WABASH NATIONAL CORP /DE
Form 10-Q
October 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF **THE SECURITIES EXCHANGE ACT OF 1934** FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
	OR
..	TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF **THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number: 1-10883

WABASH NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	52-1375208 (IRS Employer Identification Number)
1000 Sagamore Parkway South, Lafayette, Indiana (Address of Principal Executive Offices)	47905 (Zip Code)

Registrant’s telephone number, including area code: (765) 771-5300

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

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 number of shares of common stock outstanding at October 25, 2018 was 56,034,243.

WABASH NATIONAL CORPORATION

INDEX

FORM 10-Q

2

Item 1. Financial Statements

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 104,121	$ 191,521
Accounts receivable	187,558	146,836
Inventories	232,450	180,735
Prepaid expenses and other	72,558	57,299
Total current assets	596,687	576,391
PROPERTY, PLANT AND EQUIPMENT	198,876	195,363
GOODWILL	311,044	317,464
INTANGIBLE ASSETS	215,136	237,030
OTHER ASSETS	28,464	25,265
	$ 1,350,207	$ 1,351,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,880	$ 46,020
Current portion of capital lease obligations	294	290
Accounts payable	185,938	108,448
Other accrued liabilities	120,310	128,910
Total current liabilities	308,422	283,668
LONG-TERM DEBT	503,309	504,091
CAPITAL LEASE OBLIGATIONS	792	1,012
DEFERRED INCOME TAXES	36,766	36,955
OTHER NONCURRENT LIABILITIES	21,031	19,724

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock 200,000,000 shares authorized, $0.01 par value, 56,034,243 and 57,564,493 shares outstanding, respectively	744	737
Additional paid-in capital	627,348	653,435
Retained earnings	143,125	98,728
Accumulated other comprehensive losses	(2,445)	(2,385)
Treasury stock at cost, 18,471,604 and 16,207,740 common shares, respectively	(288,885)	(244,452)
Total stockholders' equity	479,887	506,063
	$ 1,350,207	$ 1,351,513

The accompanying notes are an integral part of these Condensed Consolidated Statements.

3

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET SALES	$553,073	$425,098	$1,657,082	$1,223,717
COST OF SALES	487,911	364,134	1,442,487	1,035,718
Gross profit	$65,162	$60,964	$214,595	$187,999
GENERAL AND ADMINISTRATIVE EXPENSES	23,033	16,075	73,920	53,511
SELLING EXPENSES	8,690	5,497	25,591	17,568
AMORTIZATION OF INTANGIBLES	4,937	4,097	14,818	12,693
ACQUISITION EXPENSES	-	8,704	68	8,704
IMPAIRMENT	11,989	-	11,989	-
Income from operations	$16,513	$26,591	$88,209	$95,523
OTHER INCOME (EXPENSE):				
Interest expense	(7,044)	(3,187)	(21,649)	(9,065)
Other, net	533	6,271	12,486	7,929
Income before income taxes	$10,002	$29,675	$79,046	$94,387
INCOME TAX EXPENSE	5,338	10,728	21,209	32,321
Net income	$4,664	$18,947	$57,837	$62,066
DIVIDENDS DECLARED PER SHARE	$0.075	$0.06	$0.225	$0.18
BASIC NET INCOME PER SHARE	$0.08	$0.32	$1.01	$1.04
DILUTED NET INCOME PER SHARE	$0.08	$0.30	$0.98	$0.99

The accompanying notes are an integral part of these Condensed Consolidated Statements.

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME	$ 4,664	$ 18,947	$ 57,837	$ 62,066
Other comprehensive income (loss):				
Foreign currency translation adjustment	200	57	74	829
Unrealized holding gain (loss) on investments	6	-	(103)	-
Unrealized gain (loss) on derivative instruments	(31)	-	(31)	-
Total other comprehensive income (loss)	175	57	(60)	829
COMPREHENSIVE INCOME	$ 4,839	$ 19,004	$ 57,777	$ 62,895

The accompanying notes are an integral part of these Condensed Consolidated Statements.

WABASH NATIONAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$57,837	$62,066
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	15,701	12,709
Amortization of intangibles	14,818	12,693
Net gain on sale of property, plant and equipment	(10,164)	(8,060)
Loss on debt extinguishment	174	767
Deferred income taxes	(122)	59
Stock-based compensation	8,479	8,311
Impairment	11,989	-
Non-cash interest expense	1,426	1,569
Changes in operating assets and liabilities		
Accounts receivable	(48,531)	26,185
Inventories	(66,089)	(77,923)
Prepaid expenses and other	(3,265)	(187)
Accounts payable and accrued liabilities	76,602	23,702
Other, net	(2,171)	(772)
Net cash provided by operating activities	$56,684	$61,119
Cash flows from investing activities		
Capital expenditures	(20,344)	(15,401)
Proceeds from the sale of property, plant, and equipment	17,775	12,608
Acquisition, net of cash acquired	-	(323,487)
Other, net	3,060	6,230
Net cash provided by (used in) investing activities	$491	$(320,050)
Cash flows from financing activities		
Proceeds from exercise of stock options	961	5,781
Borrowings under senior notes	-	325,000
Dividends paid	(13,566)	(11,547)
Borrowings under revolving credit facilities	582	520
Payments under revolving credit facilities	(582)	(520)
Principal payments under capital lease obligations	(216)	(416)

Proceeds from issuance of term loan credit facility	-	189,470
Principal payments under term loan credit facility	(1,410)	(198,058)
Principal payments under industrial revenue bond	(93)	(446)
Debt issuance costs paid	-	(6,472)
Convertible senior notes repurchase	(80,200)	(7,513)
Stock repurchase	(44,433)	(46,633)
Net cash (used in) provided by financing activities	$(138,957)	$249,166
Net decrease in cash, cash equivalents, and restricted cash	$(81,782)	$(9,765)
Cash, cash equivalents and restricted cash at beginning of period	191,521	163,467
Cash, cash equivalents, and restricted cash at end of period	$109,739	$153,702
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	$16,263	$7,069
Income taxes	$23,588	$32,976

The accompanying notes are an integral part of these Condensed Consolidated Statements.

WABASH NATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Wabash National Corporation (the “Company”) have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company, its results of operations and cash flows. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

2. REVENUE RECOGNITION

The Company adopted Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) effective January 1, 2018. The adoption of Topic 606 did not have an impact on the consolidated financial statements. The Company recognizes revenue from the sale of its products when obligations under the terms of a contract with our customers are satisfied; this occurs with the transfer of control of our products and replacement parts or throughout the completion of service work. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring promised goods or services to a customer and excludes all taxes collected from the customer. Shipping and handling fees are included in *Net Sales* and the associated costs included in *Cost of Sales* in the Consolidated Statements of Operations. For shipping and handling costs that take place after the transfer of control, the Company is applying the practical expedient and treating it as a fulfillment cost. Incidental items that are immaterial in the context of the contract are recognized as expense. For performance obligations satisfied over time, which include certain equipment-related sales within our Diversified Products reportable segment that have no alternative use and contain an enforceable right to payment, as well as service work whereby the customer simultaneously receives and consumes the benefits provided, the Company recognizes revenue on the basis of the Company’s efforts or inputs to the satisfaction of these performance obligations, measured by actual total cost incurred to the total estimated costs for each project. Total revenue recognized over time was not material to the consolidated financial statements for all periods presented.

The Company has identified three separate and distinct performance obligations: 1) the sale of a trailer or equipment, 2) the sale of replacement parts, and 3) service work. For trailer, truck body, equipment, and replacement part sales, control is transferred and revenue is recognized from the sale upon shipment to or pick up by the customer in accordance with the contract terms. The Company does not have any material extended payment terms as payment is received shortly after the point of sale. Accounts receivables are recorded when the right to consideration becomes unconditional. The Company does have customers who pay for the product prior to the transfer of control which is recorded as customer deposits in *Other Accrued Liabilities* as shown in Note 12. Customer deposits are recognized as revenue when the Company performs its obligations under the contract and transfers control of the product.

3. ACQUISITION OF SUPREME INDUSTRIES, INC.

On September 27, 2017, the Company completed the acquisition of Supreme Industries, Inc. (“Supreme”) following a cash tender offer by the Company for all outstanding shares of Supreme’s Class A and Class B common stock for $21 per share and an aggregate consideration paid of $360.4 million. The Company financed the Supreme acquisition and related fees and expenses using the proceeds of the Company’s $325 million offering in aggregate principal amount of 5.50% senior unsecured notes due 2025 (as described in further detail in Note 6) and available cash and cash equivalents.

Supreme is one of the nation’s leading manufacturers of specialized commercial vehicles, including cutaway and dry-freight van bodies, refrigerated units, and stake bodies. Supreme has manufacturing facilities in Goshen and Ligonier, Indiana; Jonestown, Pennsylvania; Cleburne, Texas; Griffin, Georgia; and Moreno Valley, California. Supreme is part of our new Final Mile Products reportable segment created by the Company in the fourth quarter of 2017. This acquisition allows the Company to accelerate our growth and expand our presence in the final mile space, with increased distribution paths and greater customer reach, and supports the Company’s objective to transform it into a more diversified industrial manufacturer.

The Company incurred various costs related to the Supreme acquisition including fees paid to an investment banker for acquisition services and the related bridge financing commitment as well as professional fees for diligence, legal and accounting totaling $0.1 million and $8.7 million for the nine-month periods ending September 30, 2018 and 2017, respectively. These costs have been recorded as *Acquisition Expenses* in the Condensed Consolidated Statements of Operations.

The aggregate purchase price of $360.4 million was allocated to the opening balance sheet of Supreme at September 27, 2017, the date of acquisition, as follows (in thousands):

Cash	$36,878
Accounts receivable	25,196
Inventories	33,471
Prepaid expense and other	23,916
Property, plant, and equipment	59,891
Intangibles	161,200
Goodwill	167,714
Other assets	127
Total assets acquired	$508,393
Current portion of long term debt	$7,167
Accounts payable	10,546

Other accrued liabilites	55,518
Deferred income taxes	71,880
Long term liabilities	2,918
Total liabilities assumed	$148,029
Net assets acquired	$360,364
Acquisition, net of cash acquired	$323,486

Intangible assets totaling $161.2 million were recorded as a result of the acquisition and consist of the following (in thousands):

	Amount	Useful Life
Tradename	$20,000	20 years
Customer relationships	139,000	15 years
Backlog	2,200	Less than 1 year
	$161,200	

The Company plans to amortize the tradename intangible asset utilizing a straight-line approach and the customer relationship intangible asset using an accelerated method that follows the pattern in which the economic benefits of the asset is expected to be consumed. Amortization expense, including the intangible assets recorded from the Supreme acquisition, is estimated to be $20.1 million, $20.5 million, $22.1 million, $23.4 million and $18.9 million for the years 2018 through 2022, respectively.

Goodwill of $167.7 million was recorded as a result of the acquisition. The amount recorded as goodwill for the Supreme acquisition is not deductible for tax purposes. Goodwill, calculated as the excess of the consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized, is comprised of operational synergies that are expected to be realized in both the short and long-term and the opportunity to enter new market sectors with higher margin potential which will enable us to deliver greater value to our customers and shareholders. During the first nine months of 2018, the Company made certain adjustments to its purchase price allocation to adjust tax obligations, inventory, accrued liabilities, and accounts receivable, which resulted in a $1.5 million decrease in goodwill.

Unaudited Pro forma Results

The results of Supreme are included in the Condensed Consolidated Statements of Operations, including $85.1 million and $0.2 million of net sales and net loss, respectively, for the three months ended September 30, 2018 and $276.8 million and $14.2 million of net sales and net income, respectively, for the nine months ended September 30, 2018. The following unaudited pro forma information is shown below as if the acquisition of Supreme had been completed as of the beginning of the earliest period presented (in thousands):

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Net sales	$ 496,761	$ 1,454,599

Net income	$ 14,688	$ 58,341

The information presented above is for informational purposes only and is not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the respective periods, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the Company.

4. INVENTORIES

Inventories are stated at the lower of cost, determined either on the first-in, first-out or average cost method, or net realizable value. The cost of manufactured inventory includes raw material, labor and overhead. Inventories, net of reserves, consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials and components	$ 104,797	$ 83,834
Finished goods	101,490	54,000
Work in progress	18,281	29,123
Aftermarket parts	6,468	6,448
Used trailers	1,414	7,330
	$ 232,450	$ 180,735

5. PREPAID EXPENSES

Prepaid expenses and other current assets as of September 30, 2018 and December 31, 2017 consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Chassis converter pool agreements	$ 16,653	$ 18,326
Assets held for sale	16,631	10,777
Income tax receivables	15,086	10,821
Restricted cash	5,618	-
Insurance premiums & maintenance agreements	3,937	6,860
All other	14,633	10,515
	$ 72,558	$ 57,299

Chassis converter pool agreements represent chassis transferred to the Company on a restricted basis by the manufacturer, who retains the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales to the manufacturer’s dealers. Assets held for sale are related to the Company’s former branch locations and businesses the Company has sold or intends to sell within one year. Insurance premiums and maintenance agreements are charged to expenses over the contractual life, which is generally one year or less. Additionally, prepaid expenses include costs in excess of billings on contracts for which the Company recognizes revenue over time as services are completed.

Restricted cash includes balances that resulted from the sale of certain branch assets that served as collateral to secure the Company’s long-term debt. The restriction will lapse when collateral assets are purchased. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows.

	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 104,121	$ 153,702
Restricted cash included in prepaid expenses and other	5,618	-
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 109,739	$ 153,702

6. DEBT

Long-term debt consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Senior notes due 2025	$ 325,000	$ 325,000
Term loan credit agreement	186,169	187,579
Convertible senior notes due 2018	-	44,561
Other debt	-	93
	511,169	557,233
Less: unamortized discount and fees	(5,980)	(7,122)
Less: current portion	(1,880)	(46,020)
	$ 503,309	$ 504,091

Convertible Senior Notes

In April 2012, the Company issued Convertible Senior Notes due 2018 (the “Convertible Notes”) with an aggregate principal amount of $150 million in a public offering. The Convertible Notes bore interest at a rate of 3.375% per annum from the date of issuance, payable semi-annually on May 1 and November 1, and matured on May 1, 2018. The Convertible Notes were senior unsecured obligations of the Company ranking equally with its existing and future senior unsecured debt. The Company used the net proceeds of $145.1 million from the sale of the Convertible Notes to fund a portion of the purchase price of the acquisition of Walker Group Holdings (“Walker”) in May 2012. The Company accounted separately for the liability and equity components of the Convertible Notes in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion.

During 2018, the Company used $80.2 million in cash, excluding interest, to settle $44.6 million in principal of the Convertible Notes of which none were converted to common shares. The excess of the cash settlement amount over the principal value of the Convertible Notes was accounted for as a reacquisition of equity, resulting in a $35.5 million reduction to additional paid-in capital during the nine months ended September 30, 2018. For the nine months ended September 30, 2018, the Company recognized a loss on debt extinguishment of $0.2 million related to settlements and the retirement of the Convertible Notes, which is included in *Other, net* on the Company’s Condensed Consolidated

Statements of Operations.

Contractual coupon interest expense and accretion of discount and fees on the liability component for the Convertible Notes for the three and nine-month periods ended September 30, 2018, and 2017 included in *Interest Expense* on the Company's Condensed Consolidated Statements of Operations were as follows (in thousands):

11

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Contractual coupon interest expense	$ -	$ 379	$ 470	$ 1,194
Accretion of discount and fees on the liability component	$ -	$ 374	$ 461	$ 1,159

Senior Notes

On September 26, 2017, the Company issued Senior Notes due 2025 (the "Senior Notes") in an offering pursuant to Rule 144A or Regulation S under the Securities Act of 1933, as amended, with an aggregate principal amount of $325 million. The Senior Notes bear interest at the rate of 5.50% per annum from the date of issuance, and will pay interest semi-annually in cash on April 1 and October 1 of each year, beginning on April 1, 2018. The Company used the net proceeds of $318.9 million from the sale of the Senior Notes to finance a portion of the acquisition of Supreme and to pay related fees and expenses.

The Senior Notes will mature on October 1, 2025. At any time prior to October 1, 2020, the Company may redeem some or all of the Senior Notes for cash at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes being redeemed plus an applicable make-whole premium set forth in the indenture for the Senior Notes and accrued and unpaid interest to, but not including, the redemption date. Prior to October 1, 2020, the Company may redeem up to 40% of the Senior Notes at a redemption price of 105.50% of the principal amount, plus accrued and unpaid interest to, but not including, the redemption date, with the proceeds of certain equity offerings so long as if, after any such redemption occurs, at least 60% of the aggregate principal amount of the Senior Notes remains outstanding. On and after October 1, 2020, the Company may redeem some or all of the Senior Notes at redemption prices (expressed as percentages of principal amount) equal to 102.750% for the twelve-month period beginning on October 1, 2020, 101.375% for the twelve-month period beginning October 1, 2021 and 100% beginning on October 1, 2022, plus accrued and unpaid interest to, but not including, the redemption date. Upon the occurrence of a Change of Control (as defined in the indenture for the Senior Notes), unless the Company has exercised its optional redemption right in respect of the Senior Notes, the holders of the Senior Notes have the right to require the Company to repurchase all or a portion of the Senior Notes at a price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest to, but not including, the date of repurchase.

The Senior Notes are guaranteed on a senior unsecured basis by all direct and indirect existing and future domestic restricted subsidiaries, subject to certain restrictions. The Senior Notes and related guarantees are the Company's and the guarantors' general unsecured senior obligations and are subordinate to all of the Company's and the guarantors' existing and future secured debt to the extent of the assets securing that secured obligation. In addition, the Senior Notes are structurally subordinate to any existing and future debt of any of the Company's subsidiaries that are not guarantors, to the extent of the assets of those subsidiaries.

The indenture for the Senior Notes restricts the Company's ability and the ability of certain of its subsidiaries to: (i) incur additional indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, its capital stock or with respect to any other interest or participation in, or measured by, its profits; (iii) make loans and certain investments; (iv) sell assets; (v) create or incur liens; (vi) enter into transactions with affiliates; and (vii) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services and no event of default has occurred or is continuing, many of these covenants will be suspended and the Company and its subsidiaries will not be subject to such covenants during such period.

The indenture for the Senior Notes contains customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

Contractual coupon interest expense and accretion of discount and fees for the Senior Notes for the three-month and nine-month periods ended September 30, 2018 was $4.6 million and $13.8 million, respectively and is included in *Interest Expense* on the Company's Condensed Consolidated Statements of Operations.

Revolving Credit Agreement

In May 2012, the Company entered into the Amended and Restated Credit Agreement (as subsequently amended, the "Credit Agreement"), dated as of May 8, 2012, among the Company, certain subsidiaries of the Company from time to time party thereto (together with the Company, the "Borrowers"), the several lenders from time to time party thereto, and Wells Fargo Capital Finance, LLC, as arranger and administrative agent (the "Agent"). The Credit Agreement provides for, among other things, (x) a $175 million senior secured revolving credit facility that matures on June 4, 2020, subject to certain springing maturity events and (y) an uncommitted accordion feature allowing for an increase to the availability under the revolving credit facility of up to $50 million, subject to certain conditions (the "Revolving Credit Facility").

The Revolving Credit Facility (i) bears interest, at the Borrowers' election, at (x) the London Interbank Offer Rate (LIBOR) (subject to a floor of 0%) plus a margin ranging from 150 basis points to 200 basis points, or (y) a base rate plus a margin ranging from 50 basis points to 100 basis points, in each case, based upon the monthly average excess availability under the Revolving Credit Facility, (ii) requires the Company to pay a monthly unused line fee equal to 25 basis points times the average unused availability under the Revolving Credit Facility, (iii) provides that if availability under the Revolving Credit Facility is less than 12.5% of the total commitment under the Revolving Credit Facility or if there exists an event of default, amounts in any of the Borrowers' and the subsidiary guarantors' deposit accounts (other than certain excluded accounts) will be transferred daily into a blocked account held by the Agent and applied to reduce the outstanding amounts under the Revolving Credit Facility, and (iv) requires the Company to maintain a minimum fixed charge coverage ratio of not less than 1.1 to 1.0 as of the end of any period of 12 fiscal months when excess availability under the Revolving Credit Facility is less than 10% of the total commitment under the Revolving Credit Facility.

In connection with, and in order to permit under the Credit Agreement, the Senior Notes offering and the acquisition of Supreme, on August 16, 2017, the Company entered into the Third Amendment to the Credit Agreement (the "Third Amendment"). The Third Amendment also permitted the Company to incur certain other indebtedness in connection with the acquisition of Supreme and to acquire certain liens and obligations of Supreme upon the consummation of the acquisition.

13

The Credit Agreement is guaranteed by certain of the Company's subsidiaries (the "Revolver Guarantors") and is secured by (i) first priority security interests (subject only to customary permitted liens and certain other permitted liens) in substantially all personal property of the Borrowers and the Revolver Guarantors, consisting of accounts receivable, inventory, cash, deposit and securities accounts and any cash or other assets in such accounts and, to the extent evidencing or otherwise related to such property, all general intangibles, licenses, intercompany debt, letter of credit rights, commercial tort claims, chattel paper, instruments, supporting obligations, documents and payment intangibles (collectively, the "Revolver Priority Collateral"), and (ii) second-priority liens on and security interests in (subject only to the liens securing the Term Loan Credit Agreement (as defined below), customary permitted liens and certain other permitted liens) (A) equity interests of each direct subsidiary held by the Borrower and each Revolver Guarantor (subject to customary limitations in the case of the equity of foreign subsidiaries), and (B) substantially all other tangible and intangible assets of the Borrowers and the Revolver Guarantors including equipment, general intangibles, intercompany notes, insurance policies, investment property, intellectual property and material owned real property (in each case, except to the extent constituting Revolver Priority Collateral) (collectively, the "Term Priority Collateral"). The respective priorities of the security interests securing the Credit Agreement and the Term Loan Credit Agreement are governed by an Intercreditor Agreement between the Agent and the Term Agent (as defined below) (the "Intercreditor Agreement").

The Credit Agreement contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets. Subject to the terms of the Intercreditor Agreement, if the covenants under the Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 30 days.

As of September 30, 2018, the Company had no outstanding borrowings under the Credit Agreement and was in compliance with all covenants. The Company's liquidity position, defined as cash on hand and available borrowing capacity on the Revolving Credit Facility, amounted to $271.4 million as of September 30, 2018.

Term Loan Credit Agreement

In May 2012, the Company entered into the Term Loan Credit Agreement (as amended, the "Term Loan Credit Agreement"), dated as of May 8, 2012, among the Company, the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent (the "Term Agent"), joint lead arranger and joint bookrunner, and Wells Fargo Securities, LLC, as joint lead arranger and joint bookrunner, which provides for, among other things, (x) a senior secured term loan of $188.0 million that matures on March 19, 2022, subject to certain springing maturity events (the "Term Loans"), and (y) an uncommitted accordion feature to provide for additional senior secured term loans of up to $75 million plus an unlimited amount provided that the senior secured leverage ratio would not exceed 3.00 to 1.00, subject to certain conditions (the “Term Loan Facility”).

In connection with, and in order to permit under the Term Loan Credit Agreement, the Senior Notes offering and the acquisition of Supreme, on August 18, 2017, the Company entered into Amendment No. 4 to the Term Loan Credit Agreement (“Amendment No. 4”). Amendment No. 4 also permitted the Company to incur certain other indebtedness in connection with the Supreme acquisition and to acquire certain liens and obligations of Supreme upon the consummation of the Supreme acquisition.

Furthermore, on November 17, 2017, the Company entered into Amendment No. 5 to the Term Loan Credit Agreement (“Amendment No. 5”). As of the Amendment No. 5 date, $188.0 million of the Term Loans were outstanding. Under Amendment No. 5, the lenders agreed to provide to the Company term loans in the same aggregate principal amount of the outstanding Term Loans, which were used to refinance the outstanding Term Loans.

The Term Loans amortize in equal quarterly installments in aggregate amounts equal to 0.25% of the initial principal amount of the Term Loans, with the balance payable at maturity, and bear interest at a rate, at the Company’s election, equal to (i) LIBOR (subject to a floor of 0%) plus a margin of 225 basis points or (ii) a base rate (subject to a floor of 0%) plus a margin of 125 basis points. The Company is not subject to any financial covenants under the Term Loan Facility.

The Term Loan Credit Agreement is guaranteed by certain of the Company’s subsidiaries, and is secured by (i) first-priority liens on and security interests in the Term Priority Collateral, and (ii) second-priority security interests in the Revolver Priority Collateral.

The Term Loan Credit Agreement contains customary covenants limiting the Company’s ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase stock, enter into transactions with affiliates, merge, dissolve, pay off subordinated indebtedness, make investments and dispose of assets. Subject to the terms of the Intercreditor Agreement, if the covenants under the Term Loan Credit Agreement are breached, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding and foreclose on collateral. Other customary events of default in the Term Loan Credit Agreement include, without limitation, failure to pay obligations when due, initiation of insolvency proceedings, defaults on certain other indebtedness, and the incurrence of certain judgments that are not stayed, satisfied, bonded or discharged within 60 days.

For the three month period ended September 30, 2018 and 2017, under the Term Loan Credit Agreement the Company paid interest of $2.0 million and $1.9 million, respectively, and principal of $0.5 million during each period. In the first nine months of 2018 and 2017, the Company paid interest of $5.9 million and $5.7 million, respectively, and principal of $1.4 million during each period. In connection with Amendment No. 3 the Company recognized a loss on debt extinguishment of $0.6 million during the first quarter of 2017 which was included in *Other, net* on the Company’s Condensed Consolidated Statements of Operations. As of September 30, 2018, the Company had $186.2 million outstanding under the Term Loan Credit Agreement, of which $1.9 million was classified as current on the Company’s Condensed Consolidated Balance Sheet.

For each three-month period ended September 30, 2018 and 2017, the Company incurred charges of less than $0.1 million for amortization of fees and original issuance discount, and for each nine-month period ended September 30, 2018 and 2017, the Company incurred charges of $0.2 million and $0.1 million, respectively, which is included in *Interest Expense* in the Condensed Consolidated Statements of Operations.

7. FAIR VALUE MEASUREMENTS

The Company’s fair value measurements are based upon a three-level valuation hierarchy. These valuation techniques are based upon the transparency of inputs (observable and unobservable) to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. These two types of inputs create the following fair value hierarchy:

·Level 1 — Valuation is based on quoted prices for identical assets or liabilities in active markets;

- Level 2 — Valuation is based on quoted prices for similar assets or liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for the full term of the financial instrument; and

- Level 3 — Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Recurring Fair Value Measurements

The Company maintains a non-qualified deferred compensation plan which is offered to senior management and other key employees. The amount owed to participants is an unfunded and unsecured general obligation of the Company. Participants are offered various investment options with which to invest the amount owed to them, and the plan administrator maintains a record of the liability owed to participants by investment. To minimize the impact of the change in market value of this liability, the Company has elected to purchase a separate portfolio of investments through the plan administrator similar to those chosen by the participant.

The investments purchased by the Company include mutual funds, $0.9 million of which are classified as Level 1, and life-insurance contracts valued based on the performance of underlying mutual funds, $16.3 million of which are classified as Level 2.

Additionally, upon the Company's acquisition of Supreme, the Company acquired a pool of investments made by a wholly owned captive insurance subsidiary. These investments are comprised of mutual funds, $4.9 million of which are classified as Level 1.

Estimated Fair Value of Debt

The estimated fair value of debt at September 30, 2018 consists primarily of the Senior Notes due 2025 and borrowings under the Term Loan Credit Agreement (see Note 6 Debt). The fair value of the Senior Notes due 2025, Term Loan Credit Agreement and the Revolving Credit Facility are based upon third party pricing sources, which generally do not represent daily market activity or represent data obtained from an exchange, and are classified as Level 2. The interest rates on the Company's borrowings under the Revolving Credit Facility are adjusted regularly to reflect current market rates and thus carrying value approximates fair value for these borrowings. All other debt and capital lease obligations approximate their fair value as determined by discounted cash flows and are classified as Level 3.

The Company's carrying and estimated fair value of debt at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018				December 31, 2017			
	Carrying	Fair Value			Carrying	Fair Value		
	Value	Level 1	Level 2	Level 3	Value	Level 1	Level 2	Level 3
Instrument								
Convertible senior notes due 2018	$-	$-	$-	$-	$44,046	$-	$83,605	$-
Senior notes due 2025	319,818	-	310,375	-	319,377	-	328,250	-
Term loan credit agreement	185,371	-	186,169	-	186,620	-	188,048	-
Other debt	-	-	-	-	67	-	-	67
Capital lease obligations	1,086	-	-	1,086	1,302	-	-	1,302
	$506,275	$-	$496,544	$1,086	$551,412	$-	$599,903	$1,369

The fair value of debt is based on current public market prices for disclosure purposes only. Unrealized gains or losses are not recognized in the financial statements as long-term debt is presented at the carrying value, net of unamortized premium or discount and unamortized deferred financing costs in the financial statements.

Impairment of Goodwill and Long-lived Assets

The company recorded an impairment of goodwill for a reporting unit within the Diversified Products reportable segment in the third quarter of 2018 for $4.9 million, based on indicative market value of the reporting unit. Changes in the goodwill balance for the nine months ended September 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Balance as of January 1	$317,464	$148,367
Acquisition of Supreme	(1,520)	165,400
Effects of foreign currency	44	(141)
Impairment of goodwill	(4,944)	-
Balance as of September 30	$311,044	$313,626

The Company also recorded an impairment of all long-lived assets for the same reporting unit within the Diversified Products reportable segment in the third quarter of 2018 of $7.0 million. The aggregate goodwill and long-lived asset impairment charges, which are based on Level 3 fair value measurements, are included in *Impairment* expense in the Condensed Consolidated Statements of Operations.

Financial Derivatives

As of September 30, 2018, the Company was party to forward contracts to hedge changes with specific commodities for a notional amounts of approximately $25.1 million. The Company uses financial derivatives to mitigate the risks associated with fluctuations in commodity prices impacting its cash flows related to inventory purchases from suppliers. We currently do not hedge all commodity price risk. At inception, the Company designated the forward contracts as cash flow hedges. The forward contracts mature at specified monthly settlement dates through October, 2019. The effective portion of the hedging transaction is recognized in Accumulated Other Comprehensive Income and transferred to earnings using specific identification when the forecasted hedged transaction takes place or when the forecasted hedged transaction is probable of not occurring. As of September 30, 2018 the fair value of the forward contracts, which are based on current market prices and are classified as Level 2 on the fair value hierarchy, approximate their notional amount.

8. STOCK-BASED COMPENSATION

The Company recognizes all share-based payments based upon their fair value. The Company grants restricted stock units subject to service, performance and/or market conditions. The Company’s policy is to recognize expense for awards that have service conditions only subject to graded vesting using the straight-line attribution method. The fair value of service and performance based units is based on the market price of a share of underlying common stock at the date of grant. The fair value of the market based units is based on a lattice valuation model. The amount of compensation costs related to restricted stock units and performance units not yet recognized was $17.2 million at September 30, 2018 for which the expense will be recognized through 2021.

9. CONTINGENCIES

The Company is involved in a number of legal proceedings concerning matters arising in connection with the conduct of its business activities, and is periodically subject to governmental examinations (including by regulatory and tax authorities), and information gathering requests (collectively, "governmental examinations"). As of September 30, 2018, the Company was named as a defendant or was otherwise involved in numerous legal proceedings and governmental examinations in various jurisdictions, both in the United States and internationally.

The Company has recorded liabilities for certain of its outstanding legal proceedings and governmental examinations. A liability is accrued when it is both (a) probable that a loss with respect to the legal proceeding has occurred and (b) the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings and governmental examinations that could cause an increase or decrease in the amount of the liability that has been previously accrued. These legal proceedings, as well as governmental examinations, involve various lines of business of the Company and a variety of claims (including, but not limited to, common law tort, contract, antitrust and consumer protection claims), some of which present novel factual allegations and/or unique legal theories. While some matters pending against the Company specify the damages claimed by the plaintiff, many seek a not-yet-quantified amount of damages or are at very early stages of the legal process. Even when the amount of damages claimed against the Company are stated, the claimed amount may be exaggerated and/or unsupported. As a result, it is not currently possible to estimate a range of possible loss beyond previously accrued liabilities relating to some matters including those described below. Such previously accrued liabilities may not represent the Company's maximum loss exposure. The legal proceedings and governmental examinations underlying the estimated range will change from time to time and actual results may vary significantly from the currently accrued liabilities.

Based on its current knowledge, and taking into consideration its litigation-related liabilities, the Company believes it is not a party to, nor are any of its properties the subject of, any pending legal proceeding or governmental examination other than the matters below, which are addressed individually, that would have a material adverse effect on the Company's consolidated financial condition or liquidity if determined in a manner adverse to the Company. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of the Company’s income for that period. Costs associated with the litigation and settlements of legal matters are reported within *General and Administrative Expenses* in the Condensed Consolidated Statements of Operations.

Brazil Joint Venture

In March 2001, Bernard Krone Indústria e Comércio de Máquinas Agrícolas Ltda. (“BK”) filed suit against the Company in the Fourth Civil Court of Curitiba in the State of Paraná, Brazil. Because of the bankruptcy of BK, this proceeding is now pending before the Second Civil Court of Bankruptcies and

Creditors Reorganization of Curitiba, State of Paraná (No. 232/99).

The case grows out of a joint venture agreement between BK and the Company related to marketing of RoadRailer trailers in Brazil and other areas of South America. When BK was placed into the Brazilian equivalent of bankruptcy late in 2000, the joint venture was dissolved. BK subsequently filed its lawsuit against the Company alleging that it was forced to terminate business with other companies because of the exclusivity and non-compete clauses purportedly found in the joint venture agreement. BK asserted damages, exclusive of any potentially court-imposed interest or inflation adjustments, of approximately R$20.8 million (Brazilian Reais). BK did not change the amount of damages asserted following its filing of the case in 2001.

A bench (non-jury) trial was held on March 30, 2010 in Curitiba, Paraná, Brazil. On November 22, 2011, the Fourth Civil Court of Curitiba partially granted BK's claims, and ordered Wabash to pay BK lost profits, compensatory, economic and moral damages in excess of the amount of compensatory damages asserted by BK. The total ordered damages amount was approximately R$26.7 million (Brazilian Reais), which was approximately $6.6 million U.S. dollars using the exchange rate as of September 30, 2018, and exclusive of any potentially court-imposed interest, fees or inflation adjustments. On October 5, 2016, the Court of Appeals re-heard all facts and legal questions presented in the case, and ruled in favor of the Company on all claims at issue. In doing so, the Court of Appeals dismissed all claims against the Company and vacated the judgment and damages previously ordered by the Fourth Civil Court of Curitiba. On September 30, 2017, BK filed its notice for a special appeal of the Court of Appeals ruling to the Superior Court of Justice and the Supreme Federal Court. However, unless these higher courts find in favor of BK on any of its claims, the judgment of the Court of Appeals in favor of the Company will be final. As a result of the Court of Appeals ruling, the Company does not expect that this proceeding will have a material adverse effect on its financial condition or results of operations; however, it will continue to monitor the appeal and await the Court of Appeals' ruling.

Intellectual Property

In October 2006, the Company filed a patent infringement suit against Vanguard National Corporation ("Vanguard") regarding the Company's U.S. Patent Nos. 6,986,546 and 6,220,651 in the U.S. District Court for the Northern District of Indiana (Civil Action No. 4:06-cv-135). The Company amended the Complaint in April 2007. In May 2007, Vanguard filed its Answer to the Amended Complaint, along with Counterclaims seeking findings of noninfringement, invalidity, and unenforceability of the subject patents. The Company filed a reply to Vanguard's counterclaims in May 2007, denying any wrongdoing or merit to the allegations as set forth in the counterclaims. The case was stayed by agreement of the parties while the U.S. Patent and Trademark Office ("Patent Office") undertook a reexamination of U.S. Patent No. 6,986,546. In June 2010, the Patent Office notified the Company that the reexamination was completed and the Patent Office reissued U.S. Patent No. 6,986,546 without cancelling any claims of the patent. The parties have not yet petitioned the Court to lift the stay, and it is unknown at this time when the parties may do so. The Company believes that its claims against Vanguard have merit and that the claims asserted by Vanguard are without merit. The Company intends to vigorously defend its position and intellectual property. The Company believes that the resolution of this lawsuit will not have a material adverse effect on its financial position, liquidity or future results of operations. However, at this stage of the proceeding, no assurance can be given as to the ultimate outcome of the case

Walker Acquisition

In connection with the Company's acquisition of Walker in May 2012, there was an outstanding, disputed claim of approximately $2.9 million for unpaid benefits. In June 2018, this dispute was resolved as part of a confidential settlement agreement. The resolution of the dispute did not have a material adverse effect on the Company's financial condition or results of operations.

19

Environmental Disputes

In August 2014, the Company received notice as a potentially responsible party ("PRP") by the South Carolina Department of Health and Environmental Control ("DHEC") pertaining to the Philip Services Site located in Rock Hill, South Carolina pursuant to the Comprehensive Environmental Response, Compensation and Liability Act and corresponding South Carolina statutes. PRPs include parties identified through manifest records as having contributed to deliveries of hazardous substances to the Philip Services Site between 1979 and 1999. The DHEC's allegation that the Company was a PRP arises out of four manifest entries in 1989 under the name of a company unaffiliated with Wabash National (or any of its former or current subsidiaries) that purport to be delivering a de minimis amount of hazardous waste to the Philip Services Site "c/o Wabash National Corporation." As such, the Philip Services Site PRP Group ("PRP Group") notified Wabash in August 2014 that it was offering the Company the opportunity to resolve any liabilities associated with the Philip Services Site by entering into a Cash Out and Reopener Settlement Agreement (the "Settlement Agreement") with the PRP Group, as well as a Consent Decree with the DHEC. The Company has accepted the offer from the PRP Group to enter into the Settlement Agreement and Consent Decree, while reserving its rights to contest its liability for any deliveries of hazardous materials to the Philips Services Site. The requested settlement payment is immaterial to the Company's financial conditions or operations, and as a result, if the Settlement Agreement and Consent Decree are finalized, the payment to be made by the Company thereunder is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Supreme Litigation

Prior to the Company's acquisition of Supreme, a complaint was filed against Supreme Corporation ("SC"), a subsidiary of Supreme, in a suit (SVI, Inc. v. Supreme Corporation, Hometown Trolley (a/k/a Double K, Inc.) and Dustin Pence) in the United States District Court, District of Nevada on May 16, 2016. The plaintiff is SC's former trolley distributor. The plaintiff filed an amended complaint on January 3, 2017, which alleges that SC's sale of its trolley assets to another trolley manufacturer was improper. SC filed a motion to dismiss, which was granted in part on May 30, 2017. The remaining claims alleged against SC include: (i) misappropriation of trade secrets; (ii) civil conspiracy/collusion; (iii) tortious interference with contractual relationships; (iv) breach of contract; and (v) breach of the covenant of good faith and fair dealing. The plaintiff alleges damages amounting to approximately $40 million. Management believes that the allegations are without merit. However, due to the inherent risk of litigation and to avoid additional fees and costs, the Company reached a settlement with SVI, Inc., subject to mutual releases of all claims. On May 14, 2018, the Court approved the settlement. On May 30, 2018, the Court dismissed with prejudice all claims against SC. The settlement of this matter did not have a material adverse effect on the Company's financial condition or results of operations

Prior to the Company's acquisition of Supreme, on November 4, 2016, a putative class action lawsuit was filed against Supreme, Mark D. Weber (Supreme's former Chief Executive Officer) and Matthew W. Long (Supreme's former Chief Financial Officer) in the United States District Court for the Central District of California alleging the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 by making material, misleading statements in July 2016 regarding projected backlog. The plaintiff seeks to recover unspecified damages. On February 14, 2017, the court transferred the venue of the case to the Northern District of Indiana upon the joint stipulation of the plaintiff and the defendants. An amended complaint was filed on April 24, 2017 challenging statements made during a putative class period of October 22, 2015 through October 21, 2016.

On May 24, 2018, the Court granted Supreme's motion to dismiss all claims for failure to state a claim. On July 13, 2018, the plaintiffs filed a second amended complaint. On August 24, 2018, the Company filed a second motion to dismiss for failure to state a claim, and requested dismissal with prejudice. The case is stayed as to discovery. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable; however, at this time, management believes that the allegations are without merit and is vigorously defending the matter. As a result, management does not believe this matter will have a material adverse effect on the Company's financial condition or results of operations.

Chassis Converter Pool Agreements

The Company, through Supreme, obtains most vehicle chassis for its specialized vehicle products directly from the chassis manufacturers under converter pool agreements. Chassis are obtained from the manufacturers based on orders from customers, and in some cases, for unallocated orders. The agreements generally state that the manufacturer will provide a supply of chassis to be maintained at the Company's facilities with the condition that we will store such chassis and will not move, sell, or otherwise dispose of such chassis except under the terms of the agreement. In addition, the manufacturer typically retains the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales of the chassis to the manufacturer's dealers. The manufacturer also does not transfer the certificate of origin to the Company nor permit the Company to sell or transfer the chassis to anyone other than the manufacturer (for ultimate resale to a dealer). Although the Company is party to related finance agreements with manufacturers, the Company has not historically settled, nor expects to in the future settle, any related obligations in cash. Instead, the obligation is settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. Accordingly, as of September 30, 2018, the Company's outstanding chassis converter pool with the manufacturer totaled $16.7 million and has included this financing agreement on the Company's Consolidated Balance Sheets within *Prepaid expenses and other* and *Other accrued liabilities*. All other chassis programs through its Supreme subsidiary are handled as consigned inventory belonging to the manufacturer and totaled approximately $4.5 million. Under these agreements, if the chassis is not delivered to a customer within a specified time frame the Company is required to pay a finance or storage charge on the chassis. Additionally, the Company receives finance support funds from manufacturers when the chassis are assigned into the Company's chassis pool. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis by the Company.

10. NET INCOME PER SHARE

Per share results have been calculated based on the average number of common shares outstanding. The calculation of basic and diluted net income per share is determined using net income applicable to common stockholders as the numerator and the number of shares included in the denominator as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic net income per share:				
Net income applicable to common stockholders	$ 4,664	$ 18,947	$ 57,837	$ 62,066
Weighted average common shares outstanding	56,798	58,994	57,486	59,675
Basic net income per share	$ 0.08	$ 0.32	$ 1.01	$ 1.04
Diluted net income per share:				
Net income applicable to common stockholders	$ 4,664	$ 18,947	$ 57,837	$ 62,066
Weighted average common shares outstanding	56,798	58,994	57,486	59,675
Dilutive shares from assumed conversion of convertible senior notes	-	1,701	676	1,713
Dilutive stock options and restricted stock	944	1,540	1,056	1,527
Diluted weighted average common shares outstanding	57,742	62,235	59,218	62,915
Diluted net income per share	$ 0.08	$ 0.30	$ 0.98	$ 0.99

The calculation of diluted net income per share for the nine-month periods ended September 30, 2018 and 2017 and the three-month period ended September 30, 2017 includes the impact of the Company's Notes as the average stock price of the Company's common stock during the period was above the initial conversion price of approximately $11.70 per share.

11. INCOME TAXES

For the three months ended September 30, 2018, the Company recognized income tax expense of $5.3 million compared to $10.7 million for the same period in the prior year. The effective tax rate for this period was 53.4% compared to 36.2% for the same period in the prior year. For the nine months ended September 30, 2018, the Company recognized income tax expense of $21.2 million in the first nine months of 2018 compared to $32.3 million for the same period in the prior year. The effective tax rates for the first nine months of 2018 and 2017 were 26.8% and 34.2%, respectively. These effective tax rates differ from the US Federal statutory rate of 21% and 35% for 2018 and 2017, respectively, primarily due to the impact of state and local taxes as well as discrete items incurred related to the deductibility of executive compensation offset by the recognition of excess tax benefits on share-based awards.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act contains numerous new and changed provisions related to the US federal taxation of domestic and foreign corporate operations. As such, for the period ended December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates that are expected to be in effect at the time the tax deduction or taxable item will be reported in the Company's tax return (i.e. when they are expected to reverse in the future), which is generally 21%, as well as assessed its ability to realize deferred income tax assets in the future under the new rules.

Additionally, the Company assessed the impacts of the new provisions associated with the deductibility of executive compensation under Internal Revenue Code Section 162(m), and the associated “grandfathering” rules within the Act to provide taxpayers transition relief when applying the change in law. As of December 31, 2017, the Company recognized a $3.1 million deferred income tax asset associated with the future tax deductions of equity-based compensation for the executives whose compensation falls under the new limitation rules. During the third quarter of 2018, the Company reversed this deferred tax asset as new guidance was issued by the Department of Treasury in Notice 2018-68 with regards to the treatment of negative discretionary language contained within the Company’s executive compensation plan. As of September 30, 2018, the Company’s accounting for the 2017 Tax Act is considered incomplete; however, we expect accounting to be completed by December 2018 as required under Staff Accounting Bulletin No. 118.

12. OTHER ACCRUED LIABILITIES

The following table presents the major components of *Other Accrued Liabilities* (in thousands):

	September 30, 2018	December 31, 2017
Payroll and related taxes	$ 26,303	$ 27,840
Customer deposits	23,044	26,059
Warranty	21,465	20,132
Chassis converter pool agreements	16,653	18,326
Self-insurance	10,755	9,996
Accrued taxes	4,731	9,224
All other	17,359	17,333
	$ 120,310	$ 128,910

The following table presents the changes in the product warranty accrual included in *Other Accrued Liabilities* (in thousands):

	2018	2017
Balance as of January 1	$20,132	$20,520
Provision for warranties issued in current year	5,272	4,159
Supreme Acquisition	-	1,581
(Recovery of) Provision for pre-existing warranties	-	(225)
Payments	(3,939)	(4,928)
Balance as of September 30	$21,465	$21,107

The Company offers a limited warranty for its products with a coverage period that ranges between one and five years, except that the coverage period for DuraPlate® trailer panels is ten years. The Company passes through component manufacturers' warranties to our customers. The Company's policy is to accrue the estimated cost of warranty coverage at the time of the sale.

13. SEGMENTS

a. Segment Reporting

The Company manages its business in three reportable segments: Commercial Trailer Products, Diversified Products, and Final Mile Products. The Commercial Trailer Products segment manufactures standard and customized van and platform trailers and other transportation related equipment for customers who purchase directly from the Company or through independent dealers. The Diversified Products segment, comprised of four strategic business units including, Tank Trailer, Aviation & Truck Equipment, Process Systems and Composites, focuses on the Company’s commitment to expand its customer base, diversify its product offerings and revenues and extend its market leadership by leveraging its proprietary DuraPlate® panel technology, drawing on its core manufacturing expertise and making available products that are complementary to truck and tank trailers and transportation equipment. The Final Mile Products segment includes the operations of Supreme, and other truck body activities previously reported in the Company’s Commercial Trailer Products segment.

Previously, we managed our business in two segments: Commercial Trailer Products and Diversified Products. In the third quarter of 2017, we completed the acquisition of Supreme. As a result, we created a new reporting segment in the fourth quarter of 2017 referred to as the Final Mile Products segment, which includes the Supreme operations and certain other truck body operations which were previously included in our Commercial Trailer Products segment. The Company has not restated the historical comparative periods due to the immaterial impact of the existing truck body activities on the presented segments and periods.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that the Company evaluates segment performance based on income from operations. The Company has not allocated certain corporate related administrative costs, interest and income taxes included in the corporate and eliminations segment to the Company's other reportable segments. The Company accounts for intersegment sales and transfers at cost plus a specified mark-up.

Reportable segment information is as follows (in thousands):

	Commercial Trailer Products	Diversified Products	Final Mile Products	Corporate and Eliminations	Consolidated
Three Months Ended September 30, 2018					
Net sales					
External customers	$ 368,301	$ 97,723	$ 87,049	$ -	$ 553,073
Intersegment sales	41	4,638	-	(4,679)	-
Total net sales	$ 368,342	$ 102,361	$ 87,049	$ (4,679)	$ 553,073
Income (Loss) from operations	$ 32,453	$ (6,346)	$ (1,495)	$ (8,099)	$ 16,513
Assets	$ 358,150	$ 352,494	$ 475,934	$ 163,629	$ 1,350,207
2017					
Net sales					
External customers	$ 339,494	$ 85,604	$ -	$ -	$ 425,098
Intersegment sales	(2)	3,246	-	(3,244)	-
Total net sales	$ 339,492	$ 88,850	$ -	$ (3,244)	$ 425,098
Income (Loss) from operations	$ 36,319	$ 5,178	$ -	$ (14,906)	$ 26,591
Assets	$ 362,209	$ 356,147	$ -	$ 660,771	$ 1,379,127

	Commercial Trailer Products	Diversified Products	Final Mile Products	Corporate and Eliminations	Consolidated
Nine Months Ended September 30, 2018					
Net sales					
External customers	$ 1,098,182	$ 275,183	$ 283,717	$ -	$ 1,657,082
Intersegment sales	89	16,466	-	(16,555)	-
Total net sales	$ 1,098,271	$ 291,649	$ 283,717	$ (16,555)	$ 1,657,082
Income (Loss) from operations	$ 102,718	$ 3,078	$ 9,372	$ (26,959)	$ 88,209
Assets	$ 358,150	$ 352,494	$ 475,934	$ 163,629	$ 1,350,207
2017					
Net sales					
External customers	$ 962,371	$ 261,346	$ -	$ -	$ 1,223,717

Intersegment sales	50	8,241	-	(8,291)	-
Total net sales	$ 962,421	$ 269,587	$ -	$ (8,291)	$ 1,223,717
Income (Loss) from operations	$ 111,865	$ 14,844	$ -	$ (31,186)	$ 95,523
Assets	$ 362,209	$ 356,147	$ -	$ 660,771	$ 1,379,127

24

b. Product Information

The Company offers products primarily in four general categories: (1) new trailers, (2) used trailers, (3) components, parts and service and (4) equipment and other. The following table sets forth the major product categories and their percentage of consolidated net sales (dollars in thousands):

	Commercial Trailer Products	Diversified Products	Final Mile Products	Corporate and Eliminations	Consolidated	
	$	$	$	$	$	%
Three Months Ended September 30, 2018						
New trailers	354,003	44,399	-	-	398,402	72.0
Used trailers	1,888	775	-	-	2,663	0.5
Components, parts and service	8,090	29,064	2,304	(4,676)	34,782	6.3
Equipment and other	4,361	28,123	84,745	(3)	117,226	21.2
Total net sales	368,342	102,361	87,049	(4,679)	553,073	100.0
2017						
New trailers	319,463	35,225	-	-	354,688	83.4
Used trailers	3,245	601	-	-	3,846	0.9
Components, parts and service	12,255	27,881	-	(3,244)	36,892	8.7
Equipment and other	4,529	25,143	-	-	29,672	7.0
Total net sales	339,492	88,850	-	(3,244)	425,098	100.0

	Commercial Trailer Products	Diversified Products	Final Mile Products	Corporate and Eliminations	Consolidated	
	$	$	$	$	$	%
Nine Months Ended September 30, 2018						
New trailers	1,049,452	115,840	-	-	1,165,292	70.3
Used trailers	8,794	2,489	-	-	11,283	0.7
Components, parts and service	25,780	94,958	7,340	(16,529)	111,549	6.7
Equipment and other	14,245	78,362	276,377	(26)	368,958	22.3
Total net sales	1,098,271	291,649	283,717	(16,555)	1,657,082	100.0
2017						
New trailers	906,058	99,210	-	-	1,005,268	82.1
Used trailers	5,368	2,457	-	-	7,825	0.6
Components, parts and service	38,100	93,750	-	(8,291)	123,559	10.1
Equipment and other	12,895	74,170	-	-	87,065	7.2

Total net sales	962,421	269,587	-	(8,291	) 1,223,717	100.0

14.NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. We have identified our existing lease contracts and are in the process of identifying the data within the contracts needed for the calculation of the right of use assets and lease liabilities. We are finalizing our selection of a software provider to build our repository of lease contracts and to assist us with the accounting entries. This guidance will be effective for the Company as of January 1, 2019. The FASB has issued further ASUs related to the standard providing an optional transition method allowing entities to not recast comparative periods. The Company intends to use the optional transition method and, as such recognize the effects of applying the new standard as a cumulative-effect adjustment to retained earnings as of January 1, 2019. The Company plans to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. Wabash will not reassess whether any contracts entered into prior to adoption are leases. The Company has approximately $5.3 million of noncancelable future rental obligations.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash,* which requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one item on the balance sheet, a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet is required. This guidance was adopted by the Company on January 1, 2018 and was applied retrospectively. See Note 5 for the reconciliation of the cash, cash equivalents and restricted cash balances reported within the statement of cash flows to the related captions in the balance sheet.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-4"). ASU 2017-4 eliminates Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company early adopted ASU 2017-04 in the third quarter of 2018. The company recognized a $4.9 million goodwill impairment charge during the three months ended September 30, 2018 (refer to Note 7, Fair Value Measurements, for more information).

<u>ITEM 2.</u> <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report of Wabash National Corporation (together with its subsidiaries, the "Company," "Wabash," "we," "our," or "us") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue," "believe," "expect," "plan "anticipate" and other similar words. Our "forward-looking statements" include, but are not limited to, statements regarding:

- our business plan;
- our ability to effectively integrate Supreme and realize expected synergies and benefits from the Supreme acquisition;
- our expected revenues, income or loss;

- our ability to manage our indebtedness;

- our strategic plan and plans for future operations;

- financing needs, plans and liquidity, including for working capital and capital expenditures;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate relationships;
- availability and pricing of raw materials, including the impact of tariffs or other international trade developments;
- availability of capital and financing;
- dependence on industry trends;
- the outcome of any pending litigation or notice of environmental dispute;
- export sales and new markets;
- engineering and manufacturing capabilities and capacity, including our ability to attract and retain qualified personnel;
- our ability to develop and commercialize new products;
- acceptance of new technologies and products;
- government regulation; and
- assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this Quarterly Report. Important risks and factors that could cause our actual results to be materially different from our expectations include the factors that are disclosed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. Each forward-looking statement contained in this Quarterly

Report reflects our management's view only as of the date on which that forward-looking statement was made. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events, except as required by law.

27

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net sales for the periods indicated:

		Percentage of Net Sales							
		Three Months Ended				Nine Months Ended			
		September 30,				September 30,			
		2018		2017		2018		2017	
Net sales		100.0%		100.0	%	100.0	%	100.0	%
Cost of sales		88.2		85.7		87.0		84.6	
Gross profit		39.03	Third quarter	$36.65	29.47				
Fourth quarter	$46.65	40.20	Fourth quarter	$44.32	32.23				

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

Issuer Purchases of Equity Securities

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

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

Table of Contents

The Fastenal Company Common Stock Comparative Performance Graph
Set forth below is a graph comparing, for the five years ended December 31, 2012, the yearly cumulative total shareholder return on our common stock with the yearly cumulative total shareholder return of the S&P Composite Index and an index (the 'Peer Group Index') of a group of peer companies selected by us (the 'Peer Group'). The companies in the Peer Group are Lawson Products, Inc., MSC Industrial Direct Co., Inc., Airgas, Inc., and W.W. Grainger, Inc. Fastenal is not included in the Peer Group.
In calculating the yearly cumulative total shareholder return of the Peer Group Index, the shareholder returns of the companies included in the Peer Group are weighted according to the stock market capitalization of such companies at the beginning of each period for which a return is indicated.
The comparison of total shareholder returns in the performance graph assumes that $100 was invested on December 31, 2007 in Fastenal Company, the S&P Composite Index and the Peer Group Index, and that dividends were reinvested when and as paid.
Comparison of Five Year Cumulative Total Return Among Fastenal Company,
Peer Group Index, and S&P Composite Index

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

ITEM 6. SELECTED FINANCIAL DATA
Incorporated herein by reference is Ten-Year Selected Financial Data on page 5 of Fastenal’s 2012 Annual Report to Shareholders of which this Form 10-K forms a part, a portion of which is filed as Exhibit 13 to this Form 10-K.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The following is management’s discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements. (Dollar amounts are in thousands except for per share amounts and where otherwise noted.)

20

Table of Contents

BUSINESS AND OPERATIONAL OVERVIEW:

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

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

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

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

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

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

SALES GROWTH:

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

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

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

Table of Contents

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

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

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

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

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

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

SALES BY PRODUCT LINE:

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

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

Table of Contents

MONTHLY SALES CHANGES, SEQUENTIAL TRENDS, AND END MARKET PERFORMANCE

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

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

MONTHLY SALES CHANGES:

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

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

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

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

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

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

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

Table of Contents

SEQUENTIAL TRENDS:

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

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

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

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

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

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

24

Table of Contents

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

END MARKET PERFORMANCE:

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

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

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

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

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

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

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

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

Table of Contents

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

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

We believe the weakness in the economy in the fourth quarter of 2012, particularly in the non-residential construction market, was amplified by the political uncertainty in the United States.
A graph of the sequential daily sales trends to these two end markets in 2012, 2011, and 2010, starting with a base of '100' in the previous October and ending with the next October, would be as follows:
Manufacturing
Non-Residential Construction

Table of Contents

GROWTH DRIVERS OF OUR BUSINESS

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

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

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

Table of Contents

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

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

1 This represents the gross number of machines signed during the quarter, not the number of contracts.
2 This represents the number of machines installed and dispensing product on the last day of the quarter.
3 The percentage of total sales (vended and traditional) to customers currently using a vending solution.
4 The growth in total sales (vended and traditional) to customers currently using a vending solution compared to the comparable period in the preceding year.

Table of Contents

PROFIT DRIVERS OF OUR BUSINESS

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

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

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

Note – Amounts may not foot due to rounding difference.

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

month. The weak economic environment in 2009 caused our average store size to decrease, and consequently lowered our level of profitability; however, subsequent to 2009 we improved our gross margin and structurally lowered our operating expenses. This improvement allowed us to amplify the 'pathway to profit' and effectively lowered the average store size required to hit our 23% goal. Today we believe we can accomplish our 'pathway to profit' goal with average store sales of approximately $100,000 to $110,000 per month. In the second quarter of 2012 we achieved a pre-tax earnings percentage of 22.2% with average store sales of $89,169 per month.
Note – Dollar amounts in this section are presented in whole dollars, not thousands.

Table of Contents

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

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

Table of Contents

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

Sub-total of non-sales personnel - FTE						
Total - average FTE headcount	11.7 %	15.0 %	14.0 %	10.4 %	6.7 %	4.4 %

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

31

Table of Contents

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

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

Note – Amounts may not foot due to rounding difference.

Gross profit – percentage for 2012 decreased from 2011, but stabilized in the second, third, and fourth quarters of 2012. The gross profit percentage in the first, second, third, and fourth quarters was as follows:

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

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

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

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

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

Table of Contents

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

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

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

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

Our selling transportation costs consist primarily of our store fleet as most of the distribution fleet costs are included in the cost of sales. Selling transportation costs included in operating and administrative expenses increased in 2012; however, they increased at a rate less than sales growth. The increase in 2012 was primarily due to elevated fuel prices in the first quarter, and, in the case of the first, second, and third quarters, the impact of the 2011 expansion of our fleet related to additions to our non-store sales personnel, particularly our industrial vending vehicles. The increase in 2011 was primarily related to the increase in per gallon fuel costs discussed below and the expansion of our fleet related to additions to our non-store sales personnel, particularly our industrial vending vehicles. Our selling and transportation costs in the fourth quarter of 2012 were comparable to those in the fourth quarter of 2011 because the per gallon fuel costs only grew nominally and the number of our industrial vending vehicles had normalized. Conversely, the increase in the fourth quarter of 2011 from the fourth quarter of 2010 was driven by the dramatic increase in per gallon fuel costs and the ramp up in the number of our industrial vending vehicles.

Table of Contents

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

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

Per gallon average price	Q1	Q2	Q3	Q4	Annual Average[1]
2012 price					
Diesel fuel	$3.92	3.98	3.88	4.05	3.96
Gasoline	$3.53	3.73	3.61	3.53	3.60
2011 price					
Diesel fuel	$3.60	4.04	3.90	3.87	3.85
Gasoline	$3.22	3.78	3.62	3.37	3.50
2010 price					
Diesel fuel	$2.89	3.06	2.96	3.14	3.01
Gasoline	$2.68	2.80	2.71	2.84	2.76

Per gallon price change	Q1	Q2	Q3	Q4	Annual[1]
2012 change					
Diesel fuel	8.9 %	-1.5 %	-0.5 %	4.7 %	2.9 %
Gasoline	9.6 %	-1.3 %	-0.3 %	4.7 %	2.9 %
2011 change					
Diesel fuel	24.6 %	32.0 %	31.8 %	23.2 %	27.9 %
Gasoline	20.1 %	35.0 %	33.6 %	18.7 %	26.8 %

[1] Average of the four quarterly figures contained in the table.

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

Table of Contents

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

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

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

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

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

[1] For purposes of this discussion, we are defining operational working capital as accounts receivable, net and inventories.

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

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

Table of Contents

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

New Accounting Pronouncements

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

Proposed Accounting Pronouncements

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

Geographic Information

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

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

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

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

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Fastenal Company:

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

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

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

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

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

Organizations of the Treadway Commission.

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

Table of Contents

FASTENAL COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets
(Amounts in thousands except share information)

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

See accompanying notes to consolidated financial statements

Table of Contents

FASTENAL COMPANY AND SUBSIDIARIES
Consolidated Statements of Earnings
(Amounts in thousands except earnings per share)
For the year ended December 31,

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

See accompanying notes to consolidated financial statements

Table of Contents

FASTENAL COMPANY AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Amounts in thousands)
For the year ended December 31,

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

See accompanying notes to consolidated financial statements

Table of Contents

FASTENAL COMPANY AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Amounts in thousands)

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

See accompanying notes to consolidated financial statements

46

Table of Contents

FASTENAL COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Amounts in thousands)
For the year ended December 31,

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

See accompanying notes to consolidated financial statements

Table of Contents

Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements
Note 1. Business Overview and Summary of Significant Accounting Policies
Business Overview
Fastenal is a leader in the wholesale distribution of industrial and construction supplies operating stores primarily located in North America. On December 31, 2012, we operated approximately 2,700 company-owned or leased store locations.
Principles of Consolidation
The consolidated financial statements include the accounts of Fastenal Company and its wholly-owned subsidiaries (collectively referred to as 'Fastenal' or by such terms as 'we', 'our', or 'us'). All material intercompany balances and transactions have been eliminated in consolidation.
Revenue Recognition and Accounts Receivable
Net sales include products, services, and freight and handling costs billed, net of any related sales incentives paid to customers and net of an estimate for product returns. We recognize revenue when persuasive evidence of an arrangement exists, title and risk of ownership have passed, the sales price is fixed or determinable, and collectibility is probable. These criteria are met at the time the product is shipped to, or picked up by, the customer. We recognize billings for freight and handling charges at the time the products are shipped to, or picked up by, the customer. We recognize services at the time the service is provided to the customer. We estimate product returns based on historical return rates. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales in the accompanying consolidated statements of earnings.
Foreign Currency Translation and Transactions
The functional currency of our foreign operations is the applicable local currency. The functional currency is translated into United States dollars for balance sheet accounts (with the exception of retained earnings) using current exchange rates as of the balance sheet date, for retained earnings at historical exchange rates, and for revenue and expense accounts using a weighted average exchange rate during the period. The translation adjustments are deferred as a separate component of stockholders' equity captioned accumulated other comprehensive income. Gains or losses resulting from transactions denominated in foreign currencies are included in operating and administrative expenses in the consolidated statements of earnings.
Cash and Cash Equivalents
Cash and cash equivalents are held primarily at two financial institutions. For purposes of the consolidated statements of cash flows, we consider all highly-liquid money market instruments purchased with original maturities of three months or less to be cash equivalents.

Table of Contents

Financial Instruments and Marketable Securities

All financial instruments are carried at amounts that approximate estimated fair value. The fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. Assets measured at fair value are categorized based upon the lowest level of significant input to the valuations. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. In determining fair value we use observable market data when available.

Marketable securities as of December 31, 2012 and 2011 consist of common stock and debt securities. We classify our marketable securities as available-for-sale. Available-for-sale securities are recorded at fair value based on current market value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings but are included in comprehensive income and are reported as a separate component of stockholders' equity until realized, unless a decline in the market value of any available-for-sale security is below cost then the amount is deemed other than temporary and is charged to earnings, resulting in the establishment of a new cost basis for the security.

Inventories

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

Property and Equipment

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

Leases

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

Table of Contents

Other Long-Lived Assets
Other assets consist of prepaid security deposits, goodwill, non-compete agreements, and other related intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is reviewed for impairment annually. The non-compete and related intangible assets are amortized on a straight-line basis over their estimated life.
Goodwill and other identifiable intangible long-lived assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or on an annual basis if no event or change occurs, to determine that the unamortized balances are recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset, and, in the case of goodwill, by also looking at an adverse change in legal factors or the business climate, a transition to a new product or services strategy, a significant change in the customer base, and/or a realization of failed marketing efforts. If the asset is deemed to be impaired, the amount of impairment is charged to earnings as a part of operating and administrative expenses in the current period. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.
Accounting Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
Insurance Reserves
We are self-insured for certain losses relating to medical, dental, workers' compensation, and other casualty losses. Specific stop loss coverage is provided for catastrophic claims in order to limit exposure to significant claims. Losses and claims are charged to operations when it is probable a loss has been incurred and the amount can be reasonably estimated. Accrued insurance liabilities are based on claims filed and estimates of claims incurred but not reported.
Product Warranties
We offer a basic limited warranty for certain of our products. The specific terms and conditions of those warranties vary depending upon the product sold. We typically recoup these costs through product warranties we hold with the original equipment manufacturers. Our warranty expense has historically been minimal.
Stockholders' Equity and Stock-Based Compensation
We have a stock option employee compensation plan ('stock option plan'). The options granted under our stock option plan vest and become exercisable over a period of up to eight years. Each option will terminate, to the extent not previously exercised, 13 months after the end of the relevant vesting period. Compensation expense equal to the grant date fair value is recognized for these awards over the vesting period.
Income Taxes
We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Earnings Per Share

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

Segment Reporting

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

Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Note 2. Financial Instruments and Marketable Securities
We follow a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, included in Level 1 that are observable either directly or indirectly.
- Level 3 inputs are unobservable for the asset or liability, but are based upon our own assumptions used to measure assets and liabilities at fair value.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.
The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis:

December 31, 2012:	Total	Level 1	Level 2	Level 3
Common stock	$354	354	—	—
Total available-for-sale securities	$354	354	—	—

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

There were no transfers between levels during 2012 and 2011.
As of December 31, 2012, our financial assets that are measured at fair value on a recurring basis include only common stock.

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

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

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

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

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

Note 3. Long-Lived Assets
Property and equipment
Property and equipment at year end consists of the following:

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

Note 4. Accrued Expenses

Accrued expenses at year end consist of the following:

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

Note 5. Stockholders' Equity

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

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

Dividends

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

Stock Options

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

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

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

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

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

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

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

	Options outstanding		Exercise Price[1]	Remaining Life[2]
Outstanding as of January 1, 2012	5,132,750		$24.92	4.72
Granted	1,235,000		$54.00	8.41
Exercised/earned	(1,305,708	)	$22.70	
Cancelled/forfeited	(226,250	)	$34.12	
Outstanding as of December 31, 2012	4,835,792		$32.51	5.40
Exercisable as of December 31, 2012	1,168,792		$22.95	3.45

	Options outstanding		Exercise Price[1]	Remaining Life[2]
Outstanding as of January 1, 2011	5,320,000		$24.03	5.50
Granted	410,000		$35.00	7.93
Exercised/earned	(397,250	)	22.50	
Cancelled/forfeited	(200,000	)	$26.78	
Outstanding as of December 31, 2011	5,132,750		$24.92	4.72
Exercisable as of December 31, 2011	1,852,750		$22.50	3.16

1 Weighted-average exercise price
2 Weighted-average remaining contractual life in years

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

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

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

Table of Contents

Earnings Per Share

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

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

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

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

Note 6. Retirement Savings Plan

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

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Note 7. Income Taxes
Earnings before income taxes were derived from the following sources:

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Note 8. Geographic Information
Our revenues and long-lived assets relate to the following geographic areas:

Revenues	2012	2011	2010
United States	$2,798,124	2,474,805	2,067,860
Canada	218,570	198,592	145,078
Other foreign countries	116,883	93,462	56,533
	$3,133,577	2,766,859	2,269,471

Long-Lived Assets	2012	2011	2010
United States	$495,609	426,329	361,083
Canada	15,954	11,105	9,536
Other foreign countries	17,613	11,376	6,814
	$529,176	448,810	377,433

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

Note 9. Operating Leases
We lease space under non-cancelable operating leases for several distribution centers, several manufacturing locations, and certain store locations with initial terms of one to 60 months. Most store locations have initial lease terms of 36 to 48 months. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Any such terms are recognized as rent expense over the term of the lease. Further, the leases do not contain contingent rent provisions. Leasehold improvements, with a net book value of $2,180 at December 31, 2012, on operating leases are amortized over a 36-month period. We lease certain semi-tractors and pick-ups under operating leases. The semi-tractor leases typically have a 36-month term. The pick-up leases typically have a non-cancellable lease term of approximately one year, with renewal options for up to 72-months. Our average lease term for pick-ups is typically for 28 to 36 months. Future minimum annual rentals for the leased facilities and the leased vehicles are as follows:

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

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Rent expense under all operating leases was as follows:

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

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

Note 10. Commitments and Contingencies

Credit Facilities and Commitments

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

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

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

Legal Contingencies

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

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Note 11. Sales by Product Line
The percentages of our net sales by product line are as follows:

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

1 Fastener product line represents fasteners and miscellaneous supplies.

2 Direct ship represents a cross section of products from the eleven product lines. The items included here represent certain items with historically low margins which are shipped directly from our distribution channel to our customers, bypassing our store network.

Table of Contents
Fastenal Company and Subsidiaries
Notes to Consolidated Financial Statements—Continued

Note 12. Subsequent Events
We evaluated all subsequent event activity and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, with the exception of the dividend disclosed in note 5.

Note 13. New and Proposed Accounting Pronouncements
In June 2011, the Financial Accounting Standards Board ('FASB') issued Accounting Standards Update ('ASU') No. 2011-06, Comprehensive Income (Topic 820). This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of equity and requires that the total of comprehensive income, the components of net income, and the components of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also requires presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This accounting standard update was effective beginning in our first quarter of fiscal 2012. The adoption of this accounting standard did not have an impact on our financial statements other than the presentation of the required information.
In August 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment (and in February 2012 provided additional information with the issuance of ASU No. 2012-02). These updates approved a revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We adopted these accounting standard updates in the quarters they were issued. The adoption of these accounting standard updates did not have a material impact on our financial statements.
Proposed Accounting Pronouncements
In recent exposure drafts, the International Accounting Standards Board and the FASB proposed a new approach to the accounting for leases. From a lessee’s perspective, the exposure drafts propose to abolish the distinction between operating and finance/capital leases. In its place, a right-of-use model would be used. This proposal, as currently written, would require the lessee to recognize an asset for its right to use the underlying leased asset and a liability for its obligation to make lease payments. This would lead to an increase in assets and liabilities for leases currently classified as operating leases and could also lead to a change in timing as to when the expense is recognized. This exposure draft is not yet finalized; however, we believe knowledge of this information is useful to the reader of our financial statements as many of our store locations and many of our vehicles are currently leased, and those leases are accounted for as operating leases.

Table of Contents

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

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

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

[1] Note – Amounts may not foot due to rounding difference.

End of Notes to Consolidated Financial Statements

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Table of Contents

Attestation Report of Independent Registered Public Accounting Firm

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

Management's Annual Report on Internal Control Over Financial Reporting

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

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

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

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

Winona, MN
February 7, 2013

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

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

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

In January 2004, our board of directors adopted a supplement to our existing standards of conduct designed to qualify the standards of conduct as a code of ethics within the meaning of Item 406(b) of Regulation S-K promulgated by the SEC ('Code of Ethics'). The standards of conduct, as supplemented, apply to all of our directors, officers, and employees, including without limitation our chief executive officer, chief financial officer, principal accounting officer, and controller (if any), and persons performing similar functions ('Senior Financial Officers'). Those portions of the standards of conduct, as supplemented, that constitute a required element of a Code of Ethics are available without charge by submitting a request to us pursuant to the directions detailed on our website at www.fastenal.com.

In the event we amend or waive any portion of the standards of conduct, as supplemented, that constitutes a required element of a Code of Ethics and such amendment or waiver applies to any of our Senior Financial Officers, we intend to post on our website, within four business days after the date of such amendment or waiver, a brief description of such amendment or waiver, the name of each Senior Financial Officer to whom the amendment or waiver applies, and the date of the amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

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

Table of Contents

ITEM 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' in the Proxy Statement.

Equity Compensation Plan Information

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) 1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Earnings for the years ended December 31, 2012, 2011, and 2010
Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011, and 2010
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011, and 2010
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

3. Exhibits:

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

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

We will furnish copies of these Exhibits upon request and payment of our reasonable expenses in furnishing the Exhibits.
* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

Table of Contents

FASTENAL COMPANY
Schedule II—Valuation and Qualifying Accounts
Years ended December 31, 2012, 2011, and 2010
(Amounts in thousands)

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

[1] Includes costs and expenses incurred for premiums and claims related to health and general insurance.
[2] 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.

68

Table of Contents

SIGNATURES

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

Date: February 7, 2013

FASTENAL COMPANY

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

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

Date: February 7, 2013

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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	Incorporated by Reference
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10.3	Fastenal Company Incentive Plan	Incorporated by Reference
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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
EX 101.INS	XBRL Instance Document	Electronically Filed
EX 101.SCH	XBRL Taxonomy Extension Schema Document	Electronically Filed
EX 101.CAL	XBRL Taxonomy Calculation Linkbase Document	Electronically Filed
EX 101.DEF	XBRL Taxonomy Definition Linkbase Document	Electronically Filed
EX 101.LAB	XBRL Taxonomy Label Linkbase Document	Electronically Filed
EX 101.PRE	XBRL Taxonomy Presentation Linkbase Document	Electronically Filed