volume declined 1.6 percent and reported net sales were 5.0 percent lower than 1998 after unfavorable currency translations. In the Asia Pacific Region, local volume increased 7.6 percent from 1998 and reported net sales were 17.0 percent higher than 1998 after favorable currency translations.

Worldwide net sales in 1998 were $432.2 million, a 4 percent increase over 1997. Advances in local volume and price increases accounted for a 7 percent increase, but the impact of the strong U.S. dollar on currency translations reduced reported sales by 3 percent. The 1998 increase was due to higher sales in all regions except Asia Pacific. Net sales in the Americas, which accounted for 69.4 percent of net sales, advanced 8 percent. Graco's sales outside the Americas accounted for 30.6 percent of total 1998 sales versus 33.2 percent of total sales in 1997.

Consolidated backlog at December 31, 1999 was $21 million compared to $13 million at the end of 1998 and $22 million at the end of 1997. The increase in 1999 backlog versus 1998 was due in part to orders for a new line of Contractor Equipment products to be shipped in the first quarter of 2000. The decline in 1998 backlog versus 1997 was primarily due to the Company's decision to exit the custom-engineered systems business.

(In thousands)	1999	1998	1997	% Increase (Decrease) 99/98	98/97
Segment Sales:					
Industrial/Automotive Equipment	$224,606	$231,924	$226,114	(3)	3
Contractor Equipment	174,632	156,535	142,400	12	10
Lubrication Equipment	43,236	43,726	45,383	(1)	(4)
Consolidated	$442,474	$432,185	$413,897	2	4
Geographic Sales:					
Americas	$308,145	$299,799	$276,410	3	8
Europe	88,470	93,114	82,028	(5)	14
Asia Pacific	45,859	39,272	55,459	17	(29)
Consolidated	$442,474	$432,185	$413,897	2	4

GROSS MARGINS

Gross margins, expressed as a percentage of sales, were 52.2 percent in 1999, compared with 50.8 percent in 1998. The mix of products sold, pricing, improved manufacturing efficiencies, exiting the custom-engineered systems business, and slightly higher sales all contributed to the enhanced gross margin. 1998 gross margins of 50.8 percent were up from 1997 gross margins of 49.0 percent. This was a result of several factors, including the mix of products sold, improved manufacturing efficiencies and higher sales.

OPERATING EXPENSES

Overall, operating expenses, expressed as a percentage of net sales, decreased 3.2 percentage points in 1999 versus 1998. In 1999, product development expenses increased versus 1998, to $19.7 million. In 1998, product development expenses of $18.2 million were higher than the $17.8 million of product development expenses in 1997. Graco continues to be committed to expanding its sales by making significant investments in product development. Selling, marketing, distribution and general and administrative expenses, expressed as a percentage of sales, were 26.7 percent in 1999 and 28.8 percent in 1998. In 1999, overall selling, marketing, distribution, and administrative expenses were lower than in 1998 due to the benefits of prior year corporate expense reduction initiatives, lower information systems expenditures, and reduced non-recurring charges. In all segments, operating expenses decreased as a percentage of net sales. In 1998, selling, marketing, distribution and general and administrative expenses, expressed as a percentage of sales, were 28.8 percent, virtually the same as in 1997. In 1998, overall selling expenses were lower than in 1997 due to corporate expense reduction initiatives. Administrative expenses were higher than 1997 levels due to significant investments in information systems and non-recurring charges.

DIVISIONAL OPERATING PROFITS

Increases in 1999 operating profits are the result of several factors, including corporate expense reduction initiatives, improved manufacturing efficiencies, and higher net sales in Contractor Equipment. Operating profits for Industrial/Automotive Equipment increased by 13.1 percent versus 1998 and by 3.3 percentage points as a percentage of net sales primarily as a result of exiting the systems business. Contractor Equipment operating profits increased by 17.4 percent versus 1998 and by 1.2 percentage points as a percentage of net sales as increased sales more than offset increased product development, marketing and sales-related expenses. Lubrication Equipment operating profits increased by 17.4 percent versus 1998 and by 3.8 percentage points as a percentage of sales.

FOREIGN CURRENCY EFFECTS

Foreign currency translations decreased earnings before income taxes by $1.3 million in 1999 when compared to 1998 and $4.5 million in 1998 when compared to 1997. Since approximately 31 percent of the Company's sales and 10 percent of its product costs are in currencies other than the U.S. dollar, the strong U.S. dollar decreased the Company's profits. Gains and losses attributable to re-measuring the financial statements of all non-U.S. subsidiaries and the gains and losses on the forward and option contracts used to hedge these exposures, which are non-speculative, are reported in Other expense (income).

OTHER EXPENSE (INCOME)

In 1999, interest expense, net of interest income, increased to $7.0 million due to the full-year impact of borrowing incurred to fund the July 2, 1998 repurchase of 5.8 million shares of Graco Inc. common stock from the Trust under the Will of Clarissa L. Gray. In 1998, interest expense of $5.3 million was higher than the $0.9 million of interest expense in 1997 due to the incremental borrowings associated with the above-referenced share repurchase.

Other income, net of other expense, was $2.6 million in 1999 compared to other expense in 1998 of $0.2 million and other income in 1997 of $1.1 million. Other income (expense) includes, among other things, the foreign currency translation gains and losses discussed above, $2.9 million of net gains on the sale of assets in 1999, a $1.2 million gain from the sale of real estate in 1997, and a $0.8 million favorable settlement of a legal dispute in 1997.

INCOME TAXES

The Company's net effective tax rate of 33 percent in 1999 is 2 percentage points lower than the 1999 U.S. federal tax rate of 35 percent. The decrease from the 34 percent rate in 1998 is due primarily to foreign earnings being taxed at lower effective rates. The 1998 effective tax rate of 34 percent was higher than the 1997 rate of 30 percent principally due to foreign earnings being taxed at higher effective rates and the full utilization in 1997 of tax benefits associated with previously reserved foreign subsidiary net operating losses. Reconciliations of the U.S. federal tax rate to the effective rates for 1999, 1998 and 1997 are included in Note E to the Consolidated Financial Statements.

ACCOUNTING CHANGES

The one-month reporting lag of the Company's European subsidiaries was eliminated in 1998 and resulted in Europe's December 1997 net earnings being recorded as an adjustment to equity.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As discussed under Foreign Currency Effects, Graco sells and purchases products and services in currencies other than the U.S. dollar. Consequently, the Company is subject to profitability risk arising from exchange rate movements.

Graco uses foreign exchange contracts to reduce risks associated with foreign currency net balance sheet positions. These contracts typically have maturities of 90 days or less, and gains or losses from changes in market value of these contracts offset foreign exchange gains and losses on the underlying balance sheet items. At December 31, 1999, the foreign currencies to which the Company had the most significant balance sheet exchange rate exposure were the European euro, Canadian dollar, Japanese yen, British pound, and Korean won. The Company does not use derivative financial instruments for trading purposes.

To evaluate its currency exchange rate risks on its foreign exchange contracts, the Company uses sensitivity analysis, which measures the impact on earnings of hypothetical changes in the value of foreign currencies to which it has exposure. At December 31, 1999, due to the short-term nature of the Company's hedging instruments, reasonably likely fluctuations in foreign currency exchange rates in the near term would not materially affect Graco's consolidated operating results, financial position or cash flows.

The Company utilizes interest rate swaps to manage its exposure to fluctuations in earnings due to changes in interest rates on its variable rate debt. At December 31, 1999, a 50 basis point increase or decrease in the market interest rates, principally LIBOR, would not materially increase or decrease interest expense or cash flows.

For further discussion of the Company's foreign currency and interest rate hedging strategy and position, see Note A to the Consolidated Financial Statements.

YEAR 2000

The Year 2000 issue is the result of computer programs that were written using two digits rather than four to define the applicable year, which could cause potential failure or miscalculation in date-sensitive software that recognized "00" as 1900 rather than 2000. The Company completed its program to insure that all technology systems and non-information technology systems are Year 2000 compliant. The Company has not experienced any significant Year 2000 outages nor is it aware of any Year 2000 issues with suppliers, customers or its products that may have a material adverse impact on the Company's results.

OUTLOOK

Our view of 2000 is that a recovery in most international markets is underway, except for Japan and Latin America, which remain weak. North America continues to be strong, but we expect a slowing in 2000 versus what we have experienced in the past three years. Overall, Graco is well positioned to improve results by leveraging its strengths--our committed employees, our strong distribution partners, our cumulative manufacturing knowledge, our ability to develop new products, and our careful attention to expenses and the balance sheet.

Our Contractor Equipment Division introduced a new line of paint sprayers and accessories for a new market. These new units are designed to meet the needs of small painting contractors and others that do not paint exclusively but will significantly benefit from using airless spray. We released the new line for sale in the first quarter of 2000 and expect meaningful incremental revenues and profits.

Graco has changed a number of business processes in recent years that have improved its effectiveness in the markets it serves, and has increased the Company's operating margins and net profits. These efforts will continue to favorably impact margins and profits in 2000. Graco has achieved strong returns on its pension assets in recent years. We are expecting that these strong returns will have a favorable impact on earnings in 2000.

We anticipate that the continued strength of the U.S. dollar relative to other major currencies will have a slightly negative impact on operating margins in 2000.

SAFE HARBOR CAUTIONARY STATEMENT

The information in this Annual Report on Form 10-K contains "forward-looking statements" about the Company's expectations of the future, which are subject to certain risk factors that could cause actual results to differ materially from those expectations. These factors include economic conditions in the United

States and other major world economies, currency exchange fluctuations, the results of the efforts of the Company, its suppliers and customers to avoid any adverse effect as a result of the Year 2000 issue, and additional factors identified in Exhibit 99 to the Company's Annual Report on Form 10-K for fiscal year 1999.

SHAREHOLDER ACTIONS

Periodically, the Company initiates measures aimed at enhancing shareholder value, broadening common stock ownership, improving the liquidity of its common shares and effectively managing its cash balances. A summary of recent actions follows:

- a 27 percent increase in the regular dividend to be paid in 2000;
- repurchase of 5.8 million shares in 1998 from Graco's largest shareholder, the Trust under the Will of Clarissa L. Gray;
- three-for-two stock splits in 1998 and 1996; and
- an 18 percent increase in the regular dividend in 1997

LIQUIDITY AND SOURCES OF CAPITAL

The following table highlights several key measures of asset performance.

(In thousands)	1999	1998
Cash and cash equivalents	$ 6,588	$ 3,555
Working capital	$59,726	$48,354
Current ratio	1.8	1.6
Average days receivables outstanding	65	67
Inventory turnover	5.6	6.3

In 1999, working capital increased $11.4 million to $59.7 million. As a result of strong cash flow from operations, as well as cash generated from the sale of facilities, the Company reduced its total debt by $48.7 million in 1999. Total debt at the end of 1999 was $81.6 million as compared to $130.3 million at the end of 1998. Receivables decreased $0.5 million in 1999 compared with the same period in 1998. Inventories increased $3.6 million in 1999 primarily as a result of a build-up in inventory in conjunction with the February 2000 introduction of the Contractor Equipment Magnum line.

Cash provided by operations was $75.8 million in 1999, versus $77.1 million in 1998 and $36.3 million in 1997. Significant uses of cash included the retirement of debt, the acquisition of certain assets of Bollhoff Verfahrenstechnik, capital expenditures, taxes, dividends and share repurchases. In 1998, additional cash needs were funded by bank borrowings. Significant uses of cash in 1998 included the repurchase of 5.8 million shares of Graco Inc. common stock for $191 million and capital expenditures and dividends in 1997.

At December 31, 1999, Graco had various lines of credit totaling $158 million, of which $80 million was unused. The Company believes that the combination of present capital resources, internally generated funds and unused financing sources are more than adequate to meet cash requirements for 2000.

Item 8. Financial Statements and Supplementary Data

RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the accuracy, consistency, and integrity of the information presented in this Annual Report on Form 10-K. The consolidated financial statements and financial statement schedule have been prepared in accordance with generally accepted accounting principles and, where necessary, include estimates based upon management's informed judgment.

In meeting this responsibility, management believes that its comprehensive systems of internal control provide reasonable assurance that the Company's assets are safeguarded and transactions are executed and recorded by qualified personnel in accordance with approved procedures. Internal auditors periodically review these accounting and control systems. Deloitte & Touche LLP, independent certified public accountants, are retained to audit the consolidated financial statements, and express an opinion thereon. Their opinion is included below.

The Board of Directors pursues its oversight role through its Audit Committee. The Audit Committee, composed of directors who are not employees, meets twice a year with management, internal auditors, and Deloitte & Touche LLP to review the systems of internal control, accounting practices, financial reporting and the results of auditing activities.

INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors
Graco Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Graco Inc. and Subsidiaries (the Company) as of December 31, 1999 and December 25, 1998 and the related statements of earnings, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 1999, which includes the financial statement schedule listed in the Index at Item 14. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 1999 and December 25, 1998 and the results of operations, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles. 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.

/s/Deloitte & Touche LLP
Deloitte & Touche LLP
Minneapolis, Minnesota
January 24, 2000

Consolidated Statements of Earnings Graco Inc. and Subsidiaries

(In thousands, except per share amounts)	Years Ended December 31, 1999	December 25, 1998	December 26, 1997
Net Sales	$ 442,474	$ 432,185	$ 413,897
Cost of products sold	211,339	212,784	210,909
Gross Profit	231,135	219,401	202,988
Product development	19,688	18,213	17,817
Selling, marketing and distribution	79,922	83,169	87,479
General and administrative	38,334	41,146	32,219
Operating Earnings	93,191	76,873	65,473
Interest expense	7,016	5,319	866
Other expense (income), net	(2,666)	191	1,091
Earnings before Income Taxes	88,841	71,363	63,516
Income taxes	29,500	24,100	18,800
Net Earnings	$ 59,341	$ 47,263	$ 44,716
Basic Net Earnings per Common Share	$ 2.93	$ 2.06	$ 1.75
Diluted Net Earnings per Common Share	$ 2.84	$ 2.01	$ 1.71

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets Graco Inc. and Subsidiaries

(In thousands, except share amounts)	December 31, 1999	December 25, 1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,588	$ 3,555
Accounts receivable, less allowances of $4,500 and $4,400	79,696	80,146
Inventories	37,702	34,018
Deferred income taxes, net	12,357	12,384
Other current assets	1,646	1,217
Total current assets	137,989	131,320
Property, Plant and Equipment, net	86,493	96,366
Other Assets	11,551	6,016
Total Assets	$ 236,033	$ 233,702
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable to banks	$ 14,640	$ 14,560
Current portion of long-term debt	1,215	3,157
Trade accounts payable	13,500	11,965
Salaries, wages and commissions	12,832	14,025
Accrued insurance liabilities	10,332	10,809
Income taxes payable	2,323	5,134
Other current liabilities	23,421	23,316
Total current liabilities	78,263	82,966
Long-Term Debt, Less Current Portion	65,695	112,582
Retirement Benefits and Deferred Compensation	29,135	28,841
Commitments and Contingencies (Note K)		
Shareholders' Equity		
Common stock, $1 par value; 33,750,000 shares authorized; shares outstanding, 20,415,827 and 20,096,814 in 1999 and 1998	20,416	20,097
Additional paid-in capital	31,755	23,892
Retained earnings (deficit)	9,279	(35,878)
Other, net	1,490	1,202
Total shareholders' equity	62,940	9,313
Total liabilities and shareholders' equity	$ 236,033	$ 233,702

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows — Graco Inc. and Subsidiaries

(In thousands)	Years Ended December 31, 1999	December 25, 1998	December 26, 1997
Cash Flows from Operating Activities			
Net earnings	$ 59,341	$ 47,263	$ 44,716
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	14,701	13,736	13,494
Deferred income taxes	1,152	(593)	(358)
(Gain) loss on sale of fixed assets	(2,936)	(139)	199
Change in:			
Accounts receivable	2,097	6,293	(7,804)
Inventories	3,309	10,547	(3,860)
Trade accounts payable	1,551	(761)	(839)
Salaries, wages and commissions	(946)	(934)	437
Retirement benefits and deferred compensation	(2,112)	(3,255)	(626)
Other accrued liabilities	(1,257)	2,695	(8,549)
Other	921	2,257	(529)
Net cash provided by operating activities	75,821	77,109	36,281
Cash Flows from Investing Activities			
Property, plant and equipment additions	(9,140)	(11,962)	(20,109)
Proceeds from sale of property, plant and equipment	9,695	2,201	1,990
Acquisition of business	(18,388)	--	--
Net cash used in investing activities	(17,833)	(9,761)	(18,119)
Cash Flows from (for) Financing Activities			
Borrowing on notes payable and lines of credit	118,900	65,869	44,033
Payments on notes payable and lines of credit	(119,201)	(54,376)	(44,460)
Borrowings on long-term debt	25,001	180,985	--
Payments on long-term debt	(73,711)	(73,273)	(1,455)
Common stock issued	6,760	4,876	3,260
Retirement of common stock	(5,077)	(190,899)	(6,971)
Cash dividends paid	(8,927)	(10,701)	(9,608)
Net cash used in financing activities	(56,255)	(77,519)	(15,201)
Effect of exchange rate changes on cash	1,300	203	4,027
Net increase (decrease) in cash and cash equivalents	3,033	(9,968)	6,988
Cash and cash equivalents			
Beginning of year	3,555	13,523	6,535
End of year	$ 6,588	$ 3,555	$ 13,523

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY — Graco Inc. and Subsidiaries

(In thousands)	December 31, 1999	December 25, 1998	December 26, 1997
Common Stock			
Balance, beginning of year	$ 20,097	$ 25,553	$ 17,047
Stock split	--	--	8,516
Shares issued	466	344	250
Shares repurchased	(147)	(5,800)	(260)
Balance, end of year	20,416	20,097	25,553
Additional Paid-In Capital			
Balance, beginning of year	23,892	26,085	22,254
Shares issued	8,184	4,535	4,171
Shares repurchased	(321)	(6,728)	(340)
Balance, end of year	31,755	23,892	26,085
Retained Earnings (deficit)			
Balance, beginning of year	(35,878)	105,030	85,232
Net income	59,341	47,263	44,716
Dividends declared	(9,575)	(10,102)	(10,033)
Change in accounting period	--	300	--
Stock split	--	--	(8,516)
Shares repurchased	(4,609)	(178,369)	(6,369)
Balance, end of year	9,279	(35,878)	105,030
Foreign Currency Translation Adjustments			
Balance, beginning of year	1,817	1,817	1,817
Current period change	(327)	--	--
Balance, end of year	1,490	1,817	1,817
Unearned Compensation			
Balance, beginning of year	(615)	(976)	--
Current period change	615	361	(976)
Balance, end of year	--	(615)	(976)
Total Shareholders' Equity	$ 62,940	$ 9,313	$ 157,509

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — Graco Inc. and Subsidiaries

(In thousands)	Years Ended December 31, 1999	December 25, 1998	December 26, 1997
Net Earnings	$ 59,341	$ 47,263	$ 44,716
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(327)	--	--
Additional minimum pension liability adjustment	(90)	--	--
Comprehensive Income	$ 58,924	$ 47,263	$ 44,716

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GRACO Inc. & Subsidiaries

Years Ended December 31, 1999, December 25, 1998 and December 26, 1997

A. Summary of Significant Accounting Policies

Fiscal Year. The Company's fiscal year is 52 or 53 weeks, ending on the last Friday in December. The year ended December 31, 1999 was a 53 week year.

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, 1999, all subsidiaries are 100 percent owned. The Company's European subsidiaries' fiscal years ended December 31, 1999, December 25, 1998, and November 30, 1997. The European subsidiaries' one-month reporting lag was eliminated in 1998 with Europe's December 1997 net earnings being recorded as an adjustment to equity. All other subsidiaries outside North America have been included principally on the basis of fiscal years ended November 30 to effect more timely consolidated financial reporting. The U.S. dollar is the functional currency for all foreign subsidiaries except Graco Verfahrenstechnik (Germany) whose functional currency is the Euro.

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 and 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 all U.S. inventories. Inventories of foreign subsidiaries are valued using the first-in, first-out (FIFO) cost method.

Currency Hedges. The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts, borrowings in various currencies or options, in order to hedge its net monetary positions. Consistent with financial reporting requirements, these hedges and net monetary positions are recorded at current market values and the gains and losses are included in Other expense (income). 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 notional amounts (which may not be indicative of credit or market risk) of such contracts were (in U.S. dollars) $23 million and $18 million at December 31, 1999 and December 25, 1998.

Interest Rate Hedges. The Company utilizes interest rate swaps to convert all or a portion of its underlying debt from a variable rate to a fixed rate. Consistent with financial reporting requirements, the gains and losses on these agreements are included in interest expense. The notional amounts of such contracts were $52 million and $78 million at December 31, 1999 and December 25, 1998.

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	3 to 10 years
Manufacturing equipment and tooling	3 to 10 years
Office, warehouse and automotive equipment	3 to 10 years

Impairment of Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. There have been no write downs of any long-lived assets in the periods presented.

Revenue Recognition. The Company recognizes revenue when title passes, which is usually upon shipment.

Earnings Per Common Share. Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share is computed after giving effect to the exercise of all dilutive outstanding option grants.

Stock-Based Compensation. SFAS No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting. However, the statement allows the alternative of continued use of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," with pro forma disclosure of net income and earnings per share determined as if the fair value method had been applied in measuring compensation cost. The Company elected the continued use of APB No. 25 with pro forma disclosures.

Comprehensive Earnings. Comprehensive earnings is a measure of all nonowner changes in shareholders' equity and includes such items as net earnings, certain foreign currency translation items, minimum pension liability adjustments and changes in the value of available-for-sale securities.

Derivative Instruments and Hedging Activities. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued in June 1998 and establishes accounting and reporting standards for derivative instruments. The statement requires recognition of all derivatives as either assets or liabilities in the statement of financial position measured at fair value and will be effective in fiscal Year 2001. The Company has not yet completed its analysis of the impact SFAS No. 133 will have on its consolidated financial statements.

B. Segment Information

The Company has three reportable segments: Industrial/Automotive, Contractor and Lubrication. The Industrial/Automotive segment markets fluid systems and equipment for moving and applying paints, coatings, sealants, adhesives and other fluids for automotive and truck assembly and feeder plants as well as the wood products, rail, marine, aerospace, farm, construction, bus and recreational vehicles, and various other industries. The Contractor segment markets sprayers for architectural coatings for painting, roofing, texture, corrosion control and line striping and also high-pressure washers. The Lubrication segment markets products to move and dispense lubricants for fast oil change facilities, fleet service centers, automobile dealerships and mining. 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. Certain products are sold across segments, in which case the segment marketing the product is credited with the sale. Assets of the Company are not tracked along reportable segment lines.

Reportable segments are defined by product and type of customer. Segments are responsible for the sales, marketing and development of their products and market channel. This allows for focused marketing and efficient product development. The segments share common purchasing, manufacturing and distribution.

(In thousands) Reportable Segments	Industrial/ Automotive	Contractor	Lubrication	Total
1999				
Net sales to unaffiliated customers	$ 224,606	$ 174,632	$ 43,236	$442,474
Segment operating profit	48,143	41,736	10,307	100,186
1998				
Net sales to unaffiliated customers	231,924	156,535	43,726	432,185
Segment operating profit	42,973	35,836	8,829	87,638
1997				
Net sales to unaffiliated customers	226,114	142,400	45,383	413,897
Segment operating profit	36,146	27,947	5,603	69,696

Profit Reconciliation	1999	1998	1997
Total profit for reportable segments	$ 100,186	$ 87,638	$ 69,696
Unallocated corporate expenses	(6,995)	(10,765)	(4,223)
Total operating profit	$ 93,191	$ 76,873	$ 65,473

Geographic Information	1999	1998	1997
Sales			
United States	$ 280,758	$ 264,326	$ 243,197
Other countries	161,716	167,859	170,700
Total	$ 442,474	$ 432,185	$ 413,897
Long-lived assets			
United States	$ 80,259	$ 91,068	$ 94,599
Belgium	11,298	5,554	5,562
Other countries	5,972	4,569	6,147
Total	$ 97,529	$ 101,191	$ 106,308

Sales to Major Customers

In 1999, sales to a paint manufacturer and retailer in the Contractor segment totaled 11 percent of consolidated sales. No customer represented 10 percent or more of consolidated sales in 1998 or 1997.

C. Inventories

Major components of inventories for the last two years were as follows:

(In thousands)	1999	1998
Finished products and components	$25,748	$27,764
Products and components in various stages of completion	23,560	23,024
Raw materials	21,961	18,970
	71,269	69,758
Reduction to LIFO cost	(33,567)	(35,740)
Total	$37,702	$34,018

Inventories valued under the LIFO method were $22,990,000 and $22,874,000 for 1999 and 1998. All other inventory was valued on the FIFO method.

In 1999 and 1998, certain inventory quantities were reduced, 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 at December 31, 1999 were as follows:

(In thousands)	1999	1998
Land	$ 3,923	$ 5,343
Buildings and improvements	54,607	61,712
Manufacturing equipment	101,044	98,723
Office, warehouse and automotive equipment	22,196	31,010
Construction in progress	386	2,334
Total property, plant and equipment	182,156	199,122
Accumulated depreciation	(95,663)	(102,756)
Net property, plant and equipment	$ 86,493	$ 96,366

E. Income Taxes

Earnings before income tax expense consist of:

(In thousands)	1999	1998	1997
Domestic	$87,292	$61,709	$53,139
Foreign	1,549	9,654	10,377
Total	$88,841	$71,363	$63,516

Income tax expense consists of:

(In thousands)	1999	1998	1997
Current:			
Domestic:			
Federal	$23,081	$17,374	$11,729
State and local	2,323	1,600	1,709
Foreign	2,867	5,628	5,281
	$28,271	24,602	18,719
Deferred:			
Domestic	1,778	(423)	1,994
Foreign	(549)	(79)	(1,913)
	1,229	(502)	81
Total	$29,500	$24,100	$18,800

Income taxes paid were $31,272,000, $22,922,000 and $17,148,000 in 1999, 1998 and 1997.

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

	1999	1998	1997
Statutory tax rate	35%	35%	35%
Foreign earnings with (lower) higher tax rates	(2)	(1)	(3)
Reduction of valuation allowance	--	--	(3)
State taxes, net of federal effect	2	2	2
U.S. general business tax credits	(2)	(1)	(1)
Other	--	(1)	--
Effective tax rate	33%	34%	30%

Deferred income taxes are provided for all 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)	1999	1998
Inventory valuations	$ 3,365	$ 3,463
Insurance accruals	3,202	3,349
Vacation accruals	1,207	1,258
Bad debt reserves	1,247	1,243
Net operating loss carryforward	653	606
Other	2,683	2,465
Current	12,357	12,384
Unremitted earnings of consolidated foreign subsidiaries	(2,544)	(2,827)
Excess of tax over book depreciation	(6,597)	(6,237)
Postretirement benefits	5,363	5,230
Pension and deferred compensation	3,239	4,428
Other	1,054	597
Non-current	515	1,191
Net deferred tax assets	$12,872	$13,575

Net non-current deferred tax assets above are included in Other Assets. Total deferred tax assets were $22,319,000 and $22,993,000 and total deferred tax liabilities were $9,447,000 and $9,418,000 on December 31, 1999 and December 25, 1998.

F. Debt

(In thousands)	1999	1998
Reducing revolving credit facility, 6.96% at December 31, 1999	$63,834	$109,509
Industrial development refunding revenue bonds, 5.2% at December 31, 1999, payable through 2002 (property carried at $2,487 pledged as collateral)	2,000	3,000
Other	1,076	3,230
Total long-term debt	66,910	115,739
Less current portion	1,215	3,157
Long-term portion	$65,695	$112,582

Aggregate annual scheduled maturities of long-term debt for the next five years are as follows: 2000-$1,215,000; 2001-$1,310,000; 2002-$550,000; 2003-$63,834,000; 2004-$0. Interest paid on debt during 1999, 1998 and 1997 amounted to $6,843,000, $4,742,000 and $856,000. The fair value of the Company's long-term debt at December 31, 1999 and December 25, 1998 is not materially different than its recorded value.

In July 1998, the Company entered into a five-year $190 million reducing revolving credit facility (the "Revolver") with a syndicate of ten banks including the lead bank, U.S. Bank National Association. The Revolver was subsequently reduced to $147 million by December 25, 1998 and was further reduced to $132 million by December 31, 1999. The Company's initial borrowing of $158 million financed a portion of the stock repurchase discussed in Note G. The $63,834,500 outstanding balance bears underlying interest at the London Interbank Offered Rate plus a spread of 0.50 percent. This spread reduces as the ratio of total debt to earnings before interest, taxes and depreciation and amortization declines. The Revolver specifies quarterly reductions of the maximum amount of the credit line, and requires the Company to maintain certain financial ratios as to net worth, cash flow leverage and fixed charge coverage. The Revolver effectively restricts dividend payments that would cause a violation of the tangible net worth ratio covenant. The amount of the restriction was $45 million at December 31, 1999.

The Company has an interest rate swap agreement in place whereby it fixed the underlying interest rate on $50 million of the Revolver at 5.76 percent through July 3, 2000. At December 31, 1999, the contractual underlying variable interest rate under the Revolver was 5.83 percent. The cash flows related to the swap agreement are recorded as an adjustment to interest expense. Market and credit risks are not significant.

The Company also has an interest rate swap agreement in place whereby it fixed the interest rate of the remaining principal amounts of the Company's previously variable interest rate revenue bond debt at 4.38 percent through 2002. At December 31, 1999, the contractual variable interest rate under the revenue bonds was Bankers Trust reference rate plus 0.30 percent, or 5.20 percent.

On December 31, 1999, the Company had lines of credit with U.S. and foreign banks of $158 million, including the $132 million Revolver. The unused portion of these credit lines was $80,297,770 at December 31, 1999. Borrowing rates under these facilities vary with the prime rate, rates on domestic certificates of deposit and the London interbank market. The weighted short-term borrowing rates were 5.4 percent, 6.3 percent and 5.8 percent at December 31, 1999, December 25, 1998 and December 26, 1997. The Company pays commitment fees of up to 0.175 percent per annum on the daily average unused amounts on certain of these lines. No compensating balances are required.

The Company is in compliance with the covenants of its debt agreements.

G. Shareholders' Equity

In July 1998 the Company repurchased 5.8 million shares of common stock for $190,887,000 from its largest shareholder, the Trust under the Will of Clarissa L. Gray. The stock repurchase was funded with cash of $32,887,000 and $158,000,000 from the Revolver discussed in Note F.

The Board of Directors declared a three-for-two stock split on December 12, 1997, effective February 4, 1998, for shares outstanding on January 7, 1998. Accordingly, the December 26, 1997, balance reflects the split with an increase in common stock and reduction in retained earnings of $8,516,000. All stock option, share and per share data has been restated to reflect the split.

At December 31, 1999, the Company had 22,549 authorized, but not issued, cumulative preferred shares. 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-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $80, subject to adjustment. The Rights are exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the Company's outstanding common stock. The Rights expire in March 2000 and may be redeemed earlier by the Board of Directors for $.01 per Right.

H. Stock Option and Purchase Plans

Stock Option Plans. In 1999, the Board of Directors approved an Employee Stock Incentive Plan, under which the Company grants stock options to employees who are not officers of the Company. The option price is the market price at the date of grant and the options vest three years from the date of the grant and expire after ten years. 1,000,000 shares have been reserved for issuance under the Plan, with 999,600 remaining reserved at December 31, 1999.

The Company has a Long-Term Stock Incentive Plan, under which a total of 5,212,500 common shares have been reserved for issuance, with 2,622,278 shares remaining reserved at December 31, 1999. Grants under this Plan are in the form of restricted share awards and stock options. The option price is the market price at the date of grant. Options become exercisable in equal installments over four years beginning two years from the date of grant, and expire ten years from the date of grant. Restricted share awards of 963,914 common shares have been made to certain key employees under the Plan. No restricted share awards are outstanding at December 31, 1999. Compensation cost charged to operations for the restricted share awards was $615,000, $361,000 and $188,000 in 1999, 1998 and 1997. In 1997, certain officers of the Company agreed to forfeit certain stock appreciation rights under agreements signed in prior years. The net impact on earnings before income taxes in 1997 was $898,000.

The Company has a Non-employee Director Stock Option Plan, under which the Company makes initial and annual grants to the non-employee directors of the Company. Non-employee directors receive an initial option grant of 3,000 shares upon first appointment or election and an annual option grant of 2,250 shares. There are 300,000 common shares authorized for issuance under the Plan; 296,624 remained reserved at the end of 1999. The exercise price of each option is the fair market value at the date of grant. The options have a ten-year duration and may be exercised in equal installments over four years, beginning one year from the date of grant.

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below:

	Options	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price

Outstanding, December 27, 1996	1,062,792	$ 9.56		
Granted	237,000	19.51		
Exercised	(80,961)	21.46		
Canceled	(115,113)	10.92		
Outstanding, December 26, 1997	1,103,718	11.65	460,146	$ 8.73
Granted	319,750	29.79		
Exercised	(142,055)	8.60		
Canceled	(99,625)	17.84		
Outstanding, December 25, 1998	1,181,788	$ 16.29	510,886	$ 9.88
Granted	471,165	21.86		
Exercised	(283,053)	7.23		
Canceled	(37,137)	23.53		
Outstanding, December 31, 1999	1,332,763	$ 19.04	745,026	$ 15.00

The following table summarizes information for options outstanding and exercisable at December 31, 1999:

Range of Prices	Options Outstanding	Options Outstanding Weighted Avg. Remaining Life	Options Outstanding Weighted Avg. Exercise Price	Options Exercisable	Options Exercisable Weighted Avg. Exercise Price
$ 6-15	468,449	4	$ 9.91	444,219	$ 9.81
16-27	579,849	6	21.04	233,929	20.55
28-35	284,465	7	29.99	66,878	30.02
$ 6-35	1,332,763	5	$ 19.04	745,026	$ 15.00

Stock Purchase Plans. Under the Company's Employee Stock Purchase Plan, 5,850,000 common shares have been reserved for sale to employees, 991,824 of which remained unissued at the end of 1999. The purchase price of the shares under the Plan is the lesser of 85 percent of the fair market value on the first day or the last day of the Plan year.

Non-employee Director Stock Plan. The Plan enables individual non-employee directors of the Company to elect to receive or defer all or part of a director's 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. The Company issued 4,107, 3,357 and 2,725 shares under this Plan during 1999, 1998 and 1997. The expense related to this Plan is not significant.

Stock-Based Compensation. As allowed under FAS No. 123 "Accounting for Stock-Based Compensation," the Company has elected to apply Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option and purchase plans and adopt the "disclosure only" provisions of FAS No. 123. Accordingly, no compensation cost has been recognized for the Employee Stock Purchase Plan and stock options granted under the Long-Term Incentive Plan and the Non-employee Director Stock Option Plan. Had compensation cost for the stock option plans been determined based upon fair value at the grant date for awards under these plans, the Company's net earnings and earnings per share would have been reduced as follows:

	1999	1998	1997
Net earnings			
As reported	$59,341	$47,263	$44,716
Pro forma	55,998	45,144	43,358
Net earnings per common share			
Basic as reported	$ 2.93	$ 2.06	$ 1.75
Diluted as reported	2.84	2.01	1.71
Pro forma basic	2.77	1.97	1.70
Pro forma diluted	2.68	1.92	1.66

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:

	1999	1998	1997
Expected life in years	5.3	8	8
Interest rate	5.1%	5.5%	6.6%
Volatility	43.5%	40.2%	32.0%
Dividend yield	1.9%	1.5%	2.0%

Based upon these assumptions, the weighted average fair value at grant date of options granted in 1999, 1998 and 1997 was $7.79, $12.37 and $10.47.

The fair value of the employees' purchase rights under the Employee Stock Purchase Plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	1999	1998	1997
Expected life in years	1	1	1
Interest rate	5.2%	5.5%	6.5%
Volatility	43.8%	40.2%	31.7%
Dividend yield	2.0%	1.5%	1.7%

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 Black-Scholes. The weighted average fair value per common share was $6.12, $7.85 and $8.05 in 1999, 1998 and 1997.

I. Earnings per Share

Earnings per share for all years presented has been calculated to reflect the three-for-two stock split declared on December 12, 1997. The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share amounts)	1999	1998	1997
Numerator:			
Net earnings available to common shareholders	$59,341	$47,263	$44,716
Denominators:			
Denominator for basic earnings per share - weighted average shares	20,248	22,941	25,575
Dilutive effect of stock options computed based on the treasury stock method using the average market price	618	606	591
Denominator for diluted earnings per share	20,866	23,547	26,166
Basic earnings per share	$ 2.93	$ 2.06	$ 1.75
Diluted earnings per share	$ 2.84	$ 2.01	$ 1.71

J. Retirement Benefits

The Company has a defined contribution plan, under Section 401(k) of the Internal Revenue Code, which provides additional retirement benefits to all U.S. employees who elect to participate. The Company matches employee contributions at a 100 percent rate, up to 3 percent of the employee's compensation. Prior to 1998, the Company matched employee contributions at a 50 percent rate, up to 3 percent of the employee's compensation. Employer contributions were $2,008,000, $1,989,000 and $941,000 in 1999, 1998 and 1997.

The Company's postretirement medical plan provides certain medical benefits for retired employees. U.S employees are eligible for these benefits upon retirement and fulfillment of other eligibility requirements as specified by the Plan.

The Company has noncontributory defined benefit pension plans covering substantially all U.S. employees and directors and some of the employees of the Company's non-U.S. subsidiaries. For the U.S. plans, the benefits are based on years of service and the highest five consecutive years' earnings in the ten years preceding retirement. In 1998, the Company amended the plans to remove the 30-year limitation on benefit service. The Company funds these plans annually in amounts consistent with minimum funding requirements and maximum tax deduction limits and invests primarily in common stocks and bonds, including the Company's common stock. The market value of the Plans' investment in the common stock of the Company was $19,472,000 and $19,995,000 at December 31, 1999 and December 25, 1998. The following tables provide a reconciliation of the changes in the Plans' benefit obligations and fair value of assets over the periods ending December 31, 1999 and December 25, 1998, and a statement of the funded status as of the same dates.

(In thousands)	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Reconciliation of benefit obligation				
Obligation, beginning of year	$ 95,141	$ 79,049	$ 15,623	$ 15,065
Service cost	3,517	2,959	482	442
Interest cost	6,267	5,595	995	954
Plan amendments	--	1,716	--	--
Acquisition	2,671			
Curtailment	(541)			
Actuarial (gain) loss	(2,162)	9,443	(573)	54
Benefit payments	(2,853)	(3,621)	(1,097)	(892)
Obligation, end of year	$ 102,040	$ 95,141	$ 15,430	$ 15,623
Reconciliation of fair value of plan assets				
Fair value, beginning of year	$ 103,106	$ 89,460	$ --	$ --
Actual return on assets	35,454	15,855	--	--
Employer contribution	264	1,412	1,097	892
Benefit payments	(2,827)	(3,621)	(1,097)	(892)
Fair value, end of year	$ 135,997	$ 103,106	$ --	$ --
Funded status				
Funded status over (under), end of year	$ 33,957	$ 7,965	$(15,430)	$(15,623)
Unrecognized transition (asset) obligation	(68)	(74)	--	--
Unrecognized prior service cost	1,954	2,184	--	--
Unrecognized (gain) loss	(46,058)	(20,036)	107	680
Net	$ (10,215)	$ (9,961)	$(15,323)	$(14,943)

The following table provides the amounts included in the Statement of Financial Position as of December 31, 1999 and December 25, 1998.

(In thousands)	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Accrued benefit liability	$ (10,659)	$ (10,272)	$(15,323)	$(14,943)
Intangible asset	427	311	--	--
Net	$ (10,232)	$ (9,961)	$(15,323)	$(14,943)

The components of net periodic benefit cost for the plans for 1999, 1998 and 1997 were as follows:

(In thousands)	Pension Benefits 1999	Pension Benefits 1998	Pension Benefits 1997	Other Benefits 1999	Other Benefits 1998	Other Benefits 1997
Service cost - benefits earned during the period	$ 3,517	$ 2,959	$ 2,366	$ 482	$ 442	$ 484
Interest cost on projected benefit obligation	6,267	5,595	5,031	995	954	979
Expected return on assets	(11,189)	(9,711)	(8,342)	--	--	--
Amortization of transition (asset) obligation	(4)	(3)	68	--	--	--
Amortization of prior service cost	231	230	95	--	--	--
Amortization of net (gain) loss	(629)	(1,067)	(944)	--	--	--
Cost of pension plans which are not significant and have not adopted SFAS No. 87	266	371	233	N/A	N/A	N/A
Net periodic benefit (credit) cost	(1,541)	(1,626)	(1,493)	1,477	1,396	1,463
Curtailment gain	(541)	(239)	--	--	--	--
Settlement gain	--	(271)	--	--	--	--
Net periodic benefit (credit) cost after curtailments and settlements	$ (2,082)	$ (2,136)	$ (1,493)	$ 1,477	$ 1,396	$ 1,463

The Company's retirement medical plan limits the annual cost increase that will be paid by the Company. In measuring the Accumulated Postretirement Benefit Obligation (APBO), a 6 percent maximum annual trend rate for healthcare costs was assumed for the year ending December 31, 1999. This rate is assumed to remain constant through the year 2001, decline to 5.5 percent in 2002 and 4.5

percent in 2003, and remain at that level thereafter. The other assumptions used in the measurement of the Company's benefit obligation are shown below:

	Pension Benefits			Other Benefits		
Weighted average assumptions	1999	1998	1997	1999	1998	1997
Discount rate	7.0%	6.5%	7.0%	6.5%	7.0%	7.0%
Expected return on assets	11.0%	11.0%	11.0%	N/A	N/A	N/A
Rate of compensation increase	3.6%	3.3%	3.3%	N/A	N/A	N/A

At December 31, 1999, a 1 percent change in assumed healthcare cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement healthcare benefit cost	$ 254	$ (203)
Effect on the healthcare component of the accumulated postretirement benefit obligation	$ 2,172	$ (1,794)

K. Commitments and Contingencies

Lease Commitments. Aggregate annual rental commitments at December 31, 1999, under operating leases with non-cancelable terms of more than one year, were $6,836,000, payable as follows:

(In thousands)	Buildings	Vehicles & Equipment	Total
2000	$ 1,571	$ 2,326	$3,897
2001	1,004	892	1,896
2002	290	276	566
2003	259	89	348
2004	118	11	129
Thereafter	--	--	--
Total	$ 3,242	$ 3,594	$6,836

Total rental expense was $3,492,000 for 1999, $3,307,000 for 1998 and $3,339,000 for 1997.

Contingencies. The Company is party to various legal proceedings arising in the normal course of business activities, none of which, in management's opinion, is expected to have a material adverse impact on the Company's consolidated results of operations or its financial position.

L. Acquisition

In 1999, the Company formed Graco Verfahrenstechnik which on June 1, 1999 purchased certain assets and assumed certain liabilities of Bollhoff Verfahrenstechnik (BV), located in Bielefeld, Germany. BV designed, manufactured and sold fluid application equipment for industrial and automotive markets, primarily in Germany, and had 1998 sales of approximately $20 million.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information under the heading "Executive Officers of the Company" in Part I of this 1999 Annual Report on Form 10-K and the information under the headings "Election of Directors, Nominees and Other Directors" on pages 2 through 4 and under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" on page 13, of the Company's Proxy Statement for its 2000 Annual Meeting of Shareholders, to be held on May 2, 2000 (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the heading "Executive Compensation" on pages 5 through 11 of the Proxy Statement is incorporated herein by reference, other than the subsection thereunder entitled "Report of the Management Organization and Compensation Committee" and "Comparative Stock Performance Graph."

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information contained under the heading "Beneficial Ownership of Shares" on pages 11 through 13 of the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information under the heading "Certain Business Relationships" on page 11 of the Company's Proxy Statement for its 2000 Annual Meeting of Shareholders, to be held on May 2, 2000 (the "Proxy Statement"), is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K

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

(1) Financial Statements
See Part II

(2) Financial Statement Schedule

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o Schedule II - Valuation and Qualifying Accounts	30

All other schedules are omitted because they are not applicable, or 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).. 32

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

(b) Reports on Form 8-K
There were no reports on Form 8-K for the thirteen weeks ended December 31,1999.

(c) Exhibit Index 32

Schedule II - Valuation and Qualifying Accounts

GRACO Inc. & Subsidiaries

(In thousands)

Description	Balance at beginning of year	Additions charged to costs and expenses	Deductions From Reserves	Change Add (Deduct)	Balance at end of year
Year ended December 31, 1999:					
Allowance for doubtful accounts	$ 2,600	$ 300	$ 600	$ 200	$ 2,500
Allowance for returns and credits	1,800	6,000	5,800		2,000
	$ 4,400	$ 6,300	$ 6,400	$ 200	$ 4,500
Year ended December 25, 1998:					
Allowance for doubtful accounts	$ 2,200	$ 900	$ 500		$ 2,600
Allowance for returns and credits	1,900	3,400	3,500		1,800
	$ 4,100	$ 4,300	$ 4,000		$ 4,400
Year ended December 26, 1997:					
Allowance for doubtful accounts	$ 2,400	$ 500	$ 700		$ 2,200
Allowance for returns and credits	2,300	3,700	4,100		1,900
Valuation allowance for tax benefits	1,995	--	1,995		--
	$ 6,695	$ 4,200	$ 6,795		$ 4,100

1 Accounts determined to be uncollectible and charged against reserve, net of collections on accounts previously charged against reserves.

2 Credits issued and returns processed.

3 Assumed or established in connection with acquisition

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/GEORGE ARISTIDES March 20, 2000

George Aristides
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/GEORGE ARISTIDES March 20, 2000

George Aristides
Chief Executive Officer
(Principal Executive Officer)

/s/MARK W. SHEAHAN March 20, 2000

Mark W. Sheahan
Vice President and Treasurer
(Principal Financial Officer)

/s/JAMES A. GRANER March 20, 2000

James A. Graner
Vice President and Controller
(Principal Accounting Officer)

D. A. Koch	Director, Chairman of the Board
G. Aristides	Director
R. O. Baukol	Director
R. G. Bohn	Director
W. J. Carroll	Director
L. R. Mitau	Director
M. A.M. Morfitt	Director
D. R. Olseth	Director
J. L. Scott	Director
W. G. Van Dyke	Director

George Aristides, 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/GEORGE ARISTIDES March 20, 2000

George Aristides
(For himself and as attorney-in-fact)

Exhibit Index

Exhibit Number	Description
3.1	Restated Articles of Incorporation as amended June 18, 1999. (Incorporated by reference to Exhibit 3.1 to the Company's 1997 Annual Report on Form 10-K.)
3.2	Restated Bylaws. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)
4.1	Rights Agreement dated as of March 9, 1990, between the Company and Norwest Bank Minnesota, National Association, as Rights Agent, including as Exhibit A the form of the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Shares. (Incorporated by reference to Exhibit 1 to the Company's Report on Form 8-K dated March 19, 1990.)
4.2	Credit Agreement dated July 2, 1998, between the Company and U.S. Bank National Association, as Agent for a combination of banks. (Incorporated by reference to Exhibit 4 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 25, 1998.)
4.3	Amendment dated August 31, 1999 to Credit Agreement dated June 26, 1998 between the Company and Wachovia Bank, N.A. (Incorporated by reference to Exhibit 4 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 24, 1999.)
*10.1	1999 Corporate and Business Unit Annual Bonus Plan. (Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1999.)
*10.2	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.) Amendment 1 dated September 1, 1996. (Incorporated by reference to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)
*10.3	Executive Deferred Compensation Agreement. Form of supplementary agreement entered into by the Company which provides a retirement benefit to selected executive officers, as amended by Amendment 1, effective September 1, 1990. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated March 11, 1993.)
*10.4	Chairman's Award Plan. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated March 7, 1988.)
*10.5	Long Term Stock Incentive Plan, as amended and restated December 10, 1999.
*10.6	Retirement Plan for Non-Employee 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.)
*10.7	Restoration Plan 1998 Restatement. (Incorporated by reference to Exhibit 10.8 to the Company's 1997 Annual Report on Form 10-K.)
*10.8	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers, dated May 2, 1994. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the twenty-six weeks ended July 1, 1994.)
*10.9	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to selected officers, dated December 15, 1994, December 27, 1994 and February 23, 1995. (Incorporated by reference to Exhibit 10.16 to the Company's 1994 Annual Report on Form 10-K.)
*10.10	Stock Option Agreement. Form of agreement used for award of non-incentive stock option to one executive officer, dated December 15, 1995. (Incorporated by reference to Exhibit 10.18 to the Company's 1995 Annual Report on Form 10-K.)
*10.11	Form of salary protection arrangement between the Company and executive officers. (Incorporated by reference to Exhibit 10.21 to the Company's 1995 Annual Report on Form 10-K.)
*10.12	Non-employee Director Stock Option Plan, as amended and restated November 6, 1997. (Incorporated by reference to Exhibit 10.18 to the Company's 1997 Annual Report on Form

10-K.)

*10.13 Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to non-employee directors, dated May 7, 1996. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 28, 1996.)

*10.14 Stock Option Agreement Amendment. Form of amendment, dated March 8, 1997, used to remove alternative stock appreciation right from incentive stock option agreement dated February 25, 1993, for selected officers. (Incorporated by reference to Exhibit 10.25 to the Company's 1996 Annual Report on Form 10-K.)

*10.15 Stock Option Agreement Amendment. Form of amendment, dated March 8, 1997, used to remove alternative stock appreciation right from non-incentive stock option agreement dated May 4, 1993, for selected officers. (Incorporated by reference to Exhibit 10.26 to the Company's 1996 Annual Report on Form 10-K.)

*10.16 Key Employee Agreement. Form of agreement with officers and other key employees relating to change of control, dated April 2, 1997. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.17 Stock Option Agreement Amendment. Form of amendment, dated April 14, 1997, used to add change of control provision to non-incentive stock options to executive officer dated May 2, 1994, March 1, 1995 and March 1, 1996. (Incorporated by reference to Exhibit 10.6 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.18 Stock Option Agreement Amendment. Form of amendment, dated April 14, 1997, used to add change of control provision to non-incentive stock options to selected officers dated December 15, 1994. (Incorporated by reference to Exhibit 10.7 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.19 Stock Option Agreement Amendment. Form of amendment, dated April 14, 1997, used to add change of control provision to non-incentive stock options to one executive officer dated December 15, 1995. (Incorporated by reference to Exhibit 10.8 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.20 Stock Option Agreement. Form of agreement used for award of non-incentive stock option to one executive officer, dated April 23, 1997. (Incorporated by reference to Exhibit 10.9 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.21 Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to non-employee directors, dated May 6, 1997. (Incorporated by reference to Exhibit 10.10 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.22 Executive Long Term Incentive Agreement. Form of restricted stock award agreement used for award to one executive officer, dated May 6, 1997. (Incorporated by reference to Exhibit 10.11 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.23 Stock Option Agreement. Form of agreement used for award of non-incentive stock option to two executive officers, dated May 6, 1997. (Incorporated by reference to Exhibit 10.12 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 27, 1997.)

*10.24 Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to non-employee director, dated September 5, 1997. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 26, 1997.)

*10.25 Trust Agreement dated September 30, 1997, between the Company and Norwest Bank Minnesota, N.A. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 26, 1997.)

*10.26 Key Employee Agreement Amendment. Form of amendment dated January 9, 1998, revising payment reduction provisions. (Incorporated by reference to Exhibit 10.33 to the Company's 1997 Annual Report on Form 10-K.)

*10.27 Non-employee Director Stock Plan, as amended and restated June 18, 1999. (Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 25, 1999.)

*10.28 Retirement and Release Agreement between Clayton R. Carter and the Company dated June 26, 1999. (Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 24, 1999.)

*10.29	Separation and Release Agreement between Roger L. King and the Company dated August 10, 1999. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 24, 1999.)
*10.30	Separation and Release Agreement between James A. Earnshaw and the Company dated December 31, 1999.
*10.31	Stock Option Agreement. Form of agreement under the Long Term Stock Incentive Plan dated December 12, 1997. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1999.)
*10.32	Executive Long Term Incentive Agreement between the Company and one executive officer dated February 22, 1999. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1999.)
*10.33	Key Employee Agreement between the Company and one executive officer dated March 1, 1999. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1999.)
*10.34	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to one executive officer, dated March 1, 1999. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1999.)
*10.35	Executive Officer Annual Incentive Bonus Plan.
11	Statement of Computation of Earnings per share included in Note I on page 26.
21	Subsidiaries of the Registrant included herein on page 36.
23	Independent Auditors' Consent included herein on page 36.
24	Power of Attorney included herein on page 37.
27	Financial Data Schedule (EDGAR filing only.)
99	Cautionary Statement Regarding Forward-Looking Statements.

*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.

Exhibit 21

Subsidiaries of Graco Inc.

The following are subsidiaries of the Company:

Subsidiary	Jurisdiction of Organization	Percentage of Voting Securities Owned by the Company
Equipos Graco Argentina S.A.	Argentina	100%*
Graco Barbados FSC Limited	Barbados	100%
Graco Canada Incorporated	Canada	100%
Graco Chile Limitada	Chile	100%*
Graco do Brasil Limitada	Brazil	100%*
Graco Europe N.V.	Belgium	100%*
Graco GmbH	Germany	100%
Graco Hong Kong Limited	Hong Kong	100%*
Graco K.K.	Japan	100%
Graco Korea Inc.	Korea	100%
Graco Limited	England	100%*
Graco N.V.	Belgium	100%*
Graco S.A.	France	100%*
Graco S.r.l.	Italy	100%*
Graco Verfahrenstechnik GmbH	Germany	100%**

* Includes shares held by selected directors and/or executive officers of the Company or the relevant subsidiary to satisfy the requirements of local law.
** Shares 100% held by Graco N.V.

Exhibit 23

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statements No. 333-17691, No. 333-17787, No. 33-54205, No. 333-03459, and No. 333-7530 on Form S-8 of our report dated January 24, 2000, appearing in this Annual Report on Form 10-K of Graco Inc. for the year ended December 31, 1999.

/s/Deloitte & Touche LLP
Deloitte & Touche LLP
Minneapolis, Minnesota
March 29, 2000

Exhibit 24

Power of Attorney

Know all by these presents, that each person whose signature appears below hereby constitutes and appoints George Aristides or Mark W. Sheahan, that person's true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution 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, 1999, 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, this Power of Attorney has been signed by the following persons on the date indicated.

	Date
/s/G. ARISTIDES G. Aristides	February 25, 2000
/s/R. O. BAUKOL R. O. Baukol	February 25, 2000
/s/R. G. BOHN R. G. Bohn	February 25, 2000
/s/W. J. CARROLL W. J. Carroll	February 25, 2000
/s/D. A. KOCH D. A. Koch	February 25, 2000
/s/L. R. MITAU L. R. Mitau	February 25, 2000
/s/M. A.M. MORFITT M. A.M. Morfitt	February 25, 2000
/s/D. R. OLSETH D. R. Olseth	February 25, 2000
/s/J. L. SCOTT J. L. Scott	February 25, 2000
/s/W. G. VAN DYKE W. G. Van Dyke	February 25, 2000

December 10, 1999

LONG TERM STOCK INCENTIVE PLAN

1. Purpose. The purpose of the Graco Inc. Long Term Stock Incentive Plan (the "Plan") is to further the growth in earnings and market appreciation of Graco Inc. (the "Company"). The Plan provides substantial contributions to the Company through ability, performance, industry and invention. The Company intends that the Plan will thereby facilitate securing, retaining and motivating officers and key employees of high caliber and good potential.

2. Administration. The Plan shall be administered by a committee (the "Committee") selected by the Board of Directors of the Company (the "Board"). The Committee shall consist of two or more members who are members of the Board and who are "Non-Employee Directors" within the meaning of Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which term "Non-Employee Director" is defined in this paragraph for purposes of describing the members of the Committee only and is not intended to define such term as it may be used elsewhere in the Plan. The Committee may delegate to one or more officers of the Company or a committee of such officers the authority, subject to such terms and limitations as the Committee shall determine to grant awards to employees of the Company who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act.

The Committee shall have full and final authority, in its discretion, to interpret the provisions of the Plan and to decide all questions of fact arising in its application; to determine the employees to whom awards shall be made under the Plan; to determine the type of award to be made and the amount, size, terms and conditions of each such award; to determine and establish additional terms and conditions not inconsistent with the Plan and for any agreements entered into with participants in connection with the Plan; to determine the time when awards will be granted and when rights may be exercised, which may be after termination of employment; and to make all other determinations necessary or advisable for the administration of the Plan.

The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority vote at a meeting duly called and held. The granting of a stock option or restricted stock award pursuant to the Plan shall be effective only if a written agreement shall have been duly executed and delivered by and on behalf of the Company and, in the case of a restricted stock award, by the employee to whom such right is granted. The Committee may appoint a Secretary and may make such rules and regulations for the conduct of its business as it shall deem advisable.

3. Participants. Persons eligible to participate in the Plan shall be those officers and key employees of the Company or its subsidiaries who are in positions in which their decisions, actions and counsel significantly impact the performance of the Company or its subsidiaries. Directors of the Company who are not otherwise salaried employees of the Company shall not be eligible to receive awards under the Plan. For the purpose of awards of incentive stock options (as hereinafter defined) made under the Plan, the term "subsidiary" shall have the meaning given to it by Section 424 of the Internal Revenue Code of 1986, as amended (the "Code"). For the purpose of all other awards made under the Plan, the term "subsidiary" shall have the meaning given to it by Rule 405 promulgated under the Securities Act of 1933, as amended. References to "the Company" in this Plan or in any option or other award granted pursuant to the Plan shall be deemed references to a subsidiary if appropriate.

4. Awards under the Plan. Awards by the Committee under the Plan may be in the form of stock options intended to qualify as "incentive stock options" under the provision of Section 422 of the Code, stock options which do not qualify for special tax treatment under Section 422, restricted stock and other stock awards pursuant to such bonus and incentive plans as the Committee may deem appropriate.

4.1 Award Limitation. In any calendar year beginning with January 31, 1997, the Committee may not award stock options or stock appreciation rights on more than 300,000 Shares in the aggregate to any Participant who is an employee of the Company at the time of such award. This award limit may be adjusted in accordance with the provisions of Section 15. This limitation is intended to qualify the award of options and stock appreciation rights as performance-based compensation within the meaning of Section 162(m) of the Code.

5. Shares Subject to Plan. The shares that may be issued under the Plan shall not exceed in the aggregate 5,212,500 common shares, $1.00 par value, of the Company. Except as otherwise provided herein, any shares subject to an option or right or other awards which for any reason expires or terminates without issuance or final vesting of such shares shall again be available under the Plan. No fractional shares shall be issued under the Plan.

6. Stock Options. Stock options shall be evidenced by stock option agreements in such form not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions.

6.1. Option Price. The purchase price per common share deliverable upon the exercise of an option shall not be less than 100% of the fair market value of the stock on the day the option is granted, as determined by the

Committee.

6.2. Exercise of Option. Each stock option agreement shall state the period or periods of time within which the option may be exercised by the participant, in whole or in part, which shall be such period or periods of time as may be determined by the Committee, provided that the option period shall not end later than ten years after the date of the grant of the option.

6.3. Payment of Shares. An optionee electing to exercise an option shall give written notice to the Company of such election and of the number of shares subject to such exercise. The full purchase price of such shares shall be tendered with such notice of exercise or, at the discretion of the Committee, pursuant to any arrangements satisfactory to the Committee which provide that the Company will be paid at the time the shares are delivered to the optionee or his designee. Payment shall be made either in cash (including check, bank draft or money order) or, at the discretion of the Committee, (i) by delivering the Company's common shares already owned by the optionee having a fair market value equal to the full purchase price of the shares, or (ii) a combination of cash and such shares.

6.4. Special Rule for Incentive Stock Options. The aggregate fair market value (determined as of the time the option is granted) of the common shares with respect to which all incentive stock options granted after January 1, 1987 are exercisable for the first time by any individual during any calendar year (under all option plans of the Company and its parent and subsidiary corporations) shall not exceed $100,000.

7. Restricted Stock Awards. Restricted stock awards shall be evidenced by restricted stock agreements in such form not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions.

7.1. Restriction Period. Shares awarded pursuant to restricted stock awards shall be subject to such conditions, terms and restrictions (including continued employment, achievement of performance targets, forfeiture and transfer) and for such period or periods as shall be determined by the Committee. The Committee shall have the power, in its discretion, to permit an acceleration of the expiration of the applicable restriction period with respect to any part of all of the shares awarded to a participant.

7.2 Restrictions Upon Transfer. The common shares subject to an award, may not be sold, assigned, transferred, exchanged, pledged, hypothecated, or otherwise encumbered, except as herein provided, during the restriction period applicable to such shares, but a participant shall have all the other rights of a stockholder, including the right to receive cash dividends and the right to vote such shares, until such time as the restrictions have lapsed or the shares have been forfeited.

7.3 Certificates. Each certificate issued in respect of common shares awarded to a participant shall be deposited with the Company, or its designee, and shall bear an appropriate legend noting the existence of restrictions upon the transfer of such Common Stock.

7.4 Lapse of Restrictions. The agreement governing the awards shall specify the conditions and terms upon which any restrictions upon shares awarded under the Plan shall lapse, as determined by the Committee. Upon lapse of such restrictions, common shares free of any restrictive legend, other than as may be required under Section 9 hereof, shall be issued and delivered to the participant of his legal representative.

8. Fair Market Value. The fair market value of a share of the Company's common stock is the last sale price reported on the composite tape by the New York Stock Exchange on the business day immediately preceding the date as of which fair market value is being determined or, if there were no sales of shares of the Company's common stock reported on the composite tape on such day, on the most recently preceding day on which there were sales, or if the shares of the Company's stock are not listed or admitted to trading on the New York Stock Exchange on the day as of which the determination is made, the amount determined by the Board or its delegate to be the fair market value of a share on such day.

9. General Restrictions. Each award under the Plan shall be subject to the requirement that, if at anytime the Committee shall determine that (a) the listing, registration or qualification of the common shares subject or related thereto upon any securities exchange or under any state or federal law, or (b) the consent or approval of any government regulatory body, or (c) an agreement by the recipient of an award with respect to the disposition of common shares, is necessary or desirable in connection with, the granting of such award or the issue or purchase of common shares thereunder, such award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee. A participant shall agree, as a condition of receiving any award under the Plan, to execute any documents, make any representations, agree to restrictions on stock transferability and take any actions which in the opinion of legal counsel to the Company is required by any applicable law, ruling or regulation.

10. Rights of a Shareholder. The recipient of any award under the Plan, unless otherwise provided by the Plan, shall have no rights as a shareholder with respect thereto unless and until certificates for common shares are issued to the recipient.

11. Right to Terminate Employment. Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any participant the right to continue in the employment of the Company or its subsidiaries, or affect any right which the Company or such subsidiaries may have to terminate the

employment of the participant.

12. Withholding.

12.1. Payment of Withholding Taxes. Whenever the Company proposes or is required to issue or transfer common shares under the Plan, the Company shall have the right to require the recipient to remit to the Company, or provide indemnification satisfactory to the Company for, an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the issuance or delivery of any certificate or certificates for such shares.

12.2. Use of Common Shares to Satisfy Tax Obligation. In order to assist an optionee or grantee in paying all federal, state and local taxes to be withheld or collected upon exercise of an option or the grant of a stock award or the lapse of restrictions relating to a restricted stock award hereunder, the Committee in its sole discretion and subject to such rules as it may adopt, may permit the optionee or grantee to satisfy such tax obligation, in whole or in part, by (i) electing to have the Company withhold common shares otherwise to be delivered with a fair market value equal to the amount of such tax obligation, or (ii) electing to surrender to the Company previously owned common shares with a fair market value equal to the amount of such tax obligation. The election must be made on or before the date that the amount of tax to be withheld is determined.

13. Non-Assignability. No award under the Plan shall be assignable or transferable by the participant except by will or by laws of descent and distribution. During the life of a participant, such award shall be exercisable only by the participant or by the participant's guardian or legal representative.

14. Non-Uniform Determinations. The Committee's determinations under the Plan (including, without limitation, determinations of the persons to receive awards, the form, amount and timing of such awards, the terms and provisions of awards and the agreements evidencing the awards, and the establishment of values and performance targets) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan whether or not such persons are similarly situated.

15. Adjustments in Shares. In the event of any change in the outstanding common shares of the Company by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or otherwise, the Board shall adjust the number of shares which may be issued under the Plan and the Board shall provide for an equitable adjustment of any shares issuable pursuant to awards outstanding under the Plan.

16. Adoption, Amendment and Termination.

16.1. Adoption. This Plan was originally adopted in February 1982 as the Graco Inc. Incentive Stock Option Plan. The Plan was amended and restated as the Graco Inc. Long Term Stock Incentive Plan by the Board of Directors on March 4, 1988 and was further amended by the Board on December 13, 1991, February 21, 1992, February 23, 1996 and May 7, 1996, which amendments requiring shareholder approval were approved by the shareholders on May 5, 1992 and May 7, 1996, respectively.

16.2 Amendment. The Board may amend, suspend, or terminate the Plan at any time, but without shareholder approval, no amendment shall materially increase the maximum number of shares which may be issued under the Plan (other than increases pursuant to Section 15 hereof), materially increase the benefits accruing to participants under the Plan, materially modify the requirements as to eligibility for participation, or extend the term of the Plan.

16.3. Termination. Unless the Plan shall have been discontinued at an earlier date, the Plan shall terminate on December 13, 2001. No option, restricted stock award or stock awards may be granted after such termination, but termination of the Plan shall not, without the consent of the optionee or grantee, alter or impair any rights or obligations under any award theretofore granted.

SEPARATION AND RELEASE AGREEMENT

THIS AGREEMENT is effective the 31st day of December, 1999, by and between Graco Inc., a Minnesota corporation ("Graco"), with its principal offices at 4050 Olson Memorial Highway, Golden Valley, Minnesota 55422 and James A. Earnshaw, an individual, residing at 6407 Oxbow Bend, Chanhassen, MN. 55317 ("Mr. Earnshaw").

WHEREAS, Mr. Earnshaw is now employed by Graco; and

WHEREAS, Mr. Earnshaw has resigned as an officer and employee of Graco effective December 31, 1999, and his employment relationship with Graco will be terminated in accordance with the terms of this Agreement.

NOW, THEREFORE, It is hereby mutually agreed by and between the parties for good and valuable consideration as follows:

1. Separation Payment

   On or before January 15, 2000, Graco will pay to Mr. Earnshaw in a lump sum as a separation payment the amount of eight hundred forty thousand dollars ($840,000) dollars, subject to tax withholding and deductions required by law.

2. Annual Bonus Plan

   Mr. Earnshaw shall be entitled to payment of a bonus for the year 1999 under the 1999 Corporate Annual Bonus Plan, in accordance with said Plan and when the bonuses thereunder are normally paid.

3. Benefits

   Mr. Earnshaw's entitlement to, continuation or cessation of employee benefits following the termination of his employment is described in a letter from the Graco Benefits Department to Mr. Earnshaw's attention, attached hereto as Exhibit A and incorporated herein by reference.

4. Stock Options

   The stock options granted to Mr. Earnshaw in accordance with the stock option agreements between Mr. Earnshaw and Graco dated March 1, 1999, shall vest in full and be exercisable for a period of six months after the termination of Mr. Earnshaw's employment in accordance with Section 3.A.(ii) of each of said agreements.

5. Outplacement Assistance

   Graco shall assume the cost of an outplacement agency used by Mr. Earnshaw to seek other employment, for a period not to exceed one (1) year or upon Mr. Earnshaw securing other employment, whichever first occurs. Said agency, and the costs incurred, shall be mutually agreed upon by Graco and Mr. Earnshaw, and shall be customary for seeking employment at the level of the position Mr. Earnshaw held at Graco.

6. Cooperation

   Mr. Earnshaw shall render all reasonable cooperation to Graco in connection with the prosecution or defense of any lawsuit or other judicial or administrative action, including participating as a source of information or witness in any such action. Graco shall reimburse Mr. Earnshaw for any reasonable out-of-pocket expenses (including attorneys' fees, if necessary) incurred by him in connection with rendering such cooperation.

7. Confidentiality

   a. Mr. Earnshaw hereby agrees that, for a period of three (3) years after December 31, 1999, he will not, directly or indirectly, disclose any Confidential Information, as defined in subsection (b) below, to any other party, and will not in any way use such Confidential Information in the course of his business or employment during said period.

   b. As used herein, the term "Confidential Information" shall mean all information which is treated as confidential or proprietary by Graco in the normal course of its business, including, without limitation, documents so marked, or is a trade secret of Graco, which has been disclosed by Graco to Mr. Earnshaw including, without limitation, information relating to Graco products, processes, product development or research, equipment, machinery, apparatus, business operations, financial results or condition, strategic plans or projections, customers, suppliers, marketing, sales, management practices, technical information, drawings, specifications, material, and the like, and any knowledge or information developed by Mr. Earnshaw relating to the same, provided, however, that Confidential Information shall not include information which is at the time of disclosure, or thereafter becomes, a part of the public domain through no act or omission by Mr. Earnshaw or information which Mr. Earnshaw is required to disclose in a court or other judicial proceeding or is otherwise legally required to disclose.

   c. The provisions of this Section 7 are in addition to, and not in lieu of, the fiduciary and other duties and obligations of Mr.

Earnshaw as an employee, officer and director of Graco, and this Section 7 does not limit said obligations in any way, by time or otherwise.

8. Release

a. Except with respect to the provisions of this Agreement Mr. Earnshaw hereby releases and forever discharges Graco and its officers, employees, agents, successors, and assigns from any and all claims, causes of action, demands, damages, liability and responsibility whatsoever, arising prior to the date of this Agreement, including without limitation, any rights or claims for further compensation, or any rights to participate in any Company-sponsored program relating to the purchase or acquisition of any Graco common stock, preferred stock, or other equity in Graco or any subsidiary thereof (except as specifically provided in this Agreement), or any right or claim Mr. Earnshaw may have or assert under the common law or any state, municipal, federal, or other statute or regulation regarding the rights of employees generally or based on discrimination on the basis of race, creed, gender, age, or other protected status. This Section 8 shall not affect Mr. Earnshaw's rights to indemnification as an officer, director, and employee of Graco under Graco's by-laws and applicable Minnesota law nor any rights which he has accrued by participating in any Graco benefit plan, subject to the provisions of this Agreement and the terms and conditions set forth in such plan as of his resignation date.

b. Mr. Earnshaw certifies, represents and agrees that:

(i) this Agreement is written in a manner that he understands;

(ii) he understands that this Section 8 specifically waives any rights or claims he may have arising under federal, state, and local laws prohibiting employment discrimination, such as the Age Discrimination in Employment Act, the Minnesota Human Rights Act, Title VII of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans with Disabilities Act and/or any claims for damages or for injuries based on common law theories of contract, quasi-contract or tort;

(iii) the waiver herein of rights or claims are to those which may have arisen prior to the execution date of this Agreement;

(iv) a portion of the consideration set out in this Agreement is in addition to compensation that he may already have been entitled to;

(v) he has been specifically advised in writing to consult with an attorney prior to executing this Agreement;

(vi) he has been informed that he has a period of at least twenty-one (21) calendar days within which to consider this Agreement;

(vii) he specifically understands that he may revoke this Agreement for a period of at least fifteen (15) calendar days following his execution of this Agreement, and that this Agreement is not effective or enforceable until the fifteen (15) day revocation period has expired;

(viii) if he decides to revoke this Agreement within said fifteen (15) day period, he should provide written notice to the Vice President, General Counsel and Secretary, delivered in person or by mail. If his revocation is sent by mail, it must be postmarked on or before January 15, 2000, properly addressed to Robert M. Mattison, Vice President, General Counsel and Secretary, Graco Inc., P.O. Box 1441, Minneapolis, MN 55440, and sent by certified mail, return receipt requested. Mr. Earnshaw understands that Graco will have no obligation to pay him anything under this Agreement if he revokes his acceptance within the time limit specified, and that he will be obligated to immediately refund to Graco all sums paid to him by Graco pursuant hereto.

(ix) Mr. Earnshaw expressly agrees that the waiver of his rights pursuant to the Agreement is knowing and voluntary on his part.

9. Applicable Law

Except to the extent governed by federal law, this Agreement and any controversies between the parties shall be governed by and construed in accordance with the laws of the State of Minnesota.

10. Entire Agreement

This Agreement constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and, except as otherwise specifically provided herein specifically supersedes and replaces any and all prior written or oral agreements or understandings, including but not limited to the letter agreement between Mr. Earnshaw and Graco dated December 22, 1998. This Agreement may not be amended except in a writing signed by authorized representatives of both parties.

11. Headings

The headings of the paragraphs herein are included solely for the convenience of reference and shall not control the meaning or interpretation of any provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate originals on the day and year first above written.

GRACO INC.

By: /s/David A. Koch

David A. Koch
Chairman

JAMES A. EARNSHAW

/s/James A. Earnshaw
- ------------------------------

Exhibit A

January 5, 2000

Mr. James A. Earnshaw
6407 Oxbow Bend
Chanhassen, MN 55317

Dear Jim:

This letter will review the status of your Graco benefit programs following your termination of employment with the Company, and advise you of decisions that need to be made concerning these programs. In summarizing the benefits in this letter, December 31, 1999 was used as your last day of employment.

Health Coverage

Your group Health coverage through HealthPartners would normally end December 31, 1999. You have the option to retain family coverage until you are eligible for coverage through a new employer, or for a period of 18 months, whichever is shorter. Coverage can be extended from January, 2000 through June, 2001. You have the option of continuing coverage for three months at the employee rate of $84.44 per month. You may then extend coverage for an additional 15 months by paying the full monthly premium of $538.40. Premium rates and benefit levels are subject to future changes. You have 60 days from the date of your separation or the date of this letter, whichever is longer, to elect continuation coverage.

It will be your responsibility to pay the monthly premium to Graco to continue your Health coverage. Your first check or money order should be made payable to Graco Inc., and sent to the Benefits Department on or before January 17, 2000, to guarantee uninterrupted medical coverage. Subsequent checks should be received by the Payroll Department no later than the first of each month. Failure to make timely payments will result in the automatic termination of coverage. You will not receive any statements or reminders. Please indicate on the enclosed form whether you elect to continue your Health coverage. If you elect to continue coverage, continuation coupons will be sent to you indicating your monthly premium amount.

Please note: If you elect continuation coverage after the date your coverage would normally end, you must submit premium payments retroactive to the time your coverage as an employee ceased. In addition, any medical expenses you incur during this period will be delayed in processing until coverage is reinstated.

Dental Coverage

Your Dental coverage through Prudential would normally end December 31, 1999. You have the option to retain family coverage until you are eligible for coverage through a new employer, or for a period of 18 months, whichever is shorter. Your coverage can be extended from January, 2000 through June, 2001. You have the option of continuing coverage for three months at the employee rate of $25.08 per month. You may then extend coverage for an additional 15 months by paying the full monthly premium of $79.89. This continuation coverage will be through Delta Dental. Premium rates and benefit levels are subject to future changes. Payment is handled in the same manner as Health coverage. Please indicate on the enclosed form whether you elect to continue your Dental coverage.

Business Travel Accident, Seatbelt Accident, Dependent Life Insurance, and Disability Coverages

Your Business Travel Accident, Seatbelt Accident, Dependent Life Insurance, and

Disability coverages ended on December 31, 1999. There are no provisions to extend coverages.

Life Coverage

Your Basic and Supplemental Life coverage would normally end on December 31, 1999. You have the option of extending your $200,000 Basic Life coverage and your $360,000 Supplemental Life coverage until you are eligible for coverage through a new employer, or for a period of 18 months, whichever is shorter. Coverage can be extended from January, 2000 through June, 2001, by paying the following monthly premium:

o Basic Life Coverage	$54.00
o Supplemental Life Coverage	187.20

Total	$241.20 Per Month

Premium rates are subject to future changes. Please indicate on the enclosed form whether you elect to continue your Life coverage.

Conversion to a private policy is available either when your coverage as an employee ends or after you complete the full 18 month extension. You may convert any increment of $1,000, from a minimum of $5,000 up to a maximum of your total coverage through Graco. If you convert now, conversion is to a whole life policy with the rate set for the life of the policy. Payments can be established on a quarterly, semi-annual or annual basis. If you convert after your 18 month extension, conversion is to a three year renewable term policy. Your premium will be adjusted every three years to reflect your new age. Premiums are paid on an annual basis only. If you wish to convert to a private policy, it is your responsibility to contact us for a conversion form. You have 31 days from the date your coverage would normally end to make this conversion.

Executive Long Term Disability Policy

Your Executive Long Term Disability Policy with Graco will end on December 31, 1999. Chaffee and Westenberg Companies, brokers for the Plan, will contact you regarding conversion rights.

Expense Reimbursement Account

You were enrolled in Graco's health care expense reimbursement account for the 1999 plan year. Claims on expenses incurred prior to leaving Graco may be filed between now and February 29, 2000. Thereafter, remaining funds will be forfeited.

Vacation

Payment for any hours of unused vacation will be forwarded to you.

Graco Employee Investment Plan

You are eligible for a distribution from your Employee Investment Plan account. As of January 3, 2000, your account balances are as follows:

Pre-Tax Account	$7,929.98
Employer Account	1,941.43

Total EIP Account	$9,871.41
	=========

You may elect one of the following distribution options:

- Single lump sum distributed in cash.

- Installment payments paid annually, quarterly, or monthly, in cash.

- Defer distribution until the close of the calendar year in which you reach age 70 1/2. (Note: This is the maximum age to which distribution can be deferred. Distribution may be deferred to an earlier date.)

- Rollover of Pre-Tax and Employer contributions and investment earnings to Individual Retirement Account (IRA) or new employer plan. A rollover may be made directly to your IRA or new employer plan, without withholding taxes being applicable. Graco stock may be distributed in cash or stock, depending on the requirements of the new employer plan. A rollover may be distributed to you for transmission to a new plan, but a 20% withholding will apply (see the enclosed Special Tax Notice).

You have not paid taxes on any of these funds, and the entire account balance will be taxable to you when funds are distributed. You should note that the taxable portion of your account balance is subject to federal income tax. If you receive any payment before you reach age 59 1/2, an additional 10% income tax penalty will apply to all taxable amounts. These include your Pre-Tax contributions, Employer contributions, and earnings on all accounts.

A request for distribution of Employee Investment Plan assets can be made 30 days after your employment separation date. Please contact the Plan's Helpline at (888) 319-9451, or (612) 316-1355 in Minneapolis/St. Paul. You will receive a form from Norwest to access a total distribution in either a single lump sum cash payment, or a direct rollover to another employer plan or qualified IRA. Complete and return the form to Norwest for processing. An application received prior to 30 days after separation from employment cannot be processed.

If you decide to defer distribution of your account, you do not need to take any action at this time.

Graco Employee Retirement Plan

The Employee Retirement Plan provides a vested benefit at retirement age for employees who have completed five years of service with the Company. Your period of service with Graco was less than five years, therefore, you are not entitled to a retirement benefit.

We advise you review the enclosed Special Tax Notice for information regarding the federal tax implications of decisions made with respect to Graco Employee Benefit Plans.

Please complete and return the enclosed paperwork at your earliest convenience. If you have any questions concerning your benefits, please contact me at (612) 623-6628.

Sincerely,

/s/Carolyn Haeger
Carolyn Haeger
Benefits Technician

CERTIFICATE OF GROUP HEALTH PLAN COVERAGE

* IMPORTANT - This certificate provides evidence of your prior health coverage. You may need to furnish this certificate if you become eligible under a group health plan that excludes coverage for certain medical conditions that you have before you enroll. This certificate may need to be provided if medical advice, diagnosis, care, or treatment was recommended or received for the condition within the 6-month period prior to your enrollment in the new plan. If you become covered under another group health plan, check with the plan administrator to see if you need to provide this certificate. You may also need this certificate to buy, for yourself or your family, an insurance policy that does not exclude for medical conditions that are present before you enroll.

1. Date of this certificate: January 5, 2000

2. Name of group health plan: HealthPartners

3. Name of participant: James Earnshaw

4. Social Security Number of participant: ###-##-####

5. Name of any dependents to whom this certificate applies: Judith, Emilie, and Alexander Earnshaw

6. Name, address, and telephone number of plan administrator or Issuer responsible for providing this certificate:

   Graco, Inc.
   P.O. Box 1441
   Minneapolis, MN 55440

7. For further information, call: (612) 623-6628

8. If the individual(s) identified in line 3 and line 5 has at least 18 months of creditable coverage (disregarding periods of coverage before a 63-day break), check here __ and skip lines 9 and 10.

9. Date waiting period or affiliation period (if any) began: March 1, 1999

10. Date coverage began: March 1, 1999

11. Date coverage ended: December 31, 1999

Note: separate certificates will be furnished if information is not identical for the participant and each beneficiary.

February 1999

EXECUTIVE OFFICER
ANNUAL INCENTIVE BONUS PLAN

1. Definitions. When the following terms are used herein with initial capital letters, they shall have the following meanings:

    1.1 Base Salary - a specific dollar amount for each Participant as identified in Schedule A

    1.2 Compensation Committee - the Management Organization and Compensation Committee of the Board of Directors of Graco Inc.; it is intended that the Compensation Committee will satisfy the requirements of Section 162(m) of the Code by being comprised of two or more "outside directors."

    1.3 Code - the Internal Revenue Code of 1986, as it may be amended from time to time, and any proposed, temporary or final Treasury Regulations promulgated thereunder.

    1.4 Company - Graco Inc., a Minnesota corporation, and any of its affiliates that adopt the Plan.

    1.5 Eligible Employee - the chief executive officer and any executive officer of the Company designated by the Compensation Committee.

    1.6 Participant - an Eligible Employee designated by the Compensation Committee, at any time ending on or before the 90th day of each Performance Period, as subject to the Plan.

    1.7 Performance Period - the Company's fiscal year.

    1.8 Plan - this Executive Officer Annual Incentive Bonus Plan.

    1.9 Maximum Targeted Bonus Percentage - the maximum potential bonus payout expressed as a percentage of Participant's Base Salary as identified in Schedule B.

    1.10 Company Performance Target(s) - the financial growth target(s) established by the Compensation Committee for a Performance Period and reflected in the percentages identified in Schedule C. The Company Performance Target(s) shall be directly and specifically tied to one or more of the following financial measures: consolidated pre-tax earnings, net revenues, net earnings, operating income, earnings before interest and taxes, cash flow, return on equity, return on net assets employed or earnings per share [hereinafter "Financial Measure(s)"]for the applicable Performance Period, all as computed in accordance with generally accepted accounting principles as in effect from time to time and as applied by the Company in the preparation of its financial statements and subject to other special rules and conditions as the Compensation Committee may establish at any time ending on or before the 90th day of the applicable Performance Period. Any Financial Measure may be stated in absolute terms or as compared to another company or companies. Such Financial Measures shall constitute the sole bases upon which the Company Performance Targets shall be based.

2. Administration.

    2.1 Determinations must be made prior to each Performance Period - At any time ending on or before the 90th day of each Performance Period, the Compensation Committee shall:

        (a) designate the Participants in the Plan for that Performance Period;

        (b) indicate the Base Pay of each Participant for the Performance Period by amending Schedule A in writing;

        (c) establish Targeted Bonus Percentages for the Performance Period by amending Schedule B in writing;

        (d) establish Company Performance Target(s)s for the Performance Period by amending Schedule C in writing.

    2.3 Certification - Following the close of each Performance Period and prior to payment of any bonus under the Plan, the Compensation Committee must certify in writing that the Company Performance Target(s) and all other factors upon which a bonus is based have been attained.

    2.4 Shareholder Approval - The material terms of the Plan shall be disclosed to and approved by shareholders of the Company in accordance with Section 162(m) of the Code. No bonus shall be paid under the Plan unless such shareholder approval has been obtained.

3. Bonus Payment

    3.1 Maximum - Each Participant shall receive a bonus payment for each Performance Period calculated in accordance with the formula set forth in subparagraph 3.2 and in an amount not greater than the Participant's Maximum Targeted Bonus Percentage multiplied by the Participant's Base Salary.

3.2 Formula - Subject to other provisions of this Plan, each Participant shall receive a bonus payment for each Performance Period calculated as follows:

(a) Each of the Company Performance Targets shall be assigned a weight expressed as a percent of the Participant's Maximum Targeted Bonus Percentage.

(b) At the conclusion of each Performance Period, the percent of the Participant's Maximum Targeted Bonus Percentage achieved for each applicable Financial Measure shall be calculated.

(c) The percentages achieved by performing the calculation described in subparagraph 3.2(b) shall be added together and this sum shall be multiplied by the Participant's Maximum Targeted Bonus Percentage.

(d) The amount obtained by performing the calculation described in subparagraph 3.2(c) shall be multiplied by the Participant's Base Salary.

3.3 Limitations

(a) No payment if Company Performance Targets not achieved - In no event shall any Participant receive a bonus payment hereunder if the Company Performance Targets and all other factors on which the bonus payment is based are not achieved during the Performance Period.

(b) No payment in excess of preestablished amount - No Participant shall receive a payment under the Plan for any Performance Period in excess of One Million Dollars ($1,000,000).

(c) Pro-ration or elimination of Bonus payment - Participation in the Plan ceases with resignation, termination, retirement, death or long-term disability. A Participant who resigns or is terminated effective during the Performance Period is ineligible for a bonus payment. A Participant who retires, dies or becomes eligible for long-term disability benefits under the Company's long-term disability benefit plan during the Performance Period will be paid a bonus based on a calculation performed in accordance with the provisions of subparagraph 3.2, provided, however, the Participant's Base Salary shall be pro-rated to the date of retirement, death or eligibility for long-term disability benefits.

4. Time and Form of Payments; Taxability - Subject to any deferred compensation election pursuant to any such plans of the Company, a bonus payment shall be made to the Participant in one or more cash payments as soon as determined by the Compensation Committee after it has certified that the Company Performance Target(s) and all other factors upon which the bonus payment for the Participant is based have been achieved.

4.1 Nontransferability - Participants and beneficiaries shall not have the right to assign, encumber or otherwise anticipate the payments to be made under the Plan, and the benefits provided hereunder shall not be subject to seizure for payment of any debts or judgments against any Participant or any beneficiary.

4.2 Tax Withholding - In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant.

5. Amendment and Termination - The Compensation Committee may amend the Plan prospectively at any time and for any reason deemed sufficient by it without notice to any person affected by the Plan and may likewise terminate or curtail the benefits of the Plan, both with regard to persons expecting to receive benefits hereunder in the future and persons already receiving benefits at the time of such action, provided that no amendment to the Plan shall be effective which would increase the maximum amount payable to a Participant under paragraph 3.3(b), which would change the Financial Measures upon which Company Performance Targets must be based as set forth in subparagraph 1.10 of this Plan or which would modify the requirements for eligibility under subparagraph 1.5, unless the shareholders of the Company shall have approved such change in accordance with the requirements of Section 162(m).

6. Miscellaneous

6.1 Effective Date - January 1, 1999

6.2 Term of the Plan - Unless the Plan shall have been discontinued or terminated, the Plan shall terminate on December 31, 2003. No bonus shall be granted after the termination of the Plan; provided, however, that a payment with respect to a Performance Period which begins before such termination may be made thereafter. In addition, the authority of the Compensation Committee to amend the Plan shall extend beyond the termination of the Plan.

6.3 Headings - Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

6.4 Applicability to Successors - The Plan shall be binding upon and inure to the benefit of the Company and each Participant, the successors and assigns of the Company, and the beneficiaries, personal representatives and heirs of each Participant. If the Company becomes a party to any merger, consolidation or reorganization, this Plan shall remain in full force and effect as an obligation of the Company or its successors in interest.

6.5 Employment Rights and Other Benefit Programs - The provisions of the Plan shall not give any Participant any right to be retained in the employment of the Company. In the absence of any specific agreement to the contrary, the Plan shall not affect any right of the Company, or of any affiliate of the Company, to terminate, with or without cause, the Participant's employment at any time. The Plan shall not replace any contract of employment, whether oral or written, between the Company and any Participant, but shall be considered a supplement thereto. The Plan is in addition to, and not in lieu of, any other employee benefit plan or program in which any Participant may be or become eligible to participate by reason of employment with the Company. Receipt of benefits hereunder shall have such effect on contributions to and benefits under such other plans or programs as the provisions of each such other plan or program may specify.

6.6 No Trust or Fund Created - The Plan shall not create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any affiliate and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company or any affiliate pursuant to the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company or of any affiliate.

6.7 Governing Law - The validity, construction and effect of the Plan or any bonus payable under the Plan shall be determined in accordance with the laws of the State of Minnesota.

6.8 Severability - If any provision of the Plan is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Compensation Committee, materially altering the purpose or intent of the Plan, such provision shall be stricken as to such jurisdiction, and the remainder of the Plan shall remain in full force and effect.

6.9 Qualified Performance-Based Compensation - All of the terms and conditions of the Plan shall be interpreted in such a fashion as to qualify all compensation paid hereunder as qualified performance-based compensation within the meaning of Section 162(m) of the Code.

SCHEDULE A

BASE SALARY FOR PERFORMANCE PERIOD
BEGINNING ON ___________ AND ENDING ON __________

Name	Base Salary
	Actual paid salary for the calendar year that most closely coincides with Company fiscal year but not in excess of $1,250,000

SCHEDULE B

TARGETED BONUS PERCENTAGE FOR PERFORMANCE PERIOD
BEGINNING ON ___________ AND ENDING ON __________

Name	Minimum Targeted Bonus Percentage as a Percentage of Base Salary	Maximum Targeted Bonus Percentage as a Percentage of Base Salary

SCHEDULE C

COMPANY PERFORMANCE TARGETS
FOR PERFORMANCE PERIOD
BEGINNING ON ___________ AND ENDING ON __________

Financial Measure(s)	Company Performance Target(s) Weight	Minimum Company Performance Target(s)	Maximum Company Performance Target(s)
	______%	$_________	$________
	______%	$_________	$________

5

Financial data schedule for the Year Ended 12/31/99

0000042888

Graco Inc.

1,000
U.S. Dollars

12-MOS
DEC-31-1999
DEC-26-1998
DEC-31-1999
1
6,588
0
84,167
4,471
37,702
137,989
182,156
95,663
236,033
78,263
66,910
0
0
20,416
42,524
236,033
442,474
442,474
211,339
211,339
142,294
333
7,016
88,841
29,500
59,341
0
0
0
59,341
2.93
2.84

Exhibit 99

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Graco Inc. (the "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 the Company with the Securities and Exchange Commission, including the Company's Form 10-K, Form 10-Q and Form 8-K, its Annual Report to Shareholders, and other written documents or oral statements released by the Company, may contain forward-looking statements. Forward-looking statements generally use words such as "expect," "foresee," "anticipate," "believe," "project," "should," "estimate," and similar expressions, and reflect the Company's expectations concerning the future. Such statements are based upon currently available information, but various risks and uncertainties may cause the Company's actual results to differ materially from those expressed in these statements. Among the factors which management believes could affect the Company's operating results are the following:

- With respect to the Company's business as a whole, the Company's prospects and operating results may be affected by:

    - changing economic conditions in the United States and other major world economies, including economic downturns or recessions and foreign currency exchange rate fluctuations;

    - international trade factors, including changes in international trade policy, such as export controls, trade sanctions, increased tariff barriers and other restrictions; weaker protection of the Company's proprietary technology in certain foreign countries, the burden of complying with foreign laws and standards; and potentially burdensome taxes;

    - the ability of the Company to develop new products and technologies; maintain and enhance its market position relative to its competitors; maintain and enhance its distribution channels; realize productivity and product quality improvements; and continue to control expenses.

    - disruption in operations, transportation, communication, sources of supply, customer operations or payment, caused by political or economic instability, acts of God, labor disputes, war, embargo, fire or other cause beyond its reasonable control.

    - changes in the markets in which the Company participates, including consolidation of competitors and major customers.

- The prospects and operating results of the Company's Contractor Equipment Division may be affected by: variations in the level of residential, commercial and institutional building and remodeling activity; the availability and cost of financing; changes in the environmental regulation of coatings; consolidation in the paint equipment manufacturing industry; changes in construction materials and techniques; the cost of labor in foreign markets; the regional market strength of certain competitors; and 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 the Company's Industrial/Automotive Equipment Division may be affected by: the capital equipment spending levels of industrial customers; the availability and cost of customer financing; changes in the environmental regulation of coatings; changes in the technical characteristics of materials; changes in application technology; the ability of the Company to meet changing customer requirements; consolidation in the fluid handling equipment manufacturing industry; the equipment purchase plans of major automobile manufacturers worldwide (which are in turn impacted by the level of automotive sales worldwide); changes in automotive manufacturing processes; the pricing strategies of competitors; consolidation in the automobile manufacturing industry worldwide; and the success of the Company in moving its automotive customers from custom-designed systems purchased directly from the Company to the purchase of package modules sold through integrators and distributors.

- The prospects and operating results of the Company's Lubrication Equipment Division may be affected by consolidation in the oil industry; the development of extended life lubricants for vehicles; the reduction in the need for changing vehicle lubricants; and variations in the equipment spending levels of the major oil companies.