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GRACO INC
Form DEF 14A
March 27, 2002

[LOGO]

GRACO INC.
88 Eleventh Avenue N.E.
Minneapolis, MN 55413

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

Please join us on Tuesday, May 7, 2002, at 1:00 p.m. for Graco's Annual Meeting of Shareholders at the George Aristides Riverside Center, which is located at 1150 Sibley Street N.E., Minneapolis, Minnesota.

At this meeting, shareholders will consider the following matters:

1. Election of five directors to serve for three-year terms.
2. Ratification of the selection of Deloitte & Touche LLP as independent auditors for the fiscal year 2002.
3. Transaction of such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 8, 2002, are entitled to vote at this meeting or any adjournment.

We encourage you to join us and participate in the meeting. If you are unable to do so, you may either call our toll-free telephone vote number, or mark and return the enclosed Proxy Card. Have your Proxy Card in front of you when you make your call as it contains important information which is required to access the system.

If you do not call us, return your Proxy Card or vote your shares in person at the meeting, you will lose your right to vote on matters that are important to you as a shareholder. Accordingly, if you do not plan to attend the meeting, please call 1-800-240-6326 to vote your shares, or execute and return the enclosed Proxy Card. This will not prevent you from voting in person if you decide to attend the meeting.

Sincerely,

/s/David A. Roberts
David A. Roberts
President &
Chief Executive Officer

/s/Robert M. Mattison
Robert M. Mattison
Secretary

March 28, 2002
Minneapolis, Minnesota

YOUR VOTE IS IMPORTANT

We urge you to call our transfer agent any time toll-free at 1-800-240-6326 and vote your shares. Have your Proxy Card in front of you when you make your call as it contains important information, including a unique shareholder control number that is required to access the system. Follow the prompts in the automated menu. If you do not wish to take advantage of the telephone voting, please mark, date and sign

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the Proxy Card and return it in the accompanying envelope as soon as possible. If you attend the meeting, you may still revoke your proxy and vote in person if you wish.

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A copy of the 2001 Graco Inc. Annual Report on Form 10-K, including the Financial Statements and the Financial Statement Schedule, can be obtained free of charge by calling (612) 623-6659, requesting a copy from our web site at www.graco.com, or writing:

Treasurer
Graco Inc.
P.O. Box 1441
Minneapolis, Minnesota
55440-1441

NOTE: Vote by telephone - call 1-800-240-6326

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PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 7, 2002

Your proxy, represented by the accompanying Proxy Card, is solicited by the Board of Directors of Graco Inc. ("Graco" or the "Company") in connection with the Annual Meeting of the Shareholders of the Company to be held on May 7, 2002, and any adjournments of that meeting.

The costs of the solicitation, including the cost of preparing and mailing the Notice of Meeting and this Proxy Statement, will be paid by the Company. Solicitation will be primarily by mailing this Proxy Statement to all shareholders entitled to vote at the meeting. Proxies may be solicited by officers of the Company personally, but at no compensation in addition to their regular compensation as officers. The Company may reimburse brokers, banks and others holding shares in their names for third parties, for the cost of forwarding proxy material to, and obtaining proxies from, third parties. The Proxy Statement and accompanying Proxy Card will be mailed to shareholders on or about March 28, 2002.

Proxies may be revoked at any time prior to being voted by giving written notice of revocation to the Secretary of the Company. All properly executed proxies received by management will be voted in the manner set forth in this Proxy Statement or as otherwise specified by the shareholder giving the proxy.

Shares voted as abstentions on any matter (or a "withhold vote for" as to directors) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the meeting and as unvoted, although present and entitled to vote, for purposes of determining the approval of each matter as to which the shareholder has abstained. If a broker submits a proxy which indicates that the broker does not have discretionary authority as to certain shares to vote on one or more matters, those shares will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the meeting, but will not be considered as present and entitled to vote with respect to such matters.

Only shareholders of record as of the close of business March 8, 2002, may vote at the meeting or at any adjournment. As of that date, there were issued and outstanding 31,533,255 common shares of the Company, the only class of securities entitled to vote at the meeting. Each share registered to a shareholder of record is entitled to one vote. Cumulative voting is not permitted.

PROPOSAL 1

ELECTION OF DIRECTORS

NOMINEES AND OTHER DIRECTORS

The number of directors of the Company is currently set at 12 members. The directors are divided into three classes as equal in number as reasonably possible. Vacancies that occur during a term may be filled by a majority vote of the directors then in office, though less than a quorum, and directors so chosen hold office for a term expiring at the next Annual Meeting of Shareholders. Board policy states that no director may continue to serve on the Board after the last day of the month of his/her seventieth (70th) birthday.

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At the forthcoming Annual Meeting, five persons are to be elected to the Company's Board of Directors. The Board has nominated David A. Koch, Lee R. Mitau, James H. Moar, Martha A.M. Morfitt and David A. Roberts for three-year terms expiring in the year 2005. Three nominees, David A. Koch, Lee R. Mitau and Martha A.M. Morfitt, have previously been elected as directors of the Company by the shareholders.

Unless otherwise instructed not to vote for the election of directors, proxies will be voted to elect the nominees. A director candidate must receive the vote of a majority of the voting power of shares present in order to be elected. Unless the Board reduces the number of directors, the enclosed proxy will be voted to elect the replacement nominee designated by the Board in the event that a nominee is unable or unwilling to serve.

The following information is given as of March 8, 2001 with respect to nominees for election and the seven directors whose terms of office will continue after the Annual Meeting. Except as noted below, each of the nominees and directors has held the same position, or another executive position with the same employer, for the past five years.

Nominees for election at this meeting to terms expiring 2005:

David A. Koch

Mr. Koch, 71, is Chairman Emeritus of the Board of the Company. He was Chairman and Chief Executive Officer from 1985 to 1996 and Chairman until May 1, 2001. Mr. Koch has been a director of Graco since 1962. He is also a director of SurModics, Inc. As an exception to Board policy, the Board of Directors has extended the mandatory retirement for Mr. Koch until May 6, 2003.

Lee R. Mitau

Mr. Mitau, 53, is the Executive Vice President and General Counsel of U.S. Bancorp, a regional bank holding company. U.S. Bank National Association, a subsidiary of U.S. Bancorp, provides Graco with cash management, loans and foreign exchange services, and is a trustee of the Graco Employee Retirement Plan. Mr. Mitau has been a director of Graco since 1990 and is a director of H.B. Fuller Company. (See section entitled Certain Business Relationships on page 14.)

James H. Moar

Mr. Moar, 53, is Chief Operating Officer of Tennant Company, a manufacturer of nonresidential floor cleaning equipment. From 1995 to 1998, he was Executive Vice President and Chief Operating Officer of DataCard Corporation. He was elected a director of the Company in May of 2001.

Martha A.M. Morfitt

Ms. Morfitt, 44, is President, Chief Executive Officer and a director of CNS Inc., a manufacturer and marketer of consumer products, including the Breathe Right(R) nasal strip. From 1998 to 2001, she was Chief Operating Officer of CNS Inc. From 1997 to 1998, she was Vice President, Meals, and from 1994 to 1997, Vice President, Green Giant Brands, The Pillsbury Company. Ms. Morfitt has been a director of Graco since 1995.

David A. Roberts

David A. Roberts, 54, is President and Chief Executive Officer of the

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Company, a position he has held since June 25, 2001. Prior to joining Graco, from 1996 to 2001 he was Group Vice President of the Marmon Group, where Mr. Roberts had responsibility for a group of companies with approximately \$600 million in revenue and products including grocery store refrigeration, retail store fixtures and fast food restaurant equipment. Mr. Roberts has been a director of Graco since June 2001.

Directors whose terms continue until 2003:

George Aristides

Mr. Aristides, 66, is Chairman of the Board, a position he has held since May 1, 2001. From January 3, 2000 to June 24, 2001, he served as Chief Executive Officer of the Company. From March 1, 1999 to December 29, 1999 he was Vice Chairman. From 1997 to February 28, 1999 he was Chief Executive Officer. From 1996 to 1997 he was President and Chief Executive Officer. Mr. Aristides has been a director of Graco since 1993.

Ronald O. Baukol

Mr. Baukol, 64, retired, formerly the Executive Vice President, International Operations, Minnesota Mining and Manufacturing Company ("3M"), a diversified manufacturer of industrial, commercial, consumer and health care products. Mr. Baukol has been a director of Graco since 1989 and is a director of 3M and The Toro Company.

Robert G. Bohn

Mr. Bohn, 48, is Chairman, President and Chief Executive Officer, Oshkosh Truck Corporation, Oshkosh, Wisconsin, a designer, manufacturer and marketer of a broad range of specialty commercial, fire and emergency apparatus and military trucks. Mr. Bohn has been a director of Graco since June, 1999.

William J. Carroll

Mr. Carroll, 57, is President-Automotive Systems Group, Dana Corporation, Toledo Ohio, which is engaged in the engineering, manufacturing and distribution of components and systems for worldwide vehicular and industrial manufacturers. Mr. Carroll has been a director of Graco since June, 1999.

Directors whose terms continue until 2004:

William G. Van Dyke

Mr. Van Dyke, 56, is Chairman, Chief Executive Officer and President, Donaldson Company, Inc., a diversified manufacturer of air and liquid filtration products. Mr. Van Dyke has been a director of Graco since 1995 and is a director of Donaldson Company, Inc.

Mark H. Rauenhorst

Mr. Rauenhorst, 49, is the President and Chief Executive Officer of Opus Corporation, which is engaged in design, construction and real estate development activities, positions he assumed in 1999 and 2000 respectively. Beginning in 1996 he was President and CEO of Opus Northwest L.L.C. He was elected a director of the Company in September, 2000 and is a director of ConAgra Foods, Inc. (See section entitled Certain Business Relationships on page 14.)

J. Kevin Gilligan

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Mr. Gilligan, 47, is President, Home and Building Control, Honeywell International, Inc., a diversified manufacturer of electronics, controls and equipment for the aerospace, industrial and building management markets. In 1997 he became President, Solutions and Services Business, Home and Building Control of Honeywell Inc. From 1994 to 1997 he was Vice President and General Manager, North American Region of Honeywell's Home and Building Control. He was elected a director of the Company in February, 2001.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During 2001, the Board of Directors met 5 times. Attendance of the Company's directors at all Board and Committee meetings averaged 92 percent. During 2001, every director except Messrs. Baukol, Gilligan and Moar attended at least 75 percent of the aggregate number of meetings of the Board and all committees of the Board on which he or she served.

The Board of Directors has an Audit Committee, a Governance Committee, and a Management Organization and Compensation Committee. Membership as of March 8, 2002, the record date, was as follows:

Audit	Governance	Management Organization And Compensation
-----	-----	-----
W. G. Van Dyke, Chair	L. R. Mitau, Chair	M. A.M. Morfitt, Chair
W. J. Carroll	G. Aristides	R. G. Bohn
J. K. Gilligan	R. O. Baukol	W. J. Carroll
M. A.M. Morfitt	D. A. Koch	L. R. Mitau
M. H. Rauenhorst	J. H. Moar	J. H. Moar
	D. A. Roberts	W. G. Van Dyke

Audit Committee (2 meetings in fiscal 2001)

- o Reviews and discusses with the Company's management and independent auditor the Company's financial reporting and internal controls;
- o Recommends and takes action to oversee the independence of the independent auditor and selects and recommends the independent auditor to the Board of Directors;
- o Reviews and assesses the Audit Committee Charter annually; and
- o Reviews the internal audit results and evaluates internal audit performance.

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter, adopted by the Company's Board of Directors on February 25, 2000, a copy of which was included as Appendix A to the Proxy Statement for the 2001 Annual Meeting of Shareholders.

Governance Committee (2 meetings in fiscal 2001)

- o Evaluates policies related to Board membership, procedure and corporate governance;
- o Recommends to the Board the persons to serve as Chairman of the Board and as Chief Executive Officer;
- o Reviews and makes recommendations on directors' compensation; and
- o Recommends to the Board of Directors nominees for the position of director.

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Management Organization and Compensation Committee (2 meetings in fiscal 2001)

- o Develops the Company's philosophy on executive compensation;
- o Determines the compensation of the Company's Chief Executive Officer and reviews the compensation of the other executive officers;
- o Reviews the performance of the Chief Executive Officer;
- o Reviews and makes recommendations on management organization and succession plans; and
- o Administers the Company's executive stock option and incentive plans.

NOMINATION OF DIRECTORS

Shareholders may nominate candidates for election to the Board of Directors who will be considered by the Board Governance Committee. Recommendations should be made in writing and addressed to the Committee in care of the Secretary of the Company at the Company's corporate headquarters. The By-laws provide that timely notice must be received by the Secretary not less than 90 days prior to the anniversary of the date of the Annual Meeting of Shareholders, the first Tuesday in May of each year. The nominations must set forth (i) the name, age, business and residential addresses and principal occupation or employment of each nominee proposed in such notice; (ii) the name and address of the shareholder giving the notice, as it appears in the Company's stock register; (iii) the number of shares of capital stock of the Company which are beneficially owned by each such nominee and by such shareholder; and (iv) such other information concerning each such nominee as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such nominee. Such notice must also include a signed consent of each such nominee to serve as a director of the Company, if elected.

AUDIT COMMITTEE REPORT

Report of the Audit Committee

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. In performing its oversight function, the Audit Committee has relied upon advice and information which it has received in its discussions with the Company's management and independent auditors.

The Audit Committee is composed of independent directors, and acts under a written charter adopted and approved by the Board of Directors. The Audit Committee has reviewed and reassessed the adequacy of its Charter and has concluded that the Charter satisfactorily states the responsibilities of the Committee. Each member of the Company's Audit Committee meets the independence requirements of the New York Stock Exchange.

The Audit Committee has reviewed the audited financial statements of the Company for the fiscal year ended December 28, 2001 with both management and Deloitte & Touche LLP ("Deloitte"), the Company's independent auditors. The Committee also discussed with Deloitte the matters required by Statement on Auditing Standards No. 61, Communication with Audit Committees. Management has represented to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles.

The Audit Committee has also received the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees) and the Audit Committee has discussed with Deloitte their independence. The Audit Committee has considered the effect of non-audit fees on the independence of Deloitte.

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Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2001 for filing with the Securities and Exchange Commission.

The Members of the Committee
Mr. William G. Van Dyke, Chairman
Mr. William J. Carroll
Mr. J. Kevin Gilligan
Ms. Martha A.M. Morfitt
Mr. Mark H. Rauenhorst

Principal Accounting Firm Fees

The following table sets forth the aggregate fees billed to Graco Inc. for the fiscal year ended December 28, 2001, by the Company's principal accounting firm, Deloitte & Touche LLP.

Audit Fees -----	Financial Information Systems Design and Implementation Fees -----	All Other Fees -----
\$292,000	\$0	\$367,000