

GRACO INC
Form 10-Q
April 23, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 28, 2014**

Commission File Number: 001-09249

GRACO INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State of incorporation)

41-0285640
(I.R.S. Employer Identification Number)

88 - 11th Avenue N.E.

Minneapolis, Minnesota
(Address of principal executive offices)

55413
(Zip Code)
(612) 623-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

60,616,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of April 16, 2014.

Table of Contents

INDEX

Page Number

PART I FINANCIAL INFORMATION

Item 1.	Financial Statements	
	<u>Consolidated Statements of Earnings</u>	3
	<u>Consolidated Statements of Comprehensive Income</u>	3
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4.	<u>Controls and Procedures</u>	22

PART II OTHER INFORMATION

Item 1A.	<u>Risk Factors</u>	23
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 6.	<u>Exhibits</u>	24

SIGNATURES

EXHIBITS

Table of Contents**PART I Item 1.****GRACO INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS**

(Unaudited) (In thousands except per share amounts)

	Thirteen Weeks Ended	
	March 28, 2014	March 29, 2013
Net Sales	\$ 289,962	\$ 269,046
Cost of products sold	130,650	118,402
Gross Profit	159,312	150,644
Product development	13,159	12,421
Selling, marketing and distribution	46,342	43,354
General and administrative	25,106	23,372
Operating Earnings	74,705	71,497
Interest expense	4,588	4,762
Other expense (income), net	(3,428)	(4,395)
Earnings Before Income Taxes	73,545	71,130
Income taxes	22,800	19,000
Net Earnings	\$ 50,745	\$ 52,130
Per Common Share		
Basic net earnings	\$ 0.83	\$ 0.86
Diluted net earnings	\$ 0.81	\$ 0.84
Cash dividends declared	\$ 0.28	\$ 0.25

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

Thirteen Weeks Ended	
March 28, 2014	March 29, 2013

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Net Earnings	\$ 50,745	\$ 52,130
Other comprehensive income (loss)		
Cumulative translation adjustment	(86)	(8,487)
Pension and postretirement medical liability adjustment	1,188	2,456
Income taxes		
Pension and postretirement medical liability adjustment	(428)	(878)
Other comprehensive income (loss)	674	(6,909)
Comprehensive Income	\$ 51,419	\$ 45,221

See notes to consolidated financial statements.

Table of Contents

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	March 28, 2014	Dec 27, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 24,082	\$ 19,756
Accounts receivable, less allowances of \$6,300 and \$6,300	210,102	183,293
Inventories	147,373	133,787
Deferred income taxes	21,144	18,827
Investment in businesses held separate	422,297	422,297
Other current assets	10,371	14,633
Total current assets	835,369	792,593
Property, Plant and Equipment		
Cost	417,338	407,887
Accumulated depreciation	(261,332)	(256,170)
Property, plant and equipment, net	156,006	151,717
Goodwill	227,204	189,967
Other Intangible Assets, net	166,655	147,940
Deferred Income Taxes	20,891	20,366
Other Assets	24,452	24,645
Total Assets	\$ 1,430,577	\$ 1,327,228
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable to banks	\$ 11,049	\$ 9,584
Trade accounts payable	43,695	34,282
Salaries and incentives	23,475	38,939
Dividends payable	16,720	16,881
Other current liabilities	73,954	69,167
Total current liabilities	168,893	168,853
Long-term Debt	503,010	408,370
Retirement Benefits and Deferred Compensation	94,990	94,705
Deferred Income Taxes	21,030	20,935

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Shareholders' Equity			
Common stock		60,738	61,003
Additional paid-in-capital		364,060	347,058
Retained earnings		263,531	272,653
Accumulated other comprehensive income (loss)		(45,675)	(46,349)
Total shareholders' equity		642,654	634,365
Total Liabilities and Shareholders' Equity		\$ 1,430,577	\$ 1,327,228

See notes to consolidated financial statements.

Table of Contents

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Thirteen Weeks Ended	
	March 28, 2014	March 29, 2013
Cash Flows From Operating Activities		
Net Earnings	\$ 50,745	\$ 52,130
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	9,262	9,272
Deferred income taxes	(3,244)	(2,597)
Share-based compensation	4,401	3,401
Excess tax benefit related to share-based payment arrangements	(1,500)	(1,700)
Change in		
Accounts receivable	(23,251)	(14,244)
Inventories	(9,985)	(9,412)
Trade accounts payable	6,164	3,359
Salaries and incentives	(16,125)	(11,755)
Retirement benefits and deferred compensation	1,496	3,020
Other accrued liabilities	6,044	8,045
Other	4,235	(320)
Net cash provided by operating activities	28,242	39,199
Cash Flows From Investing Activities		
Property, plant and equipment additions	(6,879)	(3,320)
Acquisition of businesses, net of cash acquired	(65,150)	-
Proceeds from sale of assets	-	1,600
Investment in businesses held separate	-	835
Other	3	(133)
Net cash used in investing activities	(72,026)	(1,018)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	1,141	(1,280)
Borrowings on long-term line of credit	177,710	90,095
Payments on long-term line of credit	(83,070)	(125,585)
Excess tax benefit related to share-based payment arrangements	1,500	1,700
Common stock issued	15,275	17,718
Common stock repurchased	(47,542)	-
Cash dividends paid	(16,813)	(15,192)

Net cash provided by (used in) financing activities	48,201	(32,544)
Effect of exchange rate changes on cash	(91)	213
Net increase (decrease) in cash and cash equivalents	4,326	5,850
Cash and cash equivalents		
Beginning of year	19,756	31,120
End of period	\$ 24,082	\$ 36,970

See notes to consolidated financial statements.

Table of Contents**GRACO INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of March 28, 2014 and the related statements of earnings for the thirteen weeks ended March 28, 2014 and March 29, 2013, and cash flows for the thirteen weeks ended March 28, 2014 and March 29, 2013 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 28, 2014, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2013 Annual Report on Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Thirteen Weeks Ended	
	March 28, 2014	March 29, 2013
Net earnings available to common shareholders	\$ 50,745	\$ 52,130
Weighted average shares outstanding for basic earnings per share	60,822	60,961
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,616	1,447
	62,438	62,408

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Weighted average shares outstanding for diluted
earnings per share

Basic earnings per share	\$ 0.83	\$ 0.86
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Diluted earnings per share	\$ 0.81	\$ 0.84
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Table of Contents

Stock options to purchase 838,000 and 872,000 shares were not included in the March 28, 2014 and March&n