Profile of Fastenal Company

Fastenal Company was founded in 1967. As of December 31, 1999, the Company operated 809 store sites located in 48 states, Puerto Rico and Canada and employed 3,670 people at these sites. In addition, there were 1,823 people employed in various support positions. The Company sells approximately 162,000 different types of industrial and construction supplies in nine product categories. These include approximately 66,000 different types of threaded fasteners and supplies; approximately 40,000 different types of tools; approximately 18,000 different types of metal cutting tool blades; approximately 18,000 different types of fluid transfer components and accessories for hydraulic and pneumatic power; approximately 7,000 different types of material handling and storage products; approximately 4,000 different types of janitorial and paper products; approximately 5,000 different types of electrical supplies; approximately 3,000 different types of welding supplies (excluding gas and welding machines) and approximately 1,000 different types of safety supplies. As of December 31, 1999, the Company also operated eleven distribution centers located in Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, Washington, California, Utah, North Carolina and Missouri, and a packaging facility in Tennessee. Approximately 94.8% of the Company's 1999 sales were attributable to products manufactured by others, and approximately 5.2% related to items manufactured, modified or repaired by either the Company's Manufacturing Division or its Support Services. Since December 31, 1999, the Company has opened additional store sites.

This Annual Report, including the sections captioned "President's Letter to Shareholders," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Stock and Financial Data," contains statements that are not historical in nature and that are intended to be, and are hereby identified as, "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), including statements regarding increases in fastener prices due to improvements in the Asian economies, foreign operations, technology conversions, new product introduction and development, capital expenditures and dividends. A discussion of certain risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements is included in the section of this Annual Report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company assumes no obligation to update either such forward-looking statements or the discussion of such risks and uncertainties.

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President's Letter to Shareholders

The year 1999 can be characterized for Fastenal as a year of treading water. Although our 21.1% net sales growth was better than what most companies do, it was less than our historical rate of sales growth. Permit me to offer some explanations rather than excuses for our less-than-stellar performance, and then I will tell you about some exciting programs we believe will restore better performance.

To some extent, our 1999 results had their beginnings in the Asian currency crises of late 1997. Throughout 1998 and most of 1999 we saw slowness in most segments of North American manufacturing (except for vehicles) as export markets withered and production of common items moved to low-cost countries.

In late 1997 and in 1998, Asian producers of standard fasteners lowered their prices because of currency devaluations and poor local demand. As lower prices worked their way through North American markets, we saw average selling prices on common fasteners drop about 9% over an 18 month period. By mid 1999, prices for common fasteners had ended their fall; but throughout 1999 our fastener selling prices were lower than they were in the comparable period of 1998. As the Asian economies improve in the year 2000, we expect higher prices for fasteners and the end of deflationary effects.

In 1999 Fastenal continued the trend toward achieving more growth from our newer product lines. In 1997 the fastener product category made up 76.9% of our net sales, in 1998 the fastener category contribution was lowered to 71.5% of net sales, and in 1999 the contribution was lowered further to 68.3%., We expect this trend to continue because of the emphasis we are placing on growing our established stores through new product development.

Our growth comes from our people. If we add and develop more people, we sow the seeds of our future. In 1999 we added 645 people to our branch stores, an increase of 21.3% for the full year. We also added 299 people in manufacturing and support positions, an increase of 19.6% for the full year.

Fastenal opened 44 more stores in 1999, bringing our total to 809. In addition, we began an aggressive program of opening in-plant stores for large customers. These are supply depots in customer locations. We staff and stock these locations but do not count them as stores because they are not open to the general public. We began 1999 with eight such locations and ended the year with 21 in-plant stores.

Because we shifted emphasis from new store openings to growth of our existing stores, we reduced some of our expected costs of new-store development in 1999. Primarily for this reason, our net earnings grew at a faster rate than our net sales in 1999. Higher transportation fuel costs in 1999 offset some of the expense savings from fewer store openings in the year.

The growth of our customer service business is both a positive part of our 1999 results and a good omen for the future. In 1999 we recorded over $4 million in sales from the repair of power tools, up from $2.7 million in 1998. In 1999 we registered over

President's Letter to Shareholders

$1 million in sales of custom-welded band saw blades, a service we began during 1999. Hydraulic hose fabrication added another $400,000 to our 1999 sales.

Our specials manufacturing facility continues to grow. The people involved in that part of our business contributed $26 million to our 1999 net sales. By the time you read this, we will have moved into a 50,000 square foot addition to our manufacturing facility in Winona.

Our electronic commerce initiatives continue apace. In mid year 1999 customers became able to place orders from our web page. Each month thereafter has seen growth in our web-based sales. Orders received off of the web in the month of December were approximately $100,000. In addition we recorded $1.8 million of sales in December from Electronic Data Interchange. Please look at our web page at www.fastenal.com. We have received many compliments on its design and ease of use.

The year 1999 was a milestone for our Information Systems people. In December we completed the final store conversion to our NT point-of-sale system. This was an $8.0 million, multi-year project that gives our stores better information and more timely data. Although the project was complex and time consuming, the costs came within the budget. We are also over the midpoint on the installation of our Enterprise Resource Planning system. This also is a multi-year project that will allow us to improve our inventory planning and financial modeling. When this second major IS project is behind us, we will be positioned with excellent information tools for the growth of our company.

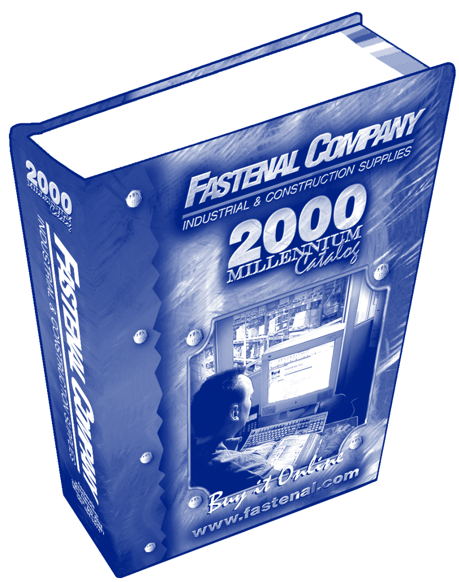
In 1999 we purchased a 414,000 square foot building in Indianapolis, Indiana. We needed a larger facility for our Indianapolis distribution center. Although the acquired building is more than double the size we needed, the purchase was completed for $5.7 million, including interior racks and furnishings, a price we considered favorable. We are investigating the use of the extra space to provide logistics services to other firms.

From the present perspective, 2000 should be a better year than 1999 for Fastenal. The unknown quantity will be the overall economic conditions in the United States and Canada. All of us at Fastenal will give our best to continue to grow our company through customer service.

Thank you for believing in us.

Robert A. Kierlin

President and Chief Executive Officer
January 19, 2000.

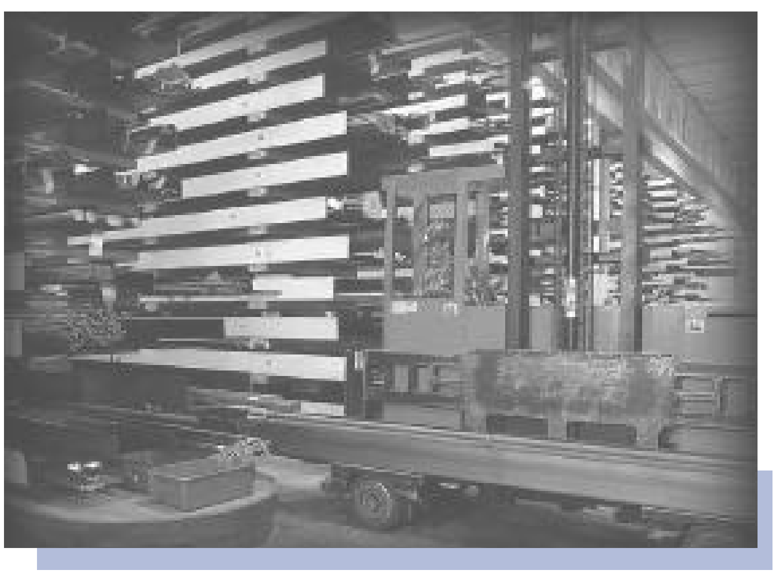


Six-Year Selected Financial Data

Amounts in thousands except per share information

Operating Results Years Ended Dec. 31	1999	Percent Change	1998	1997	1996	1995	1994
Net sales	$ 609,186	+21.1%	$ 503,100	397,992	287,691	222,555	161,886
Gross profit	319,266	+20.8%	264,280	208,929	152,880	118,944	85,927
Earnings before income taxes	106,479	+23.6%	86,123	67,336	54,432	46,206	31,391
Net earnings	65,455	+23.6%	52,953	40,834	32,539	27,411	18,666
Basic and diluted earnings per share	1.73	+23.6%	1.40	1.08	.86	.72	.49
Dividends per share	.04	+100%	.02	.02	.02	.02	.02
Weighted average shares outstanding	37,939	–	37,939	37,939	37,939	37,939	37,939
Financial Position December 31							
Net working capital	$ 193,744	+36.0%	$ 142,459	106,555	78,417	66,100	45,341
Total assets	318,621	+26.8%	251,234	205,137	151,545	109,320	81,795
Total stockholders' equity	281,960	+29.5%	217,646	165,872	125,967	94,323	67,649

All information contained in this Annual Report reflects the 2-for-1 stock split effected in the form of a 100% stock dividend in 1995.



Management's Discussion & Analysis of Financial Condition & Results of Operations

Management's Discussion & Analysis of Financial Condition & Results of Operations

Results of Operations

Net sales for 1999 exceeded net sales for 1998 by 21.1%. This compares with a 26.4% net sales growth rate experienced from 1997 to 1998. The increase in net sales in 1999 came primarily from new site openings, unit sales growth in existing sites and growth in the newer product lines. This growth was tempered by a deflationary impact to pricing. The increase in net sales in 1998 came primarily from new site openings, unit sales growth in existing sites, and growth in the newer product lines. The growth in 1998 was also tempered by a slight deflationary impact to pricing. The following table indicates product lines added to the original fastener product line, the year of introduction, and the approximate percentage of total net sales related to each product line:

Percentage of Net Sales:

Name	Introduced	1999	1998
Tools	1993	12.5%[1]	12.2%
Cutting Tools	1996	5.0%	4.9%
Hydraulics & Pneumatics	1996	4.0%	3.5%
Material Handling	1996	5.8%[1]	5.2%
Janitorial Supplies	1996	1.7%[1]	1.5%
Electrical Supplies	1997	1.1%[1]	*
Welding Supplies	1997	*	*
Safety Supplies	1999	1.0%[1]	*

* Less than 1% of net sales.
[1] During the second quarter of 1999, a safety supplies product line was added. This product line consists of product formerly in the Tools product line, and to a lesser extent the Material Handling, Janitorial Supplies and Electrical Supplies product lines. Proforma percentages are not available.

Threaded fasteners accounted for approximately 51%, 55% and 61% of the Company's consolidated sales in 1999, 1998 and 1997, respectively. Sites opened in 1999 contributed approximately $1,900,000 (or 0.3%) to 1999 net sales. Sites opened in 1998 contributed approximately $47,800,000 (or 7.8%) to 1999 net sales and approximately $17,572,000 (or 3.5%) to 1998 net sales. The rate of growth in sales of sites generally levels off after sites have been open for five years, and the sales of older sites typically vary more with the economy than the sales of younger sites.

Gross profit as a percent of net sales was 52.4% in 1999, 52.5% in 1998 and 52.5% in 1997. The decrease from 1998 to 1999 resulted primarily from the mix of products being sold.

Operating and administrative expenses were 35.1% of net sales in 1999 after having been 35.2% of net sales in 1998 and 35.6% of net sales in 1997. The fluctuations in operating and administrative costs were primarily due to changes in payroll and related costs and changes in occupancy costs. In both 1999 and 1998, payroll and related costs increased at a rate which was less than the rate of increase in net sales. The increases in payroll and related costs were due to the following increases in employees:

	1999	1998
Sales Personnel	21.3%	13.0%
Support Personnel	19.6%	8.9%

In 1999, the rate of increase in occupancy costs was less than the rate of increase in net sales. In 1998 the rate of increase in occupancy costs exceeded the rate of increase in net sales. Occupancy costs increased in both years due to a 5.6% and an 18.9% increase in the number of sites in 1999 and 1998, respectively, and due to the relocation of existing stores to larger sites to accommodate their growth in activity and the introduction of new product lines. This reduction in the number and rate of new store openings was due to a shift of emphasis from new store openings to growth of existing stores. Distribution costs benefited from productivity gains in both 1999 and 1998.

Net interest income/expense in 1999 improved $1,626,000 over 1998. Net interest expense in 1998 increased $136,000 or 14.8% over 1997. Changes were due to the fluctuations in the weighted average amount of outstanding Company borrowings and investments. The gains on disposal of property and equipment in 1999, 1998 and 1997 came primarily from the disposal of used vehicles.

Net earnings grew 23.6% from 1998 to 1999 and 29.7% from 1997 to 1998. The growth in net earnings in both years resulted primarily from

Management's Discussion & Analysis of Financial Condition & Results of Operations

Management's Discussion & Analysis of Financial Condition & Results of Operations

increased net sales. In 1999 and 1998 the net earnings growth rate was higher than that of net sales because of the earlier mentioned impact of payroll and related costs and occupancy costs.

The Asian economic turmoil impacted the Company in several ways during 1999 and 1998. The Company experienced lower prices on low-carbon and stainless steel fasteners imported from the Far East when compared to 1997. To the extent the Company was able to retain the cost advantage, gross margins improved. However, these lower costs also affected net sales because some of the lower costs were passed on to customers in the competitive marketplace. In 1999 and 1998 the Company also experienced lower net sales of products to customers who export to the Far East when compared to sales levels to these customers in 1997. In addition to the impacts of the Far East situation, 1999 showed a continuation of the slowdown in the manufacturing activity of customers we sell to in the U.S. and Canada.

Effects of Inflation

Price deflation related to certain products negatively impacted 1999 and 1998. Inflation had little effect on the Company's operations in 1997.

Liquidity and Capital Resources

Net cash provided by operating activities was:

1999	$55,989,000
1998	$ 43,316,000
1997	$ 14,657,000

The increases were primarily from the growth in net earnings, depreciation and accounts payable exceeding the growth in accounts receivable and inventory.

Net cash used in investing activities was:

1999	$24,654,000
1998	$28,609,000
1997	$ 21,619,000

The 1999 decrease in net cash used in investing activities resulted primarily from an increase in proceeds from the disposal of vehicles and the increase in the leasing of branch vehicles and distribution semi-tractors. This decrease was partially offset by the purchase of a new distribution center in Indiana, additions to several other distribution centers, and the addition to the Minnesota manufacturing facility. The 1998 increase came primarily from the Minnesota distribution center expansion, the purchase of software, and the addition of and expansion to several other distribution centers. Additions to computer equipment are expected to be the largest part of cash used by investing activities in 2000.

The Company had no long-term debt at December 31, 1999, 1998, or 1997. See note 8 of the Notes to Consolidated Financial Statements for a description of the Company's current line of credit.

The Company paid an annual dividend of $.04 per share in 1999 and $.02 per share in 1998 and 1997.

As of December 31, 1999, the Company had no material outstanding commitments for capital expenditures.

The Company expects to make approximately $30,500,000 in total capital expenditures in 2000, consisting of approximately $12,000,000 for manufacturing, warehouse and packaging equipment and facilities, approximately $12,000,000 for data processing equipment, and approximately $6,500,000 for vehicles. The capital expenditures for vehicles, which represented a substantial portion of the total amount in prior years, decreased in 1999, and this decrease is expected to recur in 2000 as certain vehicles added or to be added in 1999 and in 2000 are or are expected to be leased under an operating lease.

Management anticipates funding its current expansion plans with cash generated from operations, from available cash and cash equivalents, from the sale of marketable securities and, to a lesser degree, from its borrowing capacity. In addition to opening new sites in the United States, the Company plans to continue opening additional sites in Canada and Puerto Rico and to continue expanding operations in Mexico.

Management's Discussion & Analysis of Financial Condition & Results of Operations

Year 2000 Discussion

We have devoted significant resources throughout the Company to minimize the risk of potential disruption from Year 2000 issues. Our approach centered on the four distinct components of our information system and on other impacts such as from third parties.

The four components, which include the (1) point-of-sale (POS) system, (2) enterprise-wide information system, (3) warehouse management system, and (4) other systems/equipment, were all assessed, inventoried and tested for Year 2000 issues during 1998 and 1999. Systems that were Year 2000 deficient were modified, upgraded or replaced and tested for compliance. In addition to this, the Company prepared a detailed contingency plan which focused on: (1) defining key communication paths within the organization, (2) establishing levels of responsibility and authority in the Company's distributed workforce if a Year 2000 issue made normal operations difficult, and (3) working throughout the entire Company to establish manual procedures to accomplish critical business processes.

The Company did not track internal costs, which consisted primarily of payroll and related expenses, related to the Year 2000 issue. The Company did, however, identify two large projects in its previous Year 2000 discussions. The first project was a four-year project to develop, test, and implement a new POS system for the branch sites. This project, which was completed in December 1999, cost approximately $8.0 million. The second project, which should be completed early in 2001, involves the replacement of the Company's enterprise-wide information system. This project is expected to cost approximately $10.0 million, of which the Company has approximately $2.6 million left to spend. The Company believes the cost of these projects were not, for the most part, directly related to Year 2000 issues; but rather, were new systems needed in the normal course due to the rapid growth the Company had experienced over the last several years.

As we have identified in the past, the Company is dependent on third parties that provide goods or services. The failure of one or more of these third parties to address any lingering Year 2000 issues could have a material adverse effect on the Company's business, financial condition, or operating results. To date, the Company has experienced no significant systems or other Year 2000 problems in connection with the transition to the Year 2000. The Company will continue to monitor for any Year 2000 issues.

Market Risk Management

The Company is exposed to certain market risks from changes in interest rates and foreign currency exchange rates. Changes in these factors cause fluctuations in the Company's earnings and cash flows. The Company evaluates and manages exposure to these market risks as follows:

<u>Interest Rates</u> – The Company has a $10 million line of credit of which $0 was outstanding at December 31, 1999. The line bears interest at .9% over the LIBOR rate.

<u>Foreign Currency Exchange Rates</u> – Foreign currency fluctuations can affect the Company's net investments and earnings denominated in foreign currencies. The Company's primary exchange rate exposure is with the Canadian dollar against the U.S. dollar. The Company's estimated net earnings exposure for foreign currency exchange rates was not material at December 31, 1999.

Certain Risks and Uncertainties

Certain statements in this Annual Report, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made by or with approval of the Company's executive officers constitute or will constitute "forward-looking statements" under the Reform Act. The following factors are among those that could cause the

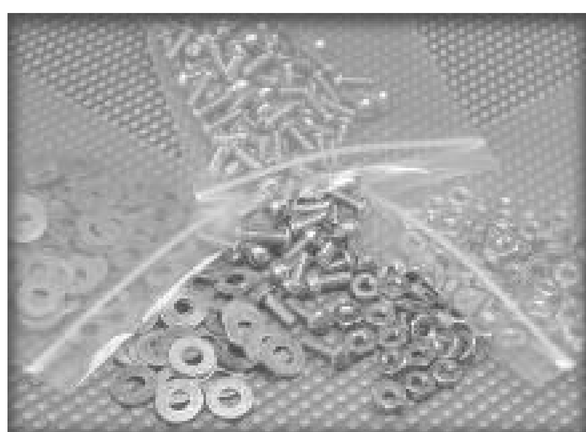
Management's Discussion & Analysis of Financial Condition & Results of Operations

Management's Discussion & Analysis of Financial Condition & Results of Operations

Company's actual results to differ materially from those predicted in such forward-looking statements: (i) an upturn or downturn in the economy could impact sales at existing stores and the rate of new store openings, (ii) a change, from that projected, in the number of smaller communities able to support future store sites could impact the rate of new store openings, (iii) the ability of the Company to develop product expertise at the store level, to identify future product lines that complement existing product lines, to transport and store certain hazardous products and to otherwise integrate new product lines into the Company's existing stores and distribution network could impact sales and margins, (iv) the ability of the Company to successfully attract and retain qualified personnel to staff the Company's stores could impact sales at existing stores and the rate of new store openings, (v) changes in governmental regulations related to product quality or product source traceability could impact the cost to the Company of regulatory compliance, (vi) inclement weather could impact the Company's distribution network, (vii) foreign currency fluctuations, changes in trade relations, or fluctuations in the relative strength of foreign economies could impact the ability of the Company to procure products overseas at competitive prices and the Company's sales, (viii) disruptions caused by the implementation of the Company's new management information systems infrastructure could impact sales, (ix) unforeseen disruptions associated with "Year 2000 Computer Problems" could impact sales and the Company's ability to order and pay for product, and (x) changes in the rate of new store openings could impact expenditures for computers and other capital equipment.

New Accounting Pronouncements

During 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes new standards for recognizing all derivatives as either assets or liabilities, and measuring those instruments at fair value. SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities- Deferral of the Effective Date of FASB statement No. 133, is an amendment of SFAS No. 133. SFAS No. 137 deferred the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company is currently in the process of evaluating the impact of this statement.



Stock & Financial Data

Common Stock Data

The Company's shares are traded on The Nasdaq Stock Market under the symbol "FAST". The following table sets forth, by quarter, the high and low closing sale price of the Company's shares on The Nasdaq Stock Market for 1999 and 1998.

1999:	**High**	**Low**
Firstquarter	$ 45-3/8	33-5/8
Second quarter	54-1/2	34
Third quarter	60-9/16	45-13/16
Fourth quarter	49-15/16	34

1998:	**High**	**Low**
First quarter	$ 48-3/4	34-1/4
Second quarter	56-7/8	39-5/8
Third quarter	51-1/4	24-1/16
Fourth quarter	46-7/16	20-1/2

As of February 16, 2000, there were approximately2,400 recordholders of the Company's Common Stock. A $.04 annual dividend per share was paid in 1999 and a $.02 annual dividend per share was paid in 1998. On January 25, 2000, the Company announced an $.08 annual dividend per share to be paid on March 10, 2000 to shareholders of record at the close of business on February 25, 2000. The Company expects that it will continue to pay comparable cash dividends in the foreseeable future, provided that any future determination as to paymentof dividends will depend upon the financial condition and results of operations of the Company and such other factors as are deemed relevant by the board of directors.

Selected Quarterly Financial Data (Unaudited) (Amounts in thousands except per share data)

1999:	**Net sales**	**Gross profit**	**Net earnings**	**Earnings per share**
Firstquarter	$ 140,634	73,789	15,415	.41
Second quarter	153,891	81,034	17,062	.45
Third quarter	159,359	83,247	17,091	.45
Fourth quarter	155,302	81,196	15,887	.42
Total	$609,186	319,266	65,455	1.73

1998:	**Net sales**	**Gross profit**	**Net earnings**	**Earnings per share**
First quarter	$ 116,707	61,595	12,386	.33
Second quarter	126,427	66,938	14,016	.37
Third quarter	131,349	69,515	14,033	.37
Fourth quarter	128,617	66,232	12,518	.33
Total	$ 503,100	264,280	52,953	1.40

Consolidated Balance Sheets

December 31, 1999 and 1998

Assets	***1999***	***1998***
Current assets:		
Cash and cash equivalents	$ 27,849,000	2,086,000
Trade accounts receivable, net of allowance for doubtful accounts of $1,400,000 and $740,000 respectively	84,563,000	68,498,000
Inventories	106,597,000	93,734,000
Deferred income tax asset	2,886,000	2,312,000
Othercurrent assets	5,510,000	6,637,000
Total current assets	227,405,000	173,267,000
Marketable securities	215,000	265,000
Property and equipment, less accumulated depreciation	87,630,000	74,212,000
Other assets, net	3,371,000	3,490,000
Total assets	$ 318,621,000	251,234,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 19,325,000	17,411,000
Notes payable	0	4,055,000
Accrued expenses	11,785,000	8,999,000
Income tax payable	2,551,000	343,000
Total current liabilities	33,661,000	30,808,000
Deferred income tax liability	3,000,000	2,780,000
Stockholders' equity:		
Preferred stock	–	–
Common stock, 50,000,000 shares authorized 37,938,688 shares issued	379,000	379,000
Additional paid-in capital	4,424,000	4,424,000
Retained earnings	277,553,000	213,615,000
Accumulated other comprehensive loss	(396,000)	(772,000)
Total stockholders' equity	281,960,000	217,646,000
Commitments (notes 7 and 8)		
Total liabilities and stockholders' equity	$ 318,621,000	251,234,000

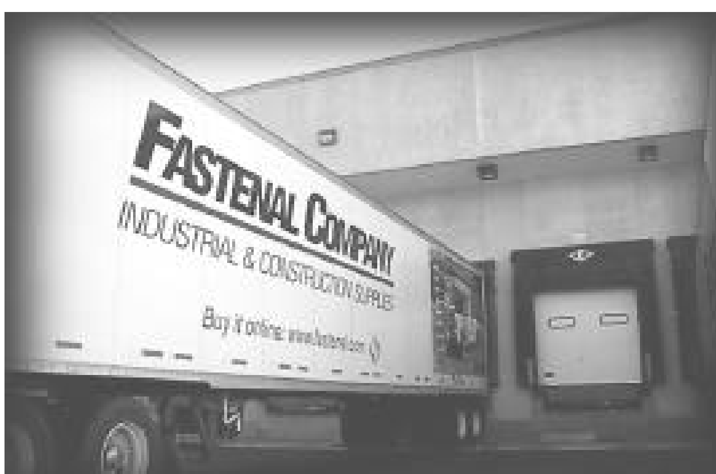
The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Earnings

Consolidated Statement of Earnings

Years ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Net sales	$ 609,186,000	503,100,000	397,992,000
Cost of sales	289,920,000	238,820,000	189,063,000
Gross profit	319,266,000	264,280,000	208,929,000
Operating and administrative expenses	213,580,000	177,180,000	141,725,000
Operating income	105,686,000	87,100,000	67,204,000
Other income (expense):			
Interest income	634,000	4,000	40,000
Interest expense	(57,000)	(1,053,000)	(917,000)
Gain on disposal of property and equipment	216,000	72,000	1,009,000
Total other income (expense)	793,000	(977,000)	132,000
Earnings before income taxes	106,479,000	86,123,000	67,336,000
Income tax expense	41,024,000	33,170,000	26,502,000
Net earnings	$ 65,455,000	52,953,000	40,834,000
Basic and diluted earnings per share	$ 1.73	1.40	1.08
Weighted average shares outstanding	37,938,688	37,938,688	37,938,688



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

Consolidated Statements of Stockholders' Equity & Comprehensive Income

Consolidated Statements of Stockholders' Equity & Comprehensive Income

Years ended December 31, 1999, 1998 and 1997

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balances as of December 31, 1996	37,938,688	$ 379,000	4,424,000	121,346,000	(182,000)	125,967,000
Dividends paid in cash	–	–	–	(759,000)	–	(759,000)
Net earnings for the year	–	–	–	40,834,000	–	40,834,000
Translation adjustment	–	–	–	–	(170,000)	(170,000)
Total comprehensive income						40,664,000
Balances as of December 31, 1997	37,938,688	$ 379,000	4,424,000	161,421,000	(352,000)	165,872,000
Dividends paid in cash	–	–	–	(759,000)	–	(759,000)
Net earnings for the year	–	–	–	52,953,000	–	52,953,000
Translation adjustment	–	–	–	–	(420,000)	(420,000)
Total comprehensive income						52,533,000
Balances as of December 31, 1998	37,938,688	$ 379,000	4,424,000	213,615,000	(772,000)	217,646,000
Dividends paid in cash	–	–	–	(1,517,000)	–	(1,517,000)
Net earnings for the year	–	–	–	65,455,000	–	65,455,000
Translation adjustment	–	–	–	–	376,000	376,000
Total comprehensive income						65,831,000
Balances as of December 31, 1999	37,938,688	$ 379,000	4,424,000	277,553,000	(396,000)	281,960,000

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

Consolidated Statements of Cash Flows

Consolidated Statement of Cash Flows

Years ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Cash flows from operating activities:			
Net earnings	$ 65,455,000	52,953,000	40,834,000
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation of property and equipment	11,777,000	11,040,000	9,362,000
Gain on disposal of property and equipment	(216,000)	(72,000)	(1,009,000)
Deferred income taxes	(354,000)	410,000	737,000
Amortization of goodwill and non-compete agreement	220,000	220,000	220,000
Changes in operating assets and liabilities:			
Trade accounts receivable	(16,065,000)	(10,956,000)	(15,989,000)
Inventories	(12,863,000)	(14,319,000)	(22,889,000)
Othercurrent assets	1,127,000	(1,400,000)	(1,506,000)
Accounts payable	1,914,000	4,461,000	2,940,000
Accrued expenses	2,786,000	1,685,000	1,703,000
Income taxes payable	2,208,000	(706,000)	254,000
Net cash provided by operating activities	55,989,000	43,316,000	14,657,000
Cash flows from investing activities:			
Sales of marketable securities	50,000	–	250,000
Additions of property and equipment	(39,176,000)	(37,232,000)	(28,658,000)
Proceeds from sale ofproperty and equipment	14,197,000	9,136,000	7,151,000
Translation adjustment	376,000	(420,000)	(170,000)
Increase in other assets	(101,000)	(93,000)	(192,000)
Net cash used in investing activities	(24,654,000)	(28,609,000)	(21,619,000)
Cash flows from financing activities:			
Net (decrease) increase in line ofcredit	(4,055,000)	(12,030,000)	7,463,000
(Payment) proceeds of note payable	0	(218,000)	218,000
Payment of dividends	(1,517,000)	(759,000)	(759,000)
Net cash (used in) provided by financing activities	(5,572,000)	(13,007,000)	6,922,000
Net increase (decrease) in cash and cash equivalents	25,763,000	1,700,000	(40,000)
Cash and cash equivalents at beginning of year	2,086,000	386,000	426,000
Cash and cash equivalents at end of year	$ 27,849,000	2,086,000	386,000
Supplemental disclosure of cash flow information:			
Cash paid during each year for:			
Income taxes	$ 38,183,000	34,100,000	25,511,000
Interest	$ 87,000	1,073,000	867,000

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

Notes to Consolidated Financial Statements

Years ended December 31,
1999, 1998 and 1997

1 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Fastenal Company and its wholly-owned subsidiaries, Fastenal Company Services, Fastenal Company Purchasing, Fastenal Company Leasing, Fastenal Canada Company , Fastenal Mexico, S. de R.L. de C.V. and Fastenal Mexico Services, S. de R.L. de C.V. (collectively referred to as the Company). All material intercompany balances and transactions have been eliminated in consolidation.

One

Revenue Recognition

The Company recognizes sales and the related cost of sales on the accrual basis of accounting at the time products are shipped to or picked up by customers.

Financial Instruments

All financial instruments are carried at amounts that approximate estimated fair value.

Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly-liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Inventories

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

Marketable Securities

Marketable securities as of December 31, 1999 and 1998 consist of debt securities. The Company classifies its debt 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, provided that a decline in the market value of any available-for-sale security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security.

The amortized cost approximated the fair value of available-for-sale debt securities as of December 31, 1999 and 1998.

Notes to Consolidated Financial Statements

Years ended December 31, 1999, 1998 and 1997

1 Summary of Significant Accounting Policies continued

Property and Equipment

Property and equipment are stated at cost. Depreciation on buildings and equipment is provided for financial statement reporting purposes by the straight line method and over the lives mandated by Internal Revenue Service Regulations. These lives approximate the anticipated economic useful lives of the related property.

Other Assets

Other assets consists of prepaid security deposits, goodwill and a non-compete agreement. Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is amortized on a straight-line basis over 15 years. The non-compete agreement is amortized on a straight-line basis over 15 years. Goodwill and other long-term asset balances are reviewed periodically to determine that the unamortized balances are recoverable. In evaluating the recoverability of these assets, the following factors, among others, are considered: a significant change in the factors used to determine the amortization period, an adverse change in legal factors or in 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 unamortized balance is believed to be unrecoverable, the Company recognizes an impairment charge necessary to reduce the unamortized balance to the amount of undiscounted cash flows expected to be generated over the remaining life. If the acquired entity has been integrated into other operations and cash flows cannot be separately measured, the Company recognizes an impairment charge necessary to reduce the unamortized balance to its estimated fair value. The amount of impairment is charged to earnings as a part of operating and administrative expenses in the current period.

Long-Lived Assets

The Company's long-lived assets are accounted for under the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets to Be Disposed Of. There were no SFAS 121 charges in 1999, 1998 or 1997.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Stock-Based Compensation

The Company has not granted any stock options or paid any other types of stock-based compensation.

Notes to Consolidated Financial Statements

Years ended December 31,
1999, 1998 and 1997

1 Summary of Significant Accounting Policies continued

Income Taxes

The Company accounts 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.

Earnings Per Share

Earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding.

2 Property and Equipment

Property and equipment as of December 31 consists of the following:

	Depreciable life in years	1999	1998
Land	–	$ 4,442,000	2,524,000
Buildings and improvements	31 to 39	29,255,000	18,955,000
Equipment and shelving	3 to 10	63,999,000	46,721,000
Transportation equipment	3 to 5	21,352,000	33,569,000
Construction in progress	–	12,365,000	9,245,000
		131,413,000	111,014,000
Less accumulated depreciation		(43,783,000)	(36,802,000)
Net property and equipment		$ 87,630,000	74,212,000

Notes to Consolidated Financial Statements

Years ended December 31, 1999, 1998 and 1997

3 Accrued Expenses

Accrued expenses as of December 31 consist of the following:

	1999	1998
Payroll and related taxes	$ 5,927,000	4,359,000
Bonuses and commissions	3,393,000	2,286,000
Insurance	1,072,000	1,257,000
Sales and real estate taxes	866,000	801,000
Other	527,000	296,000
	$ 11,785,000	8,999,000

Three

4 Stockholders' Equity

Preferred stock has a par value of $.01 per share. There were 5,000,000 shares authorized and no shares issued as of December 31, 1999 and 1998.

Common Stock has a par value of $.01 per share. There were 50,000,000 shares authorized and 37,938,688 shares issued and outstanding as of December 31, 1999 and 1998.

Dividends

On January 25, 2000, the Company's board of directors declared a dividend of $.08 per share of Common Stock to be paid in cash on March 10, 2000 to shareholders of record at the close of business on February 25, 2000.

Four

5 Retirement Plan

In 1998 the Company established the Fastenal Company and Subsidiaries 401(k) Plan. This plan covers all employees of the Company in the United States. The Company made no contributions to the plan in 1999 or 1998.

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Notes to Consolidated Financial Statements

Years ended December31, 1999, 1998 and 1997

6 Income Taxes

Components of income tax expense are as follows:

1999:	Current	Deferred	Total
Federal	$ 35,618,000	(305,000)	35,313,000
State	5,760,000	(49,000)	5,711,000
	$ 41,378,000	(354,000)	41,024,000

1998:	Current	Deferred	Total
Federal	$ 28,199,000	353,000	28,552,000
State	4,561,000	57,000	4,618,000
	$ 32,760,000	410,000	33,170,000

1997:	Current	Deferred	Total
Federal	$ 21,385,000	599,000	21,984,000
State	4,380,000	138,000	4,518,000
	$ 25,765,000	737,000	26,502,000

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

	1999	1998	1997
Federal income tax expense at the "expected" rate of 35%	$ 37,268,000	30,143,000	23,568,000
Increase (reduction) attributed to:			
State income taxes, net of federal benefit	3,712,000	3,002,000	2,937,000
Tax exempt interest	–	–	(16,000)
Other, net	44,000	25,000	13,000
Total income tax expense	$ 41,024,000	33,170,000	26,502,000

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as ofDecember 31 are as follows:

	1999	1998
Deferred taxes:		
Inventory costing and valuation methods	$ 1,940,000	1,571,000
Allowance for doubtful accounts receivable	539,000	285,000
Insurance claims payable	434,000	484,000
Fixed assets	(3,000,000)	(2,780,000)
Other, net	(27,000)	(28,000)
Net deferred tax asset (liability)	$ (114,000)	(468,000)

No valuation allowance for deferred tax assets was necessary as of December31, 1999 and 1998. The characterof the deferred tax assets is such that they can be realized through carry-back to prior tax periods or offset against future taxable income.

Notes to Consolidated Financial Statements

Years ended December 31, 1999, 1998 and 1997

7 Operating Leases

The Company leases space under non-cancelable operating leases for its California, Missouri, North Carolina, Utah and Washington distribution centers, its Tennessee packaging center, and certain store sites with initial terms of one to 48 months.

The Company leases 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 72 month term and include an early buy out clause the Company intends to exercise, thereby giving the leases an effective term of 12-15 months.

Future minimum annual rentals for the leased facilities and the vehicles are as follows:

	Distribution centers, packaging center and store sites	Semi-tractors and pick-ups	Total
2000	$ 10,828,000	5,162,000	15,990,000
2001	5,306,000	1,043,000	6,349,000
2002	2,270,000	623,000	2,893,000
2003	394,000	0	394,000
2004 and thereafter	22,000	0	22,000

Rent expense under all operating leases was as follows:

	Distribution centers, packaging center and store sites	Semi-tractors and pick-ups	Total
1999	$ 14,867,000	4,282,000	19,149,000
1998	13,040,000	0	13,040,000
1997	9,460,000	0	9,460,000

Seven

8 Lines of Credit and Commitments

The Company has a line of credit arrangement with a bank which expires June 30, 2000. The line allows for borrowings of up to $10,000,000 at .9% over the LIBOR rate. On December 31, 1999 there was $0 outstanding on the line.

The Company currently has a letter of credit issued on its behalf to its insurance carrier. As of December 31, 1999, the total undrawn balance of this letter of credit was $2,600,000.

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Independent Auditors' Report

The Board of Directors and Stockholders
Fastenal Company:

We have audited the accompanying consolidated balance sheets of Fastenal Company and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota
January 19, 2000, except as to
Note 4, which is as of January 25, 2000

Officers

Robert A. Kierlin
Chairman of the Board,
Chief Executive Officer and President

Willard D. Oberton
Chief Operating Officer
and Vice-President

Stephen M. Slaggie
Secretary

Daniel L. Florness
Chief Financial Officer
and Treasurer

Directors

Michael M. Gostomski
President and Chief Executive Officer
Winona Heating & Ventilating Co.
(sheet metal and roofing contractor)

Robert A. Hansen
Associate Professor of Marketing, Carlson
School of Management, University of Minnesota

Robert A. Kierlin

Henry K. McConnon
President
Wise Eyes, Inc.
(eyeglass retailer and wholesaler)

Willard D. Oberton

John D. Remick
President and Chief Executive Officer
Rochester Athletic Club, Inc.
(health club)

Stephen M. Slaggie

Corporate Information

Annual Meeting
The annual meeting of shareholders
will be held at 10:00 a.m.,
Tuesday, April 18, 2000,
at Corporate Headquarters,
2001 Theurer Boulevard,
Winona, Minnesota

Corporate Headquarters
Fastenal Company
2001 Theurer Boulevard
Winona, Minnesota 55987-1500
Phone: (507) 454-5374
Fax: (507) 453-8049

Legal Counsel
Faegre & Benson LLP
Minneapolis, Minnesota

Streater & Murphy, PA
Winona, Minnesota

Form 10-K
A copy of the Company's 1999 Annual Report on Form 10-K to the Securities and Exchange Commission is available without charge to shareholders upon written request to the Secretary of the Company at the address listed on this page for the Company's corporate headquarters.

Copies of our latest press release and unaudited supplemental Company information are available at the Fastenal Company World Wide Web site at www.fastenal.com

Auditors
KPMG LLP
Minneapolis, Minnesota

Transfer Agent
Norwest Bank Minnesota, N.A.
Minneapolis, Minnesota