

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): **January 30, 2006**

**Graco Inc.**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction  
of Incorporation)

**001-9249**

(Commission  
File Number)

**41-0285640**

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

**88-11<sup>th</sup> Avenue Northeast  
Minneapolis, Minnesota**

(Address of principal executive offices)

**55413**

(Zip Code)

Registrant's telephone number, including area code: **(612) 623-6000**

**Not Applicable**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule-425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition**

On January 30, 2006, Graco Inc. issued a press release to report the Company's results of operations and financial condition for the fiscal year ended December 30, 2005. A copy of this press release is furnished as Exhibit 99.1 hereto and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

(c) Exhibits


99.1 Press Release dated January 30, 2006.

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRACO INC.

Date: January 31, 2006

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

# News Release

GRACO INC  
P.O. Box 1441  
Minneapolis, MN  
55440-1441  
NYSE: GGG

**FOR IMMEDIATE RELEASE:**

Monday, January 30, 2006

**FOR FURTHER INFORMATION:**

Mark W. Sheahan (612) 623-6656

**GRACO REPORTS RECORD 2005 RESULTS  
NET SALES INCREASE 21 PERCENT  
DILUTED EARNINGS PER SHARE INCREASE 16 PERCENT**

**MINNEAPOLIS, MN (January 30, 2006)** - Graco Inc. (NYSE: GGG) today announced record 2005 net earnings of \$125.9 million on sales of \$731.7 million. Diluted net earnings per share were \$1.80 versus \$1.55 last year, a 16 percent increase. In the fourth quarter of 2005, net sales of \$185.6 million were 15 percent higher than last year. Diluted net earnings per share were \$0.46 versus \$0.39 last year, an 18 percent increase. 2005 fourth quarter and year-end results include one less week than the same periods last year.

Twelve-month sales in the Contractor Equipment Division were \$305.3 million versus \$278.7 million last year, a 10 percent increase. This increase was driven by higher sales in both the paint store and home center channels in the Americas and increased sales in Europe. In the Industrial/Automotive Equipment Division, 2005 sales were \$367.1 million versus \$274.6 million last year, a 34 percent increase. Acquired businesses contributed 25 percentage points of the increase while growth throughout most of the major product categories and all geographic regions contributed 9 percentage points. Lubrication Equipment Division sales were \$59.3 million versus \$51.7 million last year, a 15 percent increase. This double-digit increase was primarily driven by higher sales in the Americas.

Twelve-month sales in the Americas were \$486.2 million versus \$401.0 million last year, a 21 percent increase. Acquired businesses contributed 12 percentage points of the increase. In Europe, sales were \$151.0 million versus \$124.6 million last year, a 21 percent increase, with nearly half of the increase contributed by acquired businesses. Exchange rates did not have a significant impact on Europe sales for the year. Asia Pacific sales for the year were \$94.5 million versus \$79.5 million last year, a 19 percent increase. Acquired businesses contributed 9 percentage points of the growth and changes in exchange rates contributed 2 percentage points.

Fourth quarter Contractor Equipment sales were \$72.6 million versus \$69.5 million last year, a 4 percent increase. Higher sales in both the professional paint channel and home center channel as well as strong sales in Europe were the primary drivers for this increase. Industrial/ Automotive Equipment sales were \$97.4 million versus \$77.5 million last year, a 26 percent increase. Acquired businesses contributed 24 percentage points of the increase. Lubrication Equipment sales in the fourth quarter were \$15.5 million versus \$13.8 million last year, a 13 percent increase. Strong sales in the Americas led to the higher Lubrication results. The aforementioned percentage changes in 2005 versus 2004 division sales have not been adjusted to reflect that last year's results included an extra week.

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Fourth quarter sales in the Americas were \$122.0 million versus \$103.3 million last year, an 18 percent increase. Acquired businesses contributed 13 percentage points of the increase. In Europe, fourth quarter sales were \$38.6 million versus \$34.0 million last year, a 13 percent increase with acquired businesses contributing 10 percentage points of this growth. Sales in Europe were 22 percent higher than last year's fourth quarter at constant exchange rates. Asia Pacific sales for the fourth quarter were \$25.0 million versus \$23.5 million last year, a 7 percent increase all of which came from acquired businesses. The aforementioned percentage changes in 2005 versus 2004 geographic sales have not been adjusted to reflect that last year's results included an extra week.

Fourth quarter gross profit margin was 52.0 percent versus 54.6 percent last year. Approximately 160 basis points of the difference from last year can be attributed to the impact of acquired businesses. The remaining difference is due to the unfavorable impact of currency translations and increased spending on projects that are expected to improve factory efficiencies. For the year, Graco's gross profit margin was 51.8 percent versus 54.3 percent last year. Approximately 200 basis points of the difference from last year can be attributed to the impact of acquired businesses with the remaining portion due to the higher material costs and the aforementioned spending initiatives.

The fourth quarter operating profit margin was 26.2 percent versus 24.8 percent for the same period last year. The 2005 fourth quarter operating profit margin was reduced by 240 basis points as the result of acquired businesses. For the year, operating profit margin was 26.1 percent versus 26.7 percent last year. The 2005 operating profit margin was reduced by 300 basis points as the result of acquired businesses. The operating profitability of the acquired businesses has improved throughout the year and they began contributing to net earnings in the fourth quarter.

Operating expenses for the year were \$188.3 million versus \$166.9 million last year. Acquired businesses contributed \$24 million of incremental operating expenses in 2005. Despite higher product development spending, operating expenses without acquisitions were lower than last year, driven by a reduction in selling, marketing and distribution expenses.

When compared to 2004 results, the weaker U.S. dollar versus foreign currencies helped to increase twelve-month net sales and net earnings. Favorable translation rates increased net sales and net earnings by approximately \$3.5 million and \$1.5 million for the year, respectively. In the fourth quarter, the stronger U.S. dollar versus foreign currencies reduced net sales and net earnings by \$2.5 million and \$1.0 million, respectively.

"2005 has been an exciting and challenging year and I am proud of our accomplishments," said President and Chief Executive Officer David A. Roberts. "We started the year with strong business tempo that continued throughout the year and led to our record results. The acquisitions that we completed this past year are now contributing to our net sales, earnings and cash flow. We still have significant opportunities to improve the profitability of these businesses and are encouraged by our progress to date. Heading into 2006, the current sales tempo is strong and we anticipate a good start to the year. Given this early momentum and our planned initiatives in the areas of new product development, expanding distribution, entering new markets and making strategic acquisitions, we are planning for higher sales and net earnings next year."

**Cautionary Statement Regarding Forward-Looking Statements**

A forward-looking statement is any statement made in this earnings release and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press releases, analyst briefings, conference calls and the Company's Annual Report to shareholders which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Exhibit 99 to the Company's Annual Report on Form 10-K for fiscal year 2004 for a more comprehensive discussion of these and other risk factors.

Investors should realize that factors other than those identified above and in Exhibit 99 might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

**Conference Call**

A conference call for analysts and institutional investors will be held Tuesday, January 31, 2006, at 10:00 a.m. ET to discuss Graco's fourth quarter and year end results. Graco management will host the call.

A real-time, listen-only Webcast of the conference call will be broadcast live over the Internet. Individuals wanting to listen can access the call at the Company's website at [www.graco.com](http://www.graco.com). Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 12:00 p.m. ET on January 31, 2006, by dialing 800.405.2236, passcode 11050783, if calling within the U.S. or Canada. The dial-in number for international participants is 303.590.3000, with the same passcode. The replay by telephone will be available through February 3, 2006.

Graco Inc. supplies technology and expertise for the management of fluids in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at [www.graco.com](http://www.graco.com).

**GRACO INC. AND SUBSIDIARIES**  
**Consolidated Statements of Earnings**

| (In thousands, except per share amounts) | Fourth Quarter (13/14 weeks) Ended |                         | Year (52/53 weeks) Ended |                         |
|--|------------------------------------|-------------------------|--------------------------|-------------------------|
|  | <u>Dec. 30, 2005</u>               | <u>Dec. 31, 2004</u>    | <u>Dec. 30, 2005</u>     | <u>Dec. 31, 2004</u>    |
| <b>Net Sales</b>                         | <b>\$185,603</b>                   | <b>\$160,819</b>        | <b>\$731,702</b>         | <b>\$605,032</b>        |
| Cost of products sold                    | <u>89,133</u>                      | <u>73,075</u>           | <u>352,352</u>           | <u>276,622</u>          |
| <b>Gross Profit</b>                      | <b>96,470</b>                      | <b>87,744</b>           | <b>379,350</b>           | <b>328,410</b>          |
| Product development                      | <u>7,080</u>                       | <u>5,985</u>            | <u>26,970</u>            | <u>21,783</u>           |
| Selling, marketing and distribution      | <u>27,875</u>                      | <u>30,396</u>           | <u>110,135</u>           | <u>104,372</u>          |
| General and administrative               | <u>12,918</u>                      | <u>11,516</u>           | <u>51,175</u>            | <u>40,724</u>           |
| <b>Operating Earnings</b>                | <b>48,597</b>                      | <b>39,847</b>           | <b>191,070</b>           | <b>161,531</b>          |
| Interest expense                         | <u>184</u>                         | <u>114</u>              | <u>1,374</u>             | <u>498</u>              |
| Other expense (income), net              | <u>(166)</u>                       | <u>(25)</u>             | <u>342</u>               | <u>252</u>              |
| <b>Earnings before Income Taxes</b>      | <b>48,579</b>                      | <b>39,758</b>           | <b>189,354</b>           | <b>160,781</b>          |
| Income taxes                             | <u>16,300</u>                      | <u>12,200</u>           | <u>63,500</u>            | <u>52,100</u>           |
| <b>Net Earnings</b>                      | <b><u>\$ 32,279</u></b>            | <b><u>\$ 27,558</u></b> | <b><u>\$125,854</u></b>  | <b><u>\$108,681</u></b> |
| <b>Net Earnings per Common Share</b>     |                                    |                         |                          |                         |
| Basic                                    | <u>\$ 0.47</u>                     | <u>\$ 0.40</u>          | <u>\$ 1.83</u>           | <u>\$ 1.57</u>          |
| Diluted                                  | <u>\$ 0.46</u>                     | <u>\$ 0.39</u>          | <u>\$ 1.80</u>           | <u>\$ 1.55</u>          |
| <b>Weighted Average Number of Shares</b> |                                    |                         |                          |                         |
| Basic                                    | <u>68,419</u>                      | <u>69,068</u>           | <u>68,766</u>            | <u>69,142</u>           |
| Diluted                                  | <u>69,431</u>                      | <u>70,238</u>           | <u>69,862</u>            | <u>70,251</u>           |

**GRACO INC. AND SUBSIDIARIES**  
**Segment Information**

| (In thousands)                | Fourth Quarter (13/14 weeks) Ended |                         | Year (52/53 weeks) Ended |                         |
|-------------------------------|------------------------------------|-------------------------|--------------------------|-------------------------|
|                               | <u>Dec. 30, 2005</u>               | <u>Dec. 31, 2004</u>    | <u>Dec. 30, 2005</u>     | <u>Dec. 31, 2004</u>    |
| <b>Net Sales</b>              |                                    |                         |                          |                         |
| Industrial / Automotive       | <u>\$ 97,423</u>                   | <u>\$ 77,547</u>        | <u>\$367,119</u>         | <u>\$274,574</u>        |
| Contractor                    | <u>72,633</u>                      | <u>69,508</u>           | <u>305,298</u>           | <u>278,713</u>          |
| Lubrication                   | <u>15,547</u>                      | <u>13,764</u>           | <u>59,285</u>            | <u>51,745</u>           |
| <b>Consolidated</b>           | <b><u>\$185,603</u></b>            | <b><u>\$160,819</u></b> | <b><u>\$731,702</u></b>  | <b><u>\$605,032</u></b> |
| <b>Operating Earnings</b>     |                                    |                         |                          |                         |
| Industrial / Automotive       | <u>\$ 28,048</u>                   | <u>\$ 24,089</u>        | <u>\$ 98,330</u>         | <u>\$ 86,975</u>        |
| Contractor                    | <u>17,388</u>                      | <u>14,139</u>           | <u>77,598</u>            | <u>68,013</u>           |
| Lubrication                   | <u>4,109</u>                       | <u>2,711</u>            | <u>15,633</u>            | <u>11,807</u>           |
| Unallocated Corporate Expense | <u>(948)</u>                       | <u>(1,092)</u>          | <u>(491)</u>             | <u>(5,264)</u>          |
| <b>Consolidated</b>           | <b><u>\$ 48,597</u></b>            | <b><u>\$ 39,847</u></b> | <b><u>\$191,070</u></b>  | <b><u>\$161,531</u></b> |

Segment operating earnings for 2004 have been restated to conform to 2005, which includes amortization of intangibles formerly classified as unallocated corporate.

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**GRACO INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

(In thousands)

|  | <u>Dec. 30, 2005</u> | <u>Dec. 31, 2004</u> |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>Current Assets</b>  |                      |                      |
| Cash and cash equivalents                                      | \$ 18,664            | \$ 60,554            |
| Accounts receivable, less allowances of<br>\$5,900 and \$5,600 | 122,854              | 109,080              |
| Inventories  | 56,547               | 40,219               |
| Deferred income taxes  | 14,038               | 15,631               |
| Other current assets   | 1,795                | 1,742                |
| Total current assets   | <u>213,898</u>       | <u>227,226</u>       |
| <b>Property, Plant and Equipment</b>                           |                      |                      |
| Cost   | 255,463              | 231,819              |
| Accumulated depreciation                                       | (148,965)            | (137,309)            |
| Total property, plant and equipment, net                       | <u>106,498</u>       | <u>94,510</u>        |
| Prepaid Pension  | 29,616               | 27,556               |
| Goodwill   | 52,009               | 9,199                |
| Other Intangible Assets, net                                   | 39,482               | 8,959                |
| Other Assets   | 4,127                | 4,264                |
| Total Assets   | <u>\$445,630</u>     | <u>\$371,714</u>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    |                      |                      |
| <b>Current Liabilities</b>                                     |                      |                      |
| Notes payable to banks   | \$ 8,321             | \$ 6,021             |
| Trade accounts payable   | 24,712               | 18,599               |
| Salaries, wages and commissions                                | 23,430               | 19,804               |
| Dividends payable  | 9,929                | 8,990                |
| Other current liabilities                                      | 45,189               | 43,359               |
| Total current liabilities                                      | <u>111,581</u>       | <u>96,773</u>        |
| Retirement Benefits and Deferred Compensation                  | 35,507               | 33,092               |
| Deferred Income Taxes  | 10,858               | 11,012               |
| <b>Shareholders' Equity</b>                                    |                      |                      |
| Common stock   | 68,387               | 68,979               |
| Additional paid-in capital                                     | 110,842              | 100,180              |
| Retained earnings  | 112,506              | 62,773               |
| Other, net   | (4,051)              | (1,095)              |
| Total shareholders' equity                                     | <u>287,684</u>       | <u>230,837</u>       |
| Total Liabilities and Shareholders' Equity                     | <u>\$445,630</u>     | <u>\$371,714</u>     |

More...

**GRACO INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

(In thousands)

|   | <u>Year (52/53 Weeks) Ended</u> |                      |
|---|---------------------------------|----------------------|
|   | <u>Dec. 30, 2005</u>            | <u>Dec. 31, 2004</u> |
| <b>Cash Flows from Operating Activities</b>   |                                 |                      |
| Net Earnings  | \$ 125,854                      | \$ 108,681           |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                 |                      |
| Depreciation and amortization   | 23,496                          | 17,808               |
| Deferred income taxes   | 1,260                           | 1,403                |
| Tax benefit related to stock options exercised                                      | 2,510                           | 6,782                |
| Change in:  |                                 |                      |
| Accounts receivable   | (9,101)                         | (7,290)              |
| Inventories   | 4,524                           | (11,031)             |
| Trade accounts payable  | 701                             | 2,790                |
| Salaries, wages and commissions   | 2,239                           | 3,020                |
| Retirement benefits and deferred compensation                                       | 396                             | (1,067)              |
| Other accrued liabilities   | 1,189                           | 1,539                |
| Other   | 156                             | 273                  |
| <b>Net cash from operating activities</b>   | <u>153,224</u>                  | <u>122,908</u>       |
| <b>Cash Flows from Investing Activities</b>   |                                 |                      |
| Property, plant and equipment additions   | (19,904)                        | (16,893)             |
| Proceeds from sale of property, plant and equipment                                 | 239                             | 175                  |
| Capitalized software and other intangible asset additions                           | (802)                           | (2,446)              |
| Acquisitions of businesses, net of cash acquired                                    | (111,005)                       | —                    |
| <b>Net cash used in investing activities</b>  | <u>(131,472)</u>                | <u>(19,164)</u>      |
| <b>Cash Flows from Financing Activities</b>   |                                 |                      |
| Borrowings on notes payable and lines of credit                                     | 82,937                          | 25,399               |
| Payments on notes payable and lines of credit                                       | (80,439)                        | (23,647)             |
| Common stock issued   | 10,482                          | 15,117               |
| Common stock retired  | (42,299)                        | (40,792)             |
| Cash dividends paid   | (35,805)                        | (129,910)            |
| <b>Net cash used in financing activities</b>  | <u>(65,124)</u>                 | <u>(153,833)</u>     |
| Effect of exchange rate changes on cash   | <u>1,482</u>                    | <u>(1,475)</u>       |
| Net increase (decrease) in cash and cash equivalents                                | <u>(41,890)</u>                 | <u>(51,564)</u>      |
| Cash and cash equivalents   |                                 |                      |
| Beginning of year   | <u>60,554</u>                   | <u>112,118</u>       |
| End of year   | <u>\$ 18,664</u>                | <u>\$ 60,554</u>     |

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January 31, 2006

*Electronically Filed*

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

Re: Graco Inc.  
File No. 001-9249

Gentlemen:

Enclosed is a Form 8-K for Graco Inc. furnished in connection with its  
Earnings Release of January 30, 2006.

Very truly yours,

A handwritten signature in black ink, appearing to read 'K. Park Gallivan', written in a cursive, flowing style.

Karen Park Gallivan  
Vice President, General Counsel  
and Secretary

KPG:nas

Enclosures