

GRACO INC
Form 10-Q
October 23, 2013
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 **September 27, 2013**

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

Yes X No _____

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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

61,233,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of October 17, 2013.

Table of Contents**INDEX**

	<u>Page Number</u>
PART I	
<u>FINANCIAL INFORMATION</u>	
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>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	24
PART II	
<u>OTHER INFORMATION</u>	
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 6. <u>Exhibits</u>	26

SIGNATURES**EXHIBITS**

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

(Unaudited) (In thousands except per share amounts)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 27, 2013	Sep 28, 2012	Sep 27, 2013	Sep 28, 2012
Net Sales	\$ 277,035	\$ 256,472	\$ 832,101	\$ 758,778
Cost of products sold	126,162	116,539	371,845	347,136
Gross Profit	150,873	139,933	460,256	411,642
Product development	12,508	12,485	37,396	36,625
Selling, marketing and distribution	44,297	41,230	132,207	121,803
General and administrative	24,342	29,887	74,213	86,439
Operating Earnings	69,726	56,331	216,440	166,775
Interest expense	4,450	5,233	13,837	14,281
Other expense (income), net	(8,425)	(3,233)	(23,671)	(6,170)
Earnings Before Income Taxes	73,701	54,331	226,274	158,664
Income taxes	17,600	17,200	60,200	51,800
Net Earnings	\$ 56,101	\$ 37,131	\$ 166,074	\$ 106,864
Per Common Share				
Basic net earnings	\$ 0.91	\$ 0.61	\$ 2.71	\$ 1.77
Diluted net earnings	\$ 0.89	\$ 0.60	\$ 2.65	\$ 1.73
Cash dividends declared	\$ 0.25	\$ 0.23	\$ 0.75	\$ 0.68

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sep 27, 2013	Sep 28, 2012	Sep 27, 2013	Sep 28, 2012
Net Earnings	\$ 56,101	\$ 37,131	\$ 166,074	\$ 106,864
Other comprehensive income (loss)				
Cumulative translation adjustment	8,866	3,440	3,011	(6,018)

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Pension and postretirement medical liability adjustment	2,304	2,394	7,090	7,203
Income taxes				
Pension and postretirement medical liability adjustment	(835)	(862)	(2,555)	(2,593)
Other comprehensive income (loss)	10,335	4,972	7,546	(1,408)
Comprehensive Income	\$ 66,436	\$ 42,103	\$ 173,620	\$ 105,456

See notes to consolidated financial statements.

Table of Contents

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	Sep 27, 2013	Dec 28, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,267	\$ 31,120
Accounts receivable, less allowances of \$6,300 and \$6,600	194,859	172,143
Inventories	132,745	121,549
Deferred income taxes	19,292	17,742
Investment in businesses held separate	422,297	426,813
Other current assets	8,315	7,629
Total current assets	794,775	776,996
Property, Plant and Equipment		
Cost	400,454	389,067
Accumulated depreciation	(250,868)	(237,523)
Property, plant and equipment, net	149,586	151,544
Goodwill	181,543	181,228
Other Intangible Assets, net	143,713	151,773
Deferred Income Taxes	39,456	38,550
Other Assets	22,827	21,643
Total Assets	\$ 1,331,900	\$ 1,321,734
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable to banks	\$ 9,463	\$ 8,133
Trade accounts payable	32,930	28,938
Salaries and incentives	35,235	34,001
Dividends payable	15,422	15,206
Other current liabilities	70,742	65,393
Total current liabilities	163,792	151,671
Long-term Debt	404,315	556,480
Retirement Benefits and Deferred Compensation	140,735	137,779
Deferred Income Taxes	21,764	21,690

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Shareholders' Equity		
Common stock	61,280	60,767
Additional paid-in-capital	333,959	287,795
Retained earnings	282,254	189,297
Accumulated other comprehensive income (loss)	(76,199)	(83,745)
Total shareholders' equity	601,294	454,114
Total Liabilities and Shareholders' Equity	\$ 1,331,900	\$ 1,321,734

See notes to consolidated financial statements.

Table of Contents**GRACO INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited) (In thousands)

	Thirty-nine Weeks Ended	
	Sep 27, 2013	Sep 28, 2012
Cash Flows From Operating Activities		
Net Earnings	\$ 166,074	\$ 106,864
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	27,748	28,444
Deferred income taxes	(5,873)	(4,663)
Share-based compensation	11,178	10,035
Excess tax benefit related to share-based payment arrangements	(5,100)	(3,300)
Change in		
Accounts receivable	(23,685)	(5,517)
Inventories	(11,012)	6,580
Trade accounts payable	2,771	(1,203)
Salaries and incentives	114	(6,675)
Retirement benefits and deferred compensation	9,819	746
Other accrued liabilities	11,189	(781)
Other	(2,188)	1,471
Net cash provided by operating activities	181,035	132,001
Cash Flows From Investing Activities		
Property, plant and equipment additions	(15,218)	(13,780)
Acquisition of businesses, net of cash acquired	-	(240,068)
Investment in businesses held separate	4,516	(426,813)
Proceeds from sale of assets	1,600	-
Other	(770)	(2,116)
Net cash used in investing activities	(9,872)	(682,777)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	1,265	(1,116)
Borrowings on long-term line of credit	313,560	546,220
Payments on long-term line of credit	(465,725)	(256,600)
Payments of debt issuance costs	-	(1,921)
Excess tax benefit related to share-based payment arrangements	5,100	3,300
Common stock issued	33,598	27,057
Common stock repurchased	(28,438)	(682)
Cash dividends paid	(45,834)	(40,654)

Net cash provided by (used in) financing activities	(186,474)	275,604
Effect of exchange rate changes on cash	1,458	(663)
Net increase (decrease) in cash and cash equivalents	(13,853)	(275,835)
Cash and cash equivalents		
Beginning of year	31,120	303,150
End of period	\$ 17,267	\$ 27,315

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 September 27, 2013 and the related statements of earnings for the thirteen and thirty-nine weeks ended September 27, 2013 and September 28, 2012, and cash flows for the thirty-nine weeks ended September 27, 2013 and September 28, 2012 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 September 27, 2013, 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 2012 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		Thirty-nine Weeks Ended	
	Sep 27, 2013	Sep 28, 2012	Sep 27, 2013	Sep 28, 2012
Net earnings available to common shareholders	\$ 56,101	\$ 37,131	\$ 166,074	\$ 106,864
Weighted average shares outstanding for basic earnings per share	61,333	60,570	61,222	60,369
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,663	1,208	1,526	1,271
Weighted average shares outstanding for diluted earnings per share	62,996	61,778	62,748	61,640
Basic earnings per share	\$ 0.91	\$ 0.61	\$ 2.71	\$ 1.77
Diluted earnings per share	\$ 0.89	\$ 0.60	\$ 2.65	\$ 1.73

Table of Contents

Stock options to purchase 387,000 and 945,000 shares were not included in the September 27, 2013 and September 28, 2012 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

3. Information on option shares outstanding and option activity for the thirty-nine weeks ended September 27, 2013 is shown below (in thousands, except per share amounts):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 28, 2012	5,192	\$ 34.85	3,194	\$ 32.99
Granted	563	58.80		
Exercised	(739)	33.39		