

FASTENAL CO  
Form 10-K  
February 21, 2008

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2007, 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  
(State or other jurisdiction of  
incorporation or organization)

41-0948415  
(I.R.S. Employer  
Identification No.)

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2001 Theurer Boulevard

Winona, Minnesota  
(Address of principal executive offices)

(507) 454-5374

55987-0978  
(Zip Code)

(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 Global Select 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 ☐ No ☒

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark 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. ☐

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was \$5,505,741,736, 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, 2007 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.

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As of February 1, 2008, the registrant had 149,120,712 shares of Common Stock issued and outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2007 are incorporated by reference in Parts I and II. Portions of the registrant's Proxy Statement for the annual meeting of shareholders to be held Tuesday, April 15, 2008 is incorporated by reference in Part III.

**FORWARD LOOKING STATEMENTS**

This Form 10-K, including the sections in Part I hereof captioned "Item 1. Business - Development of the Business", "Item 1. Business - Products", "Item 1. Business - Manufacturing and Support Services Operations", and "Item 2. Properties", and the sections in Part II hereof captioned "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including statements regarding (1) the outcome of our new long-term growth strategy, "Pathway to Profit", including planned decreases in the rate of new store openings, planned additions to our outside sales personnel, the expected funding if 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 this strategy, our ability to capture leverage expected to result from this strategy (including expected decreases in the growth of support personnel and expected working capital efficiencies), and our ability to achieve our goals regarding pretax earnings and return on assets, (2) the payment of dividends, (3) working capital goals and expected returns on total assets when working capital is appropriately managed, (4) capital expenditures, (5) the expansion of foreign operations, (6) new store openings, (7) markets for new stores, (8) growth in manufacturing and support services, (9) protection from economic downturns provided by the number or type of customers, (10) our ability to mitigate the effects of rising fuel prices, and (11) funding of expansion plans. Certain risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements are described later in this Form 10-K under the heading entitled "Item 1A. Risk Factors" and in the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2007 in the section thereof captioned "Management's Discussion & Analysis of Financial Condition & Results of Operations", which section has been incorporated in this Form 10-K by reference. The registrant assumes no obligation to update either such forward-looking statements or the discussion of such risks and uncertainties.

**PRESENTATION OF DOLLAR AMOUNTS**

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

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**PART I**
**ITEM 1. BUSINESS**

Fastenal Company (Fastenal) and, together with our wholly owned subsidiaries, hereinafter referred to as Fastenal 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. As of December 31, 2007, we had 2,160 store locations located in 50 states, Puerto Rico, Canada, Mexico, Singapore, China, and the Netherlands, and employed 8,617 people at these stores.

We sell industrial and construction supplies in a wholesale and retail fashion. As of December 31, 2007 these industrial and construction supplies were grouped into ten product lines described further below. Our Internet address for corporate and investor information is [www.fastenal.com](http://www.fastenal.com). The information contained on this website or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

We operated 13 distribution centers in North America as of December 31, 2007 from which we distribute products to our store locations.

**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:

|                              | 2007       | 2006    | 2005    | 2004    | 2003  | 2002  | 2001  | 2000  | 1999  | 1998  |
|------------------------------|------------|---------|---------|---------|-------|-------|-------|-------|-------|-------|
| Net sales (in millions)      | \$ 2,061.8 | 1,809.3 | 1,523.3 | 1,238.5 | 994.9 | 905.4 | 818.3 | 755.6 | 618.2 | 511.2 |
| Number of stores at year end | 2,160      | 2,000   | 1,755   | 1,533   | 1,314 | 1,169 | 1,025 | 897   | 807   | 764   |

As of December 31, 2007 and 2006, respectively, we operated store locations in:

| Geographic location | 2007  | 2006  |
|---------------------|-------|-------|
| United States       | 1,969 | 1,829 |
| Puerto Rico         | 8     | 8     |
| Canada              | 148   | 137   |
| Mexico              | 31    | 22    |
| Singapore           | 1     | 1     |
| Netherlands         | 2     | 2     |
| China               | 1     | 1     |
|                     | 2,160 | 2,000 |

We have closed only eleven stores in our history. Three of these locations were subsequently reopened when the expansion of our product line or the expansion of our distribution network improved the profitability of the locations.

We select new locations for our stores based on their proximity to our distribution network, population statistics, and employment data for manufacturing and construction. We intend to continue opening new store locations and currently expect the rate of new store openings to be approximately 7% to 10% per year (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 opening, store personnel may supplement the inventory offering to customize the selection to the needs of our local customer base.

We currently have several versions of store locations. The majority of our stores operate under our expected inventory format. This format was also referred to as the CSP (or Customer Service Project) format. Consistent with our operating philosophy, we intend to continue identifying products and store display themes to position our stores to the Fastenal goal of being the best industrial and construction supplier in each local market in which we operate. In June 2005 we disclosed our intention to convert locations to the CSP2 format. The CSP2 store model represented an expansion of the core stocking items and sales personnel in an existing store with the goal of driving additional product sales to existing customers, target customers, and specific geographic areas within established markets. During the third quarter of 2007 we chose to modify the CSP2 expansion from a one size fits all approach to an a la carte approach. This will emphasize inventory expansion based on local customer demographics and based on local product knowledge within our sales force.

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.

In addition to the store types discussed above, we also operate in-plant sites. An in-plant site is a selling unit located in or near a customer's facility that sells product solely to that customer. These sites are not included in the store count numbers as they represent a customer subset of a store.

We opened the following stores in the last five years:

|                | 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------|------|------|------|------|------|
| United States  | 141  | 210  | 198  | 198  | 140  |
| Puerto Rico    |      |      |      | 1    |      |
| Canada         | 11   | 25   | 17   | 16   | 9    |
| Mexico         | 9    | 10   | 5    | 3    | 2    |
| Singapore      |      |      |      |      |      |
| Netherlands    |      |      | 1    | 1    |      |
| China          |      |      | 1    |      |      |
| Total openings | 161  | 245  | 222  | 219  | 151  |

We plan to open additional stores outside of the United States in the future. The stores located outside the United States contributed approximately 8% of our consolidated net sales in 2007 with approximately 78% 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 nine to 12 months for a new store to achieve its first profitable month. Of the 73 stores opened in the first quarter of 2007, 28 were profitable in the fourth quarter of 2007.

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The data in the following table shows the growth in the average sales of our stores from 2006 to 2007 based on the age of each store. The stores opened in 2007 contributed approximately \$35,432 (or approximately 1.7%) of our consolidated net sales in 2007, with the remainder coming from stores opened prior to 2007.

|                                    |                | Number of<br>stores<br>in group on |                                    |                       |                   |  |
|------------------------------------|----------------|------------------------------------|------------------------------------|-----------------------|-------------------|--|
| Age of stores on December 31, 2007 | Year<br>opened | December 31,<br>2007               | Average<br>sales 2006 <sup>1</sup> | Average<br>sales 2007 | Percent<br>Change |  |
| 0 1 year old                       | 2007           | 161                                | \$                                 | \$ 220 <sub>1</sub>   | %                 |  |
| 1 2 years old                      | 2006           | 245                                | 134 <sub>1</sub>                   | 486                   |                   |  |
| 2 3 years old                      | 2005           | 222                                | 492                                | 597                   | 21.3              |  |
| 3 4 years old                      | 2004           | 219                                | 647                                | 703                   | 8.7               |  |
| 4 5 years old                      | 2003           | 151                                | 684                                | 740                   | 8.2               |  |
| 5 6 years old                      | 2002           | 142 <sub>2</sub>                   | 743                                | 823                   | 10.8              |  |
| 6 7 years old                      | 2001           | 128                                | 978                                | 1,084                 | 10.8              |  |
| 7 8 years old                      | 2000           | 89                                 | 811                                | 933                   | 15.0              |  |
| 8 9 years old                      | 1999           | 44                                 | 991                                | 1,174                 | 18.4              |  |
| 9 10 years old                     | 1998           | 120                                | 1,146                              | 1,170                 | 2.1               |  |
| 10 11 years old                    | 1997           | 157                                | 1,135                              | 1,206                 | 6.3               |  |
| 11 12 years old                    | 1996           | 107                                | 1,108                              | 1,127                 | 1.7               |  |
| 12 16 years old                    | 1992-1995      | 217                                | 1,298                              | 1,313                 | 1.2               |  |
| 16+ years old                      | 1967-1991      | 158                                | 2,273                              | 2,424                 | 6.6               |  |

<sup>1</sup> The average sales include sales of stores open for less than the full fiscal year.

<sup>2</sup> We closed one store in this category during 2007. The 2007 average is calculated assuming the store number existed half of the year. As of December 31, 2007, we operated distribution centers in or near Winona, Minnesota; Indianapolis, Indiana; Dallas, Texas; Atlanta, Georgia; Scranton, Pennsylvania; Modesto, California; Seattle, Washington; Akron, Ohio; Salt Lake City, Utah; Greensboro, North Carolina; Kansas City, Kansas; Toronto, Ontario (Canada) and Monterrey, Nuevo Leon (Mexico). These 13 distribution centers give us over 2.2 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. Approximately 76% of our stores receive deliveries five times-a-week, with 80% of these deliveries arriving by 7:00 a.m. As the number of stores increases, we intend to add new distribution centers.

We provide centralized UNIX based computer systems to support Corporate, e-business, and Distribution Center business functions. The systems consist of both customized and purchased software. At the store level, we operate a proprietary point-of-sale (POS) system that operates on a Microsoft Windows operating system. System access is provided to authorized users via a dedicated Wide Area Network (WAN). The data exchange between the centrally located systems and POS is monitored and controlled centrally.

### Trademarks and Service Marks

We conduct business under various trademarks and service marks, including Fastenal<sup>®</sup> with various designs or tag lines, FAS-N-IT<sup>®</sup>, FNL<sup>®</sup>, Blackstone<sup>®</sup>, Rock River Anchor<sup>®</sup>, BlueGlobal<sup>®</sup>, Fastenal Racing<sup>®</sup> and FNL G9<sup>®</sup>. Although we do not believe our operations are substantially dependent upon any of our trademarks or service marks, we consider the Fastenal name and other trademarks and service marks to be valuable to our business.

## Products

Our original product offerings were fasteners and other industrial and construction supplies, many of which are sold under the Fastenal® product name. This product line, which we refer to as the fastener product line, consists of two broad categories: threaded fasteners, such as bolts, nuts, screws, studs, and related washers; and miscellaneous supplies, 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 2007, 2006, and 2005 and approximately 46%, 46%, and 48% of our consolidated net sales in 2007, 2006, and 2005, respectively. Concrete anchors make up the largest portion of the miscellaneous supply items included in the fastener product line. Most concrete anchors use threaded fasteners as part of the completed anchor assembly.

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 |
|--------------------------------------------|-----------------|-----------------------------------|-----------------------------------------|----------------------------|
|                                            |                 |                                   |                                         |                            |
| Fasteners                                  | 1967            | 349,000                           | Fastenal®, FNL G9®, Rock River Anchors® |                            |
| Tools and equipment                        | 1993            | 119,000                           | FastTool, Blackstone                    |                            |
| Cutting tools and abrasives                | 1996            | 204,000                           | SharpCut, Blackstone                    |                            |
| Hydraulics, pneumatics, plumbing and HVAC  | 1996            | 49,000                            | Fastenal®                               |                            |
| Material handling, storage, and packaging  | 1996            | 12,000                            | EquipRite                               |                            |
| Janitorial supplies, chemicals, and paints | 1996            | 13,000                            | CleanChoice, Blackstone                 |                            |
| Electrical supplies                        | 1997            | 19,000                            | PowerPhase, Blackstone                  |                            |
| Welding supplies <sup>1</sup>              | 1997            | 28,000                            | FastArc, Blackstone                     |                            |
| Safety supplies                            | 1999            | 23,000                            | Fastenal®, Body Guard                   |                            |
| Metals, alloys, and materials              | 2001            | 9,000                             | Fastenal®                               |                            |

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

We plan to continue to add other product lines 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 geographic areas. It is also derived from vendor information and from customer demographic information. The computer system monitors the inventory level for all stock items and triggers replenishment, or prompts a buyer to purchase, as necessary, based on an established minimum-maximum level. All stores stock a base inventory and may expand beyond preset inventory levels as deemed appropriate by their district managers. Inventories in distribution centers are established from computerized data for the stores served by the respective centers. Inventory quantities are continually re-balanced utilizing an automated store-to-store transfer mechanism called inventory re-distribution.

### **Manufacturing and Support Services Operations**

In 2007, approximately 94.8% of our consolidated net sales were attributable to products manufactured by other companies to industry standards. The remaining 5.2% of our consolidated net sales for 2007 related to products manufactured, modified or repaired by our manufacturing division 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 825,000 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 2007.

### **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 contained in our annual report for the fiscal year ended December 31, 2007, which is incorporated herein by reference. 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. As of December 31, 2007, our total number of active customer accounts (defined as accounts having purchase activity within the last 90 days) was approximately 314,000.

During each of the three years ended December 31, 2007, 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.

### **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 and convenience.

Some competitors use vans to sell their products in markets away from their main warehouses, while others rely on mail order 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**

As of December 31, 2007, we employed a total of 12,013 full and part-time employees, 8,617 being store managers and store employees, and the balance being employed in our distribution centers, manufacturing operations, service operations, and home office.

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 (see the description of the Fastenal School of Business below) and by decentralizing decision-making. Wherever possible, promotions are from within our organization. For example, most new store managers are promoted from an outside sales position or from an assistant manager's position, and district managers (who supervise a number of stores) are usually former store managers.

The Fastenal School of Business develops and delivers a comprehensive array of industry and company specific education and training programs that are offered to all Fastenal 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 participate in incentive bonus arrangements that place emphasis on achieving increased sales on a store and regional basis, while still attaining targeted levels of 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 cost containment goals.

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

#### **Available Information**

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

#### **ITEM 1A. RISK FACTORS**

In addition to the other information in this Annual Report on Form 10-K for the fiscal year ended December 31, 2007, 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,

interest rates,

inflation,

the 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 established stores (open more than two years) and their level of profitability.

*Our current estimate for total store market potential in North America could be incorrect.*

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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 U.S., Canada, and Mexico, we currently estimate there is potential market opportunity in North America to support approximately 3,500 stores. We cannot guarantee that our market potential estimates are accurate or that we will open stores to reach the full market opportunity. In addition, a particular local market's ability to support a store may change because of a change in our store format or the presence of a competitor's store.

***We may be unable to meet our goals regarding new store openings.***

Our growth is primarily dependent on our ability to attract new customers; and historically, the most effective way to attract new customers has been opening new stores. Our current business strategy focuses on opening stores at a rate of approximately 7% to 10% each year. Failure to open stores at this rate could negatively impact our long-term growth.

***Neither our current business strategy of expanding certain stores with additional product selection or our new business strategy of reducing our rate of new store openings and using the money saved to add outside sales personnel to existing stores has proven successful on a long-term basis.***

In 2002, we began implementing our current business strategy that focuses on store locations with a consistent wholesale merchandising theme, which we refer to as the Customer Service Project or CSP. The viability of this business strategy has not been proven on a long-term basis. In June 2005 we disclosed our intention to convert locations to the CSP2 format. These stores have an additional investment which includes an additional \$62,000 in inventory, two additional sales specialists and two additional vehicles in each store. As discussed earlier in this report, during the third quarter of 2007 we chose to modify the CSP2 expansion from a one size fits all approach to an a la carte approach. This will emphasize inventory expansion based on local customer demographics and based on local product knowledge within our sales force. The results we achieved at our CSP format stores may not be indicative of the results we will achieve at our a la carte format stores. The a la carte format increases our operating costs per store, but may not lead to proportionately increased revenues per store. Our mix of higher and lower margin merchandise in the a la carte stores differs from the merchandise mix in our smaller stores and, therefore, may negatively impact our gross margins in our a la carte format stores. In addition, we may not carry the appropriate merchandise mix during the appropriate time of year in our a la carte format stores. We cannot assure our success in operating the a la carte format stores on a profitable basis. If the a la carte format store is unprofitable, the impact on our financial results could be greater than the impact of an unprofitable smaller format store.

In April 2007, we introduced our Pathway to Profit strategy. This strategy involves 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 will be invested in additional outside sales personnel, with the goal of increasing our average annual per store sales, capturing earnings leverage, and increasing our pretax operating margin. In a normal economic cycle, we believe that, over a five year period, we can grow our average store sales to \$125,000 per month and grow our pretax operating margin from 18% to 23%. However, we cannot assure these results. A downturn in the economy, difficulty in successfully attracting and retaining qualified outside sales personnel, and failure to successfully change our selling process could impact our ability to grow average store sales, capture earnings leverage, and achieve expected pretax earnings results.

***Lower volume orders and changes in our customers and product mix could cause our gross margin percentage to fluctuate or decline in the future.***

From time to time, we have experienced changes in product mix and inbound inventory costs. 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. Furthermore, there is no assurance that we will be able to continue to incrementally increase our gross margin percentage by varying product mix as we have over the last several years. Changes in our customers, product mix, or the volume of our orders could cause our gross margin percentage to fluctuate or decline.

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***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 Fastenal's name and capabilities. In addition, entry into new markets may bring us into competition with new, unfamiliar competitors. We cannot assure success in operating our stores in new markets on a profitable basis.

***New store openings may negatively impact our operating results.***

While new stores build the infrastructure for future growth, the first year sales in new stores are low, and the added expenses relating to payroll, occupancy, and transportation costs can impact our ability to leverage earnings. It has been our experience that new stores take 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 products 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 customer's 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 been rising during the last several years, which has resulted 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 operation have risen 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 these 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 and 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, any material increases in employee turnover rates at existing stores, or any 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.

***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. We believe that sales of industrial, construction, and maintenance industry supplies will become more concentrated over the next few years, which may make the industry even more 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 sale methods could cause us to lose market share or to 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.

## ITEM 2. PROPERTIES

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

| Purpose                                                                                                        | Approximate<br>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 home office support group | 30,000                     |

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

| Purpose             | Location                   | Approximate<br>Square Feet |
|---------------------|----------------------------|----------------------------|
| Distribution center | Indianapolis, Indiana      | 414,000                    |
| Distribution center | Atlanta, Georgia           | 198,000                    |
| Distribution center | Dallas, Texas              | 95,000 <sup>1</sup>        |
| Distribution center | Scranton, Pennsylvania     | 160,000                    |
| Distribution center | Akron, Ohio                | 102,000                    |
| Distribution center | Kansas City, Kansas        | 300,000                    |
| Distribution center | Toronto, Ontario, Canada   | 62,000                     |
| Distribution center | Greensboro, North Carolina | 250,000                    |
| Distribution center | Modesto, California        | 320,000                    |

In addition, we own 173 buildings that house our store locations in various cities throughout North America and are in the process of building or renovating another 7 owned store locations for future use.

<sup>1</sup> We are in the process of building another distribution center in the Dallas, Texas area to replace this facility. We expect the new facility, when completed, will be approximately 300,000 square feet.

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 lease term are for 36 to 48 months). We also lease the following:

| Purpose                        | Location                      | Approximate<br>Square Feet | Lease Expiration Date | Remaining Lease<br>Renewal Options |
|--------------------------------|-------------------------------|----------------------------|-----------------------|------------------------------------|
| Distribution center            | Seattle, Washington           | 55,000                     | April 2011            | None                               |
| Distribution center            | Salt Lake City, Utah          | 22,000                     | July 2012             | None                               |
| Distribution center            | Monterrey, Nuevo Leon, Mexico | 14,000                     | September 2008        | None                               |
| New store<br>processing center | LaCrosse, Wisconsin           | 48,750                     | June 2009             | None                               |

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

### ITEM 3. LEGAL PROCEEDINGS

On October 18, 2007, a complaint was filed in the United States District Court for the Northern District of California against Fastenal Company on behalf of two former employees claiming to represent all employees employed in the store position of Assistant General Manager in the United States within three years prior to the filing date (four years for California employees). The suit alleges Fastenal misclassified its Assistant General Managers as exempt for purposes of the overtime provisions of the Fair Labor Standards Act (FLSA) and California and Pennsylvania state statutes. This suit also alleges that Assistant General Managers in California did not receive sufficient meal breaks and paid rest periods under the California Labor Code. The complaint seeks overtime pay, meal and rest period penalties, liquidated damages, restitution, attorneys fees, costs and interest. The plaintiffs seek class action status. This action is in a preliminary stage. We are not currently able to predict the outcome of this action or reasonably estimate a range of potential loss. We intend to vigorously defend this action.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

**ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of Fastenal Company are:

| <b>Name</b>           | <b>Employee<br/>of Fastenal<br/>since</b> | <b>Age</b> | <b>Position</b>                                       |
|-----------------------|-------------------------------------------|------------|-------------------------------------------------------|
| Willard D. Oberton    | 1980                                      | 49         | Chief Executive Officer, President, and Director      |
| Daniel L. Florness    | 1996                                      | 44         | Executive Vice President and Chief Financial Officer  |
| Nicholas J. Lundquist | 1979                                      | 50         | Executive Vice President-Sales                        |
| Leland J. Hein        | 1985                                      | 47         | Executive Vice President-Sales                        |
| Steven A. Rucinski    | 1980                                      | 50         | Executive Vice President-Sales                        |
| Reyne K. Wisecup      | 1988                                      | 45         | Executive Vice President-Human Resources and Director |
| James C. Jansen       | 1992                                      | 37         | Executive Vice President-Internal Operations          |

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 our executive vice president sales since November 2007. Mr. Lundquist's responsibilities include complete 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. From June 2000 through December 2002, Mr. Lundquist was our vice-president of sales.

Mr. Hein was elected as executive vice president sales in November 2007. Mr. Hein's responsibilities under this new role include complete sales and operational oversight over a substantial portion of our business. Prior to December 2007, Mr. Hein served in various sales roles, most recently serving as a regional vice president in our Winona and Kansas City based regions.

Mr. Rucinski was elected as executive vice president sales in November 2007. Mr. Rucinski's responsibilities under this new role include complete sales and operational oversight over a substantial portion of our business. Prior to December 2007, Mr. Rucinski served in various sales roles, most recently serving as a senior vice president of strategic accounts.

Ms. Wisecup was elected as executive vice president human resources in November 2007. During her tenure with Fastenal, she has served in various support roles, most recently serving as director of employee development. Ms. Wisecup's responsibilities will be similar under this new role. Ms. Wisecup has served as one of our directors since 2000.

Mr. Jansen was elected as executive vice president internal operations in November 2007. Mr. Jansen's responsibilities expanded at that time to include product and merchandising development as well as systems development. Since June 2005, Mr. Jansen served as director of systems development (this role encompassed both information systems and distribution systems development). Prior to June 2005, Mr. Jansen was the regional vice president of our regional business unit based in Dallas, Texas.

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.

**PART II**

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

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Common Stock Data on page 6 and Performance Graph on page 8.

**ITEM 6. SELECTED FINANCIAL DATA**

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Six-Year Selected Financial Data on page 5.

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

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Management's Discussion & Analysis of Financial Condition & Results of Operations on pages 9 to 20.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Market Risk Management on page 19.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Selected Quarterly Financial Data (Unaudited) on page 6, Consolidated Financial Statements and Notes to Consolidated Financial Statements on pages 21 to 37, and Report of Independent Registered Public Accounting Firm on page 39.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**  
None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Incorporated herein by reference is our annual report to shareholders for the fiscal year ended December 31, 2007, Management Report on Internal Control over Financial Reporting on page 38 and Report of Independent Registered Public Accounting Firm on page 39.

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

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Incorporated herein by reference is the information appearing under the headings Proposal 1 Election of Directors Nominees and Required Vote , pages 4 to 5, Corporate Governance Audit Committee , pages 9 to 10, and Corporate Governance Section 16(a) Beneficial Ownership Reporting Compliance , page 13, in our proxy statement dated February 21, 2008. See also Part I hereof under the heading Item X. Executive Officers of the Registrant .

There were no material changes to the procedures by which security holders may recommend nominees to the board of directors since our last report.

On January 19, 2004, our board of directors adopted a supplement to our existing standards of conduct designed to qualify the standards of conduct as a code of ethics within the meaning of Item 406(b) of Regulation S-K promulgated by the SEC ( Code of Ethics ). The standards of conduct, as supplemented, apply to all of our directors, officers, and employees, including without limitation our chief executive officer, chief financial officer, principal accounting officer, and controller (if any), and persons performing similar functions ( Senior Financial Officers ). Those portions of the standards of conduct, as supplemented, that constitute a required element of a Code of Ethics are available without charge by submitting a request to us pursuant to the directions detailed on our website at [www.fastenal.com](http://www.fastenal.com). In the event we amend or waive any portion of the standards of conduct, as supplemented, that constitutes a required element of a Code of Ethics and such amendment or waiver applies to any of our Senior Financial Officers, we intend to post on our website, within four business days after the date of such amendment or waiver, a brief description of such amendment or waiver, the name of each Senior Financial Officer to whom the amendment or waiver applies, and the date of the amendment or waiver.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference is the information appearing under the headings Corporate Governance Compensation Committee Interlocks and Insider Participation , page 12, Corporate Governance Compensation Committee Report , page 12, and Executive Compensation , pages 14 to 21, in our proxy statement dated February 21, 2008.

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

Incorporated herein by reference is the information appearing under the heading Security Ownership of Principal Shareholders and Management , pages 7 to 8, in our proxy statement dated February 21, 2008.

**Equity Compensation Plan Information**

| Plan Category                                              | Number of Securities<br>to be Issued Upon<br>Exercise of<br>Outstanding Options,<br>Warrants, and Rights<br>(a) | Weighted-Average<br>Exercise Price of<br>Outstanding Options,<br>Warrants, and Rights<br>(b) | Number of Securities<br>Remaining Available for<br>Future Issuance Under<br>Equity Compensation Plans<br>(Excluding Securities<br>Reflected in Column (a))<br>(c) |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity Compensation Plans Approved by Security Holders     | 2,140,000                                                                                                       | \$ 45                                                                                        | 4,821,770                                                                                                                                                         |
| Equity Compensation Plans Not Approved by Security Holders | 0                                                                                                               | 0                                                                                            | 0                                                                                                                                                                 |
| <b>Total</b>                                               | <b>2,140,000</b>                                                                                                | <b>\$ 45</b>                                                                                 | <b>4,821,770</b>                                                                                                                                                  |

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

Incorporated herein by reference is the information appearing under the headings Corporate Governance Board Matters , page 9, Corporate Governance Related Person Transaction Approval Policy , page 10, Corporate Governance Transactions with Related Persons , page 11, and Corporate Governance Director Nominations Policy , pages 12 to 13, in our proxy statement dated February 21, 2008.

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

Incorporated herein by reference is the information appearing under the heading Audit and Related Fees , page 23, in our proxy statement dated February 21, 2008.

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**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

a) 1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Earnings for the years ended December 31, 2007, 2006, and 2005

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2007, 2006, and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(Incorporated by reference to pages 21 to 37 and page 39 of Fastenal Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007)

2. Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts

3. Exhibits:

- 3.1 Restated Articles of Incorporation of Fastenal Company, as amended (incorporated by reference to Exhibit 3.1 to Fastenal Company's Form 10-Q for the quarter ended September 30, 2005)
- 3.2 Restated By-Laws of Fastenal Company, as amended
- 10.1 Description of Bonus Arrangements for Executive Officers (incorporated by reference to the information appearing under the heading "Executive Compensation Compensation Discussion and Analysis", pages 14 to 17, in Fastenal Company's Proxy Statement dated February 21, 2008)\*
- 10.2 Fastenal Company Stock Option Plan (incorporated by reference to Exhibit A to Fastenal Company's Proxy Statement dated February 23, 2007)\*
- 13 Annual Report to Shareholders for the fiscal year ended December 31, 2007 (only those portions specifically incorporated by reference herein shall be deemed filed with the SEC)
- 21 List of Subsidiaries
- 23 Consent of Independent Registered Public Accounting Firm
- 31 Certifications under Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification under Section 906 of the Sarbanes-Oxley Act of 2002

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

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

**FASTENAL COMPANY**

## Schedule II Valuation and Qualifying Accounts

Years ended December 31, 2007, 2006, and 2005

(Amounts in thousands)

| Description                         | Balance at<br>beginning<br>of year | Additions<br>charged to<br>costs and<br>expenses | Other<br>additions<br>(deductions) | Less<br>deductions  | Balance<br>at end<br>of year |
|-------------------------------------|------------------------------------|--------------------------------------------------|------------------------------------|---------------------|------------------------------|
| <b>Year ended December 31, 2007</b> |                                    |                                                  |                                    |                     |                              |
| Allowance for doubtful accounts     | \$ 2,119                           | 5,343                                            |                                    | 5,197               | 2,265                        |
| Insurance reserves                  | \$ 17,662                          | 56,939 <sup>1</sup>                              |                                    | 55,604 <sup>2</sup> | 18,997                       |
| <b>Year ended December 31, 2006</b> |                                    |                                                  |                                    |                     |                              |
| Allowance for doubtful accounts     | \$ 3,875                           | 3,722                                            |                                    | 5,478               | 2,119                        |
| Insurance reserves                  | \$ 12,533                          | 34,131 <sup>1</sup>                              |                                    | 29,002 <sup>2</sup> | 17,662                       |
| <b>Year ended December 31, 2005</b> |                                    |                                                  |                                    |                     |                              |
| Allowance for doubtful accounts     | \$ 5,181                           | 5,933                                            |                                    | 7,239               | 3,875                        |
| Insurance reserves                  | \$ 6,698                           | 32,190 <sup>1</sup>                              |                                    | 26,355 <sup>2</sup> | 12,533                       |

<sup>1</sup> Includes costs and expenses incurred for premiums and claims related to health and general insurance.<sup>2</sup> Includes costs and expenses paid for premiums and claims related to health and general insurance.

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

**SIGNATURES**

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

Date: February 21, 2008

**FASTENAL COMPANY**

By /s/ Willard D. Oberton

Willard D. Oberton, Chief Executive Officer

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

Date: February 21, 2008

By /s/ Willard D. Oberton

Willard D. Oberton, Chief Executive Officer

(Principal Executive Officer) and Director

By /s/ Daniel L. Florness

Daniel L. Florness, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

By /s/ Robert A. Kierlin

Robert A. Kierlin, Director

By /s/ Michael M. Gostomski

Michael M. Gostomski, Director

By /s/ Stephen M. Slaggie

Stephen M. Slaggie, Director

By /s/ Henry K. McConnon

Henry K. McConnon, Director

By /s/ Robert A. Hansen

Robert A. Hansen, Director

By /s/ Michael J. Dolan

Michael J. Dolan, Director

By /s/ Reyne K. Wisecup

Reyne K. Wisecup, Director

By /s/ Hugh L. Miller

Hugh L. Miller, Director

**INDEX TO EXHIBITS**

|      |                                                                                                                                                                                  |                           |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| 3.1  | Restated Articles of Incorporation of Fastenal Company, as amended                                                                                                               | Incorporated by Reference |
| 3.2  | Restated By-Laws of Fastenal Company, as amended                                                                                                                                 | Electronically Filed      |
| 10.1 | Description of Bonus Arrangements for Executive Officers                                                                                                                         | Incorporated by Reference |
| 10.2 | Fastenal Company Stock Option Plan                                                                                                                                               | Incorporated by Reference |
| 13   | Annual Report to Shareholders for the fiscal year ended December 31, 2007 (only those portions specifically incorporated by reference herein shall be deemed filed with the SEC) | Electronically Filed      |
| 21   | List of Subsidiaries                                                                                                                                                             | Electronically Filed      |
| 23   | Consent of Independent Registered Public Accounting Firm                                                                                                                         | Electronically Filed      |
| 31   | Certifications under Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                               | Electronically Filed      |
| 32   | Certification under Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                | Electronically Filed      |