

FASTENAL CO  
Form 10-K  
February 07, 2013  
Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2012,

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from            to

Commission file number 0-16125

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FASTENAL COMPANY

(Exact name of registrant as specified in its charter)

Minnesota

41-0948415

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

2001 Theurer Boulevard

55987-0978

Winona, Minnesota

(Zip Code)

(Address of principal executive offices)

(507) 454-5374

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$.01 per share

The NASDAQ Stock Market

Securities registered pursuant to Section 12(g):

None

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

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 the 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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 29, 2012, the last business day of the registrant’s most recently completed second fiscal quarter, was \$10,886,627,594, based on the closing sale price of the Common Stock on that date. For purposes of determining this number, all executive officers and directors of the registrant as of June 29, 2012 are considered to be affiliates of the registrant. This number is provided only for the purposes of this report on Form 10 K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of February 1, 2013, the registrant had 296,635,127 shares of Common Stock issued and outstanding.

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Table of ContentsFASTENAL COMPANY  
ANNUAL REPORT ON FORM 10-K  
TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	<u>4</u>
Item 1A. <u>Risk Factors</u>	<u>11</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>14</u>
Item 2. <u>Properties</u>	<u>15</u>
Item 3. <u>Legal Proceedings</u>	<u>16</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>16</u>
Item X. <u>Executive Officers of the Registrant</u>	<u>17</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>19</u>
Item 6. <u>Selected Financial Data</u>	<u>20</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	<u>41</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>42</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>63</u>
Item 9A. <u>Controls and Procedures</u>	<u>63</u>
Item 9B. <u>Other Information</u>	<u>64</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers, and Corporate Governance</u>	<u>65</u>
Item 11. <u>Executive Compensation</u>	<u>65</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>66</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>66</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>66</u>
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>67</u>
<u>Signatures</u>	<u>69</u>
<u>Index to Exhibits</u>	<u>70</u>

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Table of Contents

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for the annual meeting of shareholders to be held Tuesday, April 16, 2013 ('Proxy Statement') are incorporated by reference in Part III. Portions of our 2012 Annual Report to Shareholders are incorporated by reference in Part II.

**FORWARD LOOKING STATEMENTS**

This Form 10-K and other portions of our 2012 Annual Report to Shareholders of which this Form 10-K forms a part contain statements that are not historical in nature and that are intended or may be interpreted to be, and are hereby identified as, 'forward-looking statements' as defined in the Private Securities Litigation Reform Act of 1995 (the 'Reform Act'), including statements regarding (1) the goals of our long-term growth strategy, 'pathway to profit', including the growth in average store sales and profitability expected to result from that strategy and the expected timeline for achieving that growth (including our belief that we can achieve targeted profitability due to a structural lowering of our costs even if our average store sales do not grow as originally expected), (2) our expectations regarding sales growth (including our belief in the ability of our specialists to drive that growth) and our confidence in the sustainability of that growth, (3) our expectations regarding our range of gross margins, (4) our working capital goals and expected returns on total assets when working capital is appropriately managed, (5) our expansion plans, including our estimated 2013 capital expenditures, the expected rate of new store openings, the expected expansion of our foreign operations, the expected opening of new distribution centers as our number of stores increases, and our ability to fund our expansion plans, (6) our plans to increase automation at our distribution centers, (7) markets for North American stores, (8) the future payment of dividends, (9) the expected leasing of new store locations and expansion of owned locations for older stores, (10) the addition of new products, (11) the percentage of net sales expected to be contributed by manufacturing and support services, (12) protection from economic downturns believed to be provided by the number of our customers and varied markets they represent, (13) our ability to mitigate the effects of rising fuel prices by passing freight costs on to our customers, (14) the typical time required before new stores become profitable and achieve operating results comparable to existing stores, (15) the rate of growth and variability of sales at older store locations, (16) our goals for our industrial vending business, including machine signings in 2013, our belief in the transformative nature of industrial vending to leverage our sales growth, and our belief that a local storefront combined with industrial vending provides a business model not easily replicated by our competitors, and (17) our plans to reinvigorate our fastener growth and improve sales growth at our under-performing locations. In addition, certain statements in our future filings with the Securities and Exchange Commission, in our press releases, and in oral statements made by or with approval of our executive officers, constitute or will constitute 'forward-looking statements' under the Reform Act. Certain risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements are described below. We assume no obligation to update either such forward-looking statements or the discussion of such risks and uncertainties.

**CERTAIN RISK AND UNCERTAINTIES**

The following factors are among those that could cause our actual results to differ materially from those predicted in the forward-looking statements described above: (1) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, changes in the expected rate of new store openings, difficulties in successfully attracting and retaining additional qualified sales personnel, an inability to realize or sustain improvements in our gross margins and savings from lowering our cost structure, and difficulties in changing our sales process could adversely impact our ability to achieve the goals of our 'pathway to profit' initiative and the expected time frame for achieving those goals, (2) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries could affect our ability to sustain our sales growth, (3) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, a change in our current mix of products, customers or geographic locations, a change in our purchasing patterns, a significant change in commodity prices, or increased competitive pressure on our selling prices could impact our ability to achieve gross margins within the range we expect, (4) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, a dramatic change in sales trends, a change in accounts receivable collections, a change in raw material costs, a change in buying patterns, or a change in vendor production lead times could cause us to fail to attain our goals regarding working capital and rates of return on assets, (5) a

downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, a change from that projected in the number of North American markets able to support stores, or an inability to recruit and retain qualified employees could cause the rate of new store openings to change from that expected, (6) difficulty in adapting our business model to different foreign business environments could alter our plans regarding expansion of foreign operations and negatively impact the growth expected to result from that expansion, (7) changes in the availability or price of commercial real estate, changes in our cash position, a change in distribution technology, or a change in our distribution model could delay the opening of new distribution centers, (8) changes in the rate of new store openings could cause us to modify our planned 2013 capital expenditures, (9) a change in

Table of Contents

our ability to generate free cash flow resulting from a slowdown in our sales or our inability to manage expenses could negatively impact the funding of our expansion plans, (10) high expenses involved in procuring necessary technology could impact our ability to increase automation at our distribution centers, (11) a change in our store format or the presence of a competitor's store could alter our projections regarding the number of markets for North American stores, (12) changes in our financial condition or results of operations or in our tax laws could cause us to modify our expected dividend practices, (13) changes in the availability or price of commercial real estate, a change in our cash position, or a change in our business model could cause us to change our plans regarding the leasing of new stores and the expansion of owned locations for older stores, (14) changes in our cash position, a change in our business model, or a change in the manufacturing or commercial construction industries could cause us to alter the introduction of new products, (15) changes in customer needs or changes in our production capabilities could change the percentage of net sales expected to be contributed by manufacturing and support services, (16) an economic downturn across multiple industries and geographic regions could negate the protections thought to be provided to us by the number of our customers and the varied markets they represent, (17) our ability to pass freight costs on to our customers could be adversely impacted by, in the short term, changes in fuel prices and by competitive selling pressures, (18) an upturn or downturn in the economy could alter, from historic norms, the time it typically takes a new store to achieve profitability or operating results comparable to existing stores and the rate of growth, and variability, of sales at older store locations, (19) a weaker level of industry acceptance or adoption of vending technology from what we are currently experiencing could cause us to fail to meet our goals for our industrial vending business, including machine signings in 2013, or cause industrial vending to be less transformative than expected, (20) our competitors could choose, over time, to open additional locations and to develop their own vending platform which could allow our competitors to replicate our local storefront combined with industrial vending business model mitigating our first mover advantage, (21) difficulties in hiring, relocating, or training qualified sales personnel could adversely impact our ability to reinvigorate our fastener growth and improve sales at our under-performing locations, and (22) unpredictable activity by the national government in the United States could cause unusual economic patterns that could adversely effect our business. A discussion of other risks and uncertainties which could cause our operating results to vary from anticipated results or which could materially adversely affect our business, financial condition, or operating results is included later in this Form 10-K under the heading entitled 'Item 1A. Risk Factors'.

Table of Contents

**PRESENTATION OF DOLLAR AMOUNTS**

All dollar amounts in this Form 10-K are presented in thousands, except for share and per share information or unless otherwise noted.

**STOCK SPLIT**

All information contained in this Form 10-K reflects the two-for-one stock split in May 2011.

Table of Contents

## PART I

## ITEM 1. BUSINESS

Note – information in this section is as of year end (December 31, 2012 and also sometimes other years when indicated) unless otherwise noted.

Fastenal Company (together with our wholly owned subsidiaries, hereinafter referred to as Fastenal or the Company or by terms such as we, our, or us) began as a partnership in 1967, and was incorporated under the laws of Minnesota in 1968. We had 2,652 store locations at year end. The various geographic areas in which we operate these store locations are summarized later.

Globally, we employed 15,145 people as of year end. We characterize these personnel as follows:

Store and in-plant	10,158
Non-store selling	1,111
Selling sub-total	11,269
Distribution	2,451
Manufacturing	569
Administrative	856
Non-selling sub-total	3,876
Total	15,145

We sell industrial and construction supplies in a wholesale and retail fashion. These industrial and construction supplies are grouped into eleven product lines described later in this document.

We operated 14 distribution centers in North America as of year end from which we distribute products to our store and in-plant locations.

Our Internet address for corporate and investor information is [www.fastenal.com](http://www.fastenal.com). The information contained on this website or connected to this website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

## Development of the Business

Fastenal began in 1967 with a marketing strategy of supplying threaded fasteners to customers in small, medium-sized, and, in subsequent years, large cities. We believe our success can be attributed to our ability to offer our customers a full line of products at convenient locations and to the high quality of our employees.

We opened our first store in Winona, Minnesota, a city with a population of approximately 25,000. The following table shows our consolidated net sales for each fiscal year during the last ten years and the number of our store locations at the end of each of the last ten years:

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Net sales (in millions)	\$3,133.6	\$2,766.9	2,269.5	1,930.3	2,340.4	2,061.8	1,809.3	1,523.3	1,238.5	994.9
Number of stores at year end	2,652	2,585	2,490	2,369	2,311	2,160	2,000	1,755	1,533	1,314



Table of Contents

At year end, we operated the following number of store locations:

		2012	2011
North America	United States	2,380	2,335
	Puerto Rico & Dominican Republic	9	9
	Canada	195	183
	Mexico	36	34
	Sub-total	2,620	2,561
Central & South America	Panama, Brazil, & Colombia	4	3
Asia	China	8	8
Southeast Asia	Singapore, Malaysia, & Thailand	7	4
Europe	The Netherlands, Hungary, United Kingdom, Germany, Czech Republic, Italy & Romania	13	9
	Total	2,652	2,585

We select new locations for our stores based on their proximity to our distribution network, population statistics, and employment data for manufacturing and construction. Beginning in 2007, we disclosed our intention to continue opening new store locations at a rate of approximately 7% to 10% per year (calculated on the ending number of stores in the previous year). Given the economic slowdown, we decreased this to a range of 2% to 5% in 2009, and this lower rate continued into the first half of 2010. From July 2010 to December 2010, we opened stores at an annualized rate of approximately 7%. In 2011, we opened new stores at the rate of approximately 5%, and opened new stores at the rate of approximately 3% in 2012. We expect to open 65 to 80 stores in 2013, or a rate of approximately 2.5% to 3%.

We stock all new stores with inventory drawn from all of our product lines. Subsequent to a new opening, store and district personnel may supplement the inventory offering to customize the selection to the needs of our local customer base.

We currently have several versions of selling locations. The first type of selling location – a Fastenal store location – is either (1) a ‘traditional’ store, which services a wide variety of customers and stocks a wide selection of all the products we offer or (2) an ‘overseas’ store which focuses on manufacturing customers and on the fastener product line (this is the type of store format we have outside of North America).

In addition to the Fastenal store type discussed above, we also operate strategic account stores, strategic account sites, and ‘in-plant’ sites. A strategic account store is a unique location that sells to multiple large customers in a market. Because this location sells to multiple customers, it is included in our store count. A strategic account site is essentially the same, but it typically operates out of an existing store location, rather than a unique location; therefore, it is not included in our store count. An ‘in-plant’ site is a selling unit located in or near a customer’s facility that sells product solely to that customer. ‘In-plant’ sites are not included in the store count numbers as they represent a customer subset of an existing store.

We believe, based on the demographics of the marketplace in North America, that there is sufficient potential in this geographic area to support at least 3,500 total stores. Many of the new store locations may be in cities in which we currently operate. Fastenal has not operated outside of North America long enough to assess the market potential of those markets.

Table of Contents

We opened the following stores in the last five years:

		2012	2011	2010	2009	2008
North America	United States	58	101	111	62	138
	Puerto Rico & Dominican Republic	—	—	—	1	—
	Canada	13	11	7	2	21
	Mexico	2	1	1	1	2
	Sub-total	73	113	119	66	161
Central & South America	Panama, Brazil, & Colombia	1	1	2	—	—
Asia	China	—	3	3	1	—
Southeast Asia	Singapore, Malaysia, & Thailand	2	—	2	1	—
	The Netherlands, Hungary, United Kingdom, Germany, Czech Republic, Italy & Romania	4	5	1	1	—
Total		80	122	127	69	161

We plan to open additional stores outside of the United States in the future. The stores located outside the United States contributed approximately 11% of our consolidated net sales in 2012, with approximately 65% of this amount attributable to our Canadian operations.

No assurance can be given that any of the expansion plans described above will be achieved, or that new store locations, once opened, will be profitable.

It has been our experience that near-term profitability has been adversely affected by the opening of new store locations. This adverse effect is due to the start-up costs and the time necessary to generate a customer base. A new store generates its sales from direct sales calls, a slow process involving repeated contacts. As a result of this process, sales volume builds slowly and it typically requires ten to twelve months for a new store to achieve its first profitable month, although this time frame has been longer in the current economic downturn. Of the 28 stores opened in the first quarter of 2012, 13 were profitable in the fourth quarter of 2012.

Table of Contents

The data in the following table shows the change in the average sales of our stores from 2011 to 2012 based on the age of each store. The stores opened in 2012 contributed approximately \$24,859 (or approximately 0.8%) of our consolidated net sales in 2012, with the remainder coming from stores opened prior to 2012.

Age of stores on December 31, 2012	Year opened	Number of stores in group on December 31, 2012	Closed stores <sup>1</sup>	Average monthly sales 2012	Average monthly sales 2011	Percent change
0-1 year old	2012	80	—	\$26 <sup>2</sup>	N/A	—
1-2 years old	2011	123	—	58	18 <sup>2</sup>	—
2-3 years old	2010	127	1/0	68	51	33.3%
3-4 years old	2009	67	0/3	104	90	15.6%
4-5 years old	2008	151	4/7	70	62	12.9%
5-6 years old	2007	152	2/6	81	70	15.7%
6-7 years old	2006	232	3/7	80	70	14.3%
7-8 years old	2005	212	4/3	74	65	13.8%
8-9 years old	2004	213	2/0	87	78	11.5%
9-10 years old	2003	144	0/2	83	75	10.7%
10-11 years old	2002	140	—	91	81	12.3%
11-12 years old	2001	124	—	110	104	5.8%
12-16 years old	1997-2000	405	—	113	105	7.6%
16+ years old	1967-1996	482	—	159	148	7.4%

We closed 16 stores and 28 stores in 2012 and 2011, respectively. The respective average sales above were<sup>1</sup> calculated assuming the store closed mid year. The number of closed stores is noted in the table above as 2012 number/2011 number. We converted three non-store selling locations to stores in 2012. We converted one non-store selling location to a store in 2011.

<sup>2</sup> The average sales include sales of stores open for less than the full fiscal year.

Several years ago, we introduced our FAST Solutions<sup>SM</sup> (industrial vending) offering and it has been a rapidly expanding component of our business. We believe industrial vending is the next logical chapter in the Fastenal story and also believe it has the potential to be transformative to industrial distribution, both because of its benefits to our customers such as reduced consumption, reduced inventory investment, reduced purchase orders, reduced product handling, and 24-hour product availability, and its benefits to us in that it allows us to strengthen our relationships with our customers and streamline the supply chain. We believe we have a 'first mover' advantage in industrial vending and are investing aggressively to maximize this advantage.

At year end, we operated eleven distribution centers in the United States—Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, Washington, California, Utah, North Carolina, and Kansas, and three outside the United States – Ontario, Canada; Alberta, Canada; and Nuevo Leon, Mexico. These 14 distribution centers give us over 2.7 million square feet of distribution capacity. These distribution centers are located so as to permit twice-a-week to five times-a-week deliveries to our stores using our trucks and overnight delivery by surface common carrier. As the number of stores increases, we intend to add new distribution centers.

We currently operate our Minnesota, Indiana, and Texas distribution centers with 'automated storage and retrieval systems' or ASRS. These distribution centers operate with greater speed and efficiency. We intend to invest in this type of ASRS distribution infrastructure over the next several years at our Ohio, Pennsylvania, Georgia, Kansas, and Ontario, Canada locations.

Our information systems department develops, implements, and maintains the computer based technology used to support business functions within Fastenal. Corporate, e-Business, and distribution center systems are primarily supported from a central location(s), while each store uses a locally installed Point-Of-Sale (POS) system. The systems consist of both customized and purchased software. A dedicated Wide Area Network (WAN) is used to provide connectivity between systems and authorized users.



Table of Contents

## Trademarks and Service Marks

We conduct business under various trademarks and service marks, and we utilize a variety of designs and tag lines in connection with each of these marks, including First In Fasteners®. Although we do not believe our operations are substantially dependent upon any of our trademarks or service marks, we consider the 'Fastenal' name and our other trademarks and service marks to be valuable to our business.

## Products

Our original product offerings were fasteners and other industrial and construction supplies, many of which are sold under the Fastenal® product name. This product line, which we refer to as the fastener product line, consists of two broad categories: threaded fasteners, such as bolts, nuts, screws, studs, and related washers; and miscellaneous supplies and hardware, such as various pins and machinery keys, concrete anchors, metal framing systems, wire rope, strut, rivets, and related accessories.

Threaded fasteners are used in most manufactured products and building projects, and in the maintenance and repair of machines and structures. Many aspects of the threaded fastener market are common to all cities. Variations from city to city that do exist typically relate to the types of businesses operating in a market or to the environmental conditions in a market. Therefore, we open each store with a broad selection of base stocks of inventory and then allow the local store and district leaders to tailor the additional inventory to the local market demand as it develops. Threaded fasteners accounted for approximately 90% of the fastener product line sales in 2012, 2011, and 2010 and approximately 40%, 42%, and 45% of our consolidated net sales in 2012, 2011, and 2010, respectively.

Since 1993, we have added additional product lines. These product lines are sold through the same distribution channel as the original fastener product line. Our product lines include the following:

Product Line:	Year introduced	Approximate number of stock items
Fasteners	1967	592,000
Tools	1993	75,000
Cutting tools	1996	403,000
Hydraulics & pneumatics	1996	111,000
Material handling	1996	34,000
Janitorial supplies	1996	23,000
Electrical supplies	1997	39,000
Welding supplies <sup>1</sup>	1997	46,000
Safety supplies	1999	51,000
Metals	2001	18,000
Office supplies	2010	6,000
Total		1,398,000

<sup>1</sup> We do not sell welding gases.

Each product line listed above may contain multiple product categories. During the last several years, we have added 'private label' brands (we sometimes refer to these as 'exclusive brands') to our offering. These 'private label' brands currently represent approximately 10% of total sales; most of these 'private label' products are in the non-fastener product lines.

We plan to continue to add other products in the future.

## Inventory Control

Our inventory stocking levels are determined using our computer systems, our sales personnel at the store, district, and region levels, and our product managers. The data used for this determination is derived from sales activity from all of our stores, from individual stores, and from different geographic areas. It is also derived from vendor information and from customer demographic information. The computer system monitors the inventory level for all stock items and triggers replenishment, or prompts a buyer to purchase, as necessary, based on an established minimum-maximum level. All stores stock a base inventory and may expand beyond preset inventory levels as

deemed appropriate by their district managers. Inventories in distribution

8

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## Table of Contents

centers are established from computerized data for the stores served by the respective centers. Inventory quantities are continuously re-balanced utilizing an automated transfer mechanism we call 'inventory re-distribution'.

### Manufacturing and Support Services Operations

In 2012, approximately 95% of our consolidated net sales were attributable to products manufactured by other companies to industry standards. The remaining 5% related to products manufactured, modified or repaired by our manufacturing businesses or our support services. The manufactured products consist primarily of non-standard sizes of threaded fasteners made to customers' specifications or standard sizes manufactured under our Holo-Krome product line. The services provided by the support services group include, but are not limited to, items such as tool repair, band saw blade welding, third-party logistics, and light manufacturing. We engage in these activities primarily as a service to our customers and expect these activities in the future to continue to contribute in the range of 4% to 10% of our consolidated net sales.

### Sources of Supply

We use a large number of suppliers for the standard stock items we distribute. Most items distributed by our network can be purchased from several sources, although preferred sourcing is used for some stock items to facilitate quality control. No single supplier accounted for more than 5% of our purchases in 2012.

### Geographic Information

Information regarding our revenues and certain assets by geographic location is set forth in Note 8 of the 'Notes to Consolidated Financial Statements' included later in this Form 10-K under the heading 'Item 8. Financial Statements and Supplementary Data'. Foreign currency fluctuations, changes in trade relations, or fluctuations in the relative strength of foreign economies could impact our ability to procure products overseas at competitive prices and our foreign sales.

### Customers and Marketing

We believe our success can be attributed to our ability to offer customers a full line of quality products at convenient locations, and to the superior service orientation and expertise of our employees. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both original equipment manufacturers and maintenance and repair operations. The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our products include farmers, truckers, railroads, mining companies, federal, state and local governmental entities, schools, and certain retail trades. During the fourth quarter of 2012, our total number of active customer accounts (defined as accounts having purchase activity within the last 90 days) was approximately 396,000.

During each of the three years ended December 31, 2012, no one customer accounted for 10% or more of our sales. We believe that our large number of customers together with the varied markets that they represent, provide some protection to us from economic downturns.

Store personnel generate a significant portion of our sales through direct calls on customers. Because of the nature of our business, historically, we have made limited use of the more expensive forms of mass media advertising such as television, radio, and newspapers. The forms of advertising we typically use include signs, catalogs, and direct mailings. In recent years, we have expanded our national advertising to include a NASCAR sponsorship utilizing Fastenal Racing® (sponsoring Carl Edwards since 2010), and in 2011 we did some limited national advertising of our FAST Solutions<sup>SM</sup> (industrial vending) through publications such as USA Today.

### Seasonality

Seasonality has some impact on our sales. During the winter months, our sales to customers in the non-residential construction market typically slow due to inclement weather. Also, sales to our industrial production customers may decrease during the Christmas and New Year holidays due to plant shut-downs.

### Competition

Our business is highly competitive. Competitors include both large distributors located primarily in large cities and smaller distributors located in many of the same smaller markets in which we have stores. We believe the principal competitive factors affecting the markets for our products are customer service, price, convenience, product availability, and cost saving solutions.

Some competitors use vans to sell their products in markets away from their main warehouses, while others rely on mail order, websites, or telemarketing sales. We, however, believe that the convenience provided to customers by operating stores in small, medium, and large markets, each offering a wide variety of products, is a competitive selling advantage and that the large number of stores in a given area, taken together with our ability to provide frequent deliveries to such stores from centrally



Table of Contents

located distribution centers, makes possible the prompt and efficient distribution of products. We also believe our local storefront, combined with FAST Solutions<sup>SM</sup> (industrial vending), provide a unique way to provide to our customers convenient access to products and cost saving solutions in a business model not easily replicated by our competitors. Having trained personnel at each store also enhances our ability to compete (see 'Employees' below).

**Employees**

At year end, we employed a total of 15,145 full and part-time employees, most of whom were employed at a store location. A breakout of the number of employees, and their respective roles, is contained earlier in this document. We believe the quality of our employees is critical to our ability to compete successfully in the markets we currently serve and to our ability to open new stores in new markets. We foster the growth and education of skilled employees throughout the organization by operating training programs and by decentralizing decision-making. Wherever possible, our goal is to 'promote from within'. For example, most new store managers are promoted from an outside sales position and district managers (who supervise a number of stores) are usually former store managers.

The Fastenal School of Business (our internal corporate university program) develops and delivers a comprehensive array of industry and company specific education and training programs that are offered to all employees. Our school of business provides core curricula focused on key competencies determined to be critical to the success of our employees' performance. In addition, we provide specialized educational tracks within various institutes of learning. These institutes of learning are advanced levels that provide specific concentrations of education and development and have been designed to focus on the critical aspects of our business. These institutes provide a focused educational experience to enhance employee performance in relevant business areas such as leadership, effective store best practices, sales and marketing, product education, and distribution.

Our sales personnel are compensated with a modest base salary and an incentive bonus arrangement that places emphasis on achieving increased sales on a store, district, and regional basis, while still attaining targeted levels of, among other things, gross profit and collections. As a result, a significant portion of our total employment cost varies with sales volume. We also pay incentive bonuses to our leadership personnel based on one or more of the following factors: sales growth, profit growth (before and after taxes), profitability, and return on assets, and to our other personnel for achieving pre-determined departmental, project, and cost containment goals.

None of our employees is subject to a collective bargaining agreement and we have experienced no work stoppages. We believe our employee relations are good.

**Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on or through our website at [www.fastenal.com](http://www.fastenal.com) as soon as reasonably practicable after such reports have been filed with or furnished to the SEC.

Table of Contents

ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating our business. Our operating results depend upon many factors and are subject to various risks and uncertainties. The material risks and uncertainties known to us which may cause the operating results to vary from anticipated results or which may negatively affect our operating results and profitability are as follows:

A downturn in the economy and other factors may affect customer spending, which could harm our operating results. In general, our sales represent spending on discretionary items or consumption needs by our customers. This spending is affected by many factors, including, among others:

- general business conditions,
- business conditions in our principal markets,
- interest rates,
- inflation,
- liquidity in credit markets,
- taxation,
- government regulations,
- fuel prices and electrical power rates,
- unemployment trends,
- terrorist attacks and acts of war,
- weather conditions, and
- other matters that influence customer confidence and spending.

A downturn in either the national or local economy where our stores operate or changes in any of the other factors described above could negatively impact sales at our stores and their level of profitability.

This risk was demonstrated during the last several years. As the economic condition in North America weakened significantly in the fall of 2008 and into 2009, our customers, which operate principally in various manufacturing, non-residential construction, and services sectors, experienced a pronounced slowdown that adversely impacted our sales and operating results in those periods. A lag in these sectors, even as the general economy improves, could adversely impact our business.

Products that we sell may expose us to potential material liability for property damage, environmental damage, personal injury or death linked to the use of those products by our customers. The products that we sell may expose us to potential claims for property damage, environmental damage, personal injury or death arising out of the use of those products by our customers. Some of our customers operate in challenging industries where there is a material risk of catastrophic events. If any of these events are linked to the use by our customers of any of our products, claims could be brought against us by those customers, by governmental authorities and by third parties who are injured or damaged as a result of such events. In addition, our reputation could be adversely affected by negative publicity surrounding such events regardless of whether or not claims against us are successful. While we maintain insurance coverage to mitigate a portion of this risk and may have recourse against our suppliers for losses arising out of defects in products procured from them, we could experience significant losses as a result of claims made against us to the extent adequate insurance is not in place, the products are manufactured by us or legal recourse against our suppliers is otherwise not available, or our insurers or suppliers are unwilling or unable to satisfy their obligations to us.

Interruptions in the proper functioning of information systems could disrupt operations and cause unanticipated increases in costs and/or decreases in revenues. The proper functioning of our information systems is critical to the successful operation of our business. Although our information systems are protected with robust backup systems, including physical and software safeguards and remote processing capabilities, information systems are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures, and other problems. If critical information systems fail or are otherwise unavailable, our ability to process orders, maintain proper levels of inventories, collect accounts receivable, pay expenses, and maintain the security of the Company and customer data could be adversely affected. Disruptions or failures of, or security breaches with respect to, our information technology infrastructure could have a negative impact on our operations.

We work hard to maintain the privacy and security of our customer and business information and the functioning of our computer systems and website. In the event of a security breach or other cyber security incident, we could experience certain operational problems or interruptions, incur substantial additional costs, or become subject to legal or regulatory proceedings, any of which could lead to damage to our reputation in the marketplace. The nature of our business requires us to receive, retain and transmit certain personally identifying information that our customers provide to purchase products or services, register on our websites, or otherwise communicate and interact with us. While we have taken and continue to undertake significant steps to protect our customer and confidential information and the functioning of our computer systems

Table of Contents

and website, a compromise of our data security systems or those of businesses we interact with could result in information related to our customers or business being obtained by unauthorized persons or other operational problems or interruptions. We develop and update processes and maintain systems in an effort to try to prevent this from occurring, but the development and maintenance of these processes and systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Consequently, despite our efforts, the possibility of intrusion, interruption of our business, cyber security incidents and theft cannot be eliminated entirely, and risks associated with each of these remain. While we also seek to obtain assurances that third parties we interact with will protect confidential information, there is a risk the confidentiality of data held or accessed by third parties may be compromised. If a compromise of our data security or function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition and, possibly, subject us to additional legal, regulatory and operating costs and damage our reputation in the marketplace.

Our current estimate for total store market potential in North America could be incorrect. One of our primary growth strategies is to grow our business through the introduction of stores into new and existing markets. Based on a snapshot of current marketplace demographics in the United States, Canada, and Mexico, we currently estimate there is potential market opportunity in North America to support approximately 3,500 stores. We cannot guarantee that our market potential estimates are accurate or that we will open stores to reach the full market opportunity. In addition, a particular local market's ability to support a store may change because of a change in our store format or the presence of a competitor's store.

We may be unable to meet our goals regarding new store openings. Our growth is dependent primarily on our ability to attract new customers. Historically, the most effective way to attract new customers has been opening new stores. In 2007 and 2008, our business strategy focused on opening stores at a rate of approximately 7% to 10% each year, although the economic slowdown in the latter four months of 2008 and all of 2009 caused us to adjust this rate to 2% to 5% for 2009. We opened stores at an annualized rate of 7% in the second half of 2010. We opened stores at the rate of approximately 5% and 3% in 2011 and 2012, respectively. We expect to open new stores at the rate of approximately 2.5% to 3% in 2013; however, failure to open stores at this rate could negatively impact our long-term growth.

Our current business strategy 'pathway-to-profit', which involves reducing our rate of new store openings and using the money saved to add sales personnel at a faster rate, while successful over the last several years, has not yet proven successful on a long term basis. In April 2007, we introduced our 'pathway to profit' strategy. This strategy initially involved slowing our annual new store openings from our historical rate of 13% to 18% to approximately 7% to 10%. The funds saved by opening fewer stores would be invested in additional sales personnel, with the goal of increasing our average annual per store sales, capturing earnings leverage, and increasing our pre-tax earnings. At the time we introduced this strategy, we believed that, over the five year period from 2007 to 2012, we could grow our average store sales to \$125 thousand per month and grow our pre tax earnings as a percent of net sales from 18% to 23%. The economic weakness that dramatically worsened in the fall of 2008 and continued into 2009 caused us to alter this strategy during 2009 by slowing our annual new store openings to a range of approximately 2% to 5% and temporarily stopping headcount additions except at newly opened stores and stores that are growing. Because of this economic setback, we previously indicated that the time required to achieve our pre-tax earnings percentage goals for 'pathway to profit' could be delayed 24 to 30 months. More recently, we have indicated we believe we could hit our pre-tax earnings percentage goal with less than the \$125 thousand per month figure. We now believe the pre-tax earnings goal might be accomplished with average store sales as low as \$100 to \$110 thousand per month due to the structural lowering of our costs. We believe this will shorten the extended time line for achieving our goal to 2013; however, we cannot assure this will occur. A more prolonged downturn in the economy than expected, the prospect of future economic deterioration, changes in the rate of new store openings, difficulty in successfully attracting and retaining qualified sales personnel, an inability to realize anticipated savings from lowering our cost structure, and failure to successfully change our selling process could further adversely impact our ability to grow average store sales, capture earnings leverage, and achieve desired pre tax earnings results.

Changes in customer or product mix, downward pressure on sales prices, and changes in volume of orders could cause our gross margin percentage to fluctuate or decline in the future. Changes in our customer or product mix, downward pressure on sales prices, and changes in the volume of our orders could cause our gross margin percentage to fluctuate or decline. From time to time we have experienced changes in product mix. For example, marketing activities to existing customers and needs communicated to us from existing and prospective customers have caused us to change our product mix in the past. When we change our product mix, there can be no assurance that we will be able to maintain our historical gross margins. In addition, gross margins can deteriorate if we experience downward pressure on sales prices as a result of deflation, pressures on customers to reduce costs or increased competition, as was the case in 2009. Furthermore, reductions in our volume of purchases, as also happened in 2009, can adversely impact gross margins by reducing vendor volume allowances.

Opening stores in new markets presents increased risks that may prevent us from being profitable in these new locations. We intend to open stores in new markets pursuant to our growth strategy. New stores do not typically achieve operating results comparable to our existing stores until after several years of operation, and stores in new markets face additional challenges to

Table of Contents

achieving profitability. A new store generates its sales from direct sales calls, a slow process involving repeated contacts. In new markets, we have less familiarity with local customer preferences and customers in these markets are less familiar with our name and capabilities. In addition, entry into new markets may bring us into competition with new, unfamiliar competitors. We cannot assure success in operating our stores in new markets on a profitable basis. New store openings may negatively impact our operating results. While new stores build the infrastructure for future growth, the first year sales in new stores are low, and the added expenses relating to payroll, occupancy, and transportation costs can impact our ability to leverage earnings. It has been our experience that new stores take at least ten to twelve months to achieve profitability. We cannot assure you that we will be successful in operating our new stores on a profitable basis.

The ability to identify new products and product lines, and integrate them into our store and distribution network, may impact our ability to compete and our sales and margins. Our success depends in part on our ability to develop product expertise at the store level and identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our stores and distribution network could impact sales and margins. Increases in energy costs and the cost of raw materials used in our products could impact our cost of goods and distribution and occupancy expenses, which may result in lower operating margins. Costs of raw materials used in our products (e.g., steel) and energy costs have fluctuated during the last several years. Increases in these costs result in increased production costs for our vendors. These vendors typically look to pass their increased costs along to us through price increases. The fuel costs of our distribution and store operations have fluctuated as well. While we typically try to pass increased vendor prices and fuel costs through to our customers or to modify our activities to mitigate the impact, we may not be successful. Failure to fully pass any such increased prices and costs through to our customers or to modify our activities to mitigate the impact would have an adverse effect on our operating margins. Our ability to successfully attract and retain qualified personnel to staff our stores could impact labor costs, sales at existing stores, and the rate of new store openings. Our success depends in part on our ability to attract, motivate, and retain a sufficient number of qualified employees, including store managers, outside sales personnel, and other store associates, who understand and appreciate our culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the industry is high. If we are unable to hire and retain personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and product knowledge, our sales could be materially adversely affected. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may also delay the planned openings of new stores. Any such delays, material increases in employee turnover rates at existing stores, or increases in labor costs, could have a material adverse effect on our business, financial condition, or operating results.

Inclement weather and other disruptions to the transportation network could impact our distribution system. Our ability to provide efficient distribution of core business products to our store network is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports, due to events such as the hurricanes of 2005 and 2012 and the longshoreman's strike on the West Coast in 2002, may affect our ability to both maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations. In addition, severe weather conditions could adversely affect demand for our products in particularly hard hit regions.

We are exposed to foreign currency exchange rate risk, and changes in foreign exchange rates could increase our costs to procure products and our foreign sales. Because the functional currency related to most of our foreign operations is the applicable local currency, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to customers and purchases from suppliers denominated in foreign currencies. In addition, fluctuations in the relative strength of foreign economies could impact our ability to procure products overseas at competitive prices and our foreign sales. Our primary exchange rate exposure is with the Canadian dollar.

We may not be able to compete effectively against our competitors, which could harm our business and operating results. The industrial, construction, and maintenance supply industry, although consolidating, still remains a large, fragmented industry that is highly competitive. Our current or future competitors include companies with similar or greater market presence, name recognition, and financial, marketing, and other resources, and we believe they will continue to challenge us with their product selection, financial resources, and services. Increased competition in markets in which we have stores or the adoption by competitors of aggressive pricing strategies and sales methods could cause us to lose market share or reduce our prices or increase our spending, thus eroding our margins.

Table of Contents

Our revenues and net income may be adversely affected by economic conditions, political situations, and changing laws and regulations, over which we have no control. We obtain certain of our products, and our suppliers obtain certain of their products, from China, Taiwan, South Korea, Mexico, and other foreign countries. Our vendors could discontinue selling products manufactured in foreign countries at any time for reasons that may or may not be in our control or the vendor's control, including foreign government regulations, domestic government regulations, political unrest, war, disruption or delays in shipments, changes in local economic conditions and trade issues. Our operating results and inventory levels could suffer if we are unable to promptly replace a vendor who is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products.

Our business may be adversely affected by political gridlock in the United States. We primarily operate in the United States. During the last several years there has been significant fiscal uncertainty in the country the resolution of which has been impeded by political gridlock. We believe this has adversely impacted our business and could negatively impact our business in the future.

Our FAST Solutions<sup>SM</sup> (industrial vending) business is new, and our competitive advantage could be eliminated. We believe we have a competitive advantage due to our industrial vending platform (hardware and software), our local store presence, our 'vendible' product depth, and, in North America, our distribution strength. These advantages have developed over time; however, other competitors could respond to our rapidly expanding industrial vending business with highly competitive platforms of their own. These alternative solutions could negatively impact our ability to expand our business and/or negatively impact the economics of the industrial vending business.

The industrial, construction, and maintenance supply industry is consolidating, which could cause it to become more competitive and could negatively impact our business. The industrial, construction, and maintenance supply industry in North America is consolidating. This consolidation is being driven by customer needs and supplier capabilities, which could cause the industry to become more competitive as greater economies of scale are achieved by suppliers. Customers are increasingly aware of the total costs of fulfillment and of the need to have consistent sources of supply at multiple locations. We believe these customer needs could result in fewer suppliers as the remaining suppliers become larger and capable of being a consistent source of supply.

There can be no assurance that we will be able in the future to take advantage effectively of the trend toward consolidation. The trend in our industry toward consolidation could make it more difficult for us to maintain operating margins. Furthermore, as our industrial and construction customers face increased foreign competition, and potentially lose business to foreign competitors or shift their operations overseas in an effort to reduce expenses, we may face increased difficulty in growing and maintaining our market share and growth prospects.

We will need to begin disclosing our use of 'conflict minerals' in certain of the products we distribute, which will impose costs on us and could raise reputational and other risks. The SEC has promulgated final rules in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act, regarding disclosure of the use of certain minerals, known as 'conflict minerals', that are mined from the Democratic Republic of the Congo and adjoining countries. These new requirements will require due diligence efforts in fiscal year 2013 and thereafter, with initial disclosure requirements effective in May 2014. There will be costs associated with complying with these disclosure requirements, including costs to determine which of our products are subject to the new rules and the source of any 'conflict minerals' used in those products. In addition, the implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in those products. Also, we may face reputational challenges if we are unable to verify the origins for all metals used in products through the procedures we may implement. We may also encounter challenges to satisfy customers that may require all of the components of products purchased to be certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.





Table of Contents

## ITEM 2. PROPERTIES

We own several facilities in Winona, Minnesota. These facilities are as follows:

Purpose	Approximate Square Feet	
Distribution center and home office	259,000	<sup>1</sup>
Manufacturing facility	100,000	
Computer support center	13,000	
Winona store	15,000	
Winona product support facility	55,000	
Rack and shelving storage	42,000	
Multi-building complex which houses certain operations of the distribution group, our support services group, and the home office support group	30,000	

<sup>1</sup> This facility was expanded in 2012 to include an auxiliary building which contains an automated storage and retrieval system with 253,000 tote locations for small parts.

We also own the following facilities, excluding store locations, outside of Winona, Minnesota:

Purpose	Location	Approximate Square Feet	
Distribution center and manufacturing facility	Indianapolis, Indiana	525,000	<sup>1</sup>
Storage facility	Indianapolis, Indiana	262,000	
Distribution center	Atlanta, Georgia	198,000	
Distribution center	Dallas, Texas	176,000	<sup>2</sup>
Distribution center	Scranton, Pennsylvania	160,000	
Distribution center	Akron, Ohio	102,000	
Distribution center	Kansas City, Kansas	300,000	
Distribution center	Toronto, Ontario, Canada	62,000	
Distribution center	Greensboro, North Carolina	250,000	
Distribution center and manufacturing facility	Modesto, California	328,000	
Manufacturing facility	Rockford, Illinois	100,000	
Local re-distribution center and manufacturing facility	Johor, Malaysia	27,000	
Manufacturing facility	Wallingford, Connecticut	187,000	

<sup>1</sup> In addition, this facility has an auxiliary building which contains an automated storage and retrieval system with capacity of 52,000 pallet locations and 250,000 tote locations for small parts.

<sup>2</sup> In addition, this facility contains an automated storage and retrieval system with capacity of 14,000 pallet locations and 42,000 tote locations for small parts.

In addition, we own 176 buildings that house our store locations in various cities throughout North America.

Table of Contents

All other buildings we occupy are leased. Leased stores range from approximately 3,000 to 10,000 square feet, with lease terms of up to 60 months (most initial lease terms are for 36 to 48 months). We also lease the following:

Purpose	Location	Approximate Square Feet	Lease Expiration Date	Remaining Lease Renewal Options
Distribution center	Seattle, Washington	100,000	April 2017	Two
Distribution center	Salt Lake City, Utah	44,000	July 2015	Two
Distribution center	Monterrey, Nuevo Leon, Mexico	14,000	June 2014	One
Distribution center and manufacturing facility	Edmonton, Alberta, Canada	22,000	July 2020	One
Distribution center (supplemental site)	Edmonton, Alberta, Canada	6,400	August 2013	None
Manufacturing facility	Houston, Texas	20,500	June 2014	None
Local re-distribution center and manufacturing facility	Modrice, Czech Republic	15,000	July 2021	None

If economic conditions are suitable, we will, in the future, consider purchasing store locations to house our older stores. It is anticipated the majority of new store locations will continue to be leased. It is our policy to negotiate relatively short lease terms to facilitate relocation of particular store operations, when desirable. Our experience has been that space suitable for our needs and available for leasing is more than sufficient.

**ITEM 3. LEGAL PROCEEDINGS**

A description of our legal proceedings, if any, is contained in Note 10 of the 'Notes to Consolidated Financial Statements'. The description of our legal proceedings, if any, in Note 10 is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents

## ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Fastenal Company are:

Name	Employee of Fastenal since	Age	Position
Willard D. Oberton	1980	54	Chief Executive Officer and Director
Leland J. Hein	1985	52	President
Daniel L. Florness	1996	49	Executive Vice President and Chief Financial Officer
Steven A. Rucinski	1980	55	Executive Vice President-Sales
Gary A. Polipnick	1983	49	Executive Vice President-Sales
Kenneth R. Nance	1992	48	Executive Vice President-Sales
Reyne K. Wisecup	1988	49	Executive Vice President-Human Resources and Director
Nicholas J. Lundquist	1979	55	Executive Vice President-Operations
James C. Jansen	1992	42	Executive Vice President-Operations
Michael S. Camp	1991	44	Executive Vice President-Product and Procurement
Ashok Singh	2001	50	Executive Vice President-Information Technology

Mr. Oberton has been our chief executive officer since December 2002. From July 2001 to July 2012, Mr. Oberton was our president and chief executive officer. From July 2001 through December 2002, Mr. Oberton was our president and chief operating officer. Mr. Oberton has also served as one of our directors since June 1999.

Mr. Hein has been our president since July 2012. From November 2007 to July 2012, Mr. Hein was one of our executive vice presidents – sales. Mr. Hein's responsibilities as an executive vice president – sales included sales and operational oversight over a substantial portion of our business. Prior to November 2007, Mr. Hein served in various sales leadership roles, most recently as leader of our Winona and Kansas City based regions.

Mr. Florness has been our executive vice president and chief financial officer since December 2002. From June 1996 to November 2002, Mr. Florness was our chief financial officer.

Mr. Rucinski has been one of our executive vice presidents – sales since November 2007. Mr. Rucinski's responsibilities include sales and operational oversight over our international business. Prior to November 2007, Mr. Rucinski served in various sales leadership roles, most recently as leader of national accounts.

Mr. Polipnick has been one of our executive vice presidents – sales since July 2012. Mr. Polipnick's responsibilities include sales and operational oversight of our western United States business. Prior to July 2012, Mr. Polipnick served in various sales leadership roles, most recently as leader of our Winona based region.

Mr. Nance has been one of our executive vice presidents – sales since July 2012. Mr. Nance's responsibilities include sales and operational oversight of our eastern United States and Mexican businesses. Prior to July 2012, Mr. Nance served in various sales leadership roles, most recently as leader of our Texas based region.

Ms. Wisecup has been our executive vice president – human resources since November 2007. Prior to November 2007, Ms. Wisecup served in various support roles, most recently as director of employee development. Ms. Wisecup has served as one of our directors since 2000.

Mr. Lundquist has been one of our executive vice presidents – operations since July 2012. Mr. Lundquist's responsibilities include distribution development. From November 2007 to July 2012, Mr. Lundquist was one of our executive vice presidents – sales. Mr. Lundquist's responsibilities as an executive vice president – sales included sales and operational oversight over a substantial portion of our business. From December 2002 to November 2007, Mr. Lundquist was our executive vice president and chief operating officer.

Mr. Jansen has been an executive vice president – operations since December 2010. Since July 2012, Mr. Jansen's responsibilities include oversight of our manufacturing and specialty sales areas. Specialty sales include government sales and industrial vending. Prior to July 2012, Mr. Jansen's responsibilities also included distribution development. From November 2007 to December 2010, Mr. Jansen was our executive vice president – internal operations. From May 2005 to November 2007, Mr. Jansen served as leader of systems development (this role encompassed both

information systems and distribution

17

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Table of Contents

systems development). From April 2000 to April 2005, Mr. Jansen served in the sales leadership role of our Texas based region.

Mr. Camp has been our executive vice president – product and procurement since January 2011. Mr. Camp’s responsibilities include product development, global sourcing, and procurement. From January 2008 through April 2008, Mr. Camp was our vice president – purchasing and supply chain and from May 2008 to December 2010, Mr. Camp was our vice president – product development and procurement. From January 2003 through December 2007, Mr. Camp served as the president of our FASTCO subsidiary, was based in Shanghai, China and was responsible for our sourcing, supplier development, and procurement functions within the Asia-Pacific region. From March 1996 to January 2003, Mr. Camp was the leader of our corporate purchasing departments.

Mr. Singh has been our executive vice president – information technology since January 2011. Mr. Singh joined Fastenal in 2001 and, prior to January 2011, served in various roles of increasing responsibility in the administration and application development areas within our information technology group.

The executive officers are elected by our board of directors for a term of one year and serve until their successors are elected and qualified. None of our executive officers are related to any other such executive officer or to any of our other directors.

Table of Contents

## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

## Common Stock Data

Our shares are traded on The NASDAQ Stock Market under the symbol 'FAST'. As of February 1, 2013, there were approximately 1,300 record holders of our common stock, which includes nominees or broker dealers holding stock on behalf of an estimated 149,000 beneficial owners.

The following table sets forth, by quarter, the high and low closing sale price of our shares on The NASDAQ Stock Market for 2012 and 2011.

2012:	High	Low	2011 :	High	Low
First quarter	\$54.59	43.76	First quarter	\$32.42	28.88
Second quarter	\$54.65	38.37	Second quarter	\$36.01	30.97
Third quarter	\$45.30	39.03	Third quarter	\$36.65	29.47
Fourth quarter	\$46.65	40.20	Fourth quarter	\$44.32	32.23

In 2012, we paid quarterly dividends of \$0.17, \$0.17, \$0.19, and \$0.21 per share and a special supplemental dividend of \$0.50 per share in December (total 2012 dividend equaled \$1.24 per share). In 2011, we paid quarterly dividends of \$0.25, \$0.13, \$0.13 and \$0.14 per share (total 2011 dividend equaled \$0.65 per share). In 2010, we paid semi-annual dividends of \$0.20 and \$0.21 per share and a special supplemental dividend of \$0.21 per share (total 2010 dividend equaled \$0.62 per share). On January 16, 2013, we announced a quarterly dividend of \$0.10 per share to be paid on March 1, 2013 to shareholders of record at the close of business on February 1, 2013. We expect to pay a smaller quarterly dividend in the initial quarters of 2013 due to the large payout in late 2012. Our board intends to reassess our dividend payments each quarter as we progress through 2013 with the goal of returning to a dividend pattern more in-line with our quarterly dividends in 2012. This decision will be influenced by (1) the state of the economy, (2) the strength of our free cash flow (defined as operating cash flow less capital expenditures), (3) changes to the taxation of dividends, and (4) other factors deemed relevant by our board of directors.

## Issuer Purchases of Equity Securities

The table below sets forth information regarding purchases by the Company of our common stock during each of the last three months of 2012:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2012	0	\$0.00	0	1,800,000
November 1-30, 2012	0	\$0.00	0	1,800,000
December 1-31, 2012	0	\$0.00	0	1,800,000
Total	0	\$0.00	0	1,800,000

Table of Contents

The Fastenal Company Common Stock Comparative Performance Graph

Set forth below is a graph comparing, for the five years ended December 31, 2012, the yearly cumulative total shareholder return on our common stock with the yearly cumulative total shareholder return of the S&P Composite Index and an index (the 'Peer Group Index') of a group of peer companies selected by us (the 'Peer Group'). The companies in the Peer Group are Lawson Products, Inc., MSC Industrial Direct Co., Inc., Airgas, Inc., and W.W. Grainger, Inc. Fastenal is not included in the Peer Group.

In calculating the yearly cumulative total shareholder return of the Peer Group Index, the shareholder returns of the companies included in the Peer Group are weighted according to the stock market capitalization of such companies at the beginning of each period for which a return is indicated.

The comparison of total shareholder returns in the performance graph assumes that \$100 was invested on December 31, 2007 in Fastenal Company, the S&P Composite Index and the Peer Group Index, and that dividends were reinvested when and as paid.

Comparison of Five Year Cumulative Total Return Among Fastenal Company, Peer Group Index, and S&P Composite Index

	2007	2008	2009	2010	2011	2012
Fastenal Company	100.00	87.89	107.34	158.53	235.34	258.99
Peer Group Index	100.00	86.44	108.31	153.14	196.92	219.33
S&P Composite Index	100.00	63.01	79.69	91.69	93.63	108.62

ITEM 6. SELECTED FINANCIAL DATA

Incorporated herein by reference is Ten-Year Selected Financial Data on page 5 of Fastenal's 2012 Annual Report to Shareholders of which this Form 10-K forms a part, a portion of which is filed as Exhibit 13 to this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements. (Dollar amounts are in thousands except for per share amounts and where otherwise noted.)



Table of Contents**BUSINESS AND OPERATIONAL OVERVIEW:**

Fastenal is a North American leader in the wholesale distribution of industrial and construction supplies. We distribute these supplies through a network of approximately 2,700 company owned stores. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both original equipment manufacturers (OEM) and maintenance and repair operations (MRO). The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our product include farmers, truckers, railroads, mining companies, federal, state, and local governmental entities, schools, and certain retail trades. Geographically, our stores and customers are primarily located in North America.

Like most industrial and construction centric organizations, we have endured a roller coaster ride over the last several years. The third quarter of 2008 included the final months of an inflationary period related to both steel prices (between 40% and 50% of our sales consist of some type of fastener – nuts, bolts, screws, etc. – most of which are made of steel) and energy prices (a meaningful item for us given the amount of energy that is necessary in the production of our products and in the transportation of our products across North America).

In the fourth quarter of 2008, and throughout much of 2009, this inflation turned to deflation. When the swings are dramatic, this can hurt our gross margins because we are selling expensive inventory on the shelf at declining prices. This hurt our gross margins in 2009. The drop in energy costs over the same period provided some relief, but it was small in comparison to the impact of deflation. The deflation of 2009 ended and these conditions normalized and allowed our gross margins to recover in 2010 and 2011. (See later discussion on gross margins.)

The discussion that follows includes information regarding our sales growth and our sales by product line during 2012. This information provides a summary view to understand the dynamics of the year. However, we feel the real story is told in the monthly sales change, sequential trend, and end market information that follows – that information explains the real impact of the market dynamics affecting us over this period of uncertainty.

Over the last several years, we have continued to make significant investments in (1) store locations, (2) national accounts, (3) government sales, (4) internal manufacturing support, (5) international operations (now over 10% of our sales), (6) FAST Solutions<sup>SM</sup> (industrial vending), (7) product expansion (with particular emphasis on metalworking products and on exclusive brands), (8) additional sales specialists to support safety products, metalworking products, and our manufacturing operations, and (9) additional sales operational support to focus on under performing stores and under performing industrial vending. We are excited about the prospects of each.

As always, the ‘pathway to profit’ is the cornerstone of our business evolution, and it influences everything we do. Remember, our business centers on our 2,700 stores – their individual success leads to the success of the entire organization over time. As always, we will continue to work to complete this task and maintain our goal of Growth through Customer Service.

**SALES GROWTH:**

Net sales and growth rates in net sales were as follows:

	2012	2011	2010	
Net sales	\$3,133,577	2,766,859	2,269,471	
Percentage change	13.3	% 21.9	% 17.6	%

The increase in net sales in 2012 came primarily from higher unit sales. Our growth in net sales was impacted by price changes in our products, but the impact was limited. Our growth in net sales was not meaningfully impacted by the introduction of new products or services, but was helped by initiatives such as FAST Solutions<sup>SM</sup> (industrial vending). The higher unit sales resulted primarily from increases in sales at older store locations (discussed below and again later in this document) and to a lesser degree the opening of new store locations in the last several years. The growth in net sales at the older store locations was hindered by weakness in the industrial production and non-residential construction industries served by our Company. The change in currencies in foreign countries (primarily Canada) relative to the United States dollar lowered our daily sales growth rate by 0.1% in 2012.

Table of Contents

The increase in net sales in 2011 came primarily from higher unit sales. Our growth in net sales was impacted by price changes in our products, but the impact was limited. Our growth in net sales was not meaningfully impacted by the introduction of new products or services, but was helped by initiatives such as FAST Solutions<sup>SM</sup> (industrial vending). The higher unit sales resulted primarily from increases in sales at older store locations (discussed below and again later in this document) and to a lesser degree the opening of new store locations in the last several years. The growth in net sales at the older store locations was helped by the moderating impacts of the previous recessionary environment. The change in currencies in foreign countries (primarily Canada) relative to the United States dollar improved our daily sales growth rate by 0.7% in 2011.

The increase in net sales in 2010 came primarily from higher unit sales. Our growth in net sales was not meaningfully impacted by deflationary or inflationary price changes in our products or by the introduction of new products or services. The higher unit sales resulted primarily from increases in sales at older store locations (discussed below and again later in this document) and to a lesser degree the opening of new store locations in the last several years. The growth in net sales at the older store locations was due to the moderating impacts of the previous recessionary environment. The increase in net sales also resulted from the strengthening of the Canadian currency relative to the United States dollar and from our Holo-Krome business, which we acquired in December 2009. These two items added approximately 0.6 and 0.5 percentage points, respectively, to our growth in 2010.

The impact of the economy is best reflected in the growth performance of our stores opened greater than ten years ago (store sites opened as follows: 2012 group – opened 2002 and earlier, 2011 group – opened 2001 and earlier, and 2010 group – opened 2000 and earlier) and opened greater than five years ago (store sites opened as follows: 2012 group – opened 2007 and earlier, 2011 group – opened 2006 and earlier, and 2010 group – opened 2005 and earlier). These two groups of stores are more cyclical due to the increased market share they enjoy in their local markets. The stores opened greater than two years ago represent a consistent ‘same store’ view of our business (store sites opened as follows: 2012 group – opened 2010 and earlier, 2011 group – opened 2009 and earlier, and 2010 group – opened 2008 and earlier). The daily sales change for each of these groups was as follows:

Store Age	2012	2011	2010
Opened greater than 10 years	8.1%	15.2%	12.5%
Opened greater than 5 years	9.8%	17.1%	13.0%
Opened greater than 2 years	10.8%	17.9%	14.6%

Note: The age groups above are measured as of the last day of each respective year.

Stores opened in 2012 contributed approximately \$24,859 (or 0.8%) to 2012 net sales. Stores opened in 2011 contributed approximately \$85,318 (or 2.7%) to 2012 net sales and approximately \$27,120 (or 1.0%) to 2011 net sales. The rate of growth in sales of store locations generally levels off after they have been open for five years, and, as stated earlier, the sales generated at our older store locations typically vary more with the economy than do the sales of younger stores.

**SALES BY PRODUCT LINE:**

The approximate mix of sales from the fastener product line and from the other product lines was as follows:

	2012	2011	2010
Fastener product line	44%	47%	49%
Other product lines	56%	53%	51%

Table of Contents

## MONTHLY SALES CHANGES, SEQUENTIAL TRENDS, AND END MARKET PERFORMANCE

Note – Daily sales are defined as the sales for the period divided by the number of business days (in the United States) in the period.

This section focuses on three distinct views of our business – monthly sales changes, sequential trends, and end market performance. The first discussion regarding monthly sales changes provides a good mechanical view of our business based on the age of our stores. The second discussion provides a framework for understanding the sequential trends (that is, comparing a period to the immediately preceding period) in our business. Finally, we believe the third discussion regarding end market performance provides insight into activities with our various types of customers.

## MONTHLY SALES CHANGES:

All company sales – During the months in 2012, 2011, and 2010, all of our selling locations, when combined, had daily sales growth rates of (compared to the comparable month in the preceding year):

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2012	21.3 %	20.0 %	19.3 %	17.3 %	13.1 %	14.0 %	12.1 %	12.0 %	12.9 %	6.8 %	8.2 %	9.7 %
2011	18.8 %	21.5 %	22.8 %	23.2 %	22.6 %	22.5 %	22.4 %	20.0 %	18.8 %	21.4 %	22.2 %	21.2 %
2010	2.4 %	4.4 %	12.1 %	18.6 %	21.1 %	21.1 %	24.4 %	22.1 %	23.5 %	22.4 %	17.9 %	20.9 %

The growth in the first three and a half months of 2012 generally continued the relative strength we saw in 2011 and in most of 2010. During 2012 there were two distinct economic slowdowns. The first occurred in the late April/May time frame, and then moderated until September. The second occurred in the October/November time frame. This was exaggerated by an unusual business day comparison in October (23 days in 2012 versus 21 days in 2011 - the maintenance portion of our business is often linked to monthly spend patterns, which are not as business day dependent, this can dilute the daily growth picture given the change in business day divisor) and the impact of Hurricane Sandy. The change in currencies in foreign countries (primarily Canada) relative to the United States dollar lowered our daily sales growth rate by 0.1% during 2012 (this lowered our growth in the first, second, and third quarters by 0.1%, 0.4%, 0.2%, respectively and increased our growth in the fourth quarter by 0.2%). This was a sharp contrast to 2011 and 2010, when changes in foreign currencies increased our growth by 0.7% and 0.6%, respectively.

Stores opened greater than two years – Our stores opened greater than two years (store sites opened as follows: 2012 group – opened 2010 and earlier, 2011 group – opened 2009 and earlier, and 2010 group – opened 2008 and earlier) represent a consistent 'same-store' view of our business. During the months in 2012, 2011, and 2010, the stores opened greater than two years had daily sales growth rates of (compared to the comparable month in the preceding year):

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2012	18.8 %	17.1 %	16.8 %	14.5 %	10.1 %	11.1 %	9.1 %	8.6 %	9.8 %	3.8 %	5.1 %	6.6 %
2011	16.0 %	18.4 %	19.4 %	19.6 %	19.2 %	19.1 %	18.7 %	16.5 %	15.2 %	18.0 %	18.5 %	17.5 %
2010	0.6 %	2.3 %	9.6 %	16.3 %	18.5 %	18.3 %	21.3 %	19.2 %	19.8 %	18.8 %	14.1 %	16.8 %

Stores opened greater than five years – The impact of the economy, over time, is best reflected in the growth performance of our stores opened greater than five years (store sites opened as follows: 2012 group – opened 2007 and earlier, 2011 group – opened 2006 and earlier, and 2010 group – opened 2005 and earlier). This group is more cyclical due to the increased market share they enjoy in their local markets. During the months in 2012, 2011, and 2010, the stores opened greater than five years had daily sales growth rates of (compared to the comparable month in the preceding year):

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2012	17.4 %	15.8 %	15.7 %	13.7 %	9.0 %	10.2 %	8.3 %	7.9 %	8.5 %	2.6 %	4.6 %	5.6 %
2011	15.3 %	17.9 %	19.2 %	19.1 %	17.9 %	18.2 %	17.3 %	15.2 %	14.5 %	17.0 %	17.4 %	16.9 %
2010	-2.1 %	-0.5 %	7.4 %	14.9 %	17.3 %	16.2 %	19.8 %	18.2 %	18.9 %	17.9 %	13.2 %	16.0 %

Table of Contents

## SEQUENTIAL TRENDS:

We find it helpful to think about the monthly sequential changes in our business using the analogy of climbing a stairway – This stairway has several predictable landings where there is a pause in the sequential gain (i.e. April, July, and October to December), but generally speaking, climbs from January to October. The October landing then establishes the benchmark for the start of the next year.

History has identified these landings in our business cycle. They generally relate to months with impaired business days (certain holidays). The first landing centers on Easter, which alternates between March and April (Easter occurred in April in 2012, 2011, and 2010), the second landing centers on July 4<sup>th</sup>, and the third landing centers on the approach of winter with its seasonal impact on primarily our construction business and with the Christmas / New Year holidays. The holidays we noted impact the trends because they either move from month-to-month or because they move around during the week.

The table below shows the pattern to our sequential change in our daily sales. The line labeled 'Past' is an historical average of our sequential daily sales change for the period 1998 to 2003. We chose this time frame because it had similar characteristics, a weaker industrial economy in North America, and could serve as a benchmark for a possible trend line. The '2012', '2011', and '2010' lines represent our actual sequential daily sales changes. The '12Delta', '11Delta', and '10Delta' lines indicate the difference between the 'Past' and the actual results in the respective year.

	Jan.(1)	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Cumulative change from Jan. to Oct.	
Past	0.9	% 3.3	% 2.9	% -0.3	% 3.4	% 2.8	% -2.3	% 2.6	% 2.6	% -0.7	% 15.9	%
2012	-0.3	% 0.5	% 6.4	% -0.8	% 0.5	% 2.5	% -2.7	% 1.3	% 4.3	% -4.8	% 7.1	%
12Delta	-1.2	% -2.8	% 3.5	% -0.5	% -2.9	% -0.3	% -0.4	% -1.3	% 1.7	% -4.1	% -8.8	%
2011	-0.2	% 1.6	% 7.0	% 0.9	% 4.3	% 1.7	% -1.0	% 1.4	% 3.4	% 0.7	% 21.7	%
11Delta	-1.1	% -1.7	% 4.1	% 1.2	% 0.9	% -1.1	% 1.3	% -1.2	% 0.8	% 1.4	% 5.8	%
2010	2.9	% -0.7	% 5.9	% 0.6	% 4.8	% 1.7	% -1.0	% 3.5	% 4.5	% -1.5	% 19.0	%
10Delta	2.0	% -4.0	% 3.0	% 0.9	% 1.4	% -1.1	% 1.3	% 0.9	% 1.9	% -0.8	% 3.1	%

(1) The January figures represent the percentage change from the previous October, whereas the remaining figures represent the percentage change from the previous month.

A graph of the sequential daily sales change pattern discussed above, starting with a base of '100' in the previous October and ending with the next October, would be as follows:

Table of Contents

Several observations stand out while viewing the 2012 sequential pattern: (1) The direction of the historical sequential pattern (increased daily sales on a sequential basis in February, March, May, June, August, and September and decreased daily sales on a sequential basis in April and July) has played out each month; however, the cumulative growth in the daily sales from January to October has fallen short of the benchmark figure and of the actual results in 2011 and 2010. (2) The magnitude of the February and May '12Delta' of approximately -2.8% was similar. This fact, as well as the choppiness of the year in general, caused us to approach the year with a conservative tone. (3) The weakness in 2012 was amplified in the first three quarters of the year by changes in foreign currencies (primarily Canada) relative to the U.S. dollar as indicated earlier.

**END MARKET PERFORMANCE:**

Fluctuations in end market business – The sequential trends noted above were directly linked to fluctuations in our end markets. To place this in perspective – approximately 50% of our business has historically been with customers engaged in some type of manufacturing. The daily sales to these customers grew in the first, second, third, and fourth quarters (when compared to the same quarter in the previous year), and for the year, as follows:

	Q1		Q2		Q3		Q4		Annual	
2012	20.3	%	15.8	%	14.0	%	9.7	%	14.9	%
2011	15.5	%	18.5	%	18.3	%	21.0	%	20.0	%
2010	15.7	%	29.8	%	30.6	%	17.7	%	22.4	%

Our manufacturing business consists of two subsets: the industrial production business (this is business where we supply products that become part of the finished goods produced by our customers) and the maintenance portion (this is business where we supply products that maintain the facility or the equipment of our customers engaged in manufacturing). The industrial business is more fastener centered, while the maintenance portion is represented by all product categories.

In the second, third, and fourth quarters of 2012, the decrease in the rate of growth was more pronounced in our industrial production business. This is in sharp contrast to the first quarter of 2012 where the growth was more pronounced in the industrial production business, a trend that had also existed in 2011 and 2010. The first quarter and prior quarters were a direct counter to the 2009 contraction, which was more severe in our industrial production business and less severe in the maintenance portion of our manufacturing business.

The best way to understand the change in our industrial production business is to examine the results in our fastener product line. In the first three months of 2012, the daily sales growth in our fastener product line was approximately 15.4%. This growth dropped to 10.5%, 6.1%, and 8.6% in April, May, and June, respectively, and then averaged 6.0% and 2.6% in the third and fourth quarters, respectively. By contrast, the best way to understand the change in the maintenance portion of the manufacturing business is to examine the results in our non-fastener product lines. In the first three months of 2012, the daily sales growth in our non-fastener business was approximately 25.1%. This dropped to 24.4%, 19.0%, and 19.6% in April, May, and June, respectively, and averaged 18.0% and 13.6% in the third and fourth quarters, respectively. The non-fastener business has demonstrated relative resilience in 2012, when compared to our fastener business and to the distribution industry in general, due to our strong FAST Solutions<sup>SM</sup> (industrial vending) program; this is discussed in greater detail later in this document.

The patterns related to the industrial production business, as noted above, are influenced by the movements noted in the Purchasing Manufacturers Index ('PMI') published by the Institute for Supply Management (<http://www.ism.ws/>), which is a composite index of economic activity in the United States manufacturing sector. The PMI in 2012, 2011, and 2010 was as follows:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2012	54.1	52.4	53.4	54.8	53.5	49.7	49.8	49.6	51.5	51.7	49.5	50.7
2011	59.9	59.8	59.7	59.7	54.2	55.8	51.4	52.5	52.5	51.8	52.2	53.1
2010	56.7	55.8	59.3	59.0	58.8	56.0	55.7	57.4	56.4	57.0	58.0	57.3

For background to readers not familiar with the PMI index, it is a monthly indicator of the economic health of the manufacturing sector. Five major indicators that influence the PMI index are new orders, inventory levels, productions, supplier deliveries, and the employment environment. When a PMI of 50 or higher is reported, this

indicates expansion in the manufacturing industry compared to the previous month. If the PMI is below 50, this represents a contraction in the manufacturing sector.

Table of Contents

Our non-residential construction customers have historically represented 20% to 25% of our business. The daily sales to these customers grew or contracted in the first, second, third, and fourth quarters (when compared to the same quarter in the previous year), and for the year, as follows:

	Q1		Q2		Q3		Q4		Annual	
2012	17.1	%	12.7	%	8.2	%	4.2	%	10.3	%
2011	17.7	%	15.8	%	15.8	%	17.4	%	17.1	%
2010	-14.7	%	0.5	%	6.3	%	10.3	%	-0.3	%

We believe the weakness in the economy in the fourth quarter of 2012, particularly in the non-residential construction market, was amplified by the political uncertainty in the United States.

A graph of the sequential daily sales trends to these two end markets in 2012, 2011, and 2010, starting with a base of '100' in the previous October and ending with the next October, would be as follows:

Manufacturing

Non-Residential Construction

Table of Contents

**GROWTH DRIVERS OF OUR BUSINESS**

We grow by continuously adding customers and by increasing the activity with each customer. We believe this growth is enhanced by our close proximity to our customers, which allows us to provide a range of services and product availability that our competitors can't easily match. Historically, we expanded our reach by opening stores at a very fast pace. These openings were initially in the United States, but expanded beyond the United States beginning in the mid 1990's.

In our first ten years of being public (1987 to 1997), we opened stores at a rate approaching 30% per year. In the next ten years, we opened stores at an annual rate of approximately 10% to 15% and, over the last five years, at a rate of approximately 3% to 8% (we currently expect to open approximately 65 to 80 stores in 2013, or approximately 2.5% to 3.0%). As we gained proximity to more customers, we continued to diversify our growth drivers. This was done to provide existing store personnel with more tools to grow their business organically, and the results of this are reflected in our earlier discussion on sales growth at stores opened greater than five years. In the early 1990's, we began to expand our product lines, and we added new product knowledge to our bench. This was our first big effort to diversify our growth drivers. The next step began in the mid to late 1990's when we began to add sales personnel with certain specialties or focus. This began with our National Accounts group in 1995, and, over time, has expanded to include individuals dedicated to: (1) sales related to our internal manufacturing division, (2) government sales, (3) internet sales, (4) specific products (most recently metal working), and (5) FAST Solutions<sup>SM</sup> (industrial vending). Another step occurred at our sales locations (this includes Fastenal stores as well as strategic account stores and in-plant locations) and at our distribution centers, and began with a targeted merchandising and inventory placement strategy that included our 'Customer Service Project' approximately ten years ago and our 'Master Stocking Hub' initiative approximately five years ago. This strategy allowed us to better target where to stock certain products (local store, regional distribution center, master stocking hub, or supplier) and allowed us to improve our fulfillment, lower our freight costs, and improve our ability to serve a broader range of customers.

Our FAST Solutions<sup>SM</sup> (industrial vending) operation is a rapidly expanding component of our business. We believe industrial vending is the next logical chapter in the Fastenal story; we also believe it has the potential to be transformative to industrial distribution, and that we have a 'first mover' advantage. We are investing aggressively to maximize this advantage. At our investor day in May 2011, we discussed our progress with industrial vending. In addition to our discussion regarding progress, we discussed our goals with the rollout of the industrial vending machines. One of the goals we identified related to our rate of 'machine signings' (the first category below) – our goal was simple, sign 2,500+ machines per quarter (or an annualized run rate of 10,000 machines). In 2012, we hit our annual goal of 10,000 machines during July, and the momentum has continued as we finished the year. We intend to continue our aggressive push with FAST Solutions<sup>SM</sup> (industrial vending) and, to this end, have established an internal goal to sign 30,000 machines in 2013, or 2,500 per month rather than per quarter. This is an aggressive goal, but we believe we can hit this run rate during 2013. In addition, during 2012 we developed plans to (1) reinvigorate our fastener growth and to (2) improve the performance (i.e. sales growth) at under-performing locations. These plans centered on expanding our sales team for industrial production business, improving our delivery systems for other fastener business, and expanding the team that supports under-performing stores and districts.



Table of Contents

The following table includes some statistics regarding our industrial vending business (note - we added the third category of information in this report to highlight the mix change in the machines deployed as our business expands beyond the flagship FAST 5000 machine):

		Q1	Q2	Q3	Q4	Annual
Number of vending machines in contracts signed during the period <sup>1</sup>	2012	4,568	4,669	5,334	5,591	20,162
	2011	1,405	2,107	2,246	2,084	7,842
	2010	257	420	440	792	1,909
Cumulative machines installed <sup>2</sup>	2012	9,798	13,036	17,013	21,095	
	2011	2,659	3,867	5,642	7,453	
	2010	892	1,184	1,515	1,925	
Percent of installed machines that are a FAST 5000 (our most common helix vending machine)	2012	69.7	% 65.9	% 60.6	% 58.0	%
	2011	82.6	% 77.5	% 75.0	% 72.5	%
	2010	99.5	% 97.3	% 92.4	% 87.8	%
Percent of total net sales to customers with vending machines <sup>3</sup>	2012	17.8	% 20.8	% 23.2	% 25.8	%
	2011	8.9	% 10.5	% 13.1	% 15.7	%
	2010	3.4	% 4.6	% 6.1	% 7.5	%
Daily sales growth to customers with vending machines <sup>4</sup>	2012	33.9	% 34.3	% 32.9	% 28.6	%
	2011	50.6	% 43.9	% 42.5	% 40.7	%
	2010	37.4	% 54.0	% 56.4	% 60.2	%

<sup>1</sup> This represents the gross number of machines signed during the quarter, not the number of contracts.

<sup>2</sup> This represents the number of machines installed and dispensing product on the last day of the quarter.

<sup>3</sup> The percentage of total sales (vended and traditional) to customers currently using a vending solution.

<sup>4</sup> The growth in total sales (vended and traditional) to customers currently using a vending solution compared to the comparable period in the preceding year.

Table of Contents

## PROFIT DRIVERS OF OUR BUSINESS

We grow our profits by continuously working to grow sales and to improve our relative profitability. We also grow our profits by allowing our inherent profitability to shine through – we refer to this as the 'pathway to profit'. The distinction is important.

We achieve improvements in our relative profitability by increasing our gross margin, by structurally lowering our operating expenses, or both. We advance on the 'pathway to profit' by increasing the average store size (measured in terms of monthly sales), and by allowing the changing store mix to improve our profits. This is best explained by comparing the varying profitability of our 'traditional' stores in the table below. The average store size for the group, and the average age, number of stores, and pre-tax earnings data by store size for the fourth quarter of 2012, 2011, and 2010, respectively, were as follows:

Sales per Month	Average Age (Years)	Number of Stores	Percentage of Stores	Pre-Tax Earnings Percentage	
Three months ended December 31, 2012					Average store sales = \$83,098
\$0 to \$30,000	4.7	304	11.5	% -14.4	%
\$30,001 to \$60,000	7.6	830	31.3	% 12.2	%
\$60,001 to \$100,000	10.0	759	28.6	% 21.3	%
\$100,001 to \$150,000	12.9	375	14.1	% 26.0	%
Over \$150,000	14.9	272	10.3	% 28.8	%
Strategic Account/Overseas Store		112	4.2	%	
Company Total		2,652	100.0	% 20.9	%
Three months ended December 31, 2011					Average store sales = \$78,781
\$0 to \$30,000	3.8	353	13.7	% -13.7	%
\$30,001 to \$60,000	7.2	882	34.1	% 11.7	%
\$60,001 to \$100,000	9.4	680	26.3	% 21.3	%
\$100,001 to \$150,000	12.0	352	13.6	% 25.9	%
Over \$150,000	15.1	227	8.8	% 27.4	%
Strategic Account/Overseas Store		91	3.5	%	
Company Total		2,585	100.0	% 20.2	%
Three months ended December 31, 2010					Average store sales = \$67,643
\$0 to \$30,000	3.8	462	18.6	% -13.2	%
\$30,001 to \$60,000	6.8	952	38.2	% 12.7	%
\$60,001 to \$100,000	9.7	573	23.0	% 22.0	%
\$100,001 to \$150,000	12.2	276	11.1	% 25.2	%
Over \$150,000	15.2	152	6.1	% 27.1	%
Strategic Account/Overseas Store		75	3.0	%	
Company Total		2,490	100.0	% 18.7	%

Note – Amounts may not foot due to rounding difference.

When we originally announced the 'pathway to profit' strategy in 2007, our goal was to increase our pre-tax earnings, as a percentage of sales, from 18% to 23%. This goal was to be accomplished by slowly moving the mix from the first three categories (\$0 to \$30,000, \$30,001 to \$60,000, and \$60,001 to \$100,000, these groups represented 76.5% of our store base in the first three months of 2007, the last quarter before we announced the 'pathway to profit') to the last three categories (\$60,001 to \$100,000, \$100,001 to \$150,000, and over \$150,000, these groups represented 53.0% of our store base in the fourth quarter of 2012) and by increasing the average store sales to approximately \$125,000 per

month. The weak economic environment in 2009 caused our average store size to decrease, and consequently lowered our level of profitability; however, subsequent to 2009 we improved our gross margin and structurally lowered our operating expenses. This improvement allowed us to amplify the 'pathway to profit' and effectively lowered the average store size required to hit our 23% goal. Today we believe we can accomplish our 'pathway to profit' goal with average store sales of approximately \$100,000 to \$110,000 per month. In the second quarter of 2012 we achieved a pre-tax earnings percentage of 22.2% with average store sales of \$89,169 per month.

Note – Dollar amounts in this section are presented in whole dollars, not thousands.

Table of Contents

Store Count and Full-Time Equivalent (FTE) Headcount – The table that follows highlights certain impacts on our business of the 'pathway to profit' since its introduction in 2007. Under the 'pathway to profit' we increased both our store count and our store FTE headcount during 2007 and 2008. However, the rate of increase in store locations slowed and our FTE headcount for all types of personnel was reduced when the economy weakened late in 2008. In the table that follows, we refer to our 'store' net sales, locations, and personnel. When we discuss 'store' net sales, locations, and personnel, we are referring to (1) 'Fastenal' stores and (2) strategic account stores. 'Fastenal' stores are either a 'traditional' store, the typical format in the United States or Canada, or an 'overseas' store, which is the typical format outside the United States and Canada. This is discussed in greater detail earlier in this Form 10-K. Strategic account stores are stores that are focused on selling to a group of large customers in a limited geographic market. The sales, outside of our 'store' group, relate to either (1) our in-plant locations, (2) the portion of our internally manufactured product that is sold directly to a customer and not through a store (including our Holo-Krome business acquired in December 2009), or (3) our direct import business.

The breakdown of our sales, the average monthly sales per store, the number of stores at quarter end, the average headcount at our stores during a quarter, the average FTE headcount during a quarter, and the percentage change were as follows for the first quarter of 2007 (the last completed quarter before we began the 'pathway to profit'), for the third quarter of 2008 (our peak quarter before the economy weakened), and for each of the last five quarters:

	Q1 2007	Q3 2008	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	
Total net sales reported	\$489,157	\$625,037	\$697,804	\$768,875	\$804,890	\$802,577	\$757,235	
Less: Non-store sales (approximate)	40,891	57,267	86,737	92,459	98,735	100,124	95,951	
Store net sales (approximate)	\$448,266	\$567,770	\$611,067	\$676,416	\$706,155	\$702,453	\$661,284	
% change since Q1 2007		26.7	% 36.3	% 50.9	% 57.5	% 56.7	% 47.5	%
% change (twelve months)		17.5	% 21.0	% 20.2	% 14.6	% 10.1	% 8.2	%
Percentage of sales through a store	92	% 91	% 88	% 88	% 88	% 88	% 87	%
Average monthly sales per store (using ending store count)	\$72	\$82	\$79	\$86	\$89	\$88	\$83	
% change since Q1 2007		13.9	% 9.7	% 19.4	% 23.6	% 22.2	% 15.3	%
% change (twelve months)		9.3	% 16.2	% 16.2	% 11.3	% 6.0	% 5.1	%

Table of Contents

	Q1 2007	Q3 2008	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012		
Store locations - quarter end count	2,073	2,300	2,585	2,611	2,635	2,650	2,652		
% change since Q1 2007		11.0	% 24.7	% 26.0	% 27.1	% 27.8	% 27.9	%	
% change (twelve months)		7.2	% 3.8	% 3.5	% 3.0	% 3.3	% 2.6	%	
Store personnel - absolute headcount	6,849	9,123	10,328	10,486	10,637	10,604	10,347		
% change since Q1 2007		33.2	% 50.8	% 53.1	% 55.3	% 54.8	% 51.1	%	
% change (twelve months)		17.9	% 14.1	% 12.2	% 9.3	% 5.4	% 0.2	%	
Store personnel - FTE	6,383	8,280	8,684	8,900	9,126	9,244	9,035		
Non-store selling personnel - FTE	616	599	953	998	1,054	1,066	1,070		
Sub-total of all sales personnel - FTE	6,999	8,879	9,637	9,898	10,180	10,310	10,105		
Distribution personnel-FTE	1,646	1,904	1,820	1,815	1,881	1,887	1,872		
Manufacturing personnel - FTE <sup>1</sup>	316	340	516	527	545	544	544		
Administrative personnel-FTE	767	805	796	796	794	808	811		
Sub-total of non-sales personnel - FTE	2,729	3,049	3,132	3,138	3,220	3,239	3,227		
Total - average FTE headcount	9,728	11,928	12,769	13,036	13,400	13,549	13,332		
% change since Q1 2007									
Store personnel - FTE		29.7	% 36.0	% 39.4	% 43.0	% 44.8	% 41.5	%	
Non-store selling personnel - FTE		-2.8	% 54.7	% 62.0	% 71.1	% 73.1	% 73.7	%	
Sub-total of all sales personnel - FTE		26.9	% 37.7	% 41.4	% 45.4	% 47.3	% 44.4	%	
Distribution personnel-FTE		15.7	% 10.6	% 10.3	% 14.3	% 14.6	% 13.7	%	
Manufacturing personnel-FTE <sup>1</sup>		7.6	% 63.3	% 66.8	% 72.5	% 72.2	% 72.2	%	
Administrative personnel-FTE		5.0	% 3.8	% 3.8	% 3.5	% 5.3	% 5.7	%	
Sub-total of non-sales personnel - FTE		11.7	% 14.8	% 15.0	% 18.0	% 18.7	% 18.2	%	
Total - average FTE headcount		22.6	% 31.3	% 34.0	% 37.7	% 39.3	% 37.0	%	
% change (twelve months)									
Store personnel - FTE		15.2	% 14.1	% 13.7	% 10.6	% 7.1	% 4.0	%	
Non-store selling personnel - FTE		-2.4	% 33.8	% 28.1	% 24.0	% 15.9	% 12.3	%	
Sub-total of all sales personnel - FTE		13.8	% 15.8	% 15.0	% 11.8	% 8.0	% 4.9	%	
Distribution personnel-FTE		6.0	% 14.1	% 12.9	% 7.1	% 3.1	% 2.9	%	
Manufacturing personnel - FTE <sup>1</sup>		1.8	% 16.2	% 14.3	% 10.8	% 6.0	% 5.4	%	
Administrative personnel - FTE		7.9	% 7.0	% 4.7	% 1.4	% -0.4	% 1.9	%	
		6.0	% 12.5	% 10.9	% 6.2	% 2.7	% 3.0	%	

Sub-total of non-sales personnel -  
FTE

Total - average FTE headcount                    11.7      % 15.0      % 14.0      % 10.4      % 6.7      % 4.4      %

<sup>1</sup> The distribution and manufacturing headcount was impacted by the addition of 92 employees with the acquisition of Holo-Krome in December 2009.

31

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Table of Contents

STATEMENT OF EARNINGS INFORMATION (percentage of net sales) for the periods ended December 31:

	Twelve-month period			
	2012	2011	2010	
Net sales	100.0	% 100.0	% 100.0	%
Gross profit	51.5	% 51.8	% 51.8	%
Operating and administrative expenses	30.0	% 31.1	% 32.8	%
(Gain) loss on sale of property and equipment	0.0	% 0.0	% 0.0	%
Operating income	21.5	% 20.8	% 19.0	%
Interest income	0.0	% 0.0	% 0.0	%
Earnings before income taxes	21.5	% 20.8	% 19.0	%

Note – Amounts may not foot due to rounding difference.

Gross profit – percentage for 2012 decreased from 2011, but stabilized in the second, third, and fourth quarters of 2012.

The gross profit percentage in the first, second, third, and fourth quarters was as follows:

	Q1	Q2	Q3	Q4		
2012	51.3	% 51.6	% 51.6	% 51.6	%	%
2011	52.0	% 52.2	% 51.9	% 51.2	%	%
2010	51.1	% 52.1	% 51.8	% 52.0	%	%

The fluctuations in our gross profit percentages are typically driven by changes in: (1) transactional gross profit, (2) organizational gross profit, and (3) vendor incentive gross profit. The transactional gross profit represents the gross profit realized from the day-to-day fluctuations in customer pricing relative to product and freight costs. The organizational gross profit represents the component of gross profit we attribute to buying scale and efficiency gains. The third component relates to vendor volume allowances. In the short-term, periods of inflation or deflation can influence the first two categories, while sudden changes in business volume can influence the third.

We believe a normal gross profit percentage range for our business is 51% to 53%. This is based on our current mix of products, geographies, end markets, and end market uses (such as industrial production business versus maintenance business). Our business operated below our expected gross profit range at the end of 2009, and expanded into the low end of this range during 2010. In the second quarter of 2010, we moved into the middle of the range as the three components of gross profit improved, the contribution being split fairly evenly between the three components. We remained in the middle of the range until the fourth quarter of 2011. In the fourth quarter of 2011, our gross margin felt pressure and dropped to the lower end of the range. This drop was primarily due to changes in our transactional margin (primarily due to changes in product and customer mix), lower vendor incentive gross profit, and lower freight utilization. The latter two items created half of the gross margin drop and are more of a seasonal issue. In the first quarter of 2012, our gross margin improved nominally over the previous quarter. This was primarily caused by the seasonal improvement of vendor volume allowances as rising fuel prices offset our improvements in freight utilization. In the second, third, and fourth quarters of 2012, our gross margin improved when compared to the first quarter. Most of this improvement related to improvements in our transactional gross margin. The improvement was partially offset by the weakening of our selling prices in certain foreign markets due to changes in the exchange rate. One item of note, in the fourth quarter of 2012 we experienced a drop off in the freight component of our gross margin due to lower freight utilization, a typical pattern due to the seasonal drop off in business; this decline was offset by an improvement in the remaining portion of our transactional gross margin that centers on product transactional cost and customer pricing.

Operating and administrative expenses - improved relative to sales in both 2012 as a whole and the fourth quarter of 2012 versus 2011 as a whole and the fourth quarter of 2011.

Historically, our two largest components of operating and administrative expenses have consisted of employee related expenses (approximately 65% to 70%) and occupancy related expenses (approximately 15% to 20%). The remaining expenses cover a variety of items with selling transportation typically being the largest.





Table of Contents

The three largest components of operating and administrative expenses grew as follows for the periods ended December 31 (compared to the comparable periods in the preceding year):

	Twelve-month period				
	2012	%	2011	%	2010
Employee related expenses	10.1	%	19.7	%	14.6
Occupancy related expenses	4.8	%	7.4	%	5.7
Selling transportation costs	10.1	%	26.5	%	-0.2

Employee related expenses include: (1) payroll (which includes cash compensation, stock option expense, and profit sharing), (2) health care, (3) personnel development, and (4) social taxes. The increase in 2012 was driven by the following factors: (1) average employee headcount, measured on a full-time equivalent basis, grew 8.7%, (2) sales commissions grew, (3) bonus amounts related to our growth drivers grew (this includes items such as industrial vending bonuses and manager minimum pay adjustments), and (4) our profit sharing contribution grew. The increase in 2011 was driven by the following factors: (1) employee headcount, measured on a full-time equivalent basis, grew 15.0%, (2) sales commissions grew (this increase was amplified by stronger sales growth relative to 2010, which had a meaningful impact on the commission earned, and higher gross profit margins), (3) total bonuses earned increased due to our profit growth, (4) hours worked per employee grew, and (5) our profit sharing contribution grew.

Occupancy related expenses include: (1) building rent and depreciation, (2) building utility costs, (3) equipment related to our stores and distribution locations, and (4) FAST Solutions<sup>SM</sup> (industrial vending) equipment (we consider the vending equipment to be a logical extension of our store operation and classify the expense as occupancy). The increase in 2012 was driven by (1) a dramatic increase in the amount of FAST Solutions<sup>SM</sup> (industrial vending) equipment as discussed earlier in this document, (2) an increase in the number of locations, and (3) increased investment in our distribution infrastructure over the last several years. Almost all of our occupancy increase in 2012 related to item (4) a dramatic increase in the amount of FAST Solutions<sup>SM</sup> (industrial vending) equipment, as our energy savings offset most of the increase relating to items (1) and (3). The energy savings were driven by our efforts to lower energy consumption, a mild winter, and a drop in natural gas prices during the heating season. The increase in 2011 was driven by the same factors noted above with one exception; in 2011 approximately 50% of the increase was due to rising utility costs.

Our selling transportation costs consist primarily of our store fleet as most of the distribution fleet costs are included in the cost of sales. Selling transportation costs included in operating and administrative expenses increased in 2012; however, they increased at a rate less than sales growth. The increase in 2012 was primarily due to elevated fuel prices in the first quarter, and, in the case of the first, second, and third quarters, the impact of the 2011 expansion of our fleet related to additions to our non-store sales personnel, particularly our industrial vending vehicles. The increase in 2011 was primarily related to the increase in per gallon fuel costs discussed below and the expansion of our fleet related to additions to our non-store sales personnel, particularly our industrial vending vehicles. Our selling and transportation costs in the fourth quarter of 2012 were comparable to those in the fourth quarter of 2011 because the per gallon fuel costs only grew nominally and the number of our industrial vending vehicles had normalized.

Conversely, the increase in the fourth quarter of 2011 from the fourth quarter of 2010 was driven by the dramatic increase in per gallon fuel costs and the ramp up in the number of our industrial vending vehicles.

Table of Contents

The last several years have seen meaningful swings in the cost of diesel fuel and gasoline – During the first, second, third, and fourth quarters of 2012, our total vehicle fuel costs were approximately \$10.6, \$10.8, \$10.8, and \$10.3 million, respectively. During the first, second, third, and fourth quarters of 2011, our total vehicle fuel costs were approximately \$8.6, \$10.5, \$9.8, and \$9.8 million, respectively. The changes resulted from variations in fuel costs, variations in the service levels provided to our stores from our distribution centers, changes in the number of vehicles at our store locations, and changes in the number of other sales centered vehicles as a result of store openings and the expansion of our non-store sales force. These fuel costs include the fuel utilized in our distribution vehicles (semi-tractors, straight trucks, and sprinter trucks) which is recorded in cost of sales and the fuel utilized in our store delivery and other sales centered vehicles which is included in operating and administrative expenses (the split in the last several years has been approximately 50:50 between distribution and store and other sales centered use).

The average per gallon fuel costs (in actual dollars) and the percentage change (on a year-over-year basis) for the last three years was as follows:

Per gallon average price	Q1	Q2	Q3	Q4	Annual Average <sup>1</sup>	
2012 price						
Diesel fuel	\$3.92	3.98	3.88	4.05	3.96	
Gasoline	\$3.53	3.73	3.61	3.53	3.60	
2011 price						
Diesel fuel	\$3.60	4.04	3.90	3.87	3.85	
Gasoline	\$3.22	3.78	3.62	3.37	3.50	
2010 price						
Diesel fuel	\$2.89	3.06	2.96	3.14	3.01	
Gasoline	\$2.68	2.80	2.71	2.84	2.76	
Per gallon price change	Q1	Q2	Q3	Q4	Annual <sup>1</sup>	
2012 change						
Diesel fuel	8.9	% -1.5	% -0.5	% 4.7	% 2.9	%
Gasoline	9.6	% -1.3	% -0.3	% 4.7	% 2.9	%
2011 change						
Diesel fuel	24.6	% 32.0	% 31.8	% 23.2	% 27.9	%
Gasoline	20.1	% 35.0	% 33.6	% 18.7	% 26.8	%

<sup>1</sup> Average of the four quarterly figures contained in the table.

Income taxes – Incomes taxes, as a percentage of earnings before income taxes, were approximately 37.6% and 37.8% for 2012 and 2011, respectively. As our international business and profits grow over time, the lower income tax rates in those jurisdictions, relative to the United States, have begun to lower our effective tax rate.

Table of Contents

Net Earnings – Net earnings, net earnings per share (EPS), percentage change in net earnings, and the percentage change in EPS, were as follows:

Dollar amounts	2012	2011	2010		
Net earnings	\$420,536	357,929	265,356		
Basic EPS	1.42	1.21	0.90		
Diluted EPS	1.42	1.21	0.90		
Percentage change	2012	2011	2010		
Net earnings	17.5	% 34.9	% 43.9	%	
Basic EPS	17.4	% 34.4	% 45.2	%	
Diluted EPS	17.4	% 34.4	% 45.2	%	

During 2012, the net earnings increase was greater than that of sales primarily due to the effective management of operating expenses and a slightly lower income tax rate. During 2011, the net earnings increase was greater than that of sales primarily due to the effective management of operating expenses and a slightly lower income tax rate. During 2010, the net earnings increase was greater than that of sales primarily due to the previously mentioned factors included in the discussion on the improvements in the gross margin percentage and in the growth in operating expenses which was dramatically less than sales growth.

Operational Working Capital – Operational working capital, which we define as accounts receivable and inventories, are highlighted below. The annual dollar change and the annual percentage change were as follows:

Dollar change	2012	2011		
Accounts receivable	\$33,565	68,461		
Inventories	69,231	88,783		
Operational working capital <sup>1</sup>	\$102,796	157,244		
Annual percentage change	2012	2011		
Accounts receivable	9.9	% 25.3	%	
Inventories	10.7	% 15.9	%	
Operational working capital <sup>1</sup>	10.4	% 19.0	%	

<sup>1</sup> For purposes of this discussion, we are defining operational working capital as accounts receivable, net and inventories.

The growth in accounts receivable noted above was driven by our sales growth in the final two months of the period. The strong growth in recent years of our international business and large customer accounts has created some difficulty with managing the growth of accounts receivable relative to the growth in sales. This was exaggerated by the short month in December 2012 versus 2011 (19 business days versus 21 days) and due to a drop off in payment activity due to Christmas Day and New Year's Day falling on a Tuesday resulting in a number of our customers being shut down for the last full week of December. We saw a similar short month impact in September 2012. Also as indicated above, our sales in the last two months of the year grew from 2011 to 2012 by 3.9%; however, our daily sales growth in the last two months of 2012 was 9.1% which resulted in increased year end receivables.

Our growth in inventory balances over time does not have as direct a relationship to our monthly sales patterns as does our growth in accounts receivable. This is impacted by other aspects of our business. For example, the dramatic economic slowdown in late 2008 and early 2009 caused our inventory to spike. This occurred because the lead time for inventory procurement is typically longer than the visibility we have into future monthly sales patterns. Over the last decade, we increased our relative inventory levels due to the following: (1) new store openings, (2) expanded stocking breadth at individual stores, (3) expanded stocking breadth at our distributions centers (for example, our master stocking hub in Indianapolis expanded its product breadth over six fold from 2005 to 2011), (4) expanded direct sourcing, (5) expanded exclusive brands (private label), and (6) expanded FAST Solutions<sup>SM</sup> (industrial vending) solutions. Items (4), (5), and (6), plus the impact of strong growth with national accounts and international expansion, created most of our inventory growth in both 2012 and 2011.



Table of Contents

As we indicated in earlier communications, our goal is to move the ratio of annual sales to accounts receivable and inventory (Annual Sales: AR&I) back to a better than a 3.0:1 ratio. On December 31, 2012 and 2011, we had a ratio of 2.9:1 and 2.8:1, respectively.

## Liquidity and Capital Resources

Net cash provided by operating activities — Net cash provided by operating activities in dollars and as a percentage of net earnings were as follows:

	2012	2011	2010	
Net cash provided	\$ 396,292	268,489	240,488	
% of net earnings	94.2	% 75.0	% 90.6	%

The increases in the net cash provided in each of the three years was primarily due to increases in earnings. The lower percentage of the earnings figure in 2011 was primarily due to increases in inventory necessary to support our industrial vending and metalworking initiatives.

The approximate percentage mix of inventory stocked at our stores versus our distribution center locations was as follows at year end:

	2012	2011	2010	
Store	56	% 56	% 57	%
Distribution Center	44	% 44	% 43	%
Total	100	% 100	% 100	%

New stores open with the standard store model, which consists of a core stocking level of approximately \$50 thousand per location. This inventory level grows as the level of business in a store grows.

Net cash used in investing activities — Net cash used in investing activities in dollars and as a percentage of net earnings were as follows:

	2012	2011	2010	
Net cash used	\$ 107,204	112,223	80,048	
% of net earnings	25.5	% 31.4	% 30.2	%

The changes in net cash used was primarily related to changes in our net capital expenditures as discussed below. The 2012 figure was partially offset by the liquidation of marketable securities late in the year to help fund our supplemental dividend payment.

Table of Contents

Net property and equipment expenditures in dollars and as a percentage of net earnings were as follows:

	2012	2011	2010		
Net capital expenditures	\$133,882	116,489	69,138		
% of net earnings	31.8	% 32.5	% 26.1		%

The net capital expenditures increased over the three years. The increases were primarily caused by the dramatic increase in the number of FAST Solutions<sup>SM</sup> (industrial vending) machines deployed in our business.

Property and equipment expenditures in 2012, 2011, and 2010 consist of: (1) purchase of software and hardware for Fastenal's information processing systems, (2) addition of certain pickup trucks, (3) purchase of signage, shelving, and other fixed assets related to store openings, (4) addition of manufacturing and warehouse equipment, (5) expansion or improvement of certain owned or leased store properties, (6) expansion of Fastenal's distribution/trucking fleet, (7) cost related to the expansion of our Indianapolis, Indiana master distribution center (2010), (8) cost of a new manufacturing facility for our Holo-Krome business in Wallingford, Connecticut (2010), (9) purchases related to FAST Solutions<sup>SM</sup> (industrial vending), which primarily consists of automated vending equipment, and (10) cost related to the expansion of our Winona, Minnesota distribution center (2012 and 2011). Disposals of property and equipment consist of the planned disposition of certain pick-up trucks, semi-tractors, and trailers in the normal course of business, and the disposition of real estate relating to several store locations.

Set forth below is an estimate of our 2013 net capital expenditures and a recap of our 2012, 2011, and 2010 net capital expenditures.

	2013	2012	2011	2010
	(Estimate)	(Actual)	(Actual)	(Actual)
Net capital expenditures				
Manufacturing, warehouse and packaging equipment, industrial vending equipment, and facilities	\$159,300	105,278	83,607	50,822
Shelving and related supplies for store openings and for product expansion at existing stores	6,200	5,240	5,259	4,298
Data processing software and equipment	10,500	11,102	12,036	7,347
Real estate and improvements to store locations	4,500	6,014	5,157	1,740
Vehicles	9,900	10,772	13,984	9,390
Proceeds from sale of property and equipment	(3,900)	(4,524)	(3,554)	(4,459)
	\$186,500	133,882	116,489	69,138

We anticipate funding our current expansion plans with cash generated from operations, from available cash and cash equivalents, and from our borrowing capacity. Because of the considerable cash required in 2013 for expanding our FAST Solutions<sup>SM</sup> (industrial vending) and increasing the use of automation in our distribution centers, together with the large dividend payout late in 2012, we established a \$125,000 unsecured credit facility in December 2012, to provide additional cash flow in that month and in 2013 and 2014. In addition to opening new stores in the United States, we plan to continue opening additional stores in our foreign markets. As of year end, we had no material outstanding commitments for capital expenditures.

Table of Contents

We have future commitments for facilities and equipment and for vehicles at year end. The facility and vehicle amounts primarily consist of future lease payments. The expected future cash obligations related to the commitments are as follows:

	Total	2013	2014 & 2015	2016 & 2017	After 2017
Facilities and equipment	\$225,973	87,942	107,085	30,946	—
Vehicles	33,452	18,962	14,490	—	—
Total	\$259,425	106,904	121,575	30,946	—

Net Cash Used in Financing Activities – Net cash used in financing activities in dollars and as a percentage of net earnings were as follows:

	2012	2011	2010		
Net cash used	\$327,513	181,819	182,814		
% of net earnings	77.9	% 50.8	% 68.9	%	%

The fluctuations are due to changes in the level of our dividend payments. This amount was partially offset by the exercise of stock options by our employees in 2012 and 2011. These items in dollars and as a percentage of earnings were as follows:

	2012	2011	2010		
Dividends	\$367,306	191,741	182,814		
% of net earnings	87.3	% 53.6	% 68.9	%	%
Stock purchases	—	—	—		
% of net earnings	—	% —	% —	%	%
Total returned to shareholders	\$367,306	191,741	182,814		
% of net earnings	87.3	% 53.6	% 68.9	%	%
Proceeds from the exercise of stock options	(29,644 )	(8,939 )	—		
% of net earnings	(7.0 )%	(2.5 )%	—		
Net impact to cash used	\$337,662	182,802	182,814		
% of net earnings	80.3	% 51.1	% 68.9	%	%

Stock Repurchase— We did not purchase any stock in 2012, 2011, or 2010. As of February 7, 2013, we have authority from our board of directors to purchase up to 1,800,000 shares of our common stock.

Dividends — We declared a dividend of \$0.10 per share on January 16, 2013. We paid aggregate annual dividends per share of \$1.24, \$0.65, and \$0.62 in 2012, 2011, and 2010, respectively.

Line of Credit — A description of our credit facility is contained in Note 10 of the 'Notes to Consolidated Financial Statements'. The description of our credit facility in Note 10 is incorporated herein by reference.

Effects of Inflation— We noted minimal price changes in 2012 and 2011.

Critical Accounting Policies— Our estimates related to certain assets and liabilities are an integral part of our consolidated financial statements. These estimates are considered critical because they require subjective and complex judgments.

Table of Contents

Allowance for doubtful accounts – This reserve is for accounts receivable balances that are potentially uncollectible. The reserve is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. The analysis includes the aging of accounts receivable, the financial condition of a customer or industry, and general economic conditions. Historically, results have reflected the reserves previously recorded. We believe the results could be materially different if historical trends do not reflect actual results or if economic conditions worsen for our customers.

Inventory reserve – This reserve is for potentially obsolete inventory and shrinkage. The reserve is based on an analysis of inventory trends. The analysis includes inventory levels, sales information, physical inventory counts, cycle count adjustments, and the on-hand quantities relative to the sales history for the product. Historically, results have reflected the reserves previously recorded. We believe the results could be materially different if historical trends do not reflect actual results.

Health insurance reserve – This reserve is for incurred but not reported and reported and unpaid health claims. The reserve is based on an analysis of external data related to our historical claim reporting trends. Historically, results have reflected the reserves previously recorded. We believe the results could be materially different if historical trends do not reflect actual results.

General insurance reserve – This reserve is for general claims related to workers' compensation, property and casualty losses, and other self-insured losses. The reserve is based on an analysis of external data related to our historical general claim trends. Historically, results have reflected the reserves previously recorded. We believe the results could be materially different if historical trends do not reflect actual results.

Tax strategies – Our effective income tax rate is based on income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish income tax reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions if challenged may or may not result in us prevailing. If we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the largest amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and tax liabilities. We re-evaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or reverse a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective income tax rate in future periods.

Legal reserves – Occasionally we are involved in legal matters. The outcomes of these legal matters are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages that could require significant expenditures. We record a liability for these legal matters when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. Although we believe we have adequately provided for probable losses from litigation, the ultimate outcome of litigation could be materially different from reserves recorded.



Table of Contents

New Accounting Pronouncements

A description of new accounting pronouncements is contained in Note 13 of the 'Notes to Consolidated Financial Statements'. The description of the new accounting pronouncements in Note 13 is incorporated herein by reference.

Proposed Accounting Pronouncements

A description of proposed accounting pronouncements is contained in Note 13 of the 'Notes to Consolidated Financial Statements'. The description of the proposed accounting pronouncements in Note 13 is incorporated herein by reference.

Geographic Information

Information regarding our revenues and long-lived assets by geographic area is contained in Note 8 of the 'Notes to Consolidated Financial Statements'. Risks related to our foreign operations are described earlier in this Form 10-K under the heading 'Certain Risks and Uncertainties' and 'Item 1A. Risk Factors'.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to certain market risks from changes in foreign currency exchange rates and commodity pricing. Changes in these factors cause fluctuations in our earnings and cash flows. We evaluate and manage exposure to these market risks as follows:

(1) Foreign Currency Exchange Rates – Foreign currency fluctuations can affect our net investments and earnings denominated in foreign currencies. Our primary exchange rate exposure is with the Canadian dollar against the United States dollar. Our estimated net earnings exposure for foreign currency exchange rates was not material at year end.

(2) Commodity Steel Pricing – We buy and sell various types of steel products; these products consist primarily of different types of threaded fasteners. During the last decade, there has been nominal movement in overall steel pricing, with some deflation occurring in the wake of the economic crisis of the Far East markets that occurred in the late 1990's. This trend reversed to inflation in the period from late 2003 to the early part of 2005 and again from mid 2007 to the fall of 2008. In the first half of 2009, we noted meaningful deflation. In 2010, we noted minimal price changes except for stainless steel which did inflate. Stainless steel products represent approximately 5% of our business. In 2011 and 2012, we noted nominal price increases. We are exposed to the impacts of commodity steel pricing and our related ability to pass through the impacts to our end customers.

(3) Commodity Energy Prices – We have market risk for changes in gasoline, diesel fuel, natural gas, and electricity; however, this risk is mitigated in part by our ability to pass freight costs to our customers, the efficiency of our trucking distribution network, and the ability, over time, to manage our occupancy costs related to the heating and cooling of our facilities through better efficiency.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Fastenal Company:

We have audited the accompanying consolidated balance sheets of Fastenal Company and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the table of contents at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Fastenal Company's management is responsible for these consolidated financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fastenal Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Furthermore, in our opinion, Fastenal Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring

Organizations of the Treadway Commission.

/s/ KPMG LLP  
Minneapolis, Minnesota  
February 7, 2013

42

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Table of Contents

## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Balance Sheets

(Amounts in thousands except share information)

	December 31	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$79,611	117,676
Marketable securities	354	27,165
Trade accounts receivable, net of allowance for doubtful accounts of \$6,728 and \$5,647, respectively	372,159	338,594
Inventories	715,383	646,152
Deferred income tax assets	14,420	16,718
Other current assets	97,361	89,833
Prepaid income taxes	7,368	—
Total current assets	1,286,656	1,236,138
Property and equipment, less accumulated depreciation	516,427	435,601
Other assets, net	12,749	13,209
Total assets	\$1,815,832	1,684,948
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$78,019	73,779
Accrued expenses	126,155	111,962
Income taxes payable	—	2,077
Total current liabilities	204,174	187,818
Deferred income tax liabilities	51,298	38,154
Commitments and contingencies (notes 5, 9, and 10)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized	—	—
Common stock, 400,000,000 shares authorized, 296,564,382 and 295,258,674 shares issued and outstanding, respectively	2,966	2,953
Additional paid-in capital	61,436	16,856
Retained earnings	1,477,601	1,424,371
Accumulated other comprehensive income	18,357	14,796
Total stockholders' equity	1,560,360	1,458,976
Total liabilities and stockholders' equity	\$1,815,832	1,684,948
See accompanying notes to consolidated financial statements		

Table of Contents

## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Earnings

(Amounts in thousands except earnings per share)

For the year ended December 31,

	2012	2011	2010
Net sales	\$3,133,577	2,766,859	2,269,471
Cost of sales	1,519,053	1,332,687	1,094,635
Gross profit	1,614,524	1,434,172	1,174,836
Operating and administrative expenses	941,236	859,369	745,112
(Gain) Loss on sale of property and equipment	(403	) 194	35
Operating income	673,691	574,609	429,689
Interest income	464	472	951
Earnings before income taxes	674,155	575,081	430,640
Income tax expense	253,619	217,152	165,284
Net earnings	\$420,536	357,929	265,356
Basic net earnings per share	\$1.42	1.21	0.90
Diluted net earnings per share	\$1.42	1.21	0.90
Basic weighted average shares outstanding	296,089	295,054	294,861
Diluted weighted average shares outstanding	297,151	295,869	294,861
See accompanying notes to consolidated financial statements			

Table of Contents

## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

(Amounts in thousands)

For the year ended December 31,

	2012	2011	2010
Net earnings	\$420,536	357,929	265,356
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments (net of tax of \$0 in 2012, 2011, and 2010)	3,522	(3,791)	) 5,062
Change in marketable securities (net of tax of \$0 in 2012, 2011, and 2010)	39	95	35
Comprehensive income	\$424,097	354,233	270,453
See accompanying notes to consolidated financial statements			

Table of Contents

## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Stockholders' Equity

(Amounts in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2009	294,861	\$2,948	(1,141 )	1,175,641	13,395	1,190,843
Dividends paid in cash	—	—	—	(182,814 )	—	(182,814 )
Stock based compensation	—	—	4,030	—	—	4,030
Net earnings	—	—	—	265,356	—	265,356
Other comprehensive income (loss)	—	—	—	—	5,097	5,097
Balance as of December 31, 2010	294,861	\$2,948	2,889	1,258,183	18,492	1,282,512
Dividends paid in cash	—	—	—	(191,741 )	—	(191,741 )
Stock options exercised	397	5	8,934	—	—	8,939
Stock based compensation	—	—	4,050	—	—	4,050
Excess tax benefits from stock based compensation	—	—	983	—	—	983
Net earnings	—	—	—	357,929	—	357,929
Other comprehensive income (loss)	—	—	—	—	(3,696 )	(3,696 )
Balance as of December 31, 2011	295,258	\$2,953	16,856	1,424,371	14,796	1,458,976
Dividends paid in cash	—	—	—	(367,306 )	—	(367,306 )
Stock options exercised	1,306	13	29,631	—	—	29,644
Stock based compensation	—	—	4,800	—	—	4,800
Excess tax benefits from stock based compensation	—	—	10,149	—	—	10,149
Net earnings	—	—	—	420,536	—	420,536
Other comprehensive income (loss)	—	—	—	—	3,561	3,561
Balance as of December 31, 2012	296,564	\$2,966	61,436	1,477,601	18,357	1,560,360

See accompanying notes to consolidated financial statements



Table of Contents

## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Amounts in thousands)

For the year ended December 31,

	2012	2011	2010
Cash flows from operating activities:			
Net earnings	\$420,536	357,929	265,356
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation of property and equipment	53,459	44,113	40,688
(Gain) Loss on sale of property and equipment	(403)	) 194	35
Bad debt expense	9,726	9,217	8,658
Deferred income taxes	15,442	15,747	1,602
Stock based compensation	4,800	4,050	4,030
Excess tax benefits from stock based compensation	(10,149)	) —	—
Amortization of non-compete agreements	593	593	67
Changes in operating assets and liabilities:			
Trade accounts receivable	(43,291)	) (77,678)	) (64,622)
Inventories	(69,231)	) (88,783)	) (48,964)
Other current assets	(7,528)	) (19,294)	) (24,577)
Accounts payable	4,240	13,305	6,984
Accrued expenses	14,193	15,550	30,393
Income taxes	704	(3,222)	) 16,956
Other	3,201	(3,232)	) 3,882
Net cash provided by operating activities	396,292	268,489	240,488
Cash flows from investing activities:			
Purchase of property and equipment	(138,406)	) (120,043)	) (73,597)
Proceeds from sale of property and equipment	4,524	3,554	4,459
Net decrease (increase) in marketable securities	26,811	4,054	(581)
Increase (decrease) in other assets	(133)	) 212	(10,329)
Net cash used in investing activities	(107,204)	) (112,223)	) (80,048)
Cash flows from financing activities:			
Proceeds from exercise of stock options	29,644	8,939	—
Excess tax benefits from stock based compensation	10,149	983	—
Payment of dividends	(367,306)	) (191,741)	) (182,814)
Net cash used in financing activities	(327,513)	) (181,819)	) (182,814)
Effect of exchange rate changes on cash	360	(464)	) 1,215
Net decrease in cash and cash equivalents	(38,065)	) (26,017)	) (21,159)
Cash and cash equivalents at beginning of year	117,676	143,693	164,852
Cash and cash equivalents at end of year	\$79,611	117,676	143,693
Supplemental disclosure of cash flow information:			
Cash paid during each year for income taxes	\$268,357	205,614	146,726
See accompanying notes to consolidated financial statements			

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Business Overview and Summary of Significant Accounting Policies

Business Overview

Fastenal is a leader in the wholesale distribution of industrial and construction supplies operating stores primarily located in North America. On December 31, 2012, we operated approximately 2,700 company-owned or leased store locations.

Principles of Consolidation

The consolidated financial statements include the accounts of Fastenal Company and its wholly-owned subsidiaries (collectively referred to as 'Fastenal' or by such terms as 'we', 'our', or 'us'). All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition and Accounts Receivable

Net sales include products, services, and freight and handling costs billed, net of any related sales incentives paid to customers and net of an estimate for product returns. We recognize revenue when persuasive evidence of an arrangement exists, title and risk of ownership have passed, the sales price is fixed or determinable, and collectibility is probable. These criteria are met at the time the product is shipped to, or picked up by, the customer. We recognize billings for freight and handling charges at the time the products are shipped to, or picked up by, the customer. We recognize services at the time the service is provided to the customer. We estimate product returns based on historical return rates. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales in the accompanying consolidated statements of earnings.

Foreign Currency Translation and Transactions

The functional currency of our foreign operations is the applicable local currency. The functional currency is translated into United States dollars for balance sheet accounts (with the exception of retained earnings) using current exchange rates as of the balance sheet date, for retained earnings at historical exchange rates, and for revenue and expense accounts using a weighted average exchange rate during the period. The translation adjustments are deferred as a separate component of stockholders' equity captioned accumulated other comprehensive income. Gains or losses resulting from transactions denominated in foreign currencies are included in operating and administrative expenses in the consolidated statements of earnings.

Cash and Cash Equivalents

Cash and cash equivalents are held primarily at two financial institutions. For purposes of the consolidated statements of cash flows, we consider all highly-liquid money market instruments purchased with original maturities of three months or less to be cash equivalents.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Financial Instruments and Marketable Securities

All financial instruments are carried at amounts that approximate estimated fair value. The fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. Assets measured at fair value are categorized based upon the lowest level of significant input to the valuations. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. In determining fair value we use observable market data when available. Marketable securities as of December 31, 2012 and 2011 consist of common stock and debt securities. We classify our marketable securities as available-for-sale. Available-for-sale securities are recorded at fair value based on current market value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings but are included in comprehensive income and are reported as a separate component of stockholders' equity until realized, unless a decline in the market value of any available-for-sale security is below cost then the amount is deemed other than temporary and is charged to earnings, resulting in the establishment of a new cost basis for the security.

Inventories

Inventories, consisting of finished goods merchandise held for resale, are stated at the lower of cost (first in, first out method) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation on buildings and equipment is provided for using the straight-line method over the anticipated economic useful lives of the related property. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by the asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There were no impairments recorded during any of the three years reported in these consolidated financial statements.

Leases

We lease space under operating leases for several distribution centers, several manufacturing locations, and certain store locations with initial terms of one to 60 months. Most store locations have initial lease terms of 36 to 48 months. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Any such terms are recognized as rent expense over the term of the lease. Further, the leases do not contain contingent rent provisions. Leasehold improvements on operating leases are amortized over a 36-month period. We lease certain semi-tractors and pick-ups under operating leases. The semi-tractor leases typically have a 36-month term. The pick-up leases typically have a non-cancellable lease term of one year, with renewal options for up to 72-months.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Other Long-Lived Assets

Other assets consist of prepaid security deposits, goodwill, non-compete agreements, and other related intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is reviewed for impairment annually. The non-compete and related intangible assets are amortized on a straight-line basis over their estimated life.

Goodwill and other identifiable intangible long-lived assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or on an annual basis if no event or change occurs, to determine that the unamortized balances are recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset, and, in the case of goodwill, by also looking at an adverse change in legal factors or the business climate, a transition to a new product or services strategy, a significant change in the customer base, and/or a realization of failed marketing efforts. If the asset is deemed to be impaired, the amount of impairment is charged to earnings as a part of operating and administrative expenses in the current period. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Insurance Reserves

We are self-insured for certain losses relating to medical, dental, workers' compensation, and other casualty losses. Specific stop loss coverage is provided for catastrophic claims in order to limit exposure to significant claims. Losses and claims are charged to operations when it is probable a loss has been incurred and the amount can be reasonably estimated. Accrued insurance liabilities are based on claims filed and estimates of claims incurred but not reported.

Product Warranties

We offer a basic limited warranty for certain of our products. The specific terms and conditions of those warranties vary depending upon the product sold. We typically recoup these costs through product warranties we hold with the original equipment manufacturers. Our warranty expense has historically been minimal.

Stockholders' Equity and Stock-Based Compensation

We have a stock option employee compensation plan ('stock option plan'). The options granted under our stock option plan vest and become exercisable over a period of up to eight years. Each option will terminate, to the extent not previously exercised, 13 months after the end of the relevant vesting period. Compensation expense equal to the grant date fair value is recognized for these awards over the vesting period.

Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

Earnings Per Share

Basic net earnings per share is calculated using net earnings available to common stockholders divided by the weighted average number of shares of common stock outstanding during the year. Diluted net earnings per share is similar to basic net earnings per share except that the weighted average number of shares of common stock outstanding includes the incremental shares assumed to be issued upon the exercise of stock options considered to be 'in-the-money' (i.e. when the market price of our stock is greater than the exercise price of our outstanding stock options).

Segment Reporting

We have determined that we meet the aggregation criteria outlined in the accounting standards as our various operations have similar (1) economic characteristics, (2) products and services, (3) customers, (4) distribution channels, and (5) regulatory environments. Therefore, we report as a single business segment.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 2. Financial Instruments and Marketable Securities

We follow a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, included in Level 1 that are observable either directly or indirectly.

• Level 3 inputs are unobservable for the asset or liability, but are based upon our own assumptions used to measure assets and liabilities at fair value.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis:

December 31, 2012:	Total	Level 1	Level 2	Level 3
Common stock	\$354	354	—	—
Total available-for-sale securities	\$354	354	—	—
December 31, 2011:	Total	Level 1	Level 2	Level 3
Common stock	\$320	320	—	—
Government and agency securities	26,845	26,845	—	—
Total available-for-sale securities	\$27,165	27,165	—	—

There were no transfers between levels during 2012 and 2011.

As of December 31, 2012, our financial assets that are measured at fair value on a recurring basis include only common stock.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Marketable securities, all treated as available-for-sale securities, consist of the following:

December 31, 2012:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Common stock	\$ 197	157	—	354
Total available-for-sale securities	\$ 197	157	—	354

December 31, 2011:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Common stock	\$ 197	123	—	320
Government and agency securities	26,851	—	(6	) 26,845
Total available-for-sale securities	\$ 27,048	123	(6	) 27,165

The unrealized gains and losses recorded in accumulated other comprehensive income and the realized gains and losses recorded in earnings were immaterial during the three years reported in these consolidated financial statements. Future maturities of our available-for-sale securities consist of the following:

December 31, 2012:	Less than 12 months		Greater than 12 months	
	Amortized cost	Fair value	Amortized cost	Fair value
Common stock	\$ 197	354	—	—
Total available-for-sale securities	\$ 197	354	—	—

## Note 3. Long-Lived Assets

Property and equipment

Property and equipment at year end consists of the following:

	Depreciable life in years	2012	2011
Land	—	\$ 31,831	31,350
Buildings and improvements	15 to 40	200,439	172,372
Automated storage and retrieval equipment	5 to 30	69,404	61,371
Equipment and shelving	3 to 10	398,240	339,471
Transportation equipment	3 to 5	52,093	49,074
Construction in progress	—	88,071	71,466
		840,078	725,104
Less accumulated depreciation		(323,651	) (289,503
Net property and equipment		\$ 516,427	435,601

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 4. Accrued Expenses

Accrued expenses at year end consist of the following:

	2012	2011
Payroll and related taxes	\$19,614	16,808
Bonuses and commissions	14,159	16,233
Profit sharing contribution	11,110	7,717
Insurance	25,188	30,548
Promotions	13,581	10,866
Sales, real estate, and personal property taxes	38,562	26,676
Vehicle loss reserve and deferred rebates	200	743
Legal reserves	531	100
Other	3,210	2,271
	\$126,155	111,962

## Note 5. Stockholders' Equity

Our authorized, issued, and, outstanding shares (stated in whole numbers) at year end consist of the following:

	Par Value	2012	2011
Preferred Stock	.01/share		
Authorized		5,000,000	5,000,000
Shares issued and outstanding		—	—
Common Stock	.01/share		
Authorized		400,000,000	400,000,000
Shares issued and outstanding		296,564,382	295,258,674

## Dividends

On January 16, 2013, our board of directors declared a quarterly dividend of \$0.10 per share of common stock to be paid in cash on March 1, 2013 to shareholders of record at the close of business on February 1, 2013. We paid aggregate annual dividends per share of \$1.24, \$0.65, and \$0.62 in 2012, 2011, and 2010, respectively.

## Stock Options

The following tables summarize the details of grants made under our stock option plan that are still outstanding, and the assumptions used to value these grants. All options granted were effective at the close of business on the date of grant.

Date of grant	Options granted	Option exercise (strike) price	Closing stock price on date of grant	December 31, 2012	
				Options outstanding	Options vested
April 17, 2012	1,235,000	\$ 54.00	\$49.01	1,177,500	—
April 19, 2011	410,000	\$ 35.00	\$31.78	380,000	—
April 20, 2010	530,000	\$ 30.00	\$27.13	380,000	—
April 21, 2009	790,000	\$ 27.00	\$17.61	540,000	—
April 15, 2008	550,000	\$ 27.00	\$24.35	286,167	116,167
April 17, 2007	4,380,000	\$ 22.50	\$20.15	2,072,125	1,052,625
Total	7,895,000			4,835,792	1,168,792





Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Date of grant	Risk-free interest rate	Expected life of option in years	Expected dividend yield	Expected stock volatility	Estimated fair value of stock option
April 17, 2012	0.9	% 5.00	1.4	% 39.25	% \$13.69
April 19, 2011	2.1	% 5.00	1.6	% 39.33	% \$11.20
April 20, 2010	2.6	% 5.00	1.5	% 39.10	% \$8.14
April 21, 2009	1.9	% 5.00	1.0	% 38.80	% \$3.64
April 15, 2008	2.7	% 5.00	1.0	% 30.93	% \$7.75
April 17, 2007	4.6	% 4.85	1.0	% 31.59	% \$5.63

All of the options in the tables above vest and become exercisable over a period of up to eight years. Each option will terminate, to the extent not previously exercised, 13 months after the end of the relevant vesting period.

The fair value of each share-based option was estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions listed above. The expected life is the average length of time over which we expect the employee groups will exercise their options, which is based on historical experience with similar grants. Expected volatilities are based on the movement of our stock over the most recent historical period equivalent to the expected life of the option. The risk-free interest rate is based on the U.S. Treasury rate over the expected life at the time of grant. The dividend yield is estimated over the expected life based on our current dividend payout, historical dividends paid, and expected future cash dividends.

A summary of the activity under our stock option plan is as follows:

	Options outstanding	Exercise Price <sup>1</sup>	Remaining Life <sup>2</sup>
Outstanding as of January 1, 2012	5,132,750	\$24.92	4.72
Granted	1,235,000	\$54.00	8.41
Exercised/earned	(1,305,708 )	\$22.70	
Cancelled/forfeited	(226,250 )	\$34.12	
Outstanding as of December 31, 2012	4,835,792	\$32.51	5.40
Exercisable as of December 31, 2012	1,168,792	\$22.95	3.45
	Options outstanding	Exercise Price <sup>1</sup>	Remaining Life <sup>2</sup>
Outstanding as of January 1, 2011	5,320,000	\$24.03	5.50
Granted	410,000	\$35.00	7.93
Exercised/earned	(397,250 )	22.50	
Cancelled/forfeited	(200,000 )	\$26.78	
Outstanding as of December 31, 2011	5,132,750	\$24.92	4.72
Exercisable as of December 31, 2011	1,852,750	\$22.50	3.16

<sup>1</sup> Weighted-average exercise price

<sup>2</sup> Weighted-average remaining contractual life in years

The total intrinsic value of stock options exercised during the years ended December 31, 2012, 2011, and 2010 was \$34,424, \$4,977, and \$0, respectively. The intrinsic value represents the difference between the exercise price and fair value of the underlying shares at a specified date.

At December 31, 2012, there was \$20,131 of total unrecognized compensation cost related to unvested stock options granted under the plan. The cost is expected to be recognized over a weighted average period of 4.69 years. The total fair value of shares vested under our stock option plan during 2012, 2011, and 2010 was \$3,866, \$9,168, and \$1,125, respectively.

Total stock-based compensation expense related to our stock option plan was \$4,800, \$4,050, and \$4,030 for 2012, 2011, and 2010, respectively.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Earnings Per Share

The following tables present a reconciliation of the denominators used in the computation of basic and diluted earnings per share and a summary of the options to purchase shares of common stock which were excluded from the diluted earnings calculation because they were anti-dilutive:

Reconciliation	2012	2011	2010
Basic-weighted average shares outstanding	296,089,348	295,053,790	294,861,424
Weighted shares assumed upon exercise of stock options	1,061,602	814,936	—
Diluted-weighted average shares outstanding	297,150,950	295,868,726	294,861,424

Summary of anti-dilutive options excluded	2012	2011	2010
Options to purchase shares of common stock	847,254	704,384	5,328,246
Weighted-average exercise prices of options	\$54.00	32.05	23.94

Any dilutive impact summarized above would relate to periods when the average market price of our stock exceeded the exercise price of the potentially dilutive option securities then outstanding.

## Note 6. Retirement Savings Plan

The Fastenal Company and Subsidiaries 401(k) and Employee Stock Ownership Plan covers all of our employees in the United States. Our employees in Canada may participate in a Registered Retirement Savings Plan. The general purpose of both of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. In addition to the contributions of our employees, we make a profit sharing contribution on an annual basis based on an established formula. Our contribution under this profit sharing formula was approximately \$11,110, \$7,717 and \$5,005 for 2012, 2011, and 2010, respectively.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 7. Income Taxes

Earnings before income taxes were derived from the following sources:

	2012	2011	2010
Domestic	\$649,098	545,527	409,068
Foreign	25,057	29,554	21,572
	\$674,155	575,081	430,640

Components of income tax expense (benefit) are as follows:

2012 :	Current	Deferred	Total
Federal	\$202,095	14,742	216,837
State	27,586	981	28,567
Foreign	8,476	(261)	) 8,215
	\$238,157	15,462	253,619
2011 :	Current	Deferred	Total
Federal	\$164,125	17,343	181,468
State	28,669	(244)	) 28,425
Foreign	8,683	(1,424)	) 7,259
	\$201,477	15,675	217,152
2010 :	Current	Deferred	Total
Federal	\$136,247	(936)	) 135,311
State	22,914	(492)	) 22,422
Foreign	4,448	3,103	7,551
	\$163,609	1,675	165,284

Income tax expense in the accompanying consolidated financial statements differs from the expected expense as follows:

	2012	2011	2010
Federal income tax expense at the 'expected' rate of 35%	\$235,954	201,278	150,724
Increase (decrease) attributed to:			
State income taxes, net of federal benefit	19,565	18,210	14,259
State tax matters	884	737	1,238
Other, net	(2,784)	) (3,073)	) (937)
Total income tax expense	\$253,619	217,152	165,284

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at year end are as follows:

	2012	2011
Deferred income tax asset (liability):		
Inventory costing and valuation methods	\$4,045	4,643
Allowance for doubtful accounts receivable	2,618	2,202
Insurance claims payable	7,825	10,807
Promotions payable	945	797
Accrued legal reserves	207	39
Stock based compensation	4,715	5,853
Federal and state benefit of uncertain tax positions	1,871	1,632
Other, net	267	920
Total deferred income tax assets	22,493	26,893
Property and equipment	(59,371	) (48,329
Total deferred income tax liabilities	(59,371	) (48,329
Net deferred income tax asset (liability)	\$(36,878	) (21,436

No significant valuation allowance for deferred tax assets was necessary as of December 31, 2012 and 2011. The character of the deferred tax assets is such that they can typically be realized through carryback to prior tax periods or offset against future taxable income.

A reconciliation of the beginning and ending amount of total gross unrecognized tax benefits is as follows:

	2012	2011
Balance at start of year:	\$4,653	3,617
Increase related to prior year tax positions	172	578
Decrease related to prior year tax positions	(1,025	) (65
Increase related to current year tax positions	2,170	523
Decrease related to statute of limitation lapses	—	—
Settlements	(639	) —
Balance at end of year:	\$5,331	4,653

Included in the liability for unrecognized tax benefits is an immaterial amount for interest and penalties, both of which we classify as a component of income tax expense. The amount of unrecognized tax benefits that would favorably impact the effective tax rate, if recognized, is not material.

Fastenal Company or one of its subsidiaries files income tax returns in the United States federal jurisdiction, all states, and various foreign jurisdictions. With limited exceptions, we are no longer subject to income tax examinations by taxing authorities for taxable years before 2009 in the case of United States federal and non-United States examinations and 2008 in the case of state and local examinations.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 8. Geographic Information

Our revenues and long-lived assets relate to the following geographic areas:

Revenues	2012	2011	2010
United States	\$2,798,124	2,474,805	2,067,860
Canada	218,570	198,592	145,078
Other foreign countries	116,883	93,462	56,533
	\$3,133,577	2,766,859	2,269,471
Long-Lived Assets	2012	2011	2010
United States	\$495,609	426,329	361,083
Canada	15,954	11,105	9,536
Other foreign countries	17,613	11,376	6,814
	\$529,176	448,810	377,433

The accounting policies of the operations in the various geographic areas are the same as those described in the summary of significant accounting policies. Long-lived assets consist of property and equipment, location security deposits, goodwill, and other intangibles. Revenues are attributed to countries based on the location of the store from which the sale occurred. No single customer represents 10% or more of our consolidated net sales.

## Note 9. Operating Leases

We lease space under non-cancelable operating leases for several distribution centers, several manufacturing locations, and certain store locations with initial terms of one to 60 months. Most store locations have initial lease terms of 36 to 48 months. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Any such terms are recognized as rent expense over the term of the lease. Further, the leases do not contain contingent rent provisions. Leasehold improvements, with a net book value of \$2,180 at December 31, 2012, on operating leases are amortized over a 36-month period. We lease certain semi-tractors and pick-ups under operating leases. The semi-tractor leases typically have a 36-month term. The pick-up leases typically have a non-cancellable lease term of approximately one year, with renewal options for up to 72-months. Our average lease term for pick-ups is typically for 28 to 36 months. Future minimum annual rentals for the leased facilities and the leased vehicles are as follows:

	Leased facilities	Leased vehicles	Total
2013	\$87,942	18,962	106,904
2014	64,092	10,017	74,109
2015	42,993	4,473	47,466
2016	23,343	—	23,343
2017	7,603	—	7,603
2018 and thereafter	—	—	—
	\$225,973	33,452	259,425

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Rent expense under all operating leases was as follows:

	Leased facilities	Leased vehicles	Total
2012	\$96,540	29,039	125,579
2011	\$95,808	23,866	119,674
2010	\$92,854	21,540	114,394

Certain operating leases for vehicles contain residual value guarantee provisions which would generally become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. The aggregate residual value guarantee related to these leases is approximately \$43,654. We believe the likelihood of funding the guarantee obligation under any provision of the operating lease agreements is remote, except for a \$200 loss on disposal reserve provided at December 31, 2012. Our fleet also contains vehicles we estimate will settle at a gain. Gains on these vehicles will be recognized when we sell or dispose of the vehicle or at the end of the lease term.

## Note 10. Commitments and Contingencies

## Credit Facilities and Commitments

In December 2012, we entered into a new \$125 million unsecured revolving credit facility. The facility includes a \$40 million letter of credit subfacility. The facility will expire, and any outstanding loans under the facility will mature on December 13, 2015. At year end there was one letter of credit outstanding under the facility, with an undrawn balance of \$29,250. No loans were outstanding under the facility at year end.

Loans under the facility, other than swing line loans, bear interest at a rate per annum equal to, at our election, either (i) LIBOR for an interest period of one month, reset daily, plus 0.875%, or (ii) LIBOR for an interest period of one, two, three, six or twelve months as selected by us, reset at the end of the selected interest period, plus 0.875%. Swing line loans bear interest at a rate per annum equal to LIBOR for an interest period of one month, reset daily, plus 0.875%. We pay a commitment fee for the unused portion of the facility of 0.10% per annum, if the average quarterly utilization of the facility is 20% or more, or 0.125% per annum, if the average quarterly utilization of the facility is less than 20%. For each letter of credit issued under the facility, we pay a commission fee on the amount available to be drawn under such letter of credit equal to 0.875% per annum and, subject to certain exceptions, an issuance fee equal to 0.075% of the face amount of such letter of credit.

During 2001, we completed the construction of a new building for our Kansas City warehouse, and completed an expansion of this warehouse in 2004. We were required to obtain financing for the construction and expansion of this facility under an Industrial Revenue Bond ('IRB'). We subsequently purchased 100% of the outstanding bonds under the IRB at par. In addition to purchasing the outstanding obligations, we have a right of offset included in the IRB debt agreement. Accordingly, we have netted the impact of the IRB in the accompanying consolidated financial statements. The outstanding balance of the IRB was approximately \$3,200 and \$9,733 at December 31, 2012 and 2011, respectively.

## Legal Contingencies

We are involved in certain legal actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, that could require significant expenditures or result in lost revenues. We record a liability for these legal actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. As of December 31, 2012, there were no material litigation matters



that we consider to be probable or reasonably estimable.

60

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Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 11. Sales by Product Line

The percentages of our net sales by product line are as follows:

Type	Introduced	2012	2011	2010
Fasteners <sup>1</sup>	1967	44.0%	46.9%	49.1%
Tools	1993	9.3%	9.4%	9.3%
Cutting tools	1996	5.1%	4.6%	4.4%
Hydraulics & pneumatics	1996	7.6%	7.8%	7.2%
Material handling	1996	6.0%	6.1%	6.1%
Janitorial supplies	1996	6.6%	6.2%	6.1%
Electrical supplies	1997	4.7%	4.7%	4.6%
Welding supplies	1997	4.3%	3.9%	3.6%
Safety supplies	1999	9.3%	7.9%	7.0%
Metals	2001	0.5%	0.5%	0.5%
Direct ship <sup>2</sup>	2004	1.6%	1.6%	1.6%
Office supplies	2010	0.1%	0.1%	0.1%
Other		0.9%	0.3%	0.4%
		100.0%	100.0%	100.0%

<sup>1</sup> Fastener product line represents fasteners and miscellaneous supplies.

Direct ship represents a cross section of products from the eleven product lines. The items included here represent

<sup>2</sup> certain items with historically low margins which are shipped directly from our distribution channel to our customers, bypassing our store network.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Note 12. Subsequent Events

We evaluated all subsequent event activity and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, with the exception of the dividend disclosed in note 5.

Note 13. New and Proposed Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ('FASB') issued Accounting Standards Update ('ASU') No. 2011-06, Comprehensive Income (Topic 820). This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of equity and requires that the total of comprehensive income, the components of net income, and the components of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also requires presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This accounting standard update was effective beginning in our first quarter of fiscal 2012. The adoption of this accounting standard did not have an impact on our financial statements other than the presentation of the required information.

In August 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment (and in February 2012 provided additional information with the issuance of ASU No. 2012-02). These updates approved a revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We adopted these accounting standard updates in the quarters they were issued. The adoption of these accounting standard updates did not have a material impact on our financial statements.

Proposed Accounting Pronouncements

In recent exposure drafts, the International Accounting Standards Board and the FASB proposed a new approach to the accounting for leases. From a lessee's perspective, the exposure drafts propose to abolish the distinction between operating and finance/capital leases. In its place, a right-of-use model would be used. This proposal, as currently written, would require the lessee to recognize an asset for its right to use the underlying leased asset and a liability for its obligation to make lease payments. This would lead to an increase in assets and liabilities for leases currently classified as operating leases and could also lead to a change in timing as to when the expense is recognized. This exposure draft is not yet finalized; however, we believe knowledge of this information is useful to the reader of our financial statements as many of our store locations and many of our vehicles are currently leased, and those leases are accounted for as operating leases.

Table of Contents

Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Note 14. Selected Quarterly Financial Data (Unaudited)  
(Amounts in thousands except per share information)

2012 :	Net sales	Gross profit	Pre-tax earnings	Net earnings	Basic net earnings per share <sup>1</sup>
First quarter	\$768,875	394,177	161,129	100,194	0.34
Second quarter	804,890	415,151	179,039	112,306	0.38
Third quarter	802,577	414,375	175,836	109,320	0.37
Fourth quarter	757,235	390,821	158,151	98,716	0.33
Total	\$3,133,577	1,614,524	674,155	420,536	1.42

  

2011 :	Net sales	Gross profit	Pre-tax earnings	Net earnings	Basic net earnings per share <sup>1</sup>
First quarter	\$640,583	333,380	128,811	79,547	0.27
Second quarter	701,730	366,233	150,182	94,112	0.32
Third quarter	726,742	377,381	155,319	96,798	0.33
Fourth quarter	697,804	357,178	140,769	87,472	0.30
Total	\$2,766,859	1,434,172	575,081	357,929	1.21

<sup>1</sup> Note – Amounts may not foot due to rounding difference.

\*\*\*End of Notes to Consolidated Financial Statements\*\*\*

ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

## Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the ‘Securities Exchange Act’)). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure.

Table of Contents

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this item is contained earlier in this Form 10-K under the heading 'Item 8, Financial Statements and Supplementary Data'.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;  
provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (ii) statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2012. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Willard D. Oberton  
Willard D. Oberton  
Chief Executive Officer

/s/ Daniel L. Florness  
Daniel L. Florness  
Executive Vice-President and Chief Financial Officer

Winona, MN  
February 7, 2013

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Incorporated herein by reference is the information appearing under the headings 'Proposal #1 — Election of Directors', 'Corporate Governance and Director Compensation—Board Leadership Structure and Committee Membership', 'Corporate Governance and Director Compensation—Audit Committee', and 'Corporate Governance and Director Compensation—Section 16(a) Beneficial Ownership Reporting Compliance' in the Proxy Statement. See also Part I hereof under the heading 'Item X. Executive Officers of the Registrant'.

There were no material changes to the procedures by which security holders may recommend nominees to the board of directors since our last report, except that those recommendations should now be directed to our nominating committee in lieu of our board of directors in the manner described in the Proxy Statement under the heading 'Corporate Governance and Director Compensation—Nominating Committee'.

In January 2004, our board of directors adopted a supplement to our existing standards of conduct designed to qualify the standards of conduct as a code of ethics within the meaning of Item 406(b) of Regulation S-K promulgated by the SEC ('Code of Ethics'). The standards of conduct, as supplemented, apply to all of our directors, officers, and employees, including without limitation our chief executive officer, chief financial officer, principal accounting officer, and controller (if any), and persons performing similar functions ('Senior Financial Officers'). Those portions of the standards of conduct, as supplemented, that constitute a required element of a Code of Ethics are available without charge by submitting a request to us pursuant to the directions detailed on our website at [www.fastenal.com](http://www.fastenal.com). In the event we amend or waive any portion of the standards of conduct, as supplemented, that constitutes a required element of a Code of Ethics and such amendment or waiver applies to any of our Senior Financial Officers, we intend to post on our website, within four business days after the date of such amendment or waiver, a brief description of such amendment or waiver, the name of each Senior Financial Officer to whom the amendment or waiver applies, and the date of the amendment or waiver.

ITEM 11. EXECUTIVE  
COMPENSATION

Incorporated herein by reference is the information appearing under the headings 'Corporate Governance and Director Compensation—Compensation Committee Interlocks and Insider Participation', 'Executive Compensation', and 'Corporate Governance and Director Compensation—Compensation of our Directors' in the Proxy Statement.

Table of Contents

**ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS**

Incorporated herein by reference is the information appearing under the heading ‘Security Ownership of Principal Shareholders and Management’ in the Proxy Statement.

**Equity Compensation Plan Information**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	4,835,792	\$32.51	7,323,940
Equity Compensation Plans Not Approved by Security Holders	—	—	—
<b>Total</b>	<b>4,835,792</b>		<b>7,323,940</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated herein by reference is the information appearing under the headings ‘Corporate Governance and Director Compensation—Director Independence and Other Board Matters’, ‘Corporate Governance and Director Compensation—Related Person Transaction Approval Policy’, ‘Corporate Governance and Director Compensation—Transactions with Related Persons’, and ‘Corporate Governance and Director Compensation—Director Nominations Process’ in the Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated herein by reference is the information appearing under the heading ‘Audit and Related Matters—Audit and Related Fees’ and ‘Audit and Related Matters—Pre-Approval of Services’ in the Proxy Statement.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) 1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Earnings for the years ended December 31, 2012, 2011, and 2010

Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011, and 2010

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011, and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

3. Exhibits:

- 3.1 Restated Articles of Incorporation of Fastenal Company, as amended effective as of April 17, 2012 (incorporated by reference to Exhibit 3.1 to Fastenal Company's Form 10-Q for the quarter ended March 31, 2012)
- 3.2 Restated By-Laws of Fastenal Company (incorporated by reference to Exhibit 3.2 to Fastenal Company's Form 8-K dated as of October 15, 2010)
- 10.1 Description of Bonus Arrangements for Executive Officers (incorporated by reference to the information appearing under the heading 'Executive Compensation – Compensation Discussion and Analysis' in the Proxy Statement)\*
- 10.2 Fastenal Company Stock Option Plan (incorporated by reference to Exhibit A to Fastenal Company's Proxy Statement dated February 23, 2007)\*
- 10.3 Fastenal Company Incentive Plan (incorporated by reference to Appendix A to Fastenal Company's Proxy Statement dated February 23, 2012)\*
- 10.4 Credit Agreement dated as of December 13, 2012 among Fastenal Company, the Lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated as of December 19, 2012)
- 13 Portions of 2012 Annual Report to Shareholders not included in this Form 10-K (only those sections specifically incorporated by reference in this Form 10-K shall be deemed filed with the SEC)
- 21 List of Subsidiaries
- 23 Consent of Independent Registered Public Accounting Firm
- 31 Certifications under Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification under Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of



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Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity, and (vi) the Notes to Consolidated Financial Statements.

We will furnish copies of these Exhibits upon request and payment of our reasonable expenses in furnishing the Exhibits.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

67

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Table of Contents

## FASTENAL COMPANY

## Schedule II—Valuation and Qualifying Accounts

Years ended December 31, 2012, 2011, and 2010

(Amounts in thousands)

Description	Balance at beginning of year	“Additions” charged to costs and expenses	“Other” additions (deductions)	“Less” deductions	Balance at end of year
Year ended December 31, 2012					
Allowance for doubtful accounts	\$5,647	9,726	—	8,645	6,728
Insurance reserves	\$30,548	43,024	<sup>1</sup> —	48,384	<sup>2</sup> 25,188
Year ended December 31, 2011					
Allowance for doubtful accounts	\$4,761	9,217	—	8,331	5,647
Insurance reserves	\$28,067	46,287	<sup>1</sup> —	43,806	<sup>2</sup> 30,548
Year ended December 31, 2010					
Allowance for doubtful accounts	\$4,086	8,658	—	7,983	4,761
Insurance reserves	\$23,722	47,848	<sup>1</sup> —	43,503	<sup>2</sup> 28,067

<sup>1</sup> Includes costs and expenses incurred for premiums and claims related to health and general insurance.

<sup>2</sup> Includes costs and expenses paid for premiums and claims related to health and general insurance.

See accompanying Report of Independent Registered Public Accounting Firm incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 7, 2013

FASTENAL COMPANY

By /s/ Willard D. Oberton  
Willard D. Oberton, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 7, 2013

By /s/ Willard D. Oberton  
Willard D. Oberton, Chief Executive Officer  
(Principal Executive Officer) and  
Director

By /s/ Daniel L. Florness  
Daniel L. Florness, Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

By /s/ Robert A. Kierlin  
Robert A. Kierlin, Director (Chairman)

By /s/ Stephen M. Slaggie  
Stephen M. Slaggie, Director

By /s/ Michael M. Gostomski  
Michael M. Gostomski, Director

By /s/ Michael J. Dolan  
Michael J. Dolan, Director

By /s/ Reyne K. Wisecup  
Reyne K. Wisecup, Director

By /s/ Hugh L. Miller  
Hugh L. Miller, Director

By /s/ Michael J. Ancius  
Michael J. Ancius, Director

By /s/ Scott A. Satterlee  
Scott A. Satterlee, Director

By /s/ Rita J. Heise  
Rita J. Heise, Director

By /s/ Darren R. Jackson  
Darren R. Jackson, Director

Table of Contents

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32	Certification under Section 906 of the Sarbanes-Oxley Act of 2002	Electronically Filed
EX 101.INS	XBRL Instance Document	Electronically Filed
EX 101.SCH	XBRL Taxonomy Extension Schema Document	Electronically Filed
EX 101.CAL	XBRL Taxonomy Calculation Linkbase Document	Electronically Filed
EX 101.DEF	XBRL Taxonomy Definition Linkbase Document	Electronically Filed
EX 101.LAB	XBRL Taxonomy Label Linkbase Document	Electronically Filed
EX 101.PRE	XBRL Taxonomy Presentation Linkbase Document	Electronically Filed