

FASTENAL CO
Form 10-Q
April 27, 2010
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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 March 31, 2010, or

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

Commission file number 0-16125

FASTENAL COMPANY

(Exact name of registrant as specified in its charter)

Minnesota

41-0948415

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(State or other jurisdiction of
incorporation or organization)

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

2001 Theurer Boulevard

Winona, Minnesota
(Address of principal executive offices)

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
Common Stock, \$.01 par value

Outstanding at April 23, 2010
147,430,712

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FASTENAL COMPANY

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FASTENAL COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands except share information)

	(Unaudited) March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 178,822	164,852
Marketable securities	24,440	24,400
Trade accounts receivable, net of allowance for doubtful accounts of \$4,084 and \$4,086, respectively	262,463	214,169
Inventories	507,243	508,405
Deferred income tax assets	12,908	12,919
Prepaid income taxes	0	11,657
Other current assets	43,307	45,962
Total current assets	1,029,183	982,364
Marketable securities	5,210	6,238
Property and equipment, less accumulated depreciation	332,103	335,004
Other assets, net	3,779	3,752
Total assets	\$ 1,370,275	1,327,358
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 65,778	53,490
Accrued expenses	74,728	66,019
Income taxes payable	21,803	0
Total current liabilities	162,309	119,509
Deferred income tax liabilities	17,001	17,006
Stockholders equity:		
Preferred stock, 5,000,000 shares authorized	0	0
Common stock, 200,000,000 shares authorized, 147,430,712 shares issued and outstanding	1,474	1,474
Additional paid-in capital	1,333	333
Retained earnings	1,172,703	1,175,641
Accumulated other comprehensive income	15,455	13,395
Total stockholders equity	1,190,965	1,190,843

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Total liabilities and stockholders' equity	\$ 1,370,275	1,327,358
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The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Earnings

(Amounts in thousands except earnings per share)

	(Unaudited)	
	Three months ended	
	March 31,	
	2010	2009
Net sales	\$ 520,772	489,347
Cost of sales	254,859	230,699
Gross profit	265,913	258,648
Operating and administrative expenses	175,410	179,909
Loss on sale of property and equipment	67	328
Operating income	90,436	78,411
Interest income	233	256
Earnings before income taxes	90,669	78,667
Income tax expense	34,635	29,973
Net earnings	\$ 56,034	48,694
Basic and diluted net earnings per share	\$ 0.38	0.33
Basic and diluted weighted average shares outstanding	147,431	148,531

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)	
	Three months ended	
	March 31,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 56,034	48,694
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property and equipment	10,287	10,300
Loss on sale of property and equipment	67	328
Bad debt expense	1,624	2,567
Deferred income taxes	6	0
Stock based compensation	1,000	900
Amortization of non-compete agreement	17	17
Changes in operating assets and liabilities:		
Trade accounts receivable	(49,918)	1,715
Inventories	1,162	8,964
Other current assets	2,655	18,600
Accounts payable	12,288	(12,948)
Accrued expenses	8,709	(9,998)
Income taxes	33,460	26,394
Other	1,637	(1,999)
Net cash provided by operating activities	79,028	93,534
Cash flows from investing activities:		
Purchase of property and equipment	(8,138)	(19,033)
Proceeds from sale of property and equipment	685	1,973
Net decrease (increase) in marketable securities	988	(19)
Net (increase) decrease in other assets	(44)	63
Net cash used in investing activities	(6,509)	(17,016)
Cash flows from financing activities:		
Payment of dividends	(58,972)	(51,986)
Net cash used in financing activities	(58,972)	(51,986)
Effect of exchange rate changes on cash	423	(557)
Net increase in cash and cash equivalents	13,970	23,975
Cash and cash equivalents at beginning of period	164,852	85,892
Cash and cash equivalents at end of period	\$ 178,822	109,867

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Supplemental disclosure of cash flow information:

Cash paid during each period for income taxes	\$ 1,169	3,579
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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)

March 31, 2010 and 2009

(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, 2009. 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 2009, 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 395 thousand shares, 275 thousand shares, and 2.2 million shares, respectively, of our common stock.

On April 20, 2010, 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 265 thousand shares of our common stock at a strike price of \$60.00 per share. The closing stock price on the date of grant was \$54.19 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. As of March 31, 2010, options granted in April 2007 had vested with respect to approximately 210 thousand shares. No other options were vested as of March 31, 2010.

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 three month periods ended March 31, 2010 and 2009 was \$1,000 and \$900, respectively. Unrecognized compensation expense related to outstanding stock options as of March 31, 2010 was \$16,585 and is expected to be recognized over a weighted average period of 6.021 years. Any future changes in estimated forfeitures will impact this amount.

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

March 31, 2010 and 2009

(Unaudited)

The fair value of each share-based option outstanding as of March 31, 2010, 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, our historical dividends paid, and our 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

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:

	Three-month period	
	2010	2009
Basic - weighted shares outstanding	147,431	148,531
Weighted shares assumed upon exercise of stock options	0	0
Diluted - weighted shares outstanding	147,431	148,531

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2010 and 2009

(Unaudited)

(3) Comprehensive Income

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

	Three-month period	
	2010	2009
Net earnings	\$ 56,034	48,694
Translation adjustment	2,020	(2,555)
Change in marketable securities	40	(2)
 Total comprehensive income	 \$ 58,094	 46,137

(4) Unrealized Investment Gains and Losses

The following tables show the fair value of our investments and the gross unrealized gains and losses of those investments for the three month period. This information is aggregated by the investment category and maturity of the investment.

	Current		March 31, 2010 Non-current		Total	
	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)
State and municipal bonds	\$ 0	0	5,210	40	5,210	40
Government and agency securities	24,440	0	0	0	24,440	0
Total	\$ 24,440	0	5,210	40	29,650	40

	Current		March 31, 2009 Non-current		Total	
	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)
State and municipal bonds	\$ 712	0	817	(2)	1,529	(2)
Certificates of deposit or money market	187	0	0	0	187	0
Total	\$ 899	0	817	(2)	1,716	(2)

(Continued)

