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 30, 1994 (Fee Required) 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. 1-9249

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 55422-5332
(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 6, 1995, 11,377,904 shares of 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 7,313,000 shares held by non-affiliates of the registrant was approximately $167 million on March 6, 1995.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 2, 1995, 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

NOTE: Certain exhibits listed in the Index to Exhibits beginning on page 30, 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 and commercial settings. It manufactures and markets systems and equipment to move, measure, control, dispense and apply fluid materials. The Company helps customers solve difficult manufacturing problems, increase productivity, improve quality, conserve energy, save expensive materials, control environmental emissions and reduce labor costs. Primary uses of the Company's equipment include the application of coatings and finishes to various industrial and commercial products; the mixing, metering, dispensing and application of adhesive, chemical bonding, and sealant materials; the application of paint and other materials to architectural structures; the lubrication and maintenance of vehicles and industrial machinery; and the transferring and dispensing of various fluids. Graco is the successor to Gray Company, Inc., which was incorporated in 1926 as a manufacturer of auto lubrication equipment, and became a public company in 1969.

It is Graco's goal to become the highest quality, lowest cost, most responsive supplier in the world for its principal products. In working to achieve these goals to become a world class manufacturer, Graco has been converting its Minneapolis manufacturing operations to focused factories, organized around team-directed manufacturing cells, a process expected to be completed in 1997. Substantial investments in new manufacturing technology have reduced cycle time and improved quality.

The Company operates in one industry segment, namely, the design, manufacture, marketing, sale and installation of systems and equipment for the management of fluids. Financial information concerning geographic operations and export sales for the last three fiscal years is set forth in Note B of the Notes to Consolidated Financial Statements.

Recent Developments. During 1994, the Company began the restructuring and consolidation of its operations in Europe and Japan. The European customer service and distribution functions were relocated from the Company's facility in Rungis, France to the new facility in Maasmechelen, Belgium. In the fall of 1994, Graco announced that management of its European operations would be centralized in a new headquarters operation at the Company's recently expanded facility in Maasmechelen, Belgium during 1995. In June of 1994, Graco initiated an intensive evaluation of its domestic marketing and sales groups with the goal of maximizing effectiveness and substantially reducing the cost of sales. Implementation of the recommendations generated by this evaluation are currently underway. As of January 1, 1995, the majority of order entry, customer service, and accounting functions for Graco's Canadian subsidiary was being performed in the United States. In 1994, Graco began a construction project to more than double the size of the Russell J. Gray Technical Center to house additional testing and product development activities and personnel. Manufacturing in Minneapolis operated at near peak capacity during 1994.

Products. Graco Inc. manufactures a wide array of specialized pumps, applicators, regulators, valves, meters, atomizing devices, replacement parts, and accessories, which are used in industrial and commercial applications in the movement, measurement, control, dispensing and application of many fluids and semi-solids, including paints, adhesives, sealants, and lubricants. In addition, it offers an extensive line of portable equipment which is used in construction and maintenance businesses for the application of paint and other materials. Graco fluid systems incorporate sophisticated paint circulating and fluid application technology.

Commercial and industrial equipment offered by Graco includes specialized pumps, air and airless spray units, manual finishing equipment and fluid handling systems. A variety of pumps provide fluid pressures ranging from 20 to more than 6,000 pounds per square inch and flow rates from under 1 gallon to 140 gallons per minute.

The Company sells accessories for use with its equipment, including hoses, couplings, regulators, valves, filters, reels, meters, and gauges, as well as a complete line of spray guns, tips and applicators. These accessories increase the flexibility, efficiency and effectiveness of Graco equipment. Packings, seals, hoses and other parts, which must be replaced periodically in order to maintain efficiency and prevent loss of material, are also sold.

Sales of replacement parts and accessories have averaged 43 percent of the Company's consolidated net sales and approximately 49 percent of gross profits during the last three years. The following table summarizes the consolidated net sales and gross profits (net sales less cost of products sold) by the Company's principal product groups for that same period.

Product Group Sales and Gross Profit

(In thousands)	1994		1993		1992	
NET SALES						
Commercial and industrial equipment	$204,584	56.8%	$179,619	55.7%	$188,681	58.9%
Accessories and replacement parts	155,429	43.2	142,983	44.3	131,653	41.1
	$360,013	100.0%	$322,602	100.0%	$320,334	100.0%
GROSS PROFIT						
Commercial and industrial equipment	$ 89,262	51.3%	$ 76,325	49.8%	$ 82,859	52.9%
Accessories and replacement parts	84,749	48.7	76,802	50.2	73,827	47.1
	$174,011	100.0%	$153,127	100.0%	$156,686	100.0%

Marketing and Distribution. Graco's operations are organized to allow its full line of fluid handling products and systems to be offered in each major geographic market: the Americas, Europe and Pacific. The Industrial Equipment Division, the Automotive Equipment Division, the Contractor Equipment Division, and the Lubrication Equipment Division provide worldwide marketing direction and product design and application assistance to each of these geographic markets.

Graco's equipment is sold worldwide principally through the Company's international sales subsidiaries, direct sales personnel and regional distributors. Manufacturers' representatives are used with some product lines. In the Americas, the Company maintains a specialized direct sales force which handles sales of large systems and sales to certain corporate accounts.

In 1994, Graco's net sales in the Americas were $241,169,000 or approximately 67 percent of the Company's consolidated net sales; in Europe (including the Middle East and Africa) net sales were $65,888,000 or approximately 18 percent; and in the Pacific region, net sales were $52,956,000 or approximately 15 percent.

Research, Product Development and Technical Services. Graco's research, development and engineering activities focus on new product design, product improvements, applied engineering and strategic technologies. A dedicated support group of application engineers and technicians also provides specialized technical assistance to customers in the design and evaluation of fluid transfer and application systems. It is one of Graco's financial goals to generate 30 percent of each year's sales from products introduced in the prior three years. To achieve this goal, Graco substantially increased its new product design and application engineering staff, and more than doubled the size of the Russell J. Gray Technical Center to provide expansion space for engineering, testing and laboratory activities during 1994. Occupancy of the new wing of the Technical Center will be completed by May 1995. Total research and development expenditures were $14,591,000, $12,382,000 and $10,616,000 for the 1994, 1993 and 1992 fiscal years, respectively.

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 in that 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. Graco believes it is one of the world's leading producers of high-quality specialized fluid management equipment and systems. It is impossible, because of the absence of reliable industry-wide figures, to determine its exact relative market position.

Environmental Protection. During the fiscal year ending December 30, 1994, 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 30, 1994, the Company employed approximately 2,075 persons on a full-time basis. Of this total, approximately 390 were employees based outside the United States, and 815 were hourly factory workers in the United States. Although Graco's U.S. employees are not covered by collective bargaining agreements, various national industry-wide labor agreements apply to select employees in Europe. The Company believes it has a good relationship with its employees.

Item 2. Properties

The Company owns the four buildings which house its corporate offices, principal manufacturing, assembly and research and development activities. These buildings, located in Minneapolis, Minnesota, have an aggregate area of approximately 664,200 square feet. The Company's distribution operations are located in 123,800 square feet of space in a Minneapolis suburb under a lease which expires at the end of 1996. The Company's technical assistance, product service and technical publications departments are located in 18,200 square feet of space in Minneapolis, under a lease which will expire in 1996.

The Company owns a 106,000 square foot facility in Plymouth, Michigan, which contains manufacturing, engineering and administrative operations devoted primarily to sales to the automotive industry. A 55,000 square foot building in Farmington Hills, Michigan and a 57,000 square foot building in Wixom, Michigan are currently for sale.

Graco manufactures paint spray guns and other products and accessories in a Company-owned 55,000 square foot building in Sioux Falls, South Dakota. The Company owns an office and plant located in Franklin Park, Illinois, of approximately 82,000 square feet. Graco's Japanese subsidiary leases an office building which functions as its technical sales center which houses engineering, demonstration and test activities, customer service, information systems and administration and a warehouse, all under long-term leases with renewal options on favorable terms. Graco's Canadian subsidiary owns a 20,000 square foot facility in Mississaugua, Ontario, which contains office and warehouse space. With the exception of the Maasmechelen facility, which is owned by the Belgium subsidiary, the Company leases branch or subsidiary sales offices in the United States and abroad, some of which have demonstration areas and/or warehouse space.

During 1994, Graco built a 67,000 square foot warehouse, production and office building in Maasmechelen, Belgium. An expansion of 8,800 square feet was started in late 1994 to accommodate the European headquarters operations being relocated from France to Belgium, with completion expected the second quarter of 1995. European customer service, distribution and modular assembly functions formerly based in France and assembly operations previously carried on in Houthhalen, Belgium, were consolidated in 1994 at this location. In 1995, Graco plans to relocate its operations in the Midlands region of the United Kingdom to a better quality leased facility with office, systems assembly and warehouse space. In Minneapolis, an 80,000 square foot expansion of the Company's Russell J. Gray Technical Center is nearing completion, with occupancy expected to be complete by May, 1995.

Graco's facilities are in good operating condition, suitable for their respective uses and are sufficient and adequate to meet current needs, with the recent and planned expansions.

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 1994.

Executive Officers of the Company

The following are all the executive officers of the Company as of March 1, 1995. There are no family relationships between any of the officers named.

David A. Koch, 64, is Chairman and Chief Executive Officer, positions he has held since 1985. He joined the Company in 1956 and held various sales and marketing positions with the Company prior to assuming the office of President in 1962. For a five month period from January to June 1993, he also held the office of President. He has served as a director of the Company since 1962.

George Aristides, 59, was named President and Chief Operating Officer and was elected a director of the Company in June 1993. He became Executive Vice President, Industrial/Automotive Equipment Division, Manufacturing, Distribution and Eurafrican Operations, in March 1993. From 1985 until 1993, he was Vice President, Manufacturing Operations and Controller. He joined the Company in 1973 as Corporate Controller and became Vice President and Controller in 1980.

John L. Heller, 58, was named Senior Vice President and General Manager - Contractor Equipment Division in July 1993. He became Vice President, Far East Operations and Latin America, in 1992. Prior to becoming Vice President, Far East Operations in 1984, he held various management and staff positions in sales and human resources. He joined the Company in 1972.

Roger L. King, 49, was named Senior Vice President and General Manager - International Operations in July 1993. He is responsible for Graco's sales activities and operations outside North America. He became Senior Vice President and Chief Financial Officer in March 1993, and Vice President and Treasurer in 1987. Prior to becoming Vice President, Treasurer and Secretary in 1980, he held the position of Treasurer and Secretary and various treasury management positions with Graco. He joined the Company in 1970.

James A. Graner, 50, 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 as an accountant.

Clyde W. Hansen, 62, was elected Vice President, Human Resources, in December 1993. He joined the Company in 1984 as Employee Relations Director, a position he held until his election.

David M. Lowe, 39, was elected to the position of Treasurer in February 1995. Prior to joining the Company, he was employed by Ecolab Inc. in St. Paul, Minnesota, where he held various positions in the Treasury Department, including Manager-Corporate Finance; Director, Corporate Finance and most recently Director, Corporate Development.

Robert M. Mattison, 47, was elected Vice President, General Counsel and Secretary, in January 1992. Prior to joining the Company, he held various legal positions with Honeywell Inc., most recently as Associate General Counsel.

Robert A. Wagner, 44, was elected Vice President, Asia Pacific of Graco Inc. and President, Graco K.K. effective January 1995. He became Vice President and Treasurer, Graco Inc., in February 1994. He joined the Company in December 1991, as Vice President, Corporate Development and Planning. Prior to joining the Company, he was employed by Texas Instruments for nearly five years, where he held various managerial positions, including Vice President and Manager, Corporate Development, a position which he held immediately prior to his departure.

Clayton R. Carter, 56, was appointed to the position of Vice President, Lubrication Equipment Division, effective January 1, 1995. He became Director, Vehicle Services Division, in February 1994. He joined the Company in 1962 and has held various sales management positions, most recently in the Contractor Equipment Division.

Thomas J. Fay, 44, is Vice President, European Operations, a position to which he was appointed on January 1, 1995. Prior to becoming General Manager of European Operations in March 1994, he held the position of General Manager, Region III, in Europe. Mr. Fay joined the Company in 1984 and held various sales management positions before moving to Europe in 1990.

Vincent C. Hren, 44, is Vice President and General Manager, Automotive Division, a position to which he was appointed in December 1994. Prior to joining the Company, he was employed by Fisher-Rosemount in various managerial positions in manufacturing, most recently as Vice President of Worldwide Operations.

Charles L. Rescorla, 43, is Vice President, Manufacturing Operations, a position to which he was appointed on January 1, 1995. Prior to becoming the Director of Manufacturing in March 1994, he was the Director of Engineering, Industrial Division, a position which he assumed in 1988 when he joined the Company.

With the exception of David M. Lowe, Clayton R. Carter, Thomas J. Fay, Vincent C. Hren, and Charles L. Rescorla, the officers identified were elected by the Board of Directors on May 3, 1994, to hold office until the next annual meeting of directors or until their successors are elected and qualify. In addition, effective January 1, 1995, Robert A. Wagner, who formerly held the position of Vice President and Treasurer, was elected to the office of Vice President, Asia Pacific, and on February 24, 1995, David M. Lowe was elected to the office of Vice President and Treasurer. Messrs. Carter, Fay, Hren, and Rescorla were appointed to their positions by management effective January 1, 1995, January 1, 1995, December 27, 1994, and January 1, 1995, respectively.

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 6, 1995, there were 11,377,904 shares outstanding and 1,800 common shareholders of record, with another estimated 1,800 shareholders whose stock is held by nominees or broker dealers.

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

1994	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$80,930	$94,179	$89,048	$95,856
Gross Profit	38,436	44,227	43,269	48,079
Net Earnings (Loss)	1,836	4,195	4,248	5,047
Per Common Share:				
Net Earnings (Loss)	.16	.36	.37	.44
Dividends Declared	.14	.14	.14	.16
Stock Price (per share)				
High	$ 24.16	$ 23.00	$ 18.88	$ 21.75
Low	20.00	18.75	16.88	18.00
Volume (# of shares)	2,056.7	373.6	603.1	288.4
1993				
Net Sales	$ 77,811	$ 79,415	$ 81,751	$ 83,625
Gross Profit	36,209	39,321	39,337	38,260
Net Earnings (Loss)	2,572	4,114	3,463	(656)
Per Common Share:				
Net Earnings (Loss)	.23	.36	.30	(.06)
Dividends Declared	.127	.127	.127	2.84
Stock Price (per share)				
High	$ 17.83	$ 21.67	$ 22.00	$ 24.25
Low	15.42	17.33	20.75	21.17
Volume (# of shares)	573.9	692.0	635.1	424.1

1 Includes the special one-time dividend of $2.70 per share declared December 17, 1993, paid March 21, 1994.

Item 6. Selected Financial Data

Graco Inc. & Subsidiaries

(In thousands, except per share amounts)	1994	1993	1992	1991	1990
Net Sales	$360,013	$322,602	$320,334	$311,874	$321,263
Earnings Before Change in Accounting Principles	15,326	9,493	11,145	8,946	17,713
Net Earnings	15,326	9,493	5,301	8,946	17,713
Per Common Share:					
Earnings Before Change in Accounting Principles	$ 1.32	$ .82	$ .97	$ .79	$ 1.63
Net Earnings	1.32	.82	.46	.79	1.63
Total Assets	$228,385	$216,365	$220,418	$205,929	$209,480
Long-term Debt (including current portion)	32,483	19,480	22,762	23,898	28,651
Redeemable Preferred Stock	1,474	1,485	1,487	1,493	1,493
Cash Dividends Declared per Common Share	$ .58	$ 3.22	$ .49	$ .45	$ .41

1 All per share data has been restated for the three-for-two stock split paid February 2, 1994.

2 Includes the special one-time dividend of $2.70 per post-split share paid March 21, 1994.

Above information includes Lockwood Technical, Inc. (LTI) and Graco Robotics Inc. (GRI), former wholly-owned subsidiaries, sold in 1992 and 1991, respectively.

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

MANAGEMENT'S REVIEW AND DISCUSSION

The following is Management's Review and Discussion and is not covered by the Independent Auditors' Report.

Net earnings in 1994 of $15,326,000 were significantly higher than the $9,493,000 in 1993, and the $5,301,000 in 1992. The 61 percent increase in 1994 primarily reflects the impact of higher sales and the decline in operating costs as a percent of sales. Operating costs include increased product development costs and restructuring charges. The increase in net earnings between 1993 and 1992 principally resulted from the one-time net reduction in 1992 of $5,844,000 for the cumulative effect of changes in two accounting principles.

The following table indicates the percentage relationship of income and expense items, before changes in accounting principles, included in the Consolidated Statements of Earnings for the three most recent 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)		
	1994	1993	1992	1994/93	1993/92	1992/91
Net Sales	100.0	100.0	100.0	12	1	3
Cost of Products Sold	51.7	52.6	51.1	10	4	2
Product Development	4.0	3.8	3.3	18	17	(11)
Selling	25.8	26.6	26.7	8	0	7
General & Administrative	11.2	11.8	12.8	6	(7)	3
Operating Profit	7.3	5.2	6.1	56	(13)	1
Interest Expense	(0.5)	(0.7)	(0.9)	(16)	(16)	(27)
Other (Expense) Income, Net	(0.3)	(0.3)	0.4	nmf	nmf	nmf
Earnings Before Income Taxes and Changes in Accounting Principles	6.5	4.2	5.6	70	(24)	18
Income Taxes	2.2	1.3	2.1	88	(38)	8
Earnings Before Changes in Accounting Principles	4.3	2.9	3.5	61	(15)	25

nmf - No Meaningful Figure

NET SALES

Graco achieved record sales in 1994. Net sales increased 12 percent to $360,013,000, principally as the result of significantly higher sales in the Americas in all divisions. Geographically, higher sales in the Americas, Europe and the Pacific were partially offset by a 14 percent sales decline in Japan. In 1993, sales increased 1 percent over 1992 as significant increases in the Americas and the Pacific were offset by declines in Europe and Japan. The impact of exchange rate movement on sales was not significant in 1994 when compared to 1993, or in 1993 when compared to 1992.

Consolidated backlog at December 30, 1994 was $25 million, compared to $20 million at year-end 1993 and $18 million at the end of 1992. The increased backlog at the end of 1994 resulted primarily from increased Automotive Equipment Division system orders in the Pacific.

Sales increased 12 percent in 1994 when compared to 1993 and 2 percent in 1993 from 1992, excluding operations divested in 1992.

				% Increase (Decrease)	
(In thousands)	1994	1993	1992	1994/93	1993/92
Division Sales:					
Industrial Equipment	$136,995	$118,155	$129,078	16	(8)
Automotive Equipment	67,457	64,765	62,587	4	3
Contractor Equipment	121,478	110,802	97,592	10	14
Lubrication Equipment	34,083	28,880	25,837	18	12
	360,013	322,602	315,094	12	2
Divested Operations	-	-	5,240	nmf	nmf
Consolidated	$360,013	$322,602	$320,334	12	1
Geographic Sales:					
Americas	$241,169	$206,464	$183,181	17	13
Europe	65,888	60,546	75,807	9	(20)
Pacific	52,956	55,592	56,106	(5)	(1)
	360,013	322,602	315,094	12	2
Divested Operations	-	-	5,240	nmf	nmf
Consolidated	$360,013	$322,602	$320,334	12	1

nmf - No Meaningful Figure

COST OF PRODUCTS SOLD

Cost of products sold in 1994, as a percent of net sales, decreased to 51.7 from 52.6 in 1993, primarily due to manufacturing efficiencies gained from continued investment in technology and increased manufacturing volumes. Manufacturing efficiencies gained from continued investment in state-of-the-art manufacturing technology, principally in Minneapolis, Minnesota, and Sioux Falls, South Dakota, have more than offset increases in raw material and subcontract costs. Partially offsetting these factors were an increased proportion of lower-margin, engineered industrial and automotive system sales.

Periodic price increases have generally permitted the Company to recover increases in the cost of products sold. The Company's last U.S. price change was effective in January 1995, and represented an average 2 percent increase from its April 1994 price lists. The April 1994 price change was an average 2 percent increase from June 1992 prices.

OPERATING EXPENSES

Operating expenses in 1994 increased 8.4 percent from 1993, due primarily to continued investment in product development and ongoing restructuring initiatives. Restructuring and work force reduction costs worldwide accounted for approximately 50 percent of the increase.

Product development expenses in 1994 increased 18 percent to $14,591,000 as the Company added engineering personnel to achieve its goal of increasing sales of new products.

Included in 1993 selling and general and administrative expenses are $1,700,000 of non-recurring costs, including costs for the relocation of administrative and technical facilities in Japan.

Included in 1992 selling and general and administrative expenses were $5,200,000 in costs associated with the relocation and consolidation of the Company's Detroit-based operations, reductions in the U.S. sales force and European operations, and other personnel reductions.

FOREIGN CURRENCY EFFECTS

The costs of the Company's products are generally denominated in U.S. dollars, with approximately 17 percent sourced in non-U.S. currencies. A greater proportion of its sales, approximately 32 percent, is denominated in currencies other than the U.S. dollar. As a result, a weakening of the U.S. dollar increases sales more than costs and expenses, improving the Company's gross and operating profits. During 1994 when compared to 1993, the U.S. dollar was generally weaker against other major currencies. In 1993 when compared to 1992, it was stronger.

The gains and losses that result from the translation of the financial statements for all non-U.S. subsidiaries, except Japan, and the gains and losses on the forward and option contracts used to hedge these exposures, are included in Other (expense) income. For 1995, the translation gains or losses included in Other (expense) income will include Japan.

In total, the effect of the changes in exchange rates on operating profits and the gains and losses included in Other (expense) income increased earnings before income taxes by $2,300,000 in 1994, when compared to 1993, and decreased earnings before income taxes by $4,500,000 in 1993, when compared to 1992.

OTHER (EXPENSE) INCOME

The decrease in interest expense in 1994 reflects a reduction in the amount of and interest rate on long-term debt. This decrease was offset by higher floating rate borrowings used primarily to finance the Company's increased working capital requirements and investments in plant and equipment during the year. Increased product demand accelerated previously scheduled investments in manufacturing equipment.

Other (expense) income of ($1,040,000), ($821,000) and $1,293,000 for 1994, 1993 and 1992, respectively, includes, among other things, the exchange gains and losses discussed previously, and a $1,800,000 gain on the sale of Lockwood Technical, Inc. (LTI) in 1992.

INCOME TAXES

The Company's net effective tax rate for 1994 was at the U.S. federal tax rate of 35 percent. The increase from the 31 percent rate for 1993 results principally from a non-recurring tax benefit received in 1993 associated with the increase in value of deferred tax assets caused by the U.S. statutory tax rate change to 35 percent. The effective tax rate of 38 percent in 1992 was higher than the then U.S. federal rate of 34 percent with the difference resulting principally from state taxes and foreign earnings taxed at rates higher than the U.S. rate. Reconciliation of the U.S. federal rate to the effective rates is discussed in Note D to the Consolidated Financial Statements.

EARNINGS BEFORE CHANGES IN ACCOUNTING PRINCIPLES

Earnings during 1994 increased by 61 percent to $15,326,000, or $1.32 per share, as compared to 1993, when earnings decreased by 15 percent to $9,493,000, or $.82 per share, from 1992 before changes in accounting principles.

CHANGES IN ACCOUNTING PRINCIPLES

The Company recorded one-time adjustments in 1992 for the cumulative effect of its required adoption of Statements of Financial Accounting Standards (SFAS) No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions) and No. 109 (Accounting for Income Taxes), as described in Note A to the Consolidated Financial Statements.

OUTLOOK

The Company anticipates higher sales in 1995 as the result of continued new product introductions, focus on specific industries, positive economic conditions in the Americas, improving conditions in Europe, and continued economic growth in the Pacific region, excluding Japan.

The restructuring efforts undertaken in recent years have positioned the Company to capitalize on future growth opportunities while benefiting from overall lower operating expenses as a percent of sales. The Company expects its restructuring efforts to continue, however, at a lower level than 1994. Full year gross profit margins are expected to improve moderately in 1995, as a result of manufacturing efficiencies and higher volumes, subject to the strength of the U.S. dollar (see Foreign Currency Effects). Operating expenses as a percent of sales are expected to decrease, even though the Company will continue to fund its long-term strategic initiatives in product development.

DIVIDEND ACTIONS

Over the last two years the Company has undertaken a number of measures to enhance shareholder value, broaden ownership, improve the liquidity of its common shares, and distribute excess cash balances:

- A three-for-two stock split distributed in 1994;
- A special one-time dividend of $2.70 per post-split share declared in 1993($31,224,000 in total);
- A 10 percent increase in the regular dividend in 1993;
- A 14 percent increase in the regular dividend in 1994.

ASSETS

The following table highlights several key measures of asset performance.

($ in thousands)	1994	1993	1992
Cash, Cash Equivalents and Marketable Securities	$ 2,444	$37,440	$38,186
Working Capital	$54,405	$47,648	$84,828
Current Ratio	1.6	1.5	2.1
Average Days Receivables Outstanding	71	71	67
Inventory Turnover	4.3	4.0	3.3

Improved inventory management early in 1994 led to an increase in inventory turns to 4.3 compared to 4.0 in 1993. However, year-end inventory balances were 41 percent higher than 1993, principally due to new product introductions, increased volume and additional inventory carried to support customer service levels. Management is focusing its efforts to further improve inventory turns in 1995.

Overall, 1994 collection performance was flat at 71 average days receivables outstanding. The 22 percent increase in accounts receivable to $75,589,000, resulted primarily from increased fourth quarter sales compared to 1993.

LIABILITIES

At year-end, long-term debt (including current portion) was 28 percent of total capital (long-term debt plus shareholders' equity) compared to 21 percent in 1993 and 18 percent in 1992. The Company had $19 million in unused credit lines available at December 30, 1994. While the Company believes available credit lines plus operating cash flows are adequate to fund the Company's short and long-term initiatives, additional credit lines may be arranged from time to time as necessary.

SHAREHOLDERS' EQUITY

Shareholders' equity totaled $81,851,000 on December 30, 1994, $7,166,000 higher than 1993, but down from 1992, as the result of the Company's decision to pay the special one-time dividend of $2.70 per share as previously noted.

CASH FLOWS FROM OPERATING ACTIVITIES

In 1994, cash flow from operations was $8,587,000, substantially less than net earnings. This is primarily the result of increased working capital requirements for inventory and accounts receivable. Cash flow from operating activities in 1993 was $23,116,000, $2,986,000 less than the $26,102,000 recorded in 1992.

Cash flows from operating activities have been, and are expected to be, the principal source of funds required for future additions to property, plant and equipment, and working capital, as well as for other corporate purposes.

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures were $23,100,000 in 1994, $16,178,000 in 1993 and $10,194,000 in 1992. These expenditures have enhanced the Company's engineering and manufacturing capabilities, improved product quality, increased capacity, and lowered costs. Expenditures in 1994 include the construction of an 80,000 square foot addition to the Company's technical center in Minneapolis, Minnesota and the acceleration of planned machinery purchases.

The Company expects to make approximately $25,000,000 in capital investments in 1995: $15,000,000 for machinery and equipment, $6,000,000 for the expansion of the Russell L. Gray Technical Center and $4,000,000 for manufacturing capacity expansion.

During 1994, the Company sold its marketable securities to fund the special one-time dividend of $31,224,000 paid to shareholders on March 21, 1994.

The Company realized cash proceeds of $8,569,000 on its sale of LTI in April 1992.

CASH FLOWS FROM FINANCING ACTIVITIES

The amount of common stock issued represents the funds received to purchase shares through the Company's dividend reinvestment plan, its Employee Stock Purchase Plan, and the distribution of shares pursuant to its Long Term Stock Incentive Plan, more fully described in Note F to the Consolidated Financial Statements.

Graco offers an Automatic Dividend Reinvestment Plan, which provides shareholders with a simple and convenient way to reinvest quarterly cash dividends in additional shares of Graco common stock. Brokerage and service charges are paid by the Company.

All Graco employees in the U.S. participate in the Graco Employee Stock Ownership Plan. Eligible employees may also purchase Graco common stock through the Company's Employee Stock Purchase Plan.

From time to time, the Company makes open market purchases of its common shares. These shares are available for issuance to satisfy grants under its Long Term Stock Incentive Plan and other plans, as well as for other corporate purposes. On February 25, 1994, the Company's Board of Directors authorized management to repurchase up to 400,000 shares. As of December 31, 1994, under this repurchase program, the Company had repurchased 253,400 shares at an average price per share of $17.94.

The Company is currently paying 16 cents per share as its regular quarterly dividend. Annual cash dividends paid on the Company's common and preferred stock, including a special one-time dividend of $31,224,000 paid on March 21, 1994, were $37,732,000 in 1994, $5,879,000 in 1993 and $5,484,000 in 1992. The Company expects to continue paying regular quarterly dividends to its common shareholders at amounts which will be adjusted periodically to reflect earnings and cash flow performance and expectations.

In 1994, debt increased by $21,444,000, reflecting increased working capital investment, primarily in inventory, receivables and capital expenditures.

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 schedules 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 internal control structure provides 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 the internal control structure. Deloitte & Touche LLP, independent certified public accountants, are retained to audit the consolidated financial statements, and express an opinion thereon. Their opinion follows.

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 internal control structure, accounting practices, financial reporting, and the results of auditing activities.

INDEPENDENT AUDITORS' 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 30, 1994, December 31, 1993, and December 25, 1992, and the related statements of earnings and cash flows for each of the three years in the period ended December 30, 1994. Our audit also included the financial statement schedule listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 30, 1994, December 31, 1993, and December 25, 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 1994, in conformity with generally accepted accounting principles. Also, on 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.

As discussed in Note A to the Consolidated Financial Statements, the Company changed its method of accounting for income taxes and postretirement health care benefits during the year ended December 25, 1992.

Deloitte & Touche LLP
Minneapolis, Minnesota
February 7, 1995

CONSOLIDATED STATEMENTS OF EARNINGS GRACO INC. & Subsidiaries

(In thousands, except per share amounts)	Years Ended December 30, 1994	December 31, 1993	December 25, 1992
Net Sales	$360,013	$322,602	$320,334
Cost of products sold	186,002	169,475	163,648
Gross Profit	174,011	153,127	156,686
Product development	14,591	12,382	10,616
Selling	92,752	85,757	85,583
General and administrative	40,279	38,086	41,019
Operating Profit	26,389	16,902	19,468
Interest expense	(1,923)	(2,288)	(2,716)
Other (expense) income, net	(1,040)	(821)	1,293
Earnings Before Income Taxes And			
Changes In Accounting Principles	23,426	13,793	18,045
Income taxes	8,100	4,300	6,900
Earnings Before Changes In			
Accounting Principles	15,326	9,493	11,145
Cumulative effect of change in accounting			
principle relating to postretirement benefits	-	-	(6,768)
Cumulative effect of change in accounting			
principle relating to income taxes	-	-	924
Net Earnings	$ 15,326	$ 9,493	$ 5,301
Per Common Share Amounts:			
Earnings before changes in accounting principles	$ 1.32	$ .82	$ .97
Cumulative effect of change in accounting			
principle relating to postretirement benefits	-	-	(.60)
Cumulative effect of change in accounting			
principle relating to income taxes	-	-	.09
Net Earnings Per Common Share	$ 1.32	$ .82	$ .46

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS GRACO INC. & Subsidiaries

(In thousands, except share amounts)	December 30, 1994	December 31, 1993	December 25, 1992
Assets			
Current Assets:			
Cash and cash equivalents	$ 2,444	$ 11,095	$ 18,869
Marketable securities	0	26,345	19,317
Accounts receivable, less allowances of $4,700, $4,100, and $4,500	75,589	62,178	61,195
Inventories	50,529	35,719	49,871
Deferred income taxes, net	11,755	8,843	10,704
Other current assets	3,628	3,079	1,985
Total current assets	143,945	147,259	161,941
Property, Plant And Equipment, At Cost:			
Land	3,547	3,125	2,976
Buildings and improvements	46,777	41,526	38,733
Manufacturing equipment	60,014	53,629	47,871
Office, warehouse and automotive equipment	27,337	29,092	26,457
Construction in progress	7,489	2,504	773
	145,164	129,876	116,810
Accumulated depreciation	(75,124)	(72,132)	(65,772)
	70,040	57,744	51,038
Other Assets	14,400	11,362	7,439
	$228,385	$216,365	$220,418
Liabilities and Shareholders' Equity			
Current Liabilities:			
Notes payable to banks	$ 11,675	$ 3,234	$ 3,615
Current portion of long-term debt	5,685	5,543	4,917
Trade accounts payable	19,764	16,737	19,267
Salaries, wages and commissions	13,433	12,115	13,292
Dividends payable	1,857	32,535	1,471
Accrued insurance liabilities	9,918	8,783	7,850
Income taxes payable	5,761	5,658	6,588
Other current liabilities	21,447	15,006	20,113
Total current liabilities	89,540	99,611	77,113
Long-Term Debt, less current portion	26,798	13,937	17,845
Retirement Benefits And Deferred Compensation	30,196	28,132	25,290
Commitments And Contingencies (Note H)			
Shareholders' Equity			
5% Cumulative Preferred Stock, $100 par value; 22,549 shares authorized; 14,740, 14,845 and 14,870 shares outstanding	1,474	1,485	1,487
Common stock, $1 par value; 15,000,000 shares authorized; 11,377,004, 11,449,623 and 7,547,478 shares outstanding	11,377	11,449	7,547
Additional paid-in capital	18,289	19,813	18,569
Retained earnings	50,702	42,430	73,697
Other, net	9	(492)	(1,130)
	81,851	74,685	100,170
	$228,385	$216,365	$220,418

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS GRACO INC. & Subsidiaries

(In thousands)	Years Ended December 30, 1994	December 31, 1993	December 25, 1992
Cash Flows From Operating Activities:			
Net earnings	$ 15,326	$ 9,493	$ 5,301
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	10,447	9,292	8,629
Deferred income taxes	(4,042)	827	(5,997)
Gain on sale of business	-	-	(1,792)
Change in:			
Accounts receivable	(10,806)	(730)	3,399
Inventories	(13,967)	14,901	(2,889)
Trade accounts payable	2,358	(3,226)	(3,924)
Accrued salaries	1,439	(749)	2,905
Retirement benefits and deferred compensation	1,670	2,481	13,558
Other accrued liabilities	6,858	(4,782)	6,664
Other	(696)	(4,391)	248
	8,587	23,116	26,102
Cash Flows From Investing Activities:			
Property, plant and equipment additions	(23,100)	(16,178)	(10,194)
Proceeds from sale of property, plant and equipment	693	795	264
Proceeds from sale of business	-	-	8,569
Purchases of marketable securities	(5,464)	(25,703)	(20,504)
Proceeds from sales of marketable securities	31,809	18,675	1,187
	3,938	(22,411)	(20,678)
Cash Flows From Financing Activities:			
Proceeds from short-term borrowings	10,411	15,098	19,163
Payments on short-term borrowings	(2,395)	(15,567)	(22,997)
Proceeds from long-term debt	16,632	1,297	569
Payments on long-term debt	(5,380)	(5,739)	(4,407)
Common stock issued	3,102	3,390	2,524
Retirement of common and preferred stock	(4,564)	(1,750)	(248)
Cash dividends paid	(37,732)	(5,879)	(5,484)
	(19,926)	(9,150)	(10,880)
Effect of exchange rate changes on cash	(1,250)	671	347
Net decrease in cash and cash equivalents	(8,651)	(7,774)	(5,109)
Cash and cash equivalents			
Beginning of year	11,095	18,869	23,978
End of year	$ 2,444	$ 11,095	$ 18,869

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
GRACO INC. & Subsidiaries
Years Ended December 30, 1994, December 31, 1993, and December 25, 1992

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.

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 30, 1994, all subsidiaries are 100 percent owned. 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 was the functional currency for all foreign subsidiaries, except Graco K.K. (Japan), where the local currency was the functional currency.

CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES. All highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Marketable securities include debt securities of various maturities. Realized gains and losses are computed based on the specific identified cost method. At December 31, 1993, the securities were reported at fair value. At December 25, 1992, the securities were recorded at the lower of cost or market. Cost approximated market at both December 31, 1993 and December 25, 1992.

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. Subsequently, 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 marked to market. The Company believes it uses strong financial counterparties in these transactions and that the resulting credit risk under these hedging strategies is not significant. The amounts (which do not represent credit or market risk) of such contracts were (in U.S. dollars) $9,086,000, $15,258,000, and $16,709,000 at December 30, 1994, December 31, 1993, and December 25, 1992, respectively.

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 45 years
Leasehold improvements	3 to 10 years
Manufacturing equipment and tooling	3 to 10 years
Office, warehouse and automotive equipment	4 to 10 years

REVENUE RECOGNITION. Revenue is recognized on large contracted systems using the percentage-of-completion method of accounting. The Company recognizes revenue on other products when title passes, which is usually upon shipment.

INCOME TAXES. Effective the beginning of 1992, the Company adopted SFAS No. 109 (Accounting for Income Taxessee Note D). The Company provides taxes on unremitted earnings of subsidiaries.

EARNINGS PER COMMON SHARE. On December 17, 1993, the Board of Directors approved a three-for-two stock split, effected in the form of a stock dividend, payable February 2, 1994, to shareholders of record on January 5, 1994. All share and per share data has been restated to reflect the split. Earnings per common share are computed on earnings reduced by dividend requirements on preferred stock and based upon the weighted average number of common shares and common equivalent shares, consisting of the dilutive effect of stock options outstanding during each year. Earnings per common share assuming full dilution are substantially the same.

RETIREE HEALTH CARE BENEFITS. Effective the beginning of 1992, the Company adopted SFAS No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions). This Statement requires the accrual of postretirement benefit costs during the years an employee provides services. The Company elected to charge the entire unfunded obligation of $10,254,000

($6,768,000 after tax), against earnings as of the beginning of 1992, as a cumulative effect of a change in accounting principle. In addition, the effect of this change decreased 1992 earnings before income taxes by $848,000.

1992 SALE OF SUBSIDIARY. On April 24, 1992, the Company sold a wholly owned subsidiary, Lockwood Technical, Inc., (LTI) and a related Japanese joint venture affiliate (LTI-Graco K.K.). A gain on the sale of $1,792,000 is reflected in 1992 results.

B. INDUSTRY SEGMENT AND FOREIGN OPERATIONS

The Company operates in one industry segment, namely, the design, manufacture, marketing, sale and installation of systems and equipment for the management of fluids.

The Company's operations by geographical area for the last three years are shown below.

(In thousands)	1994	1993	1992
Sales to unaffiliated customers:			
Americas	$241,169	$206,464	$187,724
Europe	65,888	60,546	75,914
Pacific	52,956	55,592	56,696
	360,013	322,602	320,334
Intercompany sales between geographic area:			
Americas	51,939	38,902	43,957
Europe	14	3,798	3,073
Pacific	450	402	542
Eliminations	(52,403)	(43,102)	(47,572)
Total sales	$360,013	$322,602	$320,334
Operating profit:			
Americas	$ 62,650	$ 46,260	$ 41,950
Europe	(5,463)	(2,780)	1,810
Pacific	1,639	654	4,600
Eliminations	(2,205)	1,627	2,067
	56,621	45,761	50,427
General corporate expenses	(31,272)	(29,680)	(29,666)
Interest expense	(1,923)	(2,288)	(2,716)
Earnings before income taxes and changes in accounting principles	$ 23,426	$ 13,793	$ 18,045
Assets:			
Americas	$163,201	$128,713	$129,219
Europe	50,503	30,737	34,829
Pacific	26,605	25,680	25,043
Corporate	2,444	37,440	38,186
Eliminations	(14,368)	(6,205)	(6,859)
Total assets	$228,385	$216,365	$220,418

1 Included are U.S. export sales to unaffiliated customers of $23,408, $25,251, and $18,675, in 1994, 1993, and 1992, respectively.

2 Transfers between entities are made at prices which allow appropriate markups to the manufacturing and selling unit.

Net earnings (loss) for subsidiaries operating outside the U.S. were ($5,624,000), ($2,261,000), and $6,608,000 for 1994, 1993, and 1992, respectively.

Retained earnings for subsidiaries operating outside the U.S. were $8,860,000, $9,760,000, and $9,908,000 for 1994, 1993, and 1992, respectively.

Transaction and translation net gains or losses, included in Other income (expense), net were $366,000, ($1,294,000), and ($670,000) for 1994, 1993, and 1992, respectively.

C. INVENTORIES

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

(In thousands)	1994	1993	1992
Finished products and components	$ 46,694	$ 42,010	$ 46,234
Products and components in various stages of completion	24,826	21,410	27,700
Raw materials	13,918	8,642	10,315
	85,438	72,062	84,249
Reduction to LIFO cost	(34,909)	(36,343)	(34,378)
	$ 50,529	$ 35,719	$ 49,871

Inventories valued under the LIFO method were $32,743,000, $19,700,000, and $30,309,000 for 1994, 1993, and 1992, respectively. The balance of the inventory was valued on the FIFO method.

In 1993, certain inventory quantities were reduced, resulting in liquidation of LIFO inventory quantities carried at lower costs from prior years. The effect was to increase net earnings by approximately $900,000 in 1993.

D. INCOME TAXES

The Company adopted SFAS No. 109 (Accounting for Income Taxes) as of the beginning of 1992.

Earnings before income tax expense and changes in accounting principles consist of:

(In thousands)	1994	1993	1992
Domestic	$ 28,168	$ 13,796	$ 11,573
Foreign	(4,742)	(3)	6,472
Total	$ 23,426	$ 13,793	$ 18,045

Income tax expense, before the cumulative effect of changes in accounting principles, consists of:

(In thousands)	1994	1993	1992
Current:			
Domestic:			
Federal	$ 9,383	$ 1,598	$ 4,987
State and local	1,030	385	745
Foreign	2,596	1,551	2,833
	13,009	3,534	8,565
Deferred:			
Domestic	(3,617)	(134)	(2,117)
Foreign	(1,292)	900	452
	(4,909)	766	(1,665)
Total	$ 8,100	$ 4,300	$ 6,900

Income taxes paid were $12,136,000, $4,620,000, and $6,186,000 in 1994, 1993, and 1992, respectively.

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

	1994	1993	1992
Statutory tax rate	35%	35%	34%
Foreign earnings with higher tax rates	2	1	4
State taxes, net of federal effect	3	2	3
(Increase) in deferred tax assets from statutory tax rate increase	-	(3)	-
U.S. general business tax credits	(3)	(1)	(1)
Other	(2)	(3)	(2)
Effective tax rate	35%	31%	38%

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)	1994	1993	1992
Inventory valuations	$ 4,616	$ 3,004	$ 3,673
Cost reductions and severance accruals	1,377	742	2,268
Insurance accruals	3,232	2,876	2,230
Vacation accruals	1,428	1,398	1,199
Bad debt reserves	893	894	979
Other	422	(71)	355
Valuation allowance	(213)	-	-
Current	11,755	8,843	10,704
Unremitted earnings of consolidated foreign subsidiaries *	(2,938)	(4,141)	(4,637)
Excess of tax over book depreciation	(3,104)	(2,845)	(2,657)
Postretirement benefits	4,447	4,194	3,775
Pension and deferred compensation	5,103	4,856	4,291
Net operating loss carry forward	6,715	2,066	-
Other	407	895	308
Valuation allowance	(6,680)	(2,740)	-
Non-current	3,950	2,285	1,080
Net deferred tax assets	$15,705	$11,128	$11,784

* Payable at the time these earnings are distributed to the parent

Net non-current deferred tax assets above are included in other assets. Total deferred tax assets were $22,506,000, $18,637,000 and $19,218,000, and total deferred tax liabilities were $6,801,000, $7,509,000, and $7,434,000 on December 30, 1994, December 31, 1993 and December 25, 1992, respectively. A valuation allowance of $6,893,000 and $2,740,000 has been recorded as of December 30, 1994 and December 31, 1993, respectively, primarily related to the uncertainty of obtaining tax benefits for subsidiary operating losses, which expire beginning in 1998 in Japan and in later years for other subsidiaries. The effect of these allowances has been considered in "Foreign earnings with higher tax rates" in the Company's tax rate reconciliation.

E. DEBT

Long-term debt consists of the following:

(In thousands)	1994	1993	1992
Term debt, 6.53%, payable in equal annual installments through 1995	$ 4,000	$ 8,000	$12,000
Term debt, 5.70% at December 30, 1994, payable in equal annual installments through 1997	900	1,200	1,500
Industrial development refunding revenue bonds, 4.65% at December 30, 1994, payable through 2002 (property carried at $3,219 pledged as collateral)	5,000	5,500	6,000
Revolving credit agreement, 7% at December 30,1994, payable September 30, 1996	14,850	-	-
Obligations related to low income housing investments	4,534	2,867	-
Other	3,199	1,913	3,262
Total long-term debt	32,483	19,480	22,762
Less current portion:	5,685	5,543	4,917
Long-term portion	$26,798	$13,937	$17,845

Aggregate annual scheduled maturities of long-term debt for the next five years are as follows: 1995, $5,685,000; 1996, $16,744,000; 1997, $1,886,000; 1998, $1,803,000; 1999, $2,763,000. Interest paid on debt during 1994, 1993, and 1992 amounted to $1,923,000, $3,230,000, and $1,910,000, respectively. The fair value of the Company's long-term debt at December 30, 1994, December 31, 1993 and December 25, 1992, is not materially different than its recorded value.

During 1992, the Company entered into an interest rate swap agreement whereby it fixed the interest rate of the remaining principal amounts of the Company's previously variable interest rate revenue bond debt at 4.65 percent through 1997, at which time the debt will revert back to a variable interest rate. The cash flows related to the swap agreement are recorded as income when received and expense when paid. Market and credit risk are not significant.

On December 30, 1994, the Company had lines of credit with U.S. and foreign banks of $44,280,000, including a $15,000,000 revolving credit agreement. The unused portion of these credit lines was $18,993,000 at December 30, 1994. Borrowing rates under these facilities vary with the prime rate, rates on domestic certificates of deposit, and the London interbank market. During the years ended December 30, 1994, December 31, 1993 and December 25, 1992, the Company's weighted average short term borrowing rates were 4.8 percent, 10.3 percent and 11.5 percent, respectively. The Company pays commitment fees of up to 3/16 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. Under the most restrictive terms of the agreements, approximately $7,378,000 of retained earnings were available for payment of cash dividends at December 30, 1994.

F. SHAREHOLDERS' EQUITY

The holders of cumulative preferred stock are entitled to fixed cumulative dividends of 5 percent per annum on the par value before cash dividends may be paid or declared on common stock. The preferred stock may be redeemed at the option of the Company at $105 per share plus accrued and unpaid dividends. Preferred stockholders are entitled to $105 per share in the event of voluntary liquidation of the Company or $100 per share for involuntary liquidation, plus all accrued and unpaid dividends. All required dividends have been paid.

The Company has authorized, but not issued, a separate class of 3,000,000 shares of preferred stock, $1 par value.

The Company has a leveraged Employee Stock Ownership Plan (ESOP) under which outstanding debt was $900,000, $1,200,000 and $1,500,000 at December 30, 1994, December 31, 1993 and December 25, 1992, respectively. This is also the remaining balance of a concurrent loan to the ESOP Trust from the Company on the same terms. The Company's loan is included in long-term debt with the receivable from the ESOP in a like amount recorded as a reduction of shareholders' equity reflected in the Other, net category. The Company is obligated to make annual contributions to the ESOP Trust through 1997 sufficient to repay the loan and interest thereon.

On May 3, 1994, the shareholders approved a Nonemployee Director Stock Plan which enables individual nonemployee directors of the Company to elect to receive all or part of a director's annual retainer in the form of shares of the Company's common stock instead of cash.

On December 17, 1993, the Board of Directors approved a three-for-two stock split, effected in the form of a stock dividend, payable February 2, 1994 to shareholders of record on January 5, 1994. Accordingly, December 31, 1993 balances reflect the split with an increase in common stock and a reduction in retained earnings of $3,817,000. All stock option, share and per share data have been restated to reflect the split. On December 17, 1993, the Board of Directors also approved a special one-time dividend of $2.70 per common share to be paid March 21, 1994, on post-split shares to shareholders of record on March 7, 1994. Dividends payable at December 31, 1993, reflect the special one-time dividend.

Under the Company's Employee Stock Purchase Plan, 2,100,000 common shares have been authorized for sale to employees, 434,546 of which remained unissued at the end of 1994. 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.

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.

The Company has a Long Term Stock Incentive Plan, under which a total of 1,650,000 common shares have been reserved for issuance, with 790,812 shares remaining reserved at December 30, 1994. Grants under this Plan are in the form of restrictive share awards and stock options. Restrictive share awards of 398,406 common shares have been made to certain key employees under the Plan, with 62,316 shares restricted for disposition, such restrictions lapsing from 1995 to 1997. Unearned compensation expense relating to the remaining restricted shares is $745,000 at December 30, 1994, and is included as a reduction of shareholders' equity in the Other, net category.

Stock options for 801,622 common shares have also been granted under the Plan. The option price is the market price at the date of grant. Options become exercisable at such time and in such installments as set by the Company, and expire in five to ten years from the date of grant.

In 1993, the Company granted Stock Appreciation Rights (SARs) to certain key employees, utilizing a portion of the above options. Upon the exercise of the SARs, the employee will surrender the unexercised related option and will receive a cash payment equal to the excess of the fair market value at the time of exercise over the price of the related option. Compensation expense related to the SARs is not significant.

Shares and options on common shares granted and exercisable, as well as the exercise price, are shown for the last three years in the table below:

	NUMBER OF SHARES			
	Reserved	Granted	Exercisable	Option Price Per Share
Balance at December 27, 1991	249,060	250,080	238,830	$ 5.22 - 14.45
Reserved	750,000	-	-	-
Granted	-	157,020	25,470	5.22 - 17.67
Exercised	(84,729)	(84,729)	(84,729)	5.22 - 17.67
Canceled	27,947	(4,950)	(4,950)	12.67 - 17.75
Balance at December 25, 1992	942,278	317,421	174,621	11.59 - 16.09
Granted	-	82,800	25,875	15.50 - 19.92
Exercised	(130,632)	(130,632)	(130,632)	11.59 - 18.92
Canceled	23,322	(3,450)	4,950	12.67 - 17.75
Balance at December 31, 1993	834,968	266,139	74,814	11.59 - 19.92
Granted	-	258,370	53,835	11.50 - 22.63
Exercised	(52,210)	(52,210)	(52,210)	11.58 - 18.92
Canceled	8,054	(15,937)	(2,590)	11.58 - 18.92
Balance at December 30, 1994	790,812	456,362	73,849	$11.50 - 22.63

The changes in shareholders' equity accounts are as follows:

(In thousands)	1994	1993	1992
Preferred stock			
Balance, beginning of year	$ 1,485	$ 1,487	$ 1,493
Shares repurchased	(11)	(2)	(6)
Balance, end of year	1,474	1,485	1,487
Common stock			
Balance, beginning of year	11,449	7,547	7,446
Stock split	-	3,817	-
Shares issued	188	157	120
Shares repurchased	(260)	(72)	(19)
Balance, end of year	11,377	11,449	7,547
Additional paid-in capital			
Balance, beginning of year	19,813	18,569	16,633
Shares issued	2,914	3,198	2,404
Shares repurchased	(4,438)	(1,954)	(468)
Balance, end of year	18,289	19,813	18,569
Retained earnings			
Balance, beginning of year	42,430	73,697	74,048
Net Income	15,326	9,493	5,301
Cash Dividends	(7,054)	(36,943)	(5,652)
Stock split	-	(3,817)	-
Balance, end of year	50,702	42,430	73,697
Cumulative translation adjustment			
Balance, end of year	1,654	1,958	2,368
Other, net			
Balance, end of year	(1,645)	(2,450)	(3,498)
Total Shareholders' Equity	$ 81,851	$ 74,685	$100,170

G. 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. Currently, the Company matches employee contributions at a 50 percent rate, up to 3 percent of the employee's compensation. Employer contributions were $850,000 in 1994, $819,000 in 1993, and $813,000 in 1992.

The Company has non-contributory defined benefit pension plans covering substantially all U.S. employees and directors and most of the employees of the Company's non-U.S. subsidiairies. 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. 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. The expenses for these plans consist of the following components:

(In thousands)	1994	1993	1992
Service cost - benefits earned during the period	$ 2,499	$ 2,244	$ 2,389
Interest cost on projected benefit obligation	4,301	4,115	3,917
Actual return on assets	579	(11,736)	(1,325)
Net amortization and deferral	(5,583)	7,354	(2,688)
Cost of pension plans which are not significant and have not adopted SFAS No. 87	312	190	289
Net periodic pension cost	$ 2,108	$ 2,167	$ 2,582

The status of the Company's plans and the amounts recognized in the financial statements are:

(In thousands)	1994	1993	1992
Actuarial present value:			
Vested benefit obligation	$ 49,429	$ 43,492	$ 33,850
Accumulated benefit obligation	$ 54,884	$ 48,644	$ 37,603
Projected benefit obligation	$ 66,093	$ 60,144	$ 52,724
Plan assets at fair value	55,057	57,151	46,520
Funded status	(11,036)	(2,993)	(6,204)
Unrecognized net gain	(3,787)	(10,910)	(5,989)
Unrecognized net liability being amortized	204	249	265
Adjustment required to recognize minimum liability	(1,192)	(467)	(269)
Accrued pension cost	($ 15,811)	($ 14,121)	($ 12,197)

Major assumptions at year-end:

	1994	1993	1992
Discount rate	4 - 7 1/2%	4 - 7 1/2%	6 - 8 1/2%
Rate of increase in future compensation levels	3 - 7%	3 - 7%	4 - 8%
Expected long-term rate of return on plan assets	9%	9%	9%

In addition to providing pension benefits, the Company pays part of the health insurance costs for its retired U.S. employees and their dependents.

The cost of retiree health benefit expense for 1994, 1993 and 1992 was as follows:

(In thousands)	1994	1993	1992
Service cost	$ 503	$ 454	$ 345
Interest cost	947	976	851
Net benefit expense	$1,450	$1,430	$1,196

The Company's policy is to fund these benefits on a pay-as-you-go basis. The actuarial present value of these health benefit obligations and the amount recognized in the Consolidated Balance Sheets were as follows:

(In thousands)	1994	1993	1992
Accumulated postretirement benefit obligation			
Retirees and beneficiaries	($ 5,502)	($ 5,387)	($ 4,756)
Fully eligible active plan participants	(2,168)	(2,010)	(2,070)
Other active plan participants	(6,104)	(6,090)	(4,141)
Accumulated benefit obligations	(13,774)	(13,487)	(10,967)
Unrecognized net (gain) loss	1,069	1,504	(135)
Accrued postretirement benefit cost	($ 12,705)	($ 11,983)	($ 11,102)

The Company's retirement medical benefit plan limits the annual cost increase that will be paid by the Company. Actuarial computations shown above have assumed the maximum cost increase. The discount rate assumption for 1994, 1993 and 1992 was 7.5 percent, 7.5 percent and 8.5 percent, respectively.

H. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS:

Aggregate rental commitments at December 30, 1994, under operating leases with noncancelable terms of more than one year, were $10,970,000, payable as follows:

(In thousands)	Buildings	Vehicles & Equipment	Total
1995	$ 2,587	$ 899	$ 3,486
1996	2,249	342	2,591
1997	1,764	118	1,882
1998	1,580	43	1,623
1999	733	7	740
Thereafter	648	0	648
	$ 9,561	$ 1,409	$10,970

Total rental expense was $4,103,000 for 1994, $4,276,000 for 1993, and $3,646,000 for 1992.

CONTINGENCIES:

On June 29, 1993, the U.S. District Court for the Southern District of Texas ruled that Binks Manufacturing Company of Franklin Park, Illinois deliberately infringed the patent covering Graco Inc.'s Glutton pumps. The court awarded compensatory damages, treble damages and attorneys' fees to Graco Inc., plus prejudgement interest, in a total amount of $2,750,000. Because Binks Manufacturing Company has appealed the decision, the Company will not recognize this award in the financial statements until the appeal reaches an appropriate state of resolution.

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

None.

PART III

Part III, Items 10, 11, 12 and 13, except for certain information relating to Executive Officers included in Part I, is omitted as the Company intends to file with the Securities and Exchange Commission within 120 days of the close of the fiscal year ended December 30, 1994, a definitive proxy statement containing such information pursuant to Regulation 14A of the Securities Exchange Act of 1934 and such information shall be deemed to be incorporated herein by reference from the date of filing such document.

The Company knows of no contractual arrangements which may, at a subsequent date, result in a change in control of the Company.

PART IV

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

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

(1) Financial Statements
See Part II

	Page
(2) Financial Statement Schedule	
- Schedule II - Valuation and Qualifying Accounts	28
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)	30
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 fourteen weeks ended December 30, 1994.

(c) Exhibit Index. 30

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	Balance at end of year
Year ended December 30 1994:				
Allowance for doubtful accounts	$ 2,200	$ 1,200	$ 700	$ 2,700
Allowance for obsolete and overstock inventory	5,500	3,100	2,200	6,400
Allowance for returns and credits	1,900	2,000	1,900	2,000
Valuation allowance for tax benefits	2,740	4,160		6,900
	$12,340	$10,460	$ 4,800	$18,000
Year ended December 31, 1993:				
Allowance for doubtful accounts	$ 2,700	$ 500	$ 1,000	$ 2,200
Allowance for obsolete and overstock inventory	6,100	1,300	1,900	5,500
Allowance for returns and credits	1,800	1,900	1,800	1,900
Valuation allowance for tax benefits		2,740		2,740
	$10,600	$ 6,440	$ 4,700	$12,340
Year ended December 25, 1992:				
Allowance for doubtful accounts	$ 2,800	$ 500	$ 600	$ 2,700
Allowance for obsolete and overstock inventory	6,000	1,700	1,600	6,100
Allowance for returns and credits	1,800	1,700	1,700	1,800
	$10,600	$ 3,900	$ 3,900	$10,600

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

2Items scrapped or otherwise disposed of during the year.

3Credits issued and returns processed, related to prior years.

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.

\David A. Koch　　March 20, 1995
David A. Koch
Chairman and 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.

\David M. Lowe　　March 20, 1995
David M. Lowe
Treasurer
(Principal Financial Officer)

\James A. Graner　　March 20, 1995
James A. Graner
Vice President and Controller
(Principal Accounting Officer)

D. A. Koch	Director, Chairman and Chief Executive Officer
G. Aristides	Director, President and Chief Operating Officer
R. O. Baukol	Director
J. W. Lacey	Director
J. R. Lee	Director
L. R. Mitau	Director
R. D. McFarland	Director
D. R. Olseth	Director
G. C. Planchon	Director
C. B. Thompson	Director

David A. Koch, 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.

\David A. Koch　　March 20, 1995
David A. Koch
(For himself and as attorney-in-fact)

Exhibit Index

Exhibit Number	Description
	3.1 Restated Articles of Incorporation. See also Exhibit 4.4. (Incorporated by reference to Exhibit 3.1 to the Company's 1993 Annual Report on Form 10-K.)
	3.2 Restated Bylaws. (Incorporated by reference to Exhibit 2 to the Company's Report on Form 8-K dated January 12, 1988.)
	3.3 Bylaws Amendment. (Incorporated by reference to Exhibit 1 to the Company's Report on Form 8-K dated March 1, 1990.)
	4.1 Credit Agreement dated October 1, 1990, between the Company and First Bank National Association. (Incorporated by reference to Exhibit 5 to the Company's Report on Form 10-Q for the thirty-nine weeks ended September 28, 1990.)
	4.2 Amendment 1 dated June 12, 1992, to Credit Agreement dated October 1, 1990, between the Company and First Bank National Association; and Amendment 2 dated December 31, 1992, to the same Agreement. (Incorporated by reference to Exhibit 1 to the Company's Report on Form 8-K dated March 11, 1993.) Amendment 3 dated November 8, 1993, and Amendment 4, dated February 8, 1994. (Incorporated by reference to Exhibit 4.2 to the Company's 1993 Annual Report on Form 10-K.)
	4.3 Loan Agreement dated November 24, 1993, between the Company and Metropolitan Life Insurance Company, as amended on January 13, 1994.
	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 and, in lieu thereof, the Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.
	4.4 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.)
	*10.1 1994 Corporate and Business Unit Annual Bonus Plan. (Incorporated by reference to Exhibit 2 to the Company's Report on Form 10-Q for the twenty-six weeks ended July 1, 1994.)
	*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.)
	*10.3 Executive Deferred Compensation Agreement. Form of supplementary agreement entered into by the Company which provides a retirement benefit to 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 Executive Long Term Incentive Agreements. Form of restricted stock award agreement used for awards to executive officers. (Incorporated by reference to Attachment B to Item 5 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 1991.) Form of restricted stock award agreement used for awards to Chairman. (Incorporated by reference to Attachment A to Item 5 to the Company's Report on Form 10-Q for the twenty-six weeks ended June 28, 1991.)

*10.6 Executive Long Term Incentive Agreement. Form of agreement used for restricted stock awards to two new officers. (Incorporated by reference to Attachment B to Company's Report on Form 10-Q for the thirteen weeks ended March 27, 1992.)

*10.7 Executive Long Term Incentive Agreement. Form of agreement used for one year restricted stock award to one officer. (Incorporated by reference to Exhibit 2 to Company's Report on Form 10-Q for the twenty-six weeks ended June 25, 1993.)

*10.8 Long Term Stock Incentive Plan (Incorporated by reference to Attachment C to the Company's Report on Form 10-Q for the thirteen weeks ended March 27, 1992.)

*10.9 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.)

*10.10 Deferred Compensation Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 2 to the Company's Report on Form 8-K dated March 7, 1988.)

*10.11 Restoration Plan, restating Excess Benefit Plan, effective as of July 1, 1988. (Incorporated by reference to Exhibit 1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 26, 1993.)

*10.12 Stock Option Agreement. Form of agreement used for incentive stock option/alternative stock appreciation right award to selected officers, dated February 25, 1993. (Incorporated by reference to Exhibit 10.14 to the Company's 1993 Annual Report on Form 10-K.)

*10.13 Stock Option Agreement. Form of agreement used for non-incentive stock option/alternative stock appreciation right award to selected officers, dated May 4, 1993. (Incorporated by reference to Exhibit 10.15 to the Company's 1993 Annual Report on Form 10-K.)

*10.14 Nonemployee Director Stock Plan (Incorporated by reference to Exhibit 1 to the Company's Report on Form 10-Q for the twenty-six weeks ended July 1, 1994.)

*10.15 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 3 to the Company's Report on Form 10-Q for the twenty-six weeks ended July 1, 1994.)

*10.16 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.

*10.17 Separation and Supplemental Retirement Agreement between Barry A. Calhoon and the Company, dated January 3, 1995.

11 Statement of Computation of Earnings per share included herein on page 32.

21 Subsidiaries of the Registrant included herein on page 33.

23 Independent Auditor's Consent included herein on page 33.

24 Power of Attorney included herein on page 34.

27 Financial Data Schedule (EDGAR filing only).

*Management Contracts, Compensatory Plans or Arrangements.

Exhibit Number 11

Graco Inc. & Subsidiaries

Computation of Per Share Earnings

Years Ended (In thousands, except per share amounts)	December 30, 1994	December 31, 1993	December 25, 1992
PRIMARY			
Net earnings applicable to common stock:			
Net earnings	$ 15,326	$ 9,493	$ 5,301
Less dividends on preferred stock	74	74	75
	$ 15,252	$ 9,419	$ 5,226
Average number of common shares and common equivalent shares outstanding:			
Average number of common shares outstanding	11,539	11,386	11,294
Dilutive effect of stock options computed based on the treasury stock method using average market price	42	79	61
	11,581	11,465	11,355
Net earnings per common share and common equivalent share	$ 1.32	$ .82	$ .46
FULLY DILUTED			
Net earnings applicable to common stock:			
Net earnings	$ 15,326	$ 9,493	$ 5,301
Less dividends on preferred stock	74	74	75
	$ 15,252	$ 9,419	$ 5,226
Average number of common shares and common equivalent shares outstanding:			
Average number of common shares outstanding	11,539	11,386	11,294
Dilutive effect of stock options computed based on the treasury stock method using the year end market price, if higher than average market price	49	91	63
	11,588	11,477	11,357
Net earnings per common share and common equivalent share	$ 1.32	$ .82	$ .46

1 All share and per share data has been restated for the three-for-two stock split paid February 2, 1994.

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
Graco N.V.	Belgium	100%*
Graco Canada Incorporated	Canada	100%
Graco Chile Limitada	Chile	100%*
Graco (Jamaica) FSC Limited	Jamaica	100%
Graco GmbH	Germany	100%
Graco Hong Kong Limited	Hong Kong	100%*
Graco K.K.	Japan	100%
Graco Korea Inc.	Korea	100%
Graco Norge A.S.	Norway	100%
Graco Pumps Scandinavia AB	Sweden	100%
Graco S.A.	France	100%*
Graco S.r.l.	Italy	100%*
Graco UK Limited	England	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.

The Registrant has additional subsidiaries, which considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

Exhibit 23

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement No. 33-47829 on Form S-8 (the Company's Long Term Stock Incentive Plan), in Registration Statement No. 33-44821 on Form S-8 (the Company's Employee Stock Purchase Plan) and in Registration Statement No. 33-54205 on Form S-8 (the Company's Nonemployee Director Stock Plan) of our report dated February 7, 1995, on the audit of the consolidated financial statements and financial statement schedule of Graco Inc. and Subsidiaries for each of the three years in the period ended December 30, 1994, included in the Annual Report on Form 10-K for the year ended December 30, 1994.

Deloitte & Touche LLP
Minneapolis, Minnesota
March 20, 1995

Exhibit 24

Power of Attorney

Know all by these presents, that each person whose signature appears below hereby constitutes and appoints David A. Koch, George Aristides or David M. Lowe, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign the Report on Form 10-K for the year ended December 30, 1994, 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 he 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
\G. Aristides G. Aristides	February 24, 1995
\R. O. Baukol R. O. Baukol	February 24, 1995
\D. A. Koch D. A. Koch	February 24, 1995
\J. W. Lacey J. W. Lacey	February 24, 1995
\J. R. Lee J. R. Lee	February 24, 1995
\R. D. McFarland R. D. McFarland	February 24, 1995
\L. R. Mitau L. R. Mitau	February 24, 1995
\D. R. Olseth D. R. Olseth	February 24, 1995
\G. C. Planchon G. C. Planchon	February 24, 1995
\C. B. Thompson C. B. Thompson	February 24, 1995

Exhibit 10.16

STOCK OPTION AGREEMENT
(NON-ISO)

THIS AGREEMENT, made this day of , 199 , by and between Graco Inc., a Minnesota corporation (the "Company") and (the "Employee").

WITNESSETH THAT:

WHEREAS, the Company pursuant to it's Long-Term Incentive Stock Plan wishes to grant this stock option to Employee;

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Grant of Option

The Company hereby grants to Employee, the right and option (hereinafter called the "option") to purchase all or any part of an aggregate of Common Shares, par value $1.00 per share, at the price of $ per share on the terms and conditions set forth herein.

2. Duration and Exercisability

(a) This option may not be exercised by Employee until the expiration of two (2) years from the date of grant, and this option shall in all events terminate ten (10) years after the date of grant. During the first two years from the date of grant of this option, no portion of this option may be exercised. Thereafter this option shall become exercisable in four cumulative installments of 25% as follows:

	Total Portion of Option Which is Exercisable
Two Years after Date of Grant	25%
Three Years after Date of Grant	50%
Four Years after Date of Grant	75%
Five Years after Date of Grant	100%

In the event that Employee does not purchase in any one year the full number of shares of Common Stock of the Company to which he/she is entitled under this option, he/she may, subject to the terms and conditions of Section 3 hereof, purchase such shares of Common Stock in any subsequent year during the term of this option.

(b) During the lifetime of the Employee, the option shall be exercisable only by him/her and shall not be assignable or transferable by him/her otherwise than by will or the laws of descent and distribution.

3. Effect of Termination of Employment

(a) In the event that Employee shall cease to be employed by the Company or its subsidiaries for any reason other than his/her gross and willful misconduct, death, retirement (as defined in Section 3(d) below), or disability (as defined in Section 3(d) below), Employee shall have the right to exercise the option at any time within one month after such termination of employment to the extent of the full number of shares he/she was entitled to purchase under the option on the date of termination, subject to the condition that no option shall be exercisable after the expiration of the term of the option.

(b) In the event that Employee shall cease to be employed by the Company or its subsidiaries by reason of his/her gross and willful misconduct during the course of his/her employment, including but not limited to wrongful appropriation of Company funds or the commission of a felony, the option shall be terminated as of the date of the misconduct.

(c) If the Employee shall die while in the employ of the Company or a subsidiary or within one month after termination of employment for any reason other than gross and willful misconduct and shall not have fully exercised the option, all remaining shares shall become immediately exerciseable and such option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

(d) If the Employee's termination of employment is due to retirement (either after attaining age 55 with 10 years of service, or attaining age 65, or due to disability within the meaning of the provisions of the Graco Long-Term Disability Plan), all remaining shares shall become immediately exerciseable and the option may be exercised by the Employee at any time within three years of the employee's retirement, or in the event of the death of the Employee within the three-year period after retirement, the option may be exercised at any time within twelve months after his/her death by the executors or administrators of the Employee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of shares he/she was entitled to purchase under the option on the date of death, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

4. Manner of Exercise

(a) The option can be exercised only by Employee or other proper party within the option period delivering written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the option is being exercised and, except as provided in Section 4(c), accompanied by payment-in-full of the option price for all shares designated in the notice.

(b) The Employee may, at Employee's election, pay the option price either by check (bank check, certified check, or personal check) or by delivering to the Company for cancellation Common Shares of the Company with a fair market value equal to the option price. For these purposes, the fair market value of the Company's Common Shares shall be the closing price of the Common Shares on the date of exercise on the New York Stock Exchange (the "NYSE") or on the principal national securities exchange on which the shares are traded if the shares are not then traded on the NYSE. If there is not a quotation available for such day, then the closing price on the next preceding day for which such a quotation exists shall be determinative of fair market value. If the shares are not then traded on an exchange, the fair market value shall be the average of the closing bid and asked prices of the Common Shares as reported by the National Association of Securities Dealers Automated Quotation System. If the Common Shares are not then traded on NASDAQ or on an exchange, then the fair market value shall be determined in such manner as the Company shall deem reasonable.

(c) The Employee may, with the consent of the Company, pay the option price by arranging for the immediate sale of some or all of the shares issued upon exercise of the option by a securities dealer and the payment to the Company by the securities dealer of the option exercise price.

5. Payment of Withholding Taxes

Upon exercise of any portion of this option, Employee shall pay to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements which arise as a result of the exercise of the option or provide the Company with satisfactory indemnification for such payment.

6. Adjustments

If Employee exercises all or any portion of the option subsequent to any change in the number or character of the Common Shares of the Company (through merger, consolidation, reorganization, recapitalization, stock dividend, or otherwise), Employee shall then receive for the aggregate price paid by him/her on such exercise of the option, the number and type of securities or other consideration which he/she would have received if such option had been exercised prior to the event changing the number or character of outstanding shares.

7. Miscellaneous

(a) This option is issued pursuant to the Company's Long-Term Incentive Stock Plan and is subject to its terms. A copy of the Plan has been given to the Employee. The terms of the Plan are also available for inspection during business hours at the principal offices of the company.

(b) This Agreement shall not confer on Employee any right with respect to continuance of employment by the Company or any of its subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time. Employee shall have none of the rights of a shareholder with respect to shares subject to this option until such shares shall have been issued to him upon exercise of this option.

(c) The Company shall at all times during the term of the option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

GRACO INC.

By
Its: Chairman and Chief Executive
Officer

Employee

Exhibit 10.17

SEPARATION AND SUPPLEMENTAL RETIREMENT AGREEMENT

THIS AGREEMENT made this 3rd day of January, 1995, by and between Graco Inc., a Minnesota corporation ("Graco"), and Barry A. Calhoon ("Employee").

WHEREAS, Employee is now employed by Graco; and

WHEREAS, The parties have agreed that Employee will retire as an employee of Graco effective December 31, 1994, and terminate the employment relationship between Employee and Graco in accordance with the terms of this Agreement.

NOW, THEREFORE, It is hereby agreed by and between the parties as follows:

1. Separation Payments.

   Upon execution of this Agreement, Graco will pay to Employee in a lump sum the amount of one hundred seventy-eight thousand ($178,000) dollars, subject to tax deductions required by law.

2. Supplemental Retirement Payments

   a. Pension payments. Beginning January 1, 1995, Graco shall pay to Employee on the first day of each month the sum of nine hundred seven ($907.00) dollars. Graco shall make a good faith effort to deliver this sum to Employee's residence, as the address may appear in Graco's records, on or before the last day of the month preceding the due date. Such payments shall continue until the first day of the month in which Employee dies.

   b. Source of Payments. Benefits due under this Article 2 shall be paid out of the general funds of Graco, and the Employee and the Survivor Annuitant shall not have any preferred interest by way of trust, escrow, lien or otherwise in any specific assets. The rights accruing to the Employee and the Survivor Annuitant hereunder shall be solely those of unsecured creditors of Graco.

   c. Nontransferability. The Employee and the Survivor Annuitant shall not have the right to assign, encumber or otherwise anticipate the payments to be made under this Article 2, and the benefits provided hereunder shall not be subject to seizure for payment of any debts or judgments against the Employee or the Survivor Annuitant.

   d. Making a Claim Payments will be paid to the Employee and Survivor Annuitant automatically. If the Employee or the Survivor Annuitant is in disagreement with any determination that has been made, a claim may be presented in accordance with the procedure set forth in subparagraph e of this Article 2.

   e. Claims Procedure.

      (i). Any claim presented to Graco pursuant to subparagraph d of this Article must be in writing and delivered to the Vice President - Human Resources of Graco. The claimant may, at the claimant's own expense, have an attorney or other representative act on behalf of the claimant. Within 90 days after the claim is delivered, the claimant will receive either:

         (a) a decision ; or
         (b) a notice describing special circumstances requiring a specified amount of additional time (but no more than 180 days from the day the claim was delivered) to reach a decision.

(ii). If the claim is wholly or partially denied, the claimant will receive a written notice specifying:

(a) the reasons for denial;
(b) the provisions of the Agreement on which the denial is based; and
(c) any additional information needed in connection with the claim and the reason such information is needed. Information concerning the claimant's right to request a review will also be given to the claimant.

(iii). A claimant may request that a denied claim be reviewed. The request for review must be in writing and delivered to the Vice President - Human Resources of Graco within 60 days after the claimant's receipt of written notice that the claim was denied. A request for review may, but is not required to, include issues and comments the claimant wants considered in the review. The claimant may examine pertinent documents by asking the Vice President - Human Resources of Graco for permission to do so. Within 60 days after delivery of a request for review, claimant will receive either

(a) a decision; or
(b) a notice describing special circumstances requiring a specified amount of additional time (but no more than 120 days from the day the request for review was delivered) to reach a decision.

(iv). If a claimant does not receive a decision within the specified time, the claimant should assume the claim was denied or re-denied on the date the specified time expired.

(v). The Vice President - Human Resources of Graco will make all decisions on claims and reviews of denied claims . The Vice President - Human Resources of Graco may delegate his authority to make such decisions and may, in his or her sole discretion, hold one or more hearings.

3. Long-term Stock Incentive Plan.

a. Graco Executive Long-term Incentive Agreement.

With respect to the grants of restricted stock made to the Employee pursuant to the Executive Long-term Incentive Agreement executed by the Employee and Graco on March 1, 1991, the Employee will receive on March 1, 1995, one thousand eight hundred and eighty-one (1881) shares of Graco common stock, freely tradeable without further restrictions, representing the fourth installment of the total shares granted to the Employee under said Agreement. The fifth and sixth installments of shares shall not vest in the Employee and his right to these unvested installments shall be immediately and irrevocably forfeited on the date of execution of this Separation and Supplemental Retirement Agreement. All other terms and conditions of the subject Incentive Agreement to the extent applicable shall remain in full force and effect.

b. Non-Incentive Stock Option Agreement.

On December 31, 1994, all Five thousand two hundred ninety-eight options granted to the Employee pursuant to the Non-Incentive Stock Option Agreement executed by the Employee and Graco on May 2, 1994 shall become immediately and fully exercisable by the Employee and shall remain exercisable by him until the close of business on December 30, 1997, at which time all options not previously exercised will expire. All other terms and conditions of the subject Stock Option Agreement to the extent applicable shall remain in full force and effect.

4. Annual Bonus Plan.

The Employee is a participant in the Graco Inc. 1994 Corporate and Business Unit Annual Bonus Plan and shall be entitled to a Bonus Payment pursuant to the terms of that Plan, calculated up to the time of his retirement.

5. Cooperation.

Employee 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 Employee for any reasonable out-of-pocket expenses (including attorney's fees, if necessary) incurred by him in connection with rendering such cooperation.

6. Confidentiality

a. Employee hereby agrees that, for a period of five (5) years after December 31, 1994, 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 employment.

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 Employee 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, employees, suppliers, marketing, sales, management practices, technical information, drawings, specifications, material, and the like, and any knowledge or information developed by Employee 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 the Employee or information which the Employee is required to disclose in a court or other judicial proceeding or is otherwise legally required to disclose.

c. Employee agrees that all written or otherwise documented, including, without limitation, by any electronic medium, Confidential Information and all copies thereof, are and shall be Graco property exclusively, and the Employee hereby represents that he has either turned over to Graco all such documents or destroyed them, and has no documents or other records, including, without limitation, electronic records, containing Graco Confidential Information in his possession or control.

7. Release

a. Except with respect to the provisions of this Agreement and the provisions of a letter from Susan Boettcher and Debbie Hill, dated October 17, 1994, describing the benefits to which Employee shall be entitled upon his retirement, the Employee 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, including the Exhibits hereto, or any right or claim the Employee may have or assert under the common law or any state, municipal, federal, or other law 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 Article 7 shall not affect the

Employee'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 retirement date.

b. The Employee certifies, represents and agrees that:

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

(ii). he understands that this Article 7 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 - Human Resources, delivered in person or by mail. If his revocation is sent by mail, it must be postmarked on or before January 18, 1995, properly addressed to Clyde Hansen, Vice President - Human Resources, Graco, Inc., P.O. Box 1441, Minneapolis, MN. 55440, and sent by certified mail, return receipt requested. Employee understands that Graco will have no obligation to pay him anything under this Agreement, if he revokes his acceptance within the time limit specified.

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

8. Applicability to Successors.

This Agreement shall be binding upon and inure to the benefit of Graco and the Employee and the Survivor Annuitant, and the successors and assigns of Graco. If Graco becomes a party to any merger, consolidation or reorganization, this Agreement shall remain in full force and effect as an obligation of Graco or its successors in interest.

9. Amendment.

This Agreement may be amended at any time by mutual agreement of the parties. The Vice President - Human Resources of Graco may issue rules implementing this Agreement and will inform the Employee (or the Survivor Annuitant) of any such rules in the event same are issued.

10. 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.

11. Entire Agreement.

This Agreement, including Exhibit A hereto, constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, and, except as otherwise specifically provided herein or in Exhibit A, specifically supersedes and replaces any and all prior written or oral agreements or understandings.

12. 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
Clyde W. Hansen
Vice President of Human Resources

EMPLOYEE

____
Barry A. Calhoon

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS AND CONSOLIDATED BALANCE SHEETS FOR THE FISCAL YEAR ENDING DECEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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GRACO INC.
1,000

YEAR
DEC-30-1994
DEC-30-1994
2,444
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