

GRACO INC
Form 10-Q
July 23, 2014
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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 **June 27, 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 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

60,083,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of July 16, 2014.

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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		Twenty-six Weeks Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net Sales	\$ 322,549	\$ 286,020	\$ 612,511	\$ 555,066
Cost of products sold	145,699	127,281	276,349	245,683
Gross Profit	176,850	158,739	336,162	309,383
Product development	13,405	12,467	26,564	24,888
Selling, marketing and distribution	49,503	44,556	95,845	87,910
General and administrative	28,094	26,499	53,200	49,871
Operating Earnings	85,848	75,217	160,553	146,714
Interest expense	4,676	4,625	9,264	9,387
Other expense (income), net	(10,764)	(10,851)	(14,192)	(15,246)
Earnings Before Income Taxes	91,936	81,443	165,481	152,573
Income taxes	25,700	23,600	48,500	42,600
Net Earnings	\$ 66,236	\$ 57,843	\$ 116,981	\$ 109,973
Per Common Share				
Basic net earnings	\$ 1.10	\$ 0.94	\$ 1.93	\$ 1.80
Diluted net earnings	\$ 1.07	\$ 0.92	\$ 1.88	\$ 1.76
Cash dividends declared	\$ 0.28	\$ 0.25	\$ 0.55	\$ 0.50

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net Earnings	\$ 66,236	\$ 57,843	\$ 116,981	\$ 109,973
Other comprehensive income (loss)				

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Cumulative translation adjustment	(1,908)	2,632	(1,994)	(5,855)
Pension and postretirement medical liability adjustment	1,225	2,330	2,413	4,786
Income taxes				
Pension and postretirement medical liability adjustment	(436)	(842)	(864)	(1,720)
Other comprehensive income (loss)	(1,119)	4,120	(445)	(2,789)
Comprehensive Income	\$ 65,117	\$ 61,963	\$ 116,536	\$ 107,184

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	June 27, 2014	Dec 27, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 29,568	\$ 19,756
Accounts receivable, less allowances of \$6,600 and \$6,300	229,224	183,293
Inventories	147,060	133,787
Deferred income taxes	21,096	18,827
Investment in businesses held separate	421,767	422,297
Other current assets	10,745	14,633
Total current assets	859,460	792,593
Property, Plant and Equipment		
Cost	424,822	407,887
Accumulated depreciation	(265,769)	(256,170)
Property, plant and equipment, net	159,053	151,717
Goodwill	226,537	189,967
Other Intangible Assets, net	162,898	147,940
Deferred Income Taxes	22,632	20,366
Other Assets	26,297	24,645
Total Assets	\$ 1,456,877	\$ 1,327,228
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable to banks	\$ 12,599	\$ 9,584
Trade accounts payable	42,740	34,282
Salaries and incentives	30,205	38,939
Dividends payable	16,583	16,881
Other current liabilities	63,039	69,167
Total current liabilities	165,166	168,853
Long-term Debt	522,760	408,370
Retirement Benefits and Deferred Compensation	94,863	94,705
Deferred Income Taxes	20,776	20,935

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Shareholders' Equity			
Common stock		60,181	61,003
Additional paid-in-capital		368,865	347,058
Retained earnings		271,060	272,653
Accumulated other comprehensive income (loss)		(46,794)	(46,349)
Total shareholders' equity		653,312	634,365
Total Liabilities and Shareholders' Equity	\$	1,456,877	\$ 1,327,228

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	June 27, 2014	June 28, 2013
Cash Flows From Operating Activities		
Net Earnings	\$ 116,981	\$ 109,973
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	18,327	18,637
Deferred income taxes	(5,710)	(5,073)
Share-based compensation	9,818	7,762
Excess tax benefit related to share-based payment arrangements	(2,300)	(3,300)
Change in		
Accounts receivable	(42,019)	(27,349)
Inventories	(9,806)	(12,393)
Trade accounts payable	6,219	4,541
Salaries and incentives	(9,670)	(5,635)
Retirement benefits and deferred compensation	2,749	6,113
Other accrued liabilities	3,916	7,646
Other	(4,476)	(761)
Net cash provided by operating activities	84,029	100,161
Cash Flows From Investing Activities		
Property, plant and equipment additions	(17,062)	(9,423)
Acquisition of businesses, net of cash acquired	(65,219)	-
Proceeds from sale of assets	-	1,600
Investment in businesses held separate	530	835
Other	(599)	(112)
Net cash used in investing activities	(82,350)	(7,100)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	2,659	(172)
Borrowings on long-term line of credit	325,665	198,645
Payments on long-term line of credit	(211,275)	(289,335)
Payments of debt issuance costs	(890)	-
Excess tax benefit related to share-based payment arrangements	2,300	3,300
Common stock issued	17,792	25,975
Common stock repurchased	(93,820)	(6,334)
Cash dividends paid	(33,485)	(30,504)

Net cash provided by (used in) financing activities	8,946	(98,425)
Effect of exchange rate changes on cash	(813)	1,813
Net increase (decrease) in cash and cash equivalents	9,812	(3,551)
Cash and cash equivalents		
Beginning of year	19,756	31,120
End of period	\$ 29,568	\$ 27,569

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 June 27, 2014 and the related statements of earnings for the thirteen and twenty-six weeks ended June 27, 2014 and June 28, 2013, and cash flows for the twenty-six weeks ended June 27, 2014 and June 28, 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 June 27, 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		Twenty-six Weeks Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net earnings available to common shareholders	\$ 66,236	\$ 57,843	\$ 116,981	\$ 109,973
Weighted average shares outstanding for basic earnings per share	60,453	61,371	60,637	61,166
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,575	1,470	1,596	1,458
Weighted average shares outstanding for diluted earnings per share	62,028	62,841	62,233	62,624
Basic earnings per share	\$ 1.10	\$ 0.94	\$ 1.93	\$ 1.80

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Diluted earnings per share	\$	1.07	\$	0.92	\$	1.88	\$	1.76
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Stock options to purchase 876,000 and 568,000 shares were not included in the June 27, 2014 and June 28, 2013 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.