

FASTENAL CO
Form 10-Q
October 23, 2009
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2009, or

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

Commission file number 0-16125

FASTENAL COMPANY

(Exact name of registrant as specified in its charter)

Minnesota

41-0948415

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(State or other jurisdiction of incorporation or organization) **2001 Theurer Boulevard**
Winona, Minnesota
(Address of principal executive offices)

(I.R.S. Employer Identification No.) **55987-1500**
(Zip Code)

(507) 454-5374
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class	Outstanding at October 20, 2009
Common Stock, \$.01 par value	148,330,712

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FASTENAL COMPANY

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Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FASTENAL COMPANY AND SUBSIDIARIES****Consolidated Balance Sheets****(Amounts in thousands except share information)**

	(Unaudited) September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 193,744	85,892
Marketable securities	1,295	851
Trade accounts receivable, net of allowance for doubtful accounts of \$4,087 and \$2,660, respectively	239,323	244,940
Inventories	498,106	564,247
Deferred income tax assets	18,996	15,909
Other current assets	46,626	63,564
Total current assets	998,090	975,403
Marketable securities	5,551	846
Property and equipment, less accumulated depreciation	330,437	324,182
Other assets, less accumulated amortization	3,686	3,718
Total assets	\$ 1,337,764	1,304,149
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 61,352	63,949
Accrued expenses	72,217	83,545
Income taxes payable	5,175	499
Total current liabilities	138,744	147,993
Deferred income tax liabilities	13,880	13,897
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized		
Common stock, 200,000,000 shares authorized, 148,530,712 shares issued and outstanding	1,485	1,485
Additional paid-in capital	4,409	1,559
Retained earnings	1,167,123	1,134,244
Accumulated other comprehensive income	12,123	4,971
Total stockholders' equity	1,185,140	1,142,259

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Total liabilities and stockholders' equity	\$ 1,337,764	1,304,149
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The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**FASTENAL COMPANY AND SUBSIDIARIES****Consolidated Statements of Earnings**

(Amounts in thousands except earnings per share)

	(Unaudited) Nine months ended September 30, 2009		(Unaudited) Three months ended September 30, 2008	
Net sales	\$ 1,453,580	1,795,466	489,339	625,037
Cost of sales	707,860	850,564	244,772	294,154
Gross profit	745,720	944,902	244,567	330,883
Operating and administrative expenses	520,171	593,771	168,119	213,310
Gain (loss) on sale of property and equipment	(790)	(199)	(38)	46
Operating income	224,759	350,932	76,410	117,619
Interest income	1,312	635	592	167
Earnings before income taxes	226,071	351,567	77,002	117,786
Income tax expense	86,250	134,398	29,413	44,877
Net earnings	\$ 139,821	217,169	47,589	72,909
Basic and diluted net earnings per share	\$ 0.94	1.46	0.32	0.49
Basic and diluted weighted average shares outstanding	148,531	148,933	148,531	148,573

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**FASTENAL COMPANY AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(Amounts in thousands)

	(Unaudited)	
	Nine months ended	
	September 30,	
	2009	2008
Cash flows from operating activities:		
Net earnings	\$ 139,821	217,169
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property and equipment	30,147	29,153
Loss on sale of property and equipment	790	199
Bad debt expense	7,300	5,527
Deferred income taxes	(3,104)	(1,318)
Stock based compensation	2,850	2,313
Amortization of non-compete agreement	50	50
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,683)	(78,380)
Inventories	66,141	(33,051)
Other current assets	16,938	1,915
Accounts payable	(3,925)	19,346
Accrued expenses	(11,328)	14,619
Income taxes payable	4,676	250
Other	4,511	(4,062)
Net cash provided by operating activities	253,184	173,730
Cash flows from investing activities:		
Purchase of property and equipment	(40,128)	(79,006)
Proceeds from sale of property and equipment	4,264	3,624
Net (increase) decrease in marketable securities	(5,149)	418
Net increase in other assets	(18)	(75)
Net cash used in investing activities	(41,031)	(75,039)
Cash flows from financing activities:		
Purchase of common stock		(25,955)
Payment of dividends	(106,943)	(77,371)
Net cash used in financing activities	(106,943)	(103,326)
Effect of exchange rate changes on cash	2,642	(478)
Net increase (decrease) in cash and cash equivalents	107,852	(5,113)
Cash and cash equivalents at beginning of period	85,892	57,220
Cash and cash equivalents at end of period	\$ 193,744	52,107

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Supplemental disclosure of cash flow information:

Cash paid during each period for: Income taxes	\$ 81,574	134,148
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The accompanying notes are an integral part of the consolidated financial statements.

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FASTENAL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except per share information and where otherwise noted)

September 30, 2009 and 2008

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Fastenal Company and subsidiaries (collectively referred to as the Company, Fastenal, or by terms such as we, our, or us) have been prepared in accordance with United States generally accepted accounting principles for interim financial information. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. However, except as described herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in our consolidated financial statements as of and for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

(2) Stockholders Equity and Stock-Based Compensation

During April 2008 and April 2007, the Compensation Committee of our Board of Directors approved the grant under our employee stock option plan, effective at the close of business that day, of options to purchase approximately 275 thousand shares and 2.2 million shares, respectively, of our common stock.

On April 21, 2009, the Compensation Committee of our Board of Directors approved the grant under our employee stock option plan, effective at the close of business that day, of options to purchase approximately 395 thousand shares of our common stock at a strike price of \$54.00 per share. The closing stock price on the date of grant was \$35.22 per share.

All of the options noted 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. No options under any of these grants were vested as of September 30, 2009.

(Continued)

Table of Contents**FASTENAL COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands except per share information and where otherwise noted)****September 30, 2009 and 2008****(Unaudited)**

Compensation expense equal to the grant date fair value will be recognized for all of these awards over the vesting period. The stock-based compensation expense for the nine month periods ended September 30, 2009 and 2008 was \$2,850 and \$2,313, respectively. Unrecognized compensation expense related to outstanding stock options as of September 30, 2009 was \$19,152 and is expected to be recognized over a weighted average period of 6.56 years. Any future changes in estimated forfeitures will impact this amount.

The fair value of each share-based option is estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions noted in the following table. The expected life is the most significant assumption as it determines the period for which the risk-free interest rate, volatility, and dividend yield must be applied. The expected life is the average length of time over which the employee groups will exercise their options, which is based on historical experience with similar grants. Expected volatilities are based on the movement of the Company's stock over the most recent historical period equivalent to the expected life of the options. 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. The following table illustrates the share price information and assumptions used to determine fair value:

	Options Granted		
	April 2009	April 2008	April 2007
Strike Price	\$ 54.00	\$ 54.00	\$ 45.00
Closing market price on date of grant	\$ 35.22	\$ 48.70	\$ 40.30
Weighted-average expected life of option in years	5.0	5.0	4.9
Weighted-average volatility	38.8%	30.7%	31.6%
Risk-free interest rate	1.9%	2.7%	4.6%
Expected dividend yield	1.0%	1.0%	1.0%
Weighted-average grant date fair value of stock option	\$ 7.27	\$ 15.50	\$ 11.36

(Continued)

Table of Contents**FASTENAL COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands except per share information and where otherwise noted)****September 30, 2009 and 2008****(Unaudited)**

The following table presents a reconciliation of the denominators used in the computation of basic and diluted earnings per share related to our employee stock option plan:

	Nine months ended September 30, 2009 2008		Three months ended September 30, 2009 2008	
Basic - weighted shares outstanding	148,531	148,933	148,531	148,573
Weighted shares assumed upon exercise of stock options				
Diluted - weighted shares outstanding	148,531	148,933	148,531	148,573

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.

(3) Comprehensive Income

Comprehensive income and the components of other comprehensive income were as follows:

	Nine months ended September 30, 2009 2008		Three months ended September 30, 2009 2008	
Net earnings	\$ 139,821	217,169	47,589	72,909
Translation adjustment	7,148	(4,547)	4,713	(3,571)
Change in marketable securities	4	9	1	2

Total comprehensive income