FASTENAL CO
Form 10-K
February 09, 2011
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010, 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

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	
Winona, Minnesota	**55987-0978**
(Address of principal executive offices)	**(Zip Code)**

(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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x 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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 x 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. x

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 x	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 x

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2010, the last business day of the registrant s most recently completed second fiscal quarter, was $6,668,887,476, 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 30, 2010 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 4, 2011, the registrant had 147,430,712 shares of Common Stock issued and outstanding.

Table of Contents

FASTENAL COMPANY

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

		Page(s)
	PART I	
Item 1.	Business	3-9
Item 1A.	Risk Factors	10-13
Item 1B.	Unresolved Staff Comments	13
Item 2.	Properties	14-15
Item 3.	Legal Proceedings	15-16
Item 4.	[Removed and Reserved]	16
Item X.	Executive Officers of the Registrant	17-18
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	19-20
Item 6.	Selected Financial Data	20
Item 7.	Management s Discussion & Analysis of Financial Condition & Results of Operations	20-37
Item 7A.	Quantitative and Qualitative Disclosures About Market Risks	38
Item 8.	Financial Statements and Supplementary Data	39-60
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	60
Item 9A.	Controls and Procedures	60-61
Item 9B.	Other Information	61
	PART III	
Item 10.	Directors, Executive Officers, and Corporate Governance	62
Item 11.	Executive Compensation	62
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	63
Item 13.	Certain Relationships and Related Transactions, and Director Independence	63
Item 14.	Principal Accountant Fees and Services	63
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	64-65
	Signatures	66
	Index to Exhibits	67

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the annual meeting of shareholders to be held Tuesday, April 19, 2011 (Proxy Statement) are incorporated by reference in Part III. Portions of our 2010 Annual Report to Shareholders are incorporated by reference in Part II.

FORWARD LOOKING STATEMENTS

This Form 10-K and other portions of our 2010 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 decreases in the rate of new store openings from our historic rate prior to implementation of the strategy, planned additions to our store-based and specialized sales personnel, the expected funding of such additions out of cost savings resulting from the slowing of the rate of new store openings, the growth in average store sales expected to result from that strategy and the expected timeline for achieving that growth, leverage, working capital efficiencies and productivity improvements expected to result from that strategy, and the growth in 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 expected), (2) our expectations regarding sales growth and our confidence in the sustainability of that growth, (3) our belief regarding our ability to improve gross margins in 2011, (4) our expectations about inventory utilization in 2011, (5) our working capital goals and expected returns on total assets when working capital is appropriately managed, (6) our expansion plans, including our estimated 2011 capital expenditures, the expected rate of new store openings, the expected expansion of our foreign operations and the expected opening of new distributions centers as our number of stores increases, and our ability to fund our expansion plans, (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 expectations regarding litigation, and (17) our expectation that there will be a steady migration to internet sales. 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 anticipated 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

Table of Contents

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 customer mix, a change in our purchasing patterns, a significant change in commodity prices, or increased competitive pressure on our selling prices could adversely affect our ability to improve gross margins in 2011, (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, including our ability to improve our inventory utilization in 2011, (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 2011 capital expenditures, (9) a change in 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) 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, (11) changes in our financial condition or results of operations could cause us to modify our dividend practices, (12) 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, (13) 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, (14) 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, (15) 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, (16) 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, (17) 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, (18) our expectations about litigation may be impacted by the disclosure of currently unknown facts and other uncertainties in litigation including the possible expansion of claims brought by the claimants beyond those currently raised, and (19) changes in customer purchasing practices could impact our expectations about sales through our website. 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 .

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.

Table of Contents

PART I

ITEM 1. BUSINESS

Note information in this section is as of year end (December 31, 2010 and also sometimes 2009 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 2,490 store locations at year end. The various geographic areas in which we operate these store locations are summarized later.

Globally, we employed 13,285 people as of year end. We characterize their roles as follows:

Store and in-plant personnel	9,146
Non-store selling personnel	750
Distribution and manufacturing personnel	2,580
Administrative personnel	809
	13,285

We sell industrial and construction supplies in a wholesale and retail fashion. These industrial and construction supplies were 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. 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:

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net sales (in millions)	**$ 2,269.5**	1,930.3	2,340.4	2,061.8	1,809.3	1,523.3	1,238.5	994.9	905.4	818.3
Number of stores at year end	**2,490**	2,369	2,311	2,160	2,000	1,755	1,533	1,314	1,169	1,025

Table of Contents

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

		2010	2009
North America		2,476	2,363
	United States	2,258	2,153
	Puerto Rico & Dominican Republic	9	9
	Canada	176	169
	Mexico	33	32
Central America	Panama	2	0
South America	Brazil - entity established, location planned for 2011	0	0
Asia	China	5	2
Southeast Asia	Singapore & Malaysia	4	2
Europe	The Netherlands, Hungary, & United Kingdom	3	2
Total		2,490	2,369

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 recent economic slowdown, we decreased this range to 2% to 5% in 2009, 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%. We expect to open 150 to 200 stores in 2011, or a rate of approximately 6% to 8% (calculated on the ending number of stores in the previous year).

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 majority of our stores operate as a Fastenal store and stock our standard inventory plus inventory unique to the local market. During the 2002 to 2005 period, this format was referred to as the CSP (or customer service project) format. The CSP project was a significant store re-merchandising project during these years. The first type of selling location a store location, can be further defined as 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.

4

Table of Contents

We opened the following stores in the last five years:

		2010	2009	2008	2007	2006
North America		119	66	161	161	245
	United States	111	62	138	141	210
	Puerto Rico & Dominican Republic	0	1	0	0	0
	Canada	7	2	21	11	25
	Mexico	1	1	2	9	10
Central America	Panama	2	0	0	0	0
South America	Brazil - entity established, location planned for 2011	0	0	0	0	0
Asia	China	3	1	0	0	0
Southeast Asia	Singapore & Malaysia	2	1	0	0	0
Europe	The Netherlands, Hungary, & United Kingdom	1	1	0	0	0
Total		127	69	161	161	245

We plan to open additional stores outside of the United States in the future. The stores located outside the United States contributed approximately 10% of our consolidated net sales in 2010, with approximately 72% 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 29 stores opened in the first quarter of 2010, 14 were profitable in the fourth quarter of 2010.

Table of Contents

The data in the following table shows the change in the average sales of our stores from 2009 to 2010 based on the age of each store. The stores opened in 2010 contributed approximately $22,040 (or approximately 1.0%) of our consolidated net sales in 2010, with the remainder coming from stores opened prior to 2010.

Age of stores on December 31, 2010	Year Opened	Number of stores in group on December 31, 2010	Closed stores[1]	Average Monthly Sales 2009	**Average Monthly Sales 2010**	Percent Change
0-1 year old	2010	127		N/A	**$ 15** [2]	N/A
1-2 years old	2009	69		$ 18 [2]	**64**	N/A
2-3 years old	2008	161		39	**48**	23.1%
3-4 years old	2007	160	3/0	43	**54**	25.6%
4-5 years old	2006	243	2/2	43	**53**	23.3%
5-6 years old	2005	219	0/2	47	**54**	14.9%
6-7 years old	2004	215	1/1	54	**62**	14.8%
7-8 years old	2003	146	0/3	56	**60**	7.1%
8-9 years old	2002	140	0/1	61	**71**	16.4%
9-10 years old	2001	124	1/1	78	**89**	14.1%
10-11 years old	2000	87		72	**82**	13.9%
11-12 years old	1999	44		86	**102**	18.6%
12-16 years old	1995-1998	440		83	**92**	10.8%
16+ years old	1967-1994	315		132	**149**	12.9%

1 We closed seven stores and ten stores and converted one store and one store in 2010 and 2009, respectively. The respective average sales above were calculated assuming the store closed mid year. The number of closed locations is noted in the table above as 2010 number/2009 number.

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

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 2.6 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.

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.

Trademarks and Service Marks

We conduct business under various trademarks and service marks (see table below). 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.

Table of Contents

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, such as paints, various pins and machinery keys, concrete anchors, batteries, sealants, metal framing systems, wire rope, strut, private-label stud anchors, 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 2010, 2009, and 2008 and approximately 45%, 45%, and 46% of our consolidated net sales in 2010, 2009, and 2008, 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	Private label product name[1]
Fasteners	1967	456,000	FNL G9®, Rock River®, Holo-Krome®, PowerPhase, EcoGuard, FNL EcoGuard
Tools	1993	147,000	Rock River®, FMT, EquipRite
Cutting tools	1996	276,000	FMT, Tritan, EquipRite
Hydraulics & pneumatics	1996	86,000	Dynaflo
Material Handling	1996	19,000	EquipRite
Janitorial supplies	1996	17,000	Clean Choice®, EquipRite
Electrical supplies	1997	28,000	PowerPhase
Welding supplies[2]	1997	39,000	Blackstone®
Safety supplies	1999	37,000	Bodyguard
Metals	2001	13,000	Fastenal®
Office supplies	2010	3,000	Aspect

1 In addition, several service marks such as Fastenal®, Profitter®, Blackstone®, and Northway are used in several product categories.
2 We do not sell welding gases.

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

7

Table of Contents

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 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 2010, approximately 94% of our consolidated net sales were attributable to products manufactured by other companies to industry standards. The remaining 6% 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. 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 approximately 1,121,000 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 2010.

Geographic Information

Information regarding our revenues and certain assets by geographic location is set forth in note 8 to 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 construction and manufacturing markets. The construction market includes general, electrical, plumbing, sheet metal, and road contractors. The manufacturing market includes both original equipment manufacturers and maintenance and repair operations. 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 2010, our total number of active customer accounts (defined as accounts having purchase activity within the last 90 days) was approximately 362,000.

During each of the three years ended December 31, 2010, no one customer accounted for a significant portion 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, we make limited use of the more expensive forms of mass media advertising such as television, radio, and newspapers. The forms of advertising we use include signs, catalogs, and direct mailings.

Table of Contents

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 cities in which we have stores. We believe that the principal competitive factors affecting the markets for our products are customer service, price, convenience, and product availability.

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 located distribution centers, makes possible the prompt and efficient distribution of products. Having trained personnel at each store also enhances our ability to compete (see Employees below).

Employees

At year end, we employed a total of 13,285 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 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 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,
- fuel prices and electrical power rates,
- unemployment trends,
- terrorist attacks and acts of war, 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 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.

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.

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 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, in part, 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 expect to open approximately 6% to 8% new stores in 2011, 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 outside sales personnel to existing stores, has not yet proven successful on a long-term basis.

In April 2007, we introduced our pathway to profit strategy. This strategy 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 outside 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 temporarily 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 have 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 cited above. We now believe the pre-tax earnings goal might be accomplished with average store sales as low as $100 to $110 thousand per month. This could shorten the extended time line. However, we cannot assure this will occur. A more prolonged downturn in the economy than expected, the prospect of future economic deterioration, difficulty in successfully attracting and retaining qualified outside sales personnel, reduced profitability from that currently experienced in the various categories of store sales size, 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 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.

Table of Contents

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 approximately 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 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.

Table of Contents

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 third party 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.

Our revenues and net income may be adversely affected by economic conditions, political situations, and changing laws and regulations in foreign countries, 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, 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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.
None.

Table of Contents

ITEM 2. PROPERTIES

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

Purpose	Approximate Square Feet
Distribution center and home office	213,000
Manufacturing facility	100,000
Computer support center	13,000
Winona store	15,000
Winona product support and support services facility	55,000
Rack and shelving storage	42,000
Multi-building complex which houses certain operations of the distribution group and the home office support group	30,000

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[1]
Storage facility	Indianapolis, Indiana	419,000
Distribution center	Atlanta, Georgia	198,000
Distribution center	Dallas, Texas	176,000[2]
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
Manufacturing facility	Johor, Malaysia	27,000
Manufacturing facility	Wallingford, Connecticut	187,000[3]

1 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.

2 In addition, this facility has an auxiliary building which contains an automated storage and retrieval system with capacity of 14,000 pallet locations and 42,000 tote locations for small parts.

3 This facility was purchased in 2010 with the intention of being the future site for our Holo-Krome® manufacturing operation, which operated in a leased location at year end.

In addition, we own 223 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 3,500 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	80,000	April 2012	None[1]
Distribution center	Salt Lake City, Utah	44,000	July 2015	None
Distribution center	Monterrey, Nuevo Leon, Mexico	14,000	June 2011	One[2]
Distribution center and manufacturing facility	Edmonton, Alberta, Canada	18,000	July 2013	None
Manufacturing facility	West Hartford, Connecticut	200,000	December 2011	None[3]
Manufacturing facility	Houston, Texas	17,000	July 2011	One[2]

1 We intend to re-negotiate the Seattle, Washington lease in 2012.
2 We intend to exercise our renewal options on these facilities in 2011.
3 We purchased a building in 2010 with the intention to relocate this operation (Holo-Krome®) during 2011.

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 discussion of our policies with respect to legal proceedings is discussed in the management s discussion and analysis and our legal proceedings and other loss contingencies as described in Note 10 of the consolidated financial statements. The description of our legal proceedings in Note 10 of the consolidated financial statements to this filing is incorporated herein by reference.

In July 2010, we received a letter from the Civil Division of the Department of Justice (the DOJ) advising that they intended to be ready to commence litigation against us regarding a contract we entered into with the United States General Services Administration (the GSA) in 2000. We discontinued the GSA contract in 2005. The letter is related to an audit conducted by the GSA Office of Inspector General (the OIG) in 2005-06 that suggested we had not complied with certain pricing and product requirement provisions, and had potentially overcharged government customers under the contract. We communicated our disagreement with the audit report, and participated in several meetings and discussions with the OIG and DOJ on these disputed issues during the past several years. A subpoena dated March 25, 2010, was sent to us from the DOJ seeking information about the Company s position concerning our compliance under the contract, and we provided responsive information to the DOJ in May 2010. Discussions between the DOJ and Fastenal relating to our compliance with the pricing and product requirement provisions under the contract continued. As of June 30, 2010, the DOJ had offered to resolve this matter for a payment by us of $9.5 million and we had offered $750 thousand (our offer was accrued as of June 30, 2010). During the third quarter of 2010, we continued our discussions with the DOJ, the DOJ modified their offer to settle to $8.5 million and we increased our offer to $2.75 million (our new offer was accrued as of September 30, 2010). During the fourth quarter of 2010, we met with the DOJ in a non-binding mediation event. This mediation, and the discussions that followed, concluded with a $6.25 million settlement. We chose to settle this matter to (1) avoid a protracted legal dispute with the DOJ, the outcome of which could include settlement or civil litigation by the DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act and, (2) because we felt a continuation of our dispute with the DOJ and GSA was not the best use of our resources. Despite this settlement, we continue to believe that we complied with our obligations under the GSA contract in all material respects.

Table of Contents

In early February 2010, we received a letter from a California fastener supplier dated January 26, 2010. This letter threatened to sue us for an alleged violation of an exclusive distribution arrangement this supplier believes exists between our organizations. In addition to the letter, this supplier provided a press release and a video regarding the claim that they threatened to make public unless we agreed to mediation of the claim. Shortly after receipt of this letter, we performed a preliminary internal review to understand (1) who this supplier was and (2) the nature of our relationship with this supplier. Based on that review, we determined that this supplier manufactures a niche type of fastener and that the total volume of purchases by us, from all suppliers, over the purported term of the alleged exclusivity arrangement of this niche type of fastener did not exceed $1 million. Following completion of our preliminary internal review, we requested additional information and documentation from the supplier. The supplier s response failed to provide the requested information and documentation. By letter dated February 26, 2010, we quantified for the supplier our total volume of purchases as discussed above and informed the supplier that we believed their claim was grossly exaggerated and completely unsupported. We have not received any direct response to our February 26, 2010 letter. On May 3, 2010, this supplier filed suit in Arkansas federal court alleging damages. In response, we filed a motion to dismiss. This motion to dismiss was denied on August 16, 2010. It is too early to determine how this case will progress. Based on current information, we believe the prospect that we will incur a material liability as a result of this claim is remote. While we are not required to disclose this matter under the rules of the Securities and Exchange Commission (SEC), we initially disclosed the existence of this threat in February 2010 (in our 2009 annual report on Form 10-K) as we believed that disclosure was prudent due to the alleged amount ($180 million) of the claim and the threat to make these allegations public.

ITEM 4. [REMOVED AND RESERVED]

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	52	Chief Executive Officer, President, and Director
Daniel L. Florness	1996	47	Executive Vice President and Chief Financial Officer
Nicholas J. Lundquist	1979	53	Executive Vice President-Sales
Leland J. Hein	1985	50	Executive Vice President-Sales
Steven A. Rucinski	1980	53	Executive Vice President-Sales
Reyne K. Wisecup	1988	48	Executive Vice President-Human Resources and Director
James C. Jansen	1992	40	Executive Vice President-Operations
Michael S. Camp	1991	42	Executive Vice President-Product and Procurement
Ashok Singh	2001	48	Executive Vice President-Information Technology

Mr. Oberton has been our chief executive officer and president since December 2002. 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. 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. Lundquist has been one of our executive vice presidents - sales since November 2007. Mr. Lundquist s responsibilities include 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. Hein has been one of our executive vice presidents - sales since November 2007. Mr. Hein s responsibilities include 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. 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.

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. Jansen has been our executive vice president - operations since January 2010. Mr. Jansen s responsibilities include distribution development as well as manufacturing. From November 2007 to January 2010, Mr. Jansen was our executive vice president - internal operations. From June 2005 to November 2007, Mr. Jansen served as leader of systems development (this role encompassed both information systems and distribution systems development). From April 1999 to June 2005, Mr. Jansen was the leader of our Dallas, 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 of procurement and in May 2008 was given additional responsibility for our product development team. For the previous five years (2003-2007), Mr. Camp served as the president of our

Table of Contents

FASTCO subsidiary and 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 has 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 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND 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, 2011, there were approximately 1,400 recordholders of our common stock, which includes nominees or broker dealers holding stock on behalf of an estimated 80,000 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 2010 and 2009.

2010:	**High**	**Low**	**2009:**	**High**	**Low**
First quarter	**$ 49.00**	**41.21**	First quarter	$ 37.53	26.16
Second quarter	**$ 56.48**	**48.33**	Second quarter	$ 38.74	32.15
Third quarter	**$ 53.80**	**45.09**	Third quarter	$ 40.13	30.56
Fourth quarter	**$ 60.11**	**51.22**	Fourth quarter	$ 42.19	34.50

In 2010, we paid semi-annual dividends of $0.40 and $0.42 per share and we paid a special one-time supplemental dividend of $0.42 per share (total 2010 dividend equals $1.24 per share). In 2009, we paid semi-annual dividends of $0.35 and $0.37 per share (total 2009 dividend equals $0.72 per share). On January 17, 2011, we announced a dividend of $0.50 per share to be paid on February 25, 2011 to shareholders of record at the close of business on February 15, 2011. We expect that we will continue to pay comparable cash dividends in the foreseeable future, provided that any future determination as to payment of dividends will depend upon our financial condition and results of our operations and such other factors as are deemed relevant by our board of directors.

Issuer Purchases of Equity Securities

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, 2010	0	$0.00	0	900,000
November 1-30, 2010	0	$0.00	0	900,000
December 1-31, 2010	0	$0.00	0	900,000
Total	0	$0.00	0	900,000

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, 2010, 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, 2005 in Fastenal Company, the S&P Composite Index and the Peer Group Index, and that dividends were reinvested when and as paid.

	2005	2006	2007	2008	2009	2010
Fastenal Company	100.00	92.63	105.47	92.72	113.03	**166.89**
Peer Group Index	100.00	105.50	128.50	110.86	138.96	**195.62**
S&P Composite Index	100.00	115.79	122.16	76.96	97.33	**111.99**

ITEM 6. SELECTED FINANCIAL DATA

Incorporated herein by reference is Ten-Year Selected Financial Data on page 5 of Fastenal s 2010 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 2,500 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 (approximately 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 one of our over 5,000 vehicles on the road).

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 partially recover in 2010. (See later discussion on gross margins.)

The discussion that follows includes information regarding our sales growth and our sales by product line during 2010. 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 changes, sequential trends, and end market information that follow they explain the real impact of the market dynamics affecting us over this period of uncertainty.

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 2,500 stores their individual success leads to the success of the entire organization over time. As you read the balance of this discussion you will see our stores were able to make great strides in their endeavor to dig out of the economic hole known as 2009. 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:

	2010	2009	2008
Net sales	$ 2,269,471	1,930,330	2,340,425
Percentage change	17.6%	-17.5%	13.5%

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 current recessionary environment, an environment which dramatically worsened late in 2008. 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 0.7 and 0.5 percentage points, respectively, to our growth in 2010.

The decrease in net sales in 2009 came primarily from lower unit sales, the decrease was amplified by deflationary price changes, particularly in our steel based products. Our sales change in 2009 was not meaningfully impacted by the introduction of new products or services. The lower unit sales resulted primarily from decreases in sales at older store locations (discussed below and again later in this document); this was partially offset by the opening of new stores in the last several years. The decrease in sales at older store locations was directly related to the economic meltdown that occurred late in 2008 and the first part of 2009.

Table of Contents

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: 2010 group opened 2000 and earlier, 2009 group opened 1999 and earlier, and 2008 group opened 1998 and earlier) and opened greater than five years ago (store sites opened as follows: 2010 group opened 2005 and earlier, 2009 group opened 2004 and earlier, and 2008 group opened 2003 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: 2010 group opened 2008 and earlier, 2009 group opened 2007 and earlier, and 2008 group opened 2006 and earlier). The daily sales change for each of these groups was as follows:

Store Age	2010	2009	2008
Opened greater than 10 years	12.5%	-21.1%	6.9%
Opened greater than 5 years	13.0%	-20.6%	7.8%
Opened greater than 2 years	14.6%	-19.5%	9.6%

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

Stores opened in 2010 contributed approximately $22,040 (or 1.0%) to 2010 net sales. Stores opened in 2009 contributed approximately $52,737 (or 2.3%) to 2010 net sales and approximately $15,172 (or 0.8%) to 2009 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 original fastener product line and from the other product lines was as follows:

	2010	2009	2008
Fastener product line	49%	50%	51%
Other product lines	51%	50%	49%

COMMENTS REGARDING 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 period.

This section focuses on three distinct views of our business monthly sales changes, sequential trends, and end market performance. The discussion of monthly sales changes provides a good mechanical view of our business based on the age of our stores. The discussion of sales trends provides a framework for understanding the sequential trends (that is, comparing a period to the immediately preceding period) in our business since the market deteriorated late in 2008. Finally, we believe the discussion regarding end market performance provides insight into activities with our various types of customers.

MONTHLY SALES CHANGES:

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: 2010 group opened 2005 and earlier, 2009 group opened 2004 and earlier, and 2008 group opened 2003 and earlier). This store group is more cyclical due to the increased market share these stores enjoy in their local markets. During each of the twelve months in 2010, 2009, and 2008, 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.
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%

2009	-12.4%	-14.3%	-21.5%	-25.2%	-25.2%	-26.3%	-26.6%	-24.7%	-24.2%	-21.7%	-15.0%	-12.1%
2008	8.9%	8.8%	9.9%	10.5%	10.4%	11.2%	9.7%	11.3%	8.5%	6.8%	0.9%	-5.1%

Table of Contents

Stores opened greater than two years Our stores opened greater than two years (store sites opened as follows: 2010 group opened 2008 and earlier, 2009 group opened 2007 and earlier, and 2008 group opened 2006 and earlier) represent a consistent same-store view of our business. During each of the twelve months in 2010, 2009, and 2008, 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.
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%
2009	-11.2%	-13.8%	-20.1%	-24.0%	-23.7%	-25.1%	-25.4%	-24.0%	-23.1%	-20.9%	-13.7%	-10.6%
2008	12.0%	11.1%	12.5%	13.1%	12.0%	12.0%	10.9%	12.8%	10.5%	8.1%	2.3%	-3.9%

All company sales During each of the twelve months in 2010, 2009, and 2008, all of our selling locations 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.
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%
2009	-8.5%	-10.5%	-17.4%	-21.0%	-20.7%	-22.5%	-22.9%	-21.4%	-20.8%	-18.7%	-12.0%	-8.6%
2008	15.6%	15.0%	16.9%	17.1%	16.0%	15.9%	14.8%	16.4%	14.3%	11.9%	6.8%	0.0%

The improvement in 2010 generally continues the trend we saw in the latter half of 2009. The slow-down in the final three months of 2008 and all of 2009 relate to the general economic weakness in the global marketplace.

Several additional factors positively impacted our sales growth in 2010: (1) the strengthening Canadian dollar (when compared to the United States dollar) added approximately 0.7 percentage points to our daily sales growth and (2) our Holo-Krome business, which we acquired in December 2009, added approximately 0.5 percentage points to our daily sales growth.

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 both 2009 and 2010), the second landing centers on July 4^{th}, 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.

Table of Contents

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 2009 and 2010 lines represent our actual sequential daily sales changes. The 09Delta line is the difference between the Past and 2009 ; similarly, the 10Delta is the difference between the Past and 2010

	Jan.(1)	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Past	0.9%	3.3%	2.9%	-0.3%	3.4%	2.8%	-2.3%	2.6%	2.6%	-0.7%
2009	-18.3%	-2.6%	-1.4%	-4.9%	2.7%	1.7%	-3.6%	5.5%	3.3%	-0.7%
09Delta	-19.2%	-5.9%	-4.3%	-4.6%	-0.7%	-1.1%	-1.3%	2.9%	0.7%	0.0%
2010	2.9%	-0.7%	5.9%	0.6%	4.8%	1.7%	-1.0%	3.5%	4.5%	-1.5%
10Delta	2.0%	-4.0%	3.0%	0.9%	1.4%	-1.1%	1.3%	0.9%	1.9%	-0.8%

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

The 18.3% drop from October 2008 to January 2009 represents the immediate impact of the economy on our business. During this time frame, our daily sales change, on a year-over-year basis, dropped from 11.9% growth in October to a contraction of 8.5% in January. After January, the trend continued downward as the Delta (or spread between the benchmark and the 2009 actual) in February, March, and April 2009 averaged a negative 4.9%. The daily sales contraction, on a year-over-year basis, was 21.0% in April. The Delta from May 2009 to July 2009 was not as significant, averaging a negative 1.0%. While this period was still painful, it began to show what we believe was the bottom of the drop. Finally, in the period from August 2009 to December 2009, the Delta improved, and averaged a positive 0.7%. During 2010, sales have been strong - our business exceeded the trend line in January, whereas February took a step back due to inclement weather, and March reestablished the trend of being at or above the trend line (see graph below).

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:

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 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
2010	15.7%	29.8%	30.6%	17.7%	22.4%
2009	-16.0%	-25.2%	-22.8%	-10.1%	-18.8%

The 2010 growth was more pronounced in our industrial production business (this is business where we supply products that become part of the finished goods produced by our customers) and less pronounced in the maintenance

Table of Contents

portion of our manufacturing business (this is business where we supply products that maintain the facility or the equipment of our customers engaged in manufacturing). The 2009 contraction was more severe in our industrial production business and less severe in the maintenance portion of our manufacturing business.

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
2010	-14.7%	0.5%	6.3%	10.3%	-0.3%
2009	-6.4%	-19.6%	-25.3%	-24.8%	-19.4%

On a sequential basis, the sales to our manufacturing customers stabilized in May 2009 and then started to demonstrate patterns that resemble historical norms. This reversed the negative trend which began in October 2008. This stabilization and improvement was partially offset by continued deteriorization in our non-residential construction business which weakened dramatically in the first eight months of 2009, and then began to also demonstrate patterns that resemble historical norms.

A graph of the sequential daily sales trends to these two end markets in 2008, 2009, and 2010, starting with a base of 100 in the previous October and ending with the next October, would be as follows:

Table of Contents

PATHWAY TO PROFIT AND ITS IMPACT ON OUR BUSINESS:

During April 2007 we disclosed our intention to alter the growth drivers of our business For most of the preceding ten years, we used store openings as the primary growth driver of our business (our historical rate was approximately 14% new stores each year). As announced in April 2007, we began to add outside sales personnel into existing stores at a faster rate than historical patterns. We funded this sales force expansion with the occupancy savings generated by opening stores at the rate of 7% to 10% per year (see our disclosure below regarding the temporary slowing of our store growth in 2009 and 2010). Our goal was four-fold: (1) to continue growing our business at a similar rate with the new outside sales investment model, (2) to grow the sales of our average store to $125 thousand per month in the five year period from 2007 to 2012, (3) to enhance the profitability of the overall business by capturing the natural expense leverage that has historically occurred in our existing stores as their sales grow, resulting in a growth of our pre-tax earnings to 23% of net sales by 2012, and (4) to improve the performance of our business due to the more efficient use of working capital (primarily inventory) as our average sales volume per store increases. The economic weakness that dramatically worsened in the fall of 2008 and continued into 2009 caused us to alter the pathway to profit beginning in 2009. These changes centered on two aspects (1) temporarily slowing new store openings to a range of 2% to 5% per year, and (2) temporarily stopping headcount additions except for new store openings and for stores that are growing. (See later discussion on future store openings.)

One side benefit of the pathway to profit initiative, described above, is a slow altering of our cost structure over the last several years to increase the portion of our operating costs that are variable versus fixed. This dramatically improved our ability to manage through the economic environment of the last two years. As discussed in our third quarter 2009 earnings release, we began to stabilize our store headcount in October 2009. From the fourth quarter of 2009 to the fourth quarter of 2010 we grew our store average full-time equivalent (FTE) headcount from 7,007 to 7,611, or 8.6%. (See later discussion on store count and FTE numbers by quarter.)

The pathway to profit initiative allows us to focus on the three drivers of our business: (1) store headcount, (2) store (or unit) growth, and (3) average sales volume per store, which ultimately drive our level of profitability. Our original goal was to hit the $125 thousand per month store average, and grow our pre-tax earnings to 23% of net sales by 2012. We previously disclosed that we believed the duration of the economic weakness could delay the timing of when we achieve these goals by 24-30 months. However, as described below, we have now modified our thinking regarding our pre-tax earnings goals.

During 2010, we modified our thought process around the pathway to profit in two regards: (1) we have structurally lowered our cost structure and believe we can hit our profitability target in the pathway to profit initiative with average store sales of $100 - $110 thousand per month by 2013 (see evidence of this in our Store Size and Profitability table later in this document) and (2) we decided to hire fewer store-based people and instead added resources focused on specific opportunities, such as national accounts personnel and dedicated sales specialists (manufacturing, government, industry focused, and automated solutions).

Future store openings In July 2010, we indicated our intentions to open 80 to 95 new stores during the second half of 2010 (or an annualized rate of 6.8% to 8.0%). During the second half of 2010 we opened 82 stores. In 2011, we intend to open 150 to 200 new stores, or an annualized rate of 6.0% to 8.0%.

Table of Contents

Store Count and Full-Time Equivalent (FTE) Headcount Because of our pathway to profit , we increased both our store count (opening 7.5% and 8.1% new stores in calendar 2008 and 2007, respectively) and our store FTE headcount in 2007 and 2008. However, the rate of increase in store locations slowed (we opened 5.4% and 3.0% new stores in calendar 2010 and 2009, respectively) and our FTE headcount for all types of personnel was reduced when the economy weakened late in 2008. The number of stores at quarter end, the average headcount at our stores per quarter, the average FTE headcount per 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 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Store locations-quarter end count	2,073	2,300	2,369	2,392	2,407	2,453	2,490
% change (twelve months)		7.2%	2.5%	2.1%	2.4%	4.3%	5.1%
% change since Q1 2007		11.0%	14.3%	15.4%	16.1%	18.3%	20.1%
Store personnel - absolute headcount	6,849	9,123	8,519	8,404	8,401	8,643	9,048
% change (twelve months)		17.9%	-9.9%	-7.8%	-3.7%	0.4%	6.2%
% change since Q1 2007		33.2%	24.4%	22.7%	22.7%	26.2%	32.1%
Store personnel - FTE	6,383	8,280	7,007	7,004	7,118	7,450	7,611
Non-store selling personnel - FTE	616	599	597	594	591	639	712
Sub-total of all sales personnel - FTE	6,999	8,879	7,604	7,598	7,709	8,089	8,323
Distribution and manufacturing personnel-FTE [1]	1,962	2,244	1,768	1,800	1,884	2,007	2,040
Administrative personnel-FTE	767	805	701	706	707	726	744
Sub-total of non-sales personnel - FTE	2,729	3,049	2,469	2,506	2,591	2,733	2,784
Total - average FTE headcount	9,728	11,928	10,073	10,104	10,300	10,822	11,107
% change (twelve months)							
Store personnel - FTE		15.2%	-15.1%	-9.7%	-1.2%	5.1%	8.6%
Non-store selling personnel - FTE		-2.4%	-2.1%	-1.3%	0.3%	9.0%	19.3%
Sub-total of all sales personnel - FTE		13.8%	-14.2%	-9.1%	-1.1%	5.4%	9.5%
Distribution and manufacturing personnel-FTE [1]		5.4%	-20.3%	-8.7%	1.5%	13.8%	15.4%
Administrative personnel-FTE		7.9%	-12.6%	-10.7%	-8.5%	-1.4%	6.1%
Sub-total of non-sales personnel - FTE		6.0%	-18.2%	-9.3%	-1.4%	9.4%	12.8%
Total - average FTE headcount		11.7%	-15.2%	-9.1%	-1.2%	6.4%	10.3%
% change since Q1 2007							
Store personnel - FTE		29.7%	9.8%	9.7%	11.5%	16.7%	19.2%
Non-store selling personnel - FTE		-2.8%	-3.1%	-3.6%	-4.1%	3.7%	15.6%
Sub-total of all sales personnel - FTE		26.9%	8.6%	8.6%	10.1%	15.6%	18.9%

Distribution and manufacturing personnel-FTE [1]	14.4%	-9.9%	-8.3%	-4.0%	2.3%	4.0%
Administrative personnel-FTE	5.0%	-8.6%	-8.0%	-7.8%	-5.3%	-3.0%
Sub-total of non-sales personnel - FTE	11.7%	-9.5%	-8.2%	-5.1%	0.1%	2.0%
Total - average FTE headcount	22.6%	3.5%	3.9%	5.9%	11.2%	14.2%

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

We have reduced our average FTE headcount at our store locations 8.1% since our peak of 8,280 average FTE headcount in the third quarter of 2008, much of this decrease relates to a reduction in part-time hours worked as our average absolute headcount numbers related to store personnel declined by 0.8% during this time period.

Table of Contents

Store Size and Profitability The store groups listed in the table below, when combined with our strategic account stores, represented approximately 88%, 87%, and 88% of our sales in the fourth quarter of 2010, 2009, and 2008, respectively. Strategic account stores are stores that are focused on selling to a group of strategic account customers in a limited geographic market. Our remaining sales (approximately 12%, 13%, and 12%, respectively) relate to either: (1) our in-plant locations, (2) our direct Fastenal Cold Heading business (including our Holo-Krome business acquired in December 2009), or (3) our direct import business. Our average store had sales of $67,600, $58,100, and $70,200 per month in the fourth quarter of 2010, 2009, and 2008, respectively. This average amount was $71,600 per month in the first quarter of 2007 (the last completed quarter before we began the pathway to profit). The average age, number of stores, and pre-tax earnings data by store size for the fourth quarter of 2010, 2009, and 2008, 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, 2010				
$0 to $30,000	3.8	467	18.8%	-13.2%
$30,001 to $60,000	6.8	967	38.8%	12.7%
$60,001 to $100,000	9.6	582	23.4%	21.9%
$100,001 to $150,000	12.1	279	11.2%	25.2%
Over $150,000	15.0	156	6.3%	26.8%
Strategic Account Store		39	1.6%	
Company Total		2,490	100.0%	18.7%
Three months ended December 31, 2009				
$0 to $30,000	3.9	620	26.2%	-16.2%
$30,001 to $60,000	6.8	931	39.3%	10.0%
$60,001 to $100,000	9.3	516	21.8%	20.0%
$100,001 to $150,000	13.0	176	7.4%	23.8%
Over $150,000	15.5	99	4.2%	25.0%
Strategic Account Store		27	1.1%	
Company Total		2,369	100.0%	15.0%
Three months ended December 31, 2008				
$0 to $30,000	2.7	498	21.5%	-23.9%
$30,001 to $60,000	5.3	797	34.5%	9.9%
$60,001 to $100,000	8.0	539	23.3%	20.9%
$100,001 to $150,000	10.2	286	12.4%	25.9%
Over $150,000	14.1	171	7.4%	27.4%
Strategic Account Store		20	0.9%	
Company Total		2,311	100.0%	18.3%

Note Amounts may not foot due to rounding difference.

Our original intent under the pathway to profit was to increase the sales of our average store to approximately $125,000 per month (see earlier discussion) in order to meet our pre-tax earnings profitability goal. This would have shifted the store mix emphasis from the first three categories ($0 to $30,000, $30,001 to $60,000, and $60,001 to $100,000) to the last three categories ($60,001 to $100,000, $100,001 to $150,000, and over $150,000), and we believe would have allowed us to leverage our fixed cost and increase our overall productivity. Our goal today is to continue (1) to grow the business and (2) to grow our pre-tax earnings as a percent of net sales. As stated earlier, we now believe, based on the profitability improvements noted in the previous table, that we can hit our pre-tax earnings percent goal of 23% with average store sales of approximately $100,000 $110,000 per month.

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

Table of Contents

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

	Twelve-month period		
	2010	2009	2008
Net sales	100.0%	100.0%	100.0%
Gross profit	51.8%	50.9%	52.8%
Operating and administrative expenses	32.8%	35.6%	33.6%
Loss on sale of property and equipment	0.0%	0.0%	0.0%
Operating income	19.0%	15.3%	19.2%
Interest income	0.1%	0.1%	0.0%
Earnings before income taxes	19.1%	15.4%	19.3%

Note Amounts may not foot due to rounding difference.

Gross profit percentage for 2010 increased from 2009, and the gross profit percentage for 2009 decreased from 2008.

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

	Q1	Q2	Q3	Q4
2010	51.1%	52.1%	51.8%	52.0%
2009	52.9%	51.1%	50.0%	49.9%
2008	52.4%	52.5%	52.9%	53.4%

The fluctuations in our gross profit percentages are typically driven by: (1) transactional gross profit, (2) organizational gross profit, and (3) vendor incentive gross profit. The transactional gross profit represents the gross profit realized due to the day-to-day fluctuations in customer pricing relative to product and freight costs. This component was negatively influenced by the competitive landscape in 2009 which depressed the prices we could charge for our products. This component has generally improved since August 2009, except for customer mix which is discussed later. The organizational gross profit represents the component of gross profit we attribute to buying scale and efficiency gains. This component was negatively influenced by deflationary impacts in 2009 as we were selling inventory sourced at peak costs late in 2008. This component was magnified in 2009 due to the nature of our inventory turns and the dramatic decrease in sales activity during much of the year. However, this component improved in the first, second, third, and fourth quarters of 2010 when compared to the fourth quarter of 2009. The third component relates to vendor volume allowances. The gross profit dollars associated with this component dropped dramatically in the second half of 2009. However, this component improved in the first, second, third, and fourth quarters of 2010 when compared to the fourth quarter of 2009. In our second quarter 2010 earnings release, we indicated our belief that the first two components would continue to improve as we progress into the remainder of 2010. This belief was based on (1) our focused effort to raise our transactional margin and (2) the bias which we believed existed for some inflation in 2010 rather than the significant deflation we experienced in 2009. In the third quarter of 2010, our assumptions about the latter half of the year were proven wrong and these two components had a negative impact on gross profit percentage. We continued to struggle with the first component in the fourth quarter, but did see some improvement in the second component due to the expansion of inventory depth which decreased the need for fill in (short-term purchases to fill in an empty shelf, because normal procurement lead times do not meet demand) buys which carry a cost premium. The decrease in gross profit percentage, from the second quarter of 2010 to the third and fourth quarters of 2010 was primarily caused by the strong growth of our industrial production business; which resulted in a change in our overall business mix. The industrial production business has a lower gross margin; therefore, the change in mix pulled our gross margin down. However, since the operating expenses of our industrial production business are lower, operating income produced by that business is similar to our overall business. The second cause was the relative lack of inflation in the third and fourth quarters. Finally, as we indicated in our second quarter 2010 earnings release, vendor volume allowances largely recovered during the second quarter to

Table of Contents

the levels in place in 2008 and in early 2009 due to the reset of vendor allowance programs which tend to be calendar based. However, the fourth quarter of 2010 did see some improvement in this category. Generally speaking, the decline in the gross margin percentage from 2008 to 2009 was evenly split between a deterioration in the three components discussed earlier. The improvement from 2009 to 2010 was primarily related to improvements in vendor incentive gross profit (about half of the improvement), and the balance primarily related to improvements in organizational gross profit and transactional gross profit.

Operating and administrative expenses improved relative to sales in 2010 versus both 2009 and 2008.

Historically, 65% to 70% of our operating and administrative expenses consist of employee related costs. The components are: (1) payroll (which includes cash compensation, stock option expense, and profit sharing), (2) health care, and (3) education. During 2009, this range had reduced to 60% to 65% due to the factors noted below. During 2010, this range moved back to the historical level.

The two largest components of employee related costs grew/contracted as follows:

	2010	2009	2008
Payroll cost	16.7%	-18.3%	14.1%
Health care cost	-9.0%	24.1%	14.8%

The two largest components of operating and administrative expenses, outside of the employee related costs, grew/contracted as follows:

	2010	2009	2008
Occupancy	3.5%	3.1%	9.9%
Selling transportation	-0.2%	-18.3%	26.7%

The 2010 disparity between the full-time equivalent headcount increase of 10.3% noted earlier and the 16.7% annual increase in payroll costs noted above is driven by several factors: (1) sales commissions earned grew (this increase was amplified by the sales growth and the gross margin expansion, both of which have a meaningful impact on the commissions earned), (2) total bonuses earned increased due to our profit growth, (3) hours worked per employee grew, and (4) our profit sharing contribution grew. These four items, when compared to 2009, all grew at a rate faster than the rate of sales growth.

The 2009 disparity between the full-time equivalent headcount decrease of 15.2% noted earlier and the 18.3% annual decrease in payroll costs noted above is driven by several factors: (1) sales commissions earned contracted (this decrease was amplified by the sales contraction and the gross margin contraction, both of which have a meaningful impact on the commissions earned), (2) total bonuses earned decreased due to our profit contraction, (3) hours worked per employee contracted, and (4) our profit sharing contribution was reduced to zero. These four items, when compared to 2008, all contracted at a rate faster than the rate of sales contraction.

Our health care costs in 2010 decreased from the unusual peak in 2009. Health care costs in 2009 and the first quarter of 2010 increased due to the increase in the percentage of employees opting for expanded coverage as their spouses lost their insurance coverage at other employers, increases in COBRA costs due to changes in federal funding within COBRA, and an increase in health care utilization when compared to previous years. These conditions still exist in the second, third, and fourth quarters of 2010; however, the spike in costs in the second, third, and fourth quarters of 2009 changed the comparison. On a two year basis, our health care costs are still up significantly despite a decrease in headcount.

Table of Contents

The two largest components of the remaining costs within our operating and administrative expenses include occupancy and selling transportation. Occupancy expenses increased from 2009 to 2010 and increased from 2008 to 2009. The annual increase in occupancy expense was driven by (1) increases in utilities, (2) increases in taxes, (3) new store locations, (4) expansions to our Indianapolis and Dallas distribution centers, and (5) in the case of 2010, our new Holo-Krome facilities. The selling transportation costs consist primarily of our store fleet as most of the distribution fleet costs are included in cost of sales. Selling transportation costs included in operating and administrative expenses decreased in both years due to (1) fleet reductions, (2) moderating fuel costs, and (3) in the case of 2010, improvements in the resale market for used fleet (pickup) prices.

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 2010, our total vehicle fuel costs were approximately $6.4 million, $6.8 million, $6.6 million, and $7.1 million, respectively. During the first, second, third, and fourth quarters of 2009, our total vehicle fuel costs were approximately $5.2 million, $5.7 million, $6.2 million, and $6.1 million, respectively. The changes resulted from variations in fuel costs, variations in the service levels provided to our stores from our distribution centers, and changes in the number of vehicles at our store locations. These fuel costs include the fuel utilized in our distribution vehicles (semi-tractors, straight trucks, and sprinter trucks) which is recorded in cost of goods and the fuel utilized in our store delivery 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 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**
2010 price				
Diesel fuel	$ 2.89	3.06	2.96	3.14
Gasoline	$ 2.68	2.80	2.71	2.84
2009 price				
Diesel fuel	$ 2.19	2.29	2.61	2.70
Gasoline	$ 1.86	2.25	2.55	2.54
2008 price				
Diesel fuel	$ 3.47	4.30	4.38	3.11
Gasoline	$ 3.07	3.65	3.85	2.49

Per gallon price change	**Q1**	**Q2**	**Q3**	**Q4**
2010 change				
Diesel fuel	32.0%	33.6%	13.4%	16.3%
Gasoline	44.1%	24.4%	6.3%	11.8%
2009 change				
Diesel fuel	-36.9%	-46.7%	-40.4%	-13.2%
Gasoline	-39.4%	-38.4%	-33.8%	2.0%

Loss on Sale of Property and Equipment The loss on sale of property and equipment for 2010 and 2009 came primarily from the sale of used vehicles.

Income taxes Incomes taxes as a percentage of earnings before income taxes, were approximately 38.4%, 38.0%, and 38.0% for 2010, 2009, and 2008, respectively. This rate fluctuates over time based on (1) the income tax rates in the various jurisdictions in which we operate, (2) the level of profits in those jurisdictions, and (3) changes in tax law and regulations in those jurisdictions.

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	2010	2009	2008
Net earnings	$ 265,356	184,357	279,705
Basic EPS	1.80	1.24	1.88
Diluted EPS	1.80	1.24	1.88

Percentage change	2010	2009	2008
Net earnings	43.9%	-34.1%	20.2%
Basic EPS	45.2%	-34.0%	21.3%
Diluted EPS	45.2%	-34.0%	21.3%

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. During 2009, the net earnings decrease was greater than that of sales primarily due to the previously mentioned factors in our gross margin discussion. During 2008, the net earnings growth rate was greater than that of net sales primarily because of the previously mentioned improvements in gross profit margins and disciplined management of our occupancy expenses. The EPS percentage change was better than that of net earnings due to the repurchase of shares in 2007, 2008, and 2009.

Working Capital Two components of working capital, accounts receivable and inventories, are highlighted below. The annual dollar change and the annual percentage change were as follows:

Dollar change	2010	2009
Accounts receivable	55,964	(30,771)
Inventories	48,964	(55,842)

Annual percentage change	2010	2009
Accounts receivable	**26.1%**	-12.6%
Inventories	**9.6%**	-9.9%

These two assets were impacted by our initiatives to improve working capital. These initiatives include (1) the establishment of a centralized call center to facilitate accounts receivable management (this facility became operational early in 2005) and (2) the disciplined management of all inventory amounts not identified as either expected store inventory, new expanded inventory, inventory necessary for upcoming store openings, or inventory necessary for our master stocking hubs .

The accounts receivable increase of 26.1% from 2009 to 2010 was created by a daily sales increase of 17.9% and 20.9% in November and December 2010, respectively. The increase in accounts receivable was greater than the increase in daily sales. This was primarily driven by the significant growth in both our national account (large customer) business and in our international business, both of which typically pay slower than our remaining business. The accounts receivable decrease of 12.6% from 2008 to 2009 relates to a daily sales decrease of 12.0% and 8.6% in November and December 2009, respectively.

A portion of our inventory procurement has a longer lead time than our ability to foresee sales trends; therefore, the drop in sales growth activity in the fourth quarter of 2008 and during the first two months of 2009 resulted in inventory consumption that was less than the amount of inbound product. The inventory decrease began in March 2009 and continued through most of 2009. Our inventory dropped approximately $9,000, $36,000, and $21,000 during the first, second, and third quarters of 2009, respectively. The inventory grew by approximately $10,000 in the