GRACO INC
Form 10-K
February 16, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 25, 2009, or**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.**

Commission File No. 001-09249
Graco Inc.
(Exact name of Registrant as specified in its charter)

Minnesota	41-0285640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

88 11th Avenue Northeast
Minneapolis, MN 55413
(Address of principal executive offices) (Zip Code)
(612) 623-6000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $1.00 per share
Preferred Share Purchase Rights
Shares registered on the New York Stock Exchange.
Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ

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 and accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of approximately 60,000,000 shares of common stock held by non-affiliates of the registrant was approximately $1.3 billion as of June 26, 2009.

60,080,211 shares of common stock were outstanding as of February 8, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2010, are incorporated by reference into Part III, as specifically set forth in said Part III.

INDEX TO ANNUAL REPORT
ON FORM 10-K

ACCESS TO REPORTS

Investors may obtain access free of charge to the Graco Inc. annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports and amendments to those reports by visiting the Graco website at www.graco.com. These reports will be available as soon as reasonably practicable following electronic filing with, or furnishing to, the Securities and Exchange Commission.

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PART I

ITEM 1 BUSINESS

Our Company began business as a Minneapolis, Minnesota-based manufacturer of grease guns and lubricating pumps primarily for servicing vehicles. It was originally incorporated in the state of South Dakota in 1926 as Gray Company, Inc. and reincorporated in the state of Minnesota in 1947. Our Company changed its name to Graco Inc. and first offered its common stock to the public in 1969. Today we provide fluid handling solutions to customers in the manufacturing, processing, construction and maintenance industries throughout the world.

Graco Inc. and its subsidiaries (which we refer to in this Form 10-K as us, we, our Company or the Company) sell a full line of products in each of the following geographic markets: the Americas (North and South America), Europe (including the Middle East and Africa), and Asia Pacific. Sales in the Americas represent approximately 57 percent of our Company s total sales; sales in Europe approximately 25 percent; and sales in Asia Pacific approximately 18 percent. Part II, Item 7, *Results of Operations* and Note B to the Consolidated Financial Statements of this Form 10-K contain financial information about these geographic areas. Our Company provides marketing, product design and application assistance to, and employs sales personnel in, each of these geographic markets. Subsidiaries located in Belgium, the People s Republic of China (P.R.C.), Australia, Japan, and Korea distribute our Company s products in their local geographies. The majority of our manufacturing occurs in the United States, but limited lines of products are assembled in the P.R.C. and Belgium.

For more information about our Company and its products, services and solutions, visit our website at www.graco.com. The information on the website is not part of this report nor any other report filed or furnished to the Securities and Exchange Commission (SEC).

Business Segments

Our Company classifies its business into three reportable segments, each with a world-wide focus: Industrial, Contractor and Lubrication. Financial information concerning these segments is set forth in Part II, Item 7, *Results of Operations* and Note B to the Consolidated Financial Statements of this Form 10-K.

The equipment developed, manufactured and distributed by our Company s segments is broadly described as fluid handling equipment. It is used to pump, meter, mix, dispense, and spray a wide variety of fluids and semi-solids in a wide variety of applications in the manufacturing, processing, construction and maintenance industries. Our Company s products enable customers to reduce their use of labor, material and energy, improve quality and achieve environmental compliance. Our equipment is sold primarily through third-party distributors with approximately 30,000 outlets worldwide.

The development of technologically superior, multi-featured, high-quality products is a key strategy of our Company. All segments have been charged with expanding our product offerings through organic growth and targeted acquisitions. We are continually on the lookout for new applications of our core technologies in adjacent markets. Our Company strives to generate 30 percent of its annual sales from products introduced in the prior three years. In 2009, we generated 26 percent of our sales from new products. In 2008, the percentage of sales represented by new products was 26 percent and in 2007 it was 21 percent. Major product development efforts are carried out in facilities located in Minneapolis, Anoka and Rogers, Minnesota, and North Canton, Ohio. Design and development of several limited lines of equipment occur in Suzhou, P.R.C. The product development and engineering group in each segment focuses on new product design, product improvements, new applications for existing products, and strategic technologies for its specific customer base. Total product development expenditures for all segments were $38 million in 2009, $37 million in 2008 and $30 million in 2007.

Manufacturing is a key competency of Graco. Our Company invests significant resources in maximizing the quality, responsiveness and cost-effectiveness of our production operations by purchasing state-of-the-art equipment and doing most machining, assembly and testing in-house. Principal products are manufactured in focused factories and product cells. Raw materials and purchased components are sourced from suppliers around the world. The segments manage certain operations devoted to the manufacture of their product lines. Oversight and strategic direction of our manufacturing resources are provided by our Vice President of Manufacturing, Information Systems and Distribution Operations. He also manages those factories not fully aligned with a single segment as well as our warehouses, customer service, and other shared corporate manufacturing functions.

Our other primary objectives include the expansion of distribution outlets, the penetration of developing markets and the successful completion of strategic acquisitions. These subjects are discussed below in the context of each segment s business operations.

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Our Company s headquarters are located in a 142,000 sq. ft. facility in Minneapolis, Minnesota. The facility is also occupied by the management, marketing and product development personnel for the Industrial segment. Information systems, accounting services and purchasing for our Company are housed in a 42,000 sq. ft. office building nearby. A large percentage of our Company s facilities are devoted to the manufacturing and distribution of the various products offered for sale by the business segments.

Products marketed by the Industrial segment are manufactured in owned facilities in Minneapolis, Minnesota (405,000 sq. ft. manufacturing/warehouse/office), Sioux Falls, South Dakota (149,000 sq. ft. manufacturing/office), and North Canton, Ohio (132,000 sq. ft. manufacturing/office). Limited lines of products are assembled in owned facilities in Suzhou, P.R.C. (79,000 sq. ft. assembly/warehouse/office), and Maasmechelen, Belgium (175,000 sq. ft. assembly/warehouse/office). The Maasmechelen facility also functions as the site of our European headquarters. During 2009 a new European Training, Testing and Education Center (8,600 sq. ft.) was constructed in the Maasmechelen facility. The Center, which opened in April, includes a classroom, hands-on training area, demonstration spray booth, and lab space for future product testing and development. Liquid Control Ltd. and its Wellingborough facility (12,500 sq. ft. manufacturing/office) were sold to a Graco distributor in February 2009. The assembly of mobile spray rigs was discontinued during the third quarter of 2009.

Products marketed by the Contractor segment are manufactured primarily in owned facilities in Rogers, Minnesota (333,000 sq. ft. manufacturing/warehouse/office). Segment management, marketing, engineering, customer service, warehouse, shipping, sales and training are also located at the Rogers facility. The Company has leased space in Rogers, Minnesota to store inventory and assemble a limited line of small electric sprayers (33,000 sq. ft. warehouse/assembly). Our Sioux Falls, South Dakota plant manufactures spray guns and accessories for the Contractor segment. The Company has announced that it will cease the manufacture and warehousing of Airlessco®-branded sprayers and spray guns at its leased facility in Moorpark, California (32,778 sq. ft. manufacturing/warehouse/office) and vacate the building by the end of first quarter 2010. In the future, Airlessco products will be manufactured in existing facilities in Sioux Falls, South Dakota, Rogers, Minnesota and Suzhou, P.R.C. and warehoused in and distributed from Sioux Falls, South Dakota and Maasmechelen, Belgium.

The Lubrication segment conducts its manufacturing operations in an owned facility located in Anoka, Minnesota (207,000 sq. ft. manufacturing/office). Management, marketing, engineering, customer service, warehouse, sales and training functions for the segment are also housed in this building. A limited line of Lubrication products is being assembled in our owned facility in Suzhou, P.R.C. In October 2009, the Suzhou plant began distributing a hose reel designed and assembled at the facility directly to Graco subsidiaries in Asia and in Maasmechelen, Belgium.

Some Industrial and Contractor products are distributed to the P.R.C. market out of a warehouse located in the Waigaoqiao section of Shanghai, P.R.C. (13,730 sq. ft. warehouse). This facility will be closed during 2010 and distribution to markets in the P.R.C. is expected to be moved to a foreign-invested commercial enterprise located in Suzhou, P.R.C.

Our Australian subsidiary has a third-party logistics arrangement with a global supplier to handle storage and order fulfillment for Graco products sold to Australian and New Zealand distributors. The operations, accounting, customer service and administrative staff of the subsidiary are housed in leased office space in Melbourne, Australia.

Industrial Segment

The Industrial segment is the largest of our Company s businesses and represents approximately 54 percent of our total sales. This segment includes the Industrial Products and the Applied Fluid Technologies divisions. End users of our industrial equipment require solutions to their manufacturing and maintenance challenges and are driven by the return on investment that our products provide. The Industrial Products division markets its equipment and services to customers who manufacture, assemble, maintain, repair and refinish products such as appliances, vehicles, airplanes, electronics, cabinets and furniture, and other articles. In addition to marketing its equipment to customers in similar industries, the Applied Fluid Technology division also sells to contractors who use its plural component systems to apply foam insulation and protective coatings to buildings and other structures such as ships and bridges.

Most Industrial segment equipment is sold worldwide through general and specialized third-party distributors, integrators, design centers and original equipment manufacturers. We also work with material suppliers to develop or adapt our equipment for use with specialized and hard-to-handle materials. Distributors promote and sell the equipment, hold inventory, provide product application expertise and offer on-site service, technical support and integration capabilities. Integrators implement large individual installations in manufacturing plants where products and services from a number of different vendors are aggregated into a single system. Design centers engineer systems for their customers using our products. Original equipment manufacturers incorporate our Company s Industrial segment products into systems and assemblies that they then supply to their customers.

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Industrial Products

The Industrial Products division focuses its product development and sales efforts on two main product applications: equipment to apply paint and other coatings to products such as motor vehicles, appliances, furniture and other industrial and consumer products (Liquid Finishing); and equipment to move and dispense chemicals and liquid and semi-solid foods (Process Pumps).

Liquid finishing equipment includes paint circulating and paint supply pumps, plural component coating proportioners, various accessories to filter, transport, agitate and regulate the fluid, spare parts such as spray tips, seals and filter screens. We also offer a variety of applicators that use different methods of atomizing and spraying the paint or other coating depending on the viscosity of the fluid, the type of finish desired, and the need to maximize transfer efficiency, minimize overspray and prevent the release of volatile organic compounds (VOCs) into the air. Liquid finishing equipment is used in the automotive, automotive feeder, truck/bus/recreational vehicle, military and utility vehicle, aerospace, farm and construction, wood and general metals industries. Graco introduced a new family of electronic proportioners in 2009 with modular components that can be configured in many different ways. ProMix®2KS offers precise and reliable electronic proportioning for a broad range of solventborne and waterborne epoxies, polyurethanes and acid catalyzed materials. These versatile machines are available in manual and automatic configurations and provide the highest degree of ratio assurance, multiple sequential dose sizes, process feedback and material tracking and reporting capabilities.

Our process pumps are used in food and beverage, dairy, pharmaceutical, cosmetic, oil and gas, electronics, waste water, mining and ceramics applications. We offer double diaphragm and piston transfer pumps to the chemical, petroleum, general manufacturing and food processing industries, pumps for sanitary applications including FDA-compliant 3-A sanitary pumps for use in dairies, diaphragm pumps, transfer pumps and drum and bin unloaders. The first in a new series of air-operated double diaphragm pumps, the Husky 1050 one-inch pump, is significantly more efficient than competitive product, has diaphragms that last significantly longer and is capable of delivering higher fluid flow. The Husky 1050 is currently available in aluminum, polypropylene and stainless steel and will be available in PVDF, conductive polypropylene and hastelloy shortly, allowing the pump to be used with a wide variety of different fluids and chemicals. The pump has a one-piece ungasketed center section for easier repair and maintenance and a modular air valve for smooth changeover.

Applied Fluid Technologies

The Applied Fluid Technologies division directs its engineering, sales and marketing efforts toward two broad product applications: equipment to apply high performance protective coatings and foam (Protective Coatings and Foam) and equipment to apply sealants and adhesives and create molded polyurethane parts (Advanced Fluid Dispense).

Our Company offers a full line of air-operated airless sprayers and plural component proportioning equipment to apply foam and protective coatings to a wide variety of surfaces. The Reactor® line of plural components pumps is used to apply foam to insulate walls, water heaters, refrigeration, and hot tubs, create commercial roofing membranes and for packaging, architectural design and cavity filling. Reactors also apply polyurea to cover tanks, pipes, roofs, truck beds and foundations with protective coatings and linings where accurate temperatures and pressures are required to achieve optimal results. Key distributors install Reactors in mobile spray rigs to provide portability and accessibility to remote job sites. In June 2009 the Company released the XM Series high-solids plural-component sprayers for corrosion-control applications such as tank and pipeline coatings, shipbuilding, marine and railcar maintenance, wind tower coating, bridge and infrastructure projects and coating structural steel. The XM sprayers provide precise ratio control in a highly configurable system. User controls provide a real-time display of ratio and a USB port for downloading data on spray pressures, temperatures, actual ratio and total flow output. To the base unit, customers can add accessories, including material hoppers, hopper heaters, transfer pumps, agitators, hose rack kits and casters, depending on the material used and the application method.

Our Company offers a complete line of pumps, meters, applicators and valves for the metering, mixing and dispensing of precision beads of sealant and adhesive to bond, mold, seal, vacuum encapsulate, pot, laminate and gasket parts and devices in a wide variety of industrial applications, including the electronics and automotive industries. The PR70 and the PR70v, a variable ratio version of the PR70, are the first meter, mix and dispense plural component systems having Graco Control Architecture with built-in diagnostics and multiple levels of user interface for providing more data to the end-user.

The Company has established an application development laboratory in our North Canton, Ohio facility where we work with distributors, materials suppliers and end users to test new materials and reconfigure existing equipment for use in new applications. The lab has data collection and reporting capabilities and can heat, remove air from resins through vacuum degassing, agitate and bulk transfer materials in preparation for testing.

In October 2009, the PCF metering and dispense system for sealants and adhesives was released. The PCF dispenses a precise, continuous flow of a wide variety of single-component sealants and adhesives in automotive and industrial applications. The beads, dots and spray pattern dispensed by this system are smooth and consistent because of a closed-loop technology that allows changes in material temperatures, viscosities, dispense rates or robot speeds to feed back to the control, resulting in decreased material usage and rework.

Graco entered the composites market with the acquisition of GlasCraft Inc. in 2008. In 2009, Graco focused design and marketing effort on the growing demand for high-performance composites which are used in the manufacture of vehicles and aircraft, wind turbines and bridge materials. High-performance composites are light-weight, corrosion-resistant, strong, structurally simple and have an extended life. Graco equipment moves, dispenses, and applies fluids in all phases of composites manufacturing from precision flow control and resin pumping for blending to continuous meter-mix supply, from molding processes and tooling fabrication to assembly processes and manufacturing products with carbon fiber impregnated fabric.

There are a variety of applications for Graco equipment throughout the alternative energy markets. Graco s sealant and adhesive application equipment is widely used by manufacturers and material suppliers serving the solar energy market, through the application of primary and secondary seals to solar panels, potting or encapsulating junction boxes, inverters and charge controllers, gasketing or sealing junction box lids, solar module frames, battery cell plates and battery lids, thermal management of solar cells, inverters and charge controllers and the bonding of solar cells and solar mirrors. In addition, we offer durable reliable fluid-handling systems for the manufacture and maintenance of wind power components from spraying protective foam and other coatings on wind turbine towers to the manufacture of rotor blades, from the automatic lubrication of bearings, gears, and generators to the evacuation and dispensing of oil, grease, anti-freeze and hydraulic fluids. Our equipment is used worldwide by wind turbine manufacturers to supply a catalyzed plastic resin for the formation of the blades used on turbines and to apply an adhesive for cementing parts of the blades together.

Contractor Segment

The Contractor segment generated approximately 36 percent of our Company s 2009 total sales. The Contractor segment directs its product development, sales and marketing efforts toward three broad applications: paint, texture, and pavement marking. This segment markets a complete line of airless paint and texture sprayers (air, gas, hydraulically- and electrically-powered), accessories such as spray guns, hoses and filters and spare parts such as tips and seals, to professional and semi-professional painters in the construction and maintenance industries. The products are distributed primarily through stores whose main products are paint and other coatings. Contractor products are also sold through general equipment distributors. Airlessco® and ASM® products are sold by Graco employees and independent sales representatives to a distribution network that includes paint stores, wholesalers and rental yards. A limited line of sprayers and accessories are distributed globally through the home center channel.

Contractor equipment encompasses a wide variety of sprayers, including sprayers that apply markings on roads, parking lots, fields and floors; texture to walls and ceilings; highly viscous coatings to roofs; and paint to walls and structures. Many of these sprayers and their accessories contain one or more advanced technological features such as micro-processor-based controls for consistent spray and protective shut-down, a pump that may be removed and re-installed without tools, an easy clean feature, gas/electric convertibility, and a durable pump finish. Continual technological innovation and broad product families with multiple offerings are characteristic of our Contractor segment. Painters are encouraged to upgrade their equipment regularly to take advantage of the new and/or more advanced features.

During 2009, the Tradeworks line of small electric sprayers for do-it-yourself home owners, handymen, remodelers and rental property owners was extended with the addition of several new sprayers. The Tradeworks sprayers, spray guns and accessories are offered exclusively through a world leader in the manufacture and sale of coatings and related products to professional, commercial and retail customers. After a successful test program in 2008, we extended our placement of a line of electric paint sprayers in a large number of the stores of a major home center chain in the United States. Our Airlessco line of spray equipment is used by a major home center chain as its primary tool rental offering.

In August 2009, we introduced the ThermoLazer an innovative striper that applies thermoplastic lines to pavement. The ThermoLazer can be connected to a Graco LineDriver for ride-on comfort, ease of handling, improved quality and increased productivity. The unit, an advancement over thermoplastic stripers currently on the market, offers precise material flow control with the pull of a lever, a more efficient method of mixing the material, an electronic ignition system, a quick system for line width changes and a system for protecting the springs.

A new portable sprayer for the application of a wide range of texture materials in addition to paint from thick concrete-based filler to finish coat was introduced during 2009. The TexSpray HXT 2030 features an interchangeable displacement pump system that allows users to alternate between a high-output piston pump for the heavy aggregate and a smaller pump for the finer materials, paint and primer.

A large percentage of our Contractor sales come from the North American market, although Contractor products are marketed and sold in all major geographic areas. In recent years, the segment has increased its effort to appeal to customers outside of North America by developing products specifically for these markets, like the TexSpray HXT 2030 texture sprayer designed for applications in countries where the use of concrete in residential construction is more prevalent. Another product with a marketing focus outside of the United States is the Ultra® Max II Platinum sprayer introduced in Europe during 2009. The Platinum has an integrated hose reel, a wireless pressure remote control (E-Control) to adjust pressure at any time without having to approach the unit, and the E-Lock mechanism to deter theft by electronically locking the sprayer.

In Europe and Asia Pacific, we are pursuing a broad strategy of converting contractors accustomed to the manual application of paint and other coatings by brush and roller to spray technology. This requires extensive in-person demonstration of the productivity advantages, cost savings and finish quality of our spray equipment. This also requires the conversion of local paint distributors who may have a different method of selling their product. For example, in the P.R.C. some paint companies include spray application in the price they charge for their paint.

Lubrication Segment

The Lubrication segment represented approximately 10 percent of our Company s sales during 2009. The Lubrication segment focuses its engineering, marketing and sales efforts on two main lubrication markets: vehicle services and industrial. We supply pumps, applicators and accessories, such as meters and hose reels, to the motor vehicle lubrication market where our customers include fast oil change facilities, service garages, fleet service centers, automobile dealerships, and auto parts stores. In the industrial lubrication market, we offer systems for the automatic lubrication of factory machine tools, compressors and pumps used in petrochemical and gas transmissions plants; bearings and gears on equipment in metal, pulp and paper mills; conveyors and material handling equipment; and off-road and over-the-road trucks. We are also developing products for the wind power market, offering automatic lubrication systems for the lubrication of turbines on site and factory-based lubrication dispense equipment to transfer, unload and evacuate bulk oil and grease and meter and dispense various lubricants. Our lubrication products are sold through independent third party distributors, oil jobbers and directly to original equipment manufacturers.

The Company expects that LubeSci automated lubrication systems and components, injectors and metering systems will be fully integrated into our industrial lubrication equipment business by the end of the first half of 2010.

Our Company introduced a new line of hose reels in 2009, ranging from entry-level for standard duty applications to high performance for heavy-duty jobs. These reels can handle a wide variety of fluids including air, water, anti-freeze, windshield washer fluid, petroleum- and synthetic-based oils and grease. The LD Series Enclosed reel was designed by engineers in our Asia Pacific group for light-duty applications and is being manufactured in our factory in Suzhou, P.R.C. The spring tension on this reel is easy to adjust and the reel is compact, lightweight, easy to install and enclosed in a polypropylene enclosure for operator safety and protection from dirty environments. The SD Series Composite reel, which can tolerate moderate indoor and outdoor use, features a composite spool and is designed to fit in small indoor spaces in tire/muffler shops, small fast lubes and maintenance shops.

The GLC 4400, a multi-purpose controller for the pumps used in automatic lubrication systems, was released for sale in June 2009. The GLC 4400 is versatile and works with all major automatic metering systems: single line resistive, single line parallel, series progressive and dual line systems. The lubrication time, pressure, cycle and machine counts of the lubrication cycle can be easily customized.

The segment is responsible for world-wide marketing and sales of our lubrication equipment, although the bulk of its sales come from North America. Products are distributed in each of our Company s major geographic markets, primarily through independent distributors serviced by independent sales representatives, a dedicated sales force in the automatic lubrication systems market and direct sales generalists in foreign markets. Some automatic lubrication systems are marketed to original equipment manufacturers (OEM s). Fuel and oil transfer pumps are marketed through OEMs, select home centers, auto parts stores and our traditional distribution channel. Beginning in 2009, a market development specialist was added to the lubrication sales team in Europe to locate new customers and help establish product development and marketing plans for the Company s lubrication equipment in this geography.

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Raw Materials

The primary materials and components used in the manufacturing process are steel of various alloys, sizes and hardness; specialty stainless steel and aluminum bar stock, tubing and castings; tungsten carbide; electric motors; injection molded plastics; sheet metal; forgings; powdered metal; hoses; and electronic components. In general, the raw materials and components used are adequately available through multiple sources of supply. In order to manage cost, our Company continues to increase its global sourcing of materials and components, primarily in the Asia Pacific region.

During 2009, our Company was able to take advantage of a downturn in the price of some commodities, like aluminum, nickel, copper, steel and natural gas, that occurred at the end of 2008. Nickel, copper and aluminum experienced significant price increases over the course of 2009. The price of oil is expected to continue putting pressure on the cost of transportation and the price of all commodities was trending upward at the end of the year. In the tough economic conditions existing during much of 2009, a small number of our first and second tier suppliers entered bankruptcy or closed facilities. Our Company endeavors to address fluctuations in the price and availability of various materials and components through adjustable surcharges and credits, close management of current suppliers, agreements and an intensive search for new suppliers. We have performed risk assessments of our key suppliers and are factoring the risks identified into our commodity plans.

Intellectual Property

We own a number of patents and have patent applications pending both in the United States and in other countries, license our patents to others, and are a licensee of patents owned by others. In our opinion, our business is not materially dependent upon any one or more of these patents or licenses. Our Company also owns a number of trademarks in the United States and foreign countries, including registered trademarks for GRACO, several forms of a capital G, Airlessco, ASM, and various product trademarks which are material to our business, inasmuch as they identify Graco and our products to our customers.

Competition

We face substantial competition in all of our markets. The nature and extent of this competition varies in different markets due to the depth and breadth of our Company s product lines. Product quality, reliability, design, customer support and service, personal relationships, specialized engineering and pricing are the major competitive factors in our markets. Although no competitor duplicates all of our products, some competitors are larger than our Company, both in terms of sales of directly competing products and in terms of total sales and financial resources. We also face competitors with different cost structures and expectations of profitability and these companies offer competitive products at lower prices. We believe we are one of the world s leading producers of high-quality specialized fluid handling equipment in the markets we serve.

Environmental Protection

Our compliance with federal, state and local environmental laws and regulations did not have a material effect upon our capital expenditures, earnings or competitive position during the fiscal year ended December 25, 2009.

Employees

As of December 25, 2009, we employed approximately 2050 persons. Of this total, approximately 420 were employees based outside the United States, and 730 were hourly factory workers in the United States. None of our Company s U.S. employees are covered by a collective bargaining agreement. Various national industry-wide labor agreements apply to certain employees in various countries outside the United States. Compliance with such agreements has no material effect on our Company or its operations. In an effort to adapt to the difficult economic environment during the first half of 2009, we implemented several reductions in force in our US businesses. Many of our factory and warehouse employees affected by these reductions had returned to work by year end.

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Item 1A. Risk Factors

Economic Environment Demand for our products depends on the level of commercial and industrial activity worldwide.

The current economic downturn and financial market turmoil has depressed demand for our equipment in all major geographies and in all major markets. If our distributors and OEMs remain unable to purchase our products because of unavailable credit or unfavorable credit terms or are simply unwilling to purchase our products, our net sales and earnings will be adversely affected.

Major Customers Our Contractor segment depends on a few large customers for a significant portion of its sales. Significant declines in the level of purchases by these customers could reduce our sales.

Our Contractor segment derives a significant amount of revenue from a few large customers. Substantial decreases in purchases by these customers, difficulty in collecting amounts due or the loss of their business would adversely affect the profitability of this segment. The business of these customers is dependent upon the economic vitality of the construction and home maintenance markets. If these markets decline, the business of our customers could be adversely affected and their purchases of our equipment could decrease.

Acquisitions Our growth strategy includes acquisitions. Suitable acquisitions must be located, completed and effectively integrated into our existing businesses in order for this strategy to be successful.

We have identified acquisitions as one of the strategies by which we intend to grow our business. If we are unable to obtain financing at a reasonable cost, are unsuccessful in acquiring and integrating businesses into our current business model, or do not realize projected efficiencies and cost-savings from the businesses we acquire, we may be unable to meet our growth or profit objectives.

Foreign Operations Conditions in foreign countries and changes in foreign exchange rates may impact our sales volume, rate of growth or profitability.

In 2009, approximately 52 percent of our sales was generated by customers located outside the United States. Sales to customers located outside the United States expose us to special risks, including the risk of terrorist activities, civil disturbances, environmental catastrophes, supply chain disruptions, and special taxes, regulations and restrictions. We are increasing our presence in Asia Pacific, South America, Eastern Europe and the Middle East and our revenues and net income may be adversely affected by the more volatile economic and political conditions prevalent in these regions. We assemble limited lines of products at our factory in Suzhou, P.R.C. and source an increasing number of the components and materials used in the assembly process from the local market. Changes in exchange rates between the U.S. dollar and other currencies will impact our reported sales and earnings and may make it difficult for some of our distributors to purchase products.

Foreign Suppliers Our Company has increased its sourcing of raw materials and components from vendors located outside the United States. Interruption or delays in delivery may adversely affect our profitability.

We are sourcing an increasing percentage of our materials and components from suppliers outside the United States. Long lead times may reduce our flexibility and make it more difficult to respond promptly to fluctuations in demand or respond quickly to product quality problems. Changes in exchange rates between the U.S. dollar and other currencies and fluctuations in the price of oil may impact the manufacturing costs of our products and affect our profitability. Protective tariffs may make certain foreign-sourced parts no longer competitively priced. Long supply chains may be disrupted by environmental events.

Natural Disasters Our operations are at risk of damage or destruction by natural disasters, such as earthquakes, tornadoes or unusually heavy precipitation.

The loss of, or substantial damage to, one of our facilities could make it difficult to supply our customers with product and provide our employees with work. Our manufacturing and distribution facility in Minneapolis is on the banks of the Mississippi River where it is exposed to flooding. Flooding could also damage our European headquarters and warehouse in Maasmechelen, Belgium or our factory in Suzhou, P.R.C. Tornadoes could damage or destroy our facilities in Sioux Falls, Rogers, Minneapolis or Anoka and a typhoon could do the same to our facility in Suzhou. An earthquake may adversely impact our operations in Suzhou.

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Competition Demand for our products may be affected by new entrants who copy our products and infringe on our intellectual property

From time to time, our Company has been faced with instances where competitors have intentionally infringed our intellectual property and/or taken advantage of our design and development efforts. In some instances, these competitors have launched broad marketing campaigns. The inability of our Company to effectively meet these challenges could adversely affect our revenues and profits and hamper our ability to grow.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The information concerning the location and general character of the physical properties of our Company contained under the heading BUSINESS-Business Segments in Part I of this 2009 Annual Report on Form 10-K is incorporated herein by reference.

Sales activities in the country of Japan are conducted out of a leased facility in Yokohama, Japan (18,500 gross sq. ft. office) and warehousing is provided by a third-party logistics supplier. Sales and distribution activities in Korea are provided out of leased facilities in Gwangju-Gun, Korea (15,750 sq. ft. total for two separate facilities-warehouse and office). Our Company also leases space for liaison offices in the P.R.C., Vietnam and India.

Our Company s facilities are in satisfactory condition, suitable for their respective uses and are generally adequate to meet current needs. During 2009, manufacturing capacity met business demand. Production requirements in the immediate future are expected to be met through existing facilities, the installation of new automatic and semi-automatic machine tools, efficiency and productivity improvements, the use of leased space and available subcontract services.

Item 3. Legal Proceedings

Our Company is engaged in routine litigation incident to our business, which management believes will not have a material adverse effect upon our operations or consolidated financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No issues were submitted to a vote of security holders during the fourth quarter of 2009.

Executive Officers of Our Company

The following are all the executive officers of Graco Inc. as of February 15, 2009:

Patrick J. McHale, 48, is President and Chief Executive Officer, a position he has held since June 2007. He served as Vice President and General Manager, Lubrication Equipment Division from June 2003 to June 2007. He was Vice President of Manufacturing and Distribution Operations from April 2001 to June 2003. He served as Vice President, Contractor Equipment Division from February 2000 to March 2001. Prior to becoming Vice President, Lubrication Equipment Division in September 1999, he held various manufacturing management positions in Minneapolis, Minnesota; Plymouth, Michigan; and Sioux Falls, South Dakota. Mr. McHale joined the Company in December 1989.

David M. Ahlers, 51, became Vice President, Human Resources in September 2008. Prior to joining Graco, Mr. Ahlers held various human resources positions, including, most recently, Chief Human Resources Officer and Senior Managing Director of GMAC Residential Capital, from August 2003 to August 2008. He joined the Company in September 2008.

Caroline M. Chambers, 45, became Vice President and Controller in December 2006 and has served as the Company s principal accounting officer since September 2007. She was Corporate Controller from October 2005 to December 2006 and Director of Information Systems from July 2003 through September 2005. Prior to becoming Director of Information Systems, she held various management positions in the internal audit and accounting departments. Prior to joining Graco, Ms. Chambers was an auditor with Deloitte & Touche in Minneapolis, Minnesota and Paris, France. Ms. Chambers joined the Company in 1992.

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Karen Park Gallivan, 53, became Vice President, General Counsel and Secretary in September 2005. She was Vice President, Human Resources from January 2003 to September 2005. Prior to joining Graco, she was Vice President of Human Resources and Communications at Syngenta Seeds, Inc., from January 1999 to January 2003. From 1988 through January 1999, she was the general counsel of Novartis Nutrition Corporation. Prior to joining Novartis, Ms. Gallivan was an attorney with the law firm of Rider, Bennett, Egan and Arundel. She joined the Company in January 2003.

James A. Graner, 65, became Chief Financial Officer and Treasurer in September 2005. He was Vice President and Controller from March 1994 to September 2005. He was Treasurer from May 1993 through February 1994. Prior to becoming Treasurer, he held various managerial positions in the treasury, accounting and information systems departments. He joined the Company in 1974.

Dale D. Johnson, 55, became Vice President and General Manager, Contractor Equipment Division in April 2001. From January 2000, through March 2001, he served as President and Chief Operating Officer. From December 1996 to January 2000, he was Vice President, Contractor Equipment Division. Prior to becoming the Director of Marketing, Contractor Equipment Division, in June 1996, he held various marketing and sales positions in the Contractor Equipment Division and the Industrial Equipment Division. He joined the Company in 1976.

Jeffrey P. Johnson, **50**, is Vice President and General Manager, Asia Pacific, a position he has held since February 2008. He served as Director of Sales and Marketing, Applied Fluid Technologies Division, from June 2006 until February 2008. Prior to joining Graco, he held various sales and marketing positions, including, most recently, President of Johnson Krumwiede Roads, a full-service advertising agency, and European sales manager at General Motors Corp. He joined the Company in 2006.

David M. Lowe, 54, became Vice President and General Manager, Industrial Products Division in February 2005. He was Vice President and General Manager, European Operations from September 1999 to February 2005. Prior to becoming Vice President, Lubrication Equipment Division in December 1996, he was Treasurer. Mr. Lowe joined the Company in February 1995.

Simon J. W. Paulis, 62, became Vice President and General Manager, Europe in September 2005. From February 2005 to September 2005, he served as Director and General Manager, Europe. He served as Sales and Marketing Director, Contractor Equipment Europe from January 1999 to September 2005. Prior to joining Graco, he served as business unit manager for Black & Decker N.V., general sales manager for Alberto Culver, and marketing manager for Ralston Purina/Quaker Oats. Mr. Paulis joined the Company in January 1999.

Charles L. Rescorla, 58, became Vice President of Manufacturing, Information Systems and Distribution Operations in April 2009. He served as Vice President, Manufacturing and Distribution Operations from September 2005 to April 2009. From June 2003 to until September 2005, he was Vice President, Manufacturing/Distribution Operations and Information Systems. From April 2001 until June 2003, he was Vice President of the Industrial/Automotive Equipment Division. Prior to June 2003, he held various positions in manufacturing and engineering management. Mr. Rescorla joined the Company in June 1988.

Mark W. Sheahan, **45**, became Vice President and General Manager, Applied Fluid Technologies Division in February 2008. He served as Chief Administrative Officer from September 2005 until February 2008, and was Vice President and Treasurer from December 1998 to September 2005. Prior to becoming Treasurer in December 1996, he was Manager, Treasury Services, where he was responsible for strategic and financial activities. He joined the Company in September 1995.

Brian J. Zumbolo, 40, became Vice President and General Manager, Lubrication Equipment Division in August 2007. He was Director of Sales and Marketing, Lubrication Equipment and Applied Fluid Technologies, Asia Pacific, from November 2006 through July 2007. From February 2005 to November 2006, he was the Director of Sales and Marketing, High Performance Coatings & Foam, Applied Fluid Technologies Division. Mr. Zumbolo was the Director of Sales and Marketing, Finishing Equipment from May 2004 to February 2005. Prior to May 2004, he held various marketing positions in the Industrial Equipment Division. Mr. Zumbolo joined the Company in 1999.

The Board of Directors re-elected each of the above executive officers to their current position on April 24, 2009.

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PART II

Item 5. Market for the Company s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Graco Common Stock

Graco common stock is traded on the New York Stock Exchange under the ticker symbol GGG. As of February 8, 2010, the share price was $26.38 and there were 60,080,211 shares outstanding and 2,845 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 43,000 beneficial owners.

The graph below compares the cumulative total shareholder return on the common stock of the Company for the last five fiscal years with the cumulative total return of the S&P 500 Index and the Dow Jones Industrial Machinery Index over the same period (assuming the value of the investment in Graco common stock and each index was $100 on December 31, 2003, and all dividends were reinvested).

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Quarterly Financial Information (Unaudited)
(In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Net sales	$137,880	$147,712	$147,308	$146,312
Gross profit	64,328	73,008	78,141	77,339
Net earnings	2,768	11,634	17,336	17,229
Per common share				
Basic net earnings	$ 0.05	$ 0.19	$ 0.29	$ 0.29
Diluted net earnings	0.05	0.19	0.29	0.28
Dividends declared	0.19	0.19	0.19	0.20
Stock price (per share)				
High	$ 25.98	$ 24.82	$ 30.66	$ 30.70
Low	14.48	17.34	20.91	26.41
Close[1]	17.07	22.02	27.87	28.57
Volume (# of shares)	44,750	44,217	29,086	22,551

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Net sales	$204,120	$239,230	$207,231	$166,689
Gross profit	111,853	128,763	110,160	81,401
Net earnings	35,566	42,459	32,772	10,082
Per common share				
Basic net earnings	$ 0.58	$ 0.70	$ 0.55	$ 0.17
Diluted net earnings	0.57	0.69	0.54	0.17
Dividends declared	0.19	0.19	0.19	0.19
Stock price (per share)				
High	$ 36.98	$ 41.84	$ 40.45	$ 35.03
Low	32.37	36.88	34.48	17.67
Close[1]	36.26	38.07	35.61	23.73
Volume (# of shares)	33,416	30,260	39,776	52,431

1 As of the last trading day of the calendar quarter.

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Issuer Purchases of Equity Securities

On September 28, 2007, the Board of Directors authorized the Company to purchase up to 7,000,000 shares of its outstanding common stock, primarily through open-market transactions. This authorization expired on September 30, 2009.

On September 18, 2009, the Board of Directors authorized the Company to purchase up to an additional 6,000,000 shares. The new authorization expires on September 30, 2012.

In addition to shares purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on stock option exercises.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Sep 26, 2009 - Oct 23, 2009		$		6,000,000
Oct 24, 2009 - Nov 20, 2009		$		6,000,000
Nov 21, 2009 - Dec 25, 2009	1,121	$28.17		6,000,000

Item 6. Selected Financial Data

Graco Inc. and Subsidiaries (in thousands, except per share amounts)

	2009	2008	2007	2006	2005
Net sales	$579,212	$817,270	$841,339	$816,468	$731,702
Net earnings	48,967	120,879	152,836	149,766	125,854
Per common share					
Basic net earnings	$ 0.82	$ 2.01	$ 2.35	$ 2.21	$ 1.83
Diluted net earnings	0.81	1.99	2.32	2.17	1.80
Cash dividends declared	0.77	0.75	0.68	0.60	0.54
Total assets	$476,434	$579,850	$536,724	$511,603	$445,630
Long-term debt (including current portion)	86,260	180,000	107,060		

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis reviews significant factors affecting the Company s consolidated results of operations, financial condition and liquidity. This discussion should be read in conjunction with our financial statements and the accompanying notes to the financial statements. The discussion is organized in the following sections:

Overview

Results of Operations

Segment Results

Financial Condition

Critical Accounting Estimates

Outlook

Overview

Graco designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid materials used in many different applications. Graco s business is classified by management into three reportable segments, each responsible for product development, manufacturing, marketing and sales of their products. The segments are headquartered in North America. They have responsibility for sales and marketing in the Americas and joint responsibility with Europe and Asia Pacific regional management for sales and marketing in those geographic areas.

Graco s key strategies include development and marketing new products, expanding distribution globally, opening new markets with technology and channel expansion and completing strategic acquisitions. Long-term financial growth targets accompany these strategies, including 10 percent revenue growth and 12 percent net earnings growth.

Manufacturing is a key competency of the Company. Our management team in Minneapolis provides strategic manufacturing expertise, and is also responsible for factories not fully aligned with a single division. Our primary manufacturing facilities are in the United States and distribution facilities are located in the United States, Belgium, Japan, Korea, China and Australia.

Results of Operations

Net sales, net earnings and earnings per share were as follows (in millions except per share amounts):

	2009	2008	2007
Net Sales	$ 579	$ 817	$ 841
Operating Earnings	74	187	232
Net Earnings	49	121	153
Diluted Net Earnings per Common Share	$ 0.81	$ 1.99	$ 2.32

2009 Summary:

Weak economic conditions worldwide affected the Company s operating results. Although sales strengthened in the second half as compared to the first half of 2009, sales decreased in all segments and regions as compared to last year. By region, the sales decline was 28 percent in the Americas, 39 percent in Europe and 17 percent in Asia Pacific. Sales in the Industrial segment declined by 32 percent; sales in the Contractor segment declined by 22 percent and sales in the Lubrication segment declined by 34 percent.

Unfavorable currency translation decreased net sales by approximately $10 million and decreased net earnings by approximately $4 million in 2009.

The Company incurred $5 million of cost related to workforce reductions, mostly in the first quarter. The decrease in cost structure resulting from cost reduction actions contributed to improvements in net earnings in the last three quarters of the year.

Gross profit margin as a percentage of sales decreased by 2 percentage points from 2008. The favorable effects of pricing, product mix, lower material costs and other cost reduction activities partially offset the effects of low production volumes and increased pension costs.

Investment in new product development was $38 million or 6 1/2 percent of sales in 2009.

Overall, total operating expenses

Dividends per common share		
$		
		0.12
$		
		0.12
$		
$		

Weighted average shares used in per share calculations:

Basic	
	26,786
	26,736
	26,789
	26,736

Diluted	
	26,901
	26,745
	26,921
	26,762

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2014	2013 (As Restated)	2014	2013 (As Restated)
Net income	$ 36,765	$ 62,421	$ 12,216	$ 18,405
Other comprehensive income (loss):				
Foreign currency translation	19,107	(15,765)	7,245	(1,776)
Net unrealized gain (loss) on available-for-sale, net of tax	0	(5)	0	(5)
Change in net unrealized gains/losses from cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	(261)	3,557	(80)	4894
Adjustment for net gains/losses realized and included in net income, net of tax	(231)	1,146	(208)	(188)
Total change in unrealized gains/losses from cash flow hedges, net of tax	(492)	4703	(288)	4,706
Total other comprehensive income (loss)	18,615	(11,067)	6,957	2,925
Total comprehensive income	$ 55,380	$ 51,354	$ 19,173	$ 21,330

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CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2014	September 30, 2013 (As Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 166,841	$ 203,892
Restricted cash	69,028	69,381
Marketable securities		4,055
Accounts receivable - net	403,401	379,002
Recoverable income taxes	17,719	7,885
Inventories - net	53,768	59,746
Deferred income taxes and other current assets	30,844	18,638
Total current assets	741,601	742,599
Long-term contract receivables	16,690	19,021
Long-term capitalized contract costs	77,560	68,963
Property, plant and equipment - net	64,360	56,305
Deferred income taxes	18,057	19,322
Goodwill	187,595	136,094
Purchased intangibles - net	70,257	57,542
Other assets	11,527	9,772
	$ 1,187,647	$ 1,109,618
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 8,000	$
Trade accounts payable	23,527	40,310
Customer advances	84,338	84,307
Accrued compensation and other current liabilities	139,856	109,253
Income taxes payable	13,148	12,731
Current portion of long-term debt	591	557
Total current liabilities	269,460	247,158
Long-term debt	102,066	102,363
Other long-term liabilities	43,602	43,017
Shareholders equity:		
Common stock	19,104	15,825
Retained earnings	773,468	740,002
Accumulated other comprehensive income (loss)	15,812	(2,803)
Treasury stock at cost	(36,078)	(36,078)
Shareholders equity related to Cubic	772,306	716,946
Noncontrolling interest in variable interest entity	213	134
Total shareholders equity	772,519	717,080
	$ 1,187,647	$ 1,109,618

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended	Three Months Ended