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GRACO INC
Form DEF 14A
March 28, 2001

[LOGO]

GRACO INC.
88 Eleventh Avenue NE
Minneapolis, Minnesota 55413

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

Please join us on Tuesday, May 1, 2001, at 1:30 p.m. for Graco's Annual Meeting of Shareholders at the Russell J. Gray Technical Center, which is located at the intersection of Ramsey Street and 11th Avenue N.E., Minneapolis, Minnesota.

At this meeting, shareholders will consider the following matters:

1. Election of three directors to serve for three-year terms.
2. Adoption of the Graco Inc. Stock Incentive Plan.
3. Ratification of the selection of independent auditors for the current year.
4. Transaction of such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 5, 2001, 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/George Aristides
George Aristides
Chief Executive Officer

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

March 29, 2001
Minneapolis, Minnesota

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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 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.

TABLE OF CONTENTS

	Page
Election of Directors.....	2
Nominees and Other Directors.....	2
Meetings and Committees of the Board of Directors.....	4
Nomination of Directors.....	5
Audit Committee Report.....	5
Report of the Audit Committee	5
Principal Accounting Firm Fees.....	6
Executive Compensation.....	6
Report of the Management Organization and Compensation Committee.....	6
Comparative Stock Performance Graph.....	9
Summary Compensation Table.....	10
Option Grants Table (Last Fiscal Year).....	11
Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values.....	11
Change in Control and Termination Arrangements.....	12
Retirement Arrangements.....	12
Directors' Fees.....	13
Certain Business Relationships.....	14
Beneficial Ownership of Shares.....	14
Principal Shareholders.....	15
Section 16 Reporting Compliance.....	15
Adoption of Plan.....	16
Ratification of Appointment of Independent Public Auditors.....	20
Other Matters.....	20
Shareholder Proposals.....	20

A copy of the 2000 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

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Minneapolis, Minnesota
55440-1441

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

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GRACO INC.
88 Eleventh Avenue NE
Minneapolis, Minnesota 55413

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 1, 2001

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 1, 2001, 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 first mailed to shareholders on or about March 29, 2001.

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 on March 5, 2001, may vote at the meeting or at any adjournment. As of that date, there were issued and outstanding 30,747,876 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.

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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.

At the forthcoming Annual Meeting, three persons are to be elected to the Company's Board of Directors. The Board has nominated William G. Van Dyke, Mark H. Rauenhurst and J. Kevin Gilligan for three-year terms expiring in the year 2004. One nominee, William G. Van Dyke, has previously been elected as a director 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 5, 2001 with respect to the 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 in the year 2004:

William G. Van Dyke

Mr. Van Dyke, 55, 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. Rauenhurst

Mr. Rauenhurst, 48, is the President and Chief Executive Officer of Opus Corporation and Opus L.L.C., companies 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., where he supervised all activities relating to project development. He joined Opus in 1982. He was elected a director of the Company in September 2000.

J. Kevin Gilligan

Mr. Gilligan, 46, 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 was elected to the position of President, Solutions and Services Business, Home and Building Control of Honeywell Inc. Prior to becoming Vice President and General Manager, North American Region of Honeywell's

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Home and Building Control business in 1994, he was Vice President for that business in Europe. He was elected a director of the Company in February 2001.

Directors whose terms continue until 2002:

David A. Koch

Mr. Koch, 70, is Chairman of the Board of the Company, and will become Chairman Emeritus on May 1, 2001. He was Chairman and Chief Executive Officer from 1985 to 1996. 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 31, 2002.

Lee R. Mitau

Mr. Mitau, 52, is Executive Vice President and General Counsel of U.S. Bancorp, a regional bank holding company. U.S. Bank National Association provides Graco with cash management, loans and foreign exchange services. The trustee of the Graco Employee Retirement Plan is First Trust National Association. Both of these companies are subsidiaries of U.S. Bancorp. From 1983 to 1995, Mr. Mitau was a partner of Dorsey & Whitney LLP. 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.)

Martha A.M. Morfitt

Ms. Morfitt, 43, is President, Chief Operating Officer and a director of CNS Inc., a manufacturer and marketer of consumer products, including the Breathe Right(R) nasal strip. From 1997 to 1998, she was Vice President, Meals, from 1994 to 1997, Vice President, Green Giant Brands, and from 1993 to 1994, Team Leader, Green Giant Shelf Stable Vegetables, The Pillsbury Company, a diversified marketer of packaged food products. Ms. Morfitt has been a director of Graco since 1995.

Directors whose terms continue until 2003:

George Aristides

Mr. Aristides, 65, is Chief Executive Officer of the Company, a position he has held since January 3, 2000. Effective May 1, 2001, he will also be Chairman of the Board. 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; from 1993 to 1996, he was President and Chief Operating Officer; from March to June 1993, he was Executive Vice President; and from 1985 to March 1993, he was Vice President, Manufacturing Operations and Controller. Mr. Aristides has been a director of Graco since 1993.

Ronald O. Baukol

Mr. Baukol, 63, is 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, 47, is Chairman, President and Chief Executive Officer, Oshkosh

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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, 56, 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.

Mr. Jerald Scott, a director since 1997, is retiring from the Board, effective May 1, 2001.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During 2000, the Board of Directors met 5 times. Attendance of the Company's directors at all Board and Committee meetings averaged 94 percent. During 2000, each director attended at least 75 percent of the aggregate number of meetings of the Board and of 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 5, 2001, 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. L. Scott
J. L. Scott		W. G. Van Dyke

Audit Committee (2 meetings in fiscal 2000)

- 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 plan and 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 is included in Appendix A to this Proxy Statement.

Governance Committee (2 meetings in fiscal 2000)

- o Evaluates policies related to Board membership and procedure;
- o Recommends to the Board the persons to serve as Chairman of the Board and as Chief Executive Officer;

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- o Reviews and makes recommendations on directors' compensation; and
- o Recommends to the Board of Directors nominees for the position of director.

Management Organization and Compensation Committee (2 meetings in fiscal 2000)

- o Develops the Company's philosophy on executive compensation;
- o Determines the compensation of the Company's executive officers;
- 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 with the Company's management, internal audit personnel and the independent auditor issues concerning significant developments in accounting rules, changes in accounting practices and the adequacy of the Company's internal accounting controls.

The Audit Committee has reviewed the audited financial statements of the Company for the fiscal year ended December 29, 2000 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

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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.

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 29, 2000 for filing with the Securities and Exchange Commission.

The Members of the Committee
Mr. William Van Dyke, Chairman
Mr. William Carroll
Ms. Martha A.M. Morfitt
Mr. Mark Rauenhorst
Mr. Jerald Scott

PRINICPAL ACCOUNTING FIRM FEES

The following table sets forth the aggregate fees billed to Graco Inc. for the fiscal year ended December 29, 2000, by the Company's principal accounting firm, Deloitte & Touche LLP.

Audit Fees -----	Financial Information Systems Design and Implementation Fees -----	All Other Fees -----
\$251,000	\$0	\$454,000