

FASTENAL COMPANY

INDUSTRIAL & CONSTRUCTION SUPPLIES

2000 ANNUAL REPORT

www.fastenal.com



Servicing the World

From Branches in the U.S., Canada, Puerto Rico and on the Web

2000 | *Profile of Fastenal Company*

Fastenal Company was founded in 1967. As of December 31, 2000, the Company operated 897 store sites located in 48 states, Puerto Rico and Canada and employed 4,356 people at these sites. In addition, there were 2,121 people employed in various support positions. The Company sells approximately 195,000 different types of industrial and construction supplies in nine product categories. These include approximately 68,000 different types of threaded fasteners and miscellaneous supplies; approximately 51,000 different types of tools; approximately 24,000 different types of metal cutting tool blades; approximately 23,000 different types of fluid transfer components and accessories for hydraulic and pneumatic power; approximately 8,000 different types of material handling and storage

products; approximately 4,000 different types of janitorial and paper products; approximately 7,000 different types of electrical supplies; approximately 7,000 different types of welding supplies (excluding gas & welding machines) and approximately 3,000 different types of safety supplies. As of December 31, 2000, 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 95.3% of the Company's 2000 sales were attributable to products manufactured by others, and approximately 4.7% related to items manufactured, modified or repaired by either the Company's Manufacturing Division or its Support Services. Since December 31, 2000, 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 broadening of the Company's customer base into service accounts, growth in manufacturing operations, opening of new stores, additions of new employees, expansion of foreign operations, capital expenditures, funding of expansion plans, 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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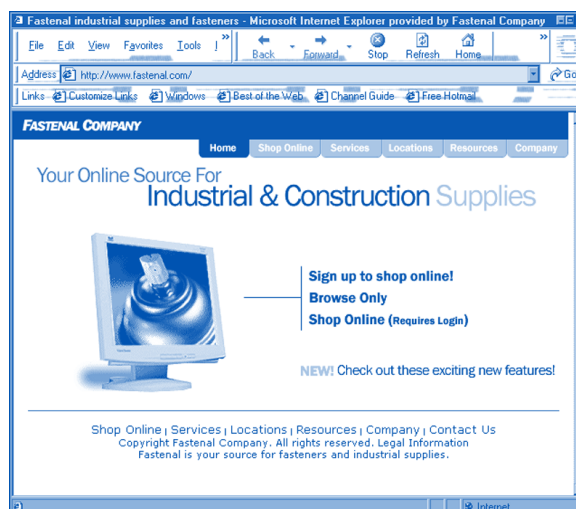
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FASTENAL COMPANY'S WEBSITE
www.fastenal.com

2000 | *President's Letter to Shareholders*

For Fastenal, the year 2000 was a good one, but not a spectacular one. Our net sales growth of 22.4% over our 1999 sales was better than the 21.1% growth we experienced in 1999, but below our historical growth rates. Once again, the overall economy created the background that influenced our performance.

The slowing of the US economy in the second half of the year 2000 particularly impacted our main customer base of manufacturers. Over 95% of our sales are within the USA, and the majority of these sales are to manufacturers. Manufacturers use our products either as a component of what they make or in the maintenance of their facilities. The strong dollar throughout the year and high natural gas prices in the second half of the year created a difficult environment for US industrial firms.

The service economy and the construction market remained strong in the year 2000. Going forward, we believe the growth of our product lines will allow us to broaden our customer base into service accounts. The percentage of our sales coming from fasteners has declined in each of the last four years, while products such as safety and janitorial supplies have increased as a percentage of sales.

By placing more emphasis on our newer product lines we are able to grow our total sales at a faster rate than we open new stores. We grew our store count from 809 at the start of the year to 897 at the end of the year. Our older stores continue to see much of their growth coming from sales of products other than fasteners.

Our growth in employees also was consistent with emphasizing the growth of newer product lines in existing stores. We finished the year 2000 with 4,356 branch store employees, an 18.7% increase over the 3,670 at the start of the year. The majority of these people were added to existing stores.

The number of our support people grew from 1,823 at the start of the year to 2,121 at the end of the year, an increase of 16.3%. With overall selling price increases in 2000 estimated at about 2%, our net sales increase of 22.4% for the year suggests that we experienced some productivity gains throughout the Company.

Fastenal has its own distribution capability including distribution centers, connecting truck routes and local delivery services. In July we began offering our logistics services to other firms. In the second half of the year we generated approximately \$500,000 in sales for logistics services such as warehousing, material management, transportation and brokerage of freight. At year end, ten people were involved in this new part of our business.

In the year 2000 we began operating our second manufacturing facility. Prior to this year, all of the special fasteners we made were manufactured in our Winona facility. We now have a machining capability in our Fresno, California distribution center. We plan on adding this capability at some of our other distribution centers during 2001.

During the year 2000 we continued evolving our decentralization program. Several years ago all of our regional managers resided in Winona and our distribution centers reported back to a national distribution manager in Winona. By the end of 2000, most of our regional managers resided within the regions they managed and they had responsibility for the distribution centers within those regions. We want all decisions to be made as close to the customer as possible.

2000 | *President's Letter to Shareholders* continued

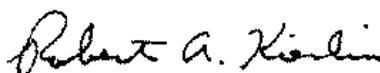
Our sales development effort in 2000 included an emphasis on securing key accounts. These accounts are defined as large customers with annual sales potential of at least \$3 million each. In 1999 we had three accounts at this level, but in 2000 we had ten such accounts that contributed over \$50 million to our total sales.

During 2000 our technology people developed "FastNet", an internal web site that serves as a repository for all Company information for the use of Fastenal employees. This site contains a wealth of Company information such as job postings, product information, price changes, links to suppliers and a listing of all non-standard parts located within Fastenal.

In June of 2000 we increased the size of our Board of Directors from seven to nine with the additions of Michael J. Dolan and Reyne K. Wisecup. With these two new directors, we believe we have a strong board that will oversee our future growth.

Looking forward, our intention is to continue to grow through customer service. Subject to general economic conditions, we will continue to add more stores and employees throughout 2001. We ended the year debt free, with enough cash to finance our continued expansion.

We thank you for your belief in us and we promise to work for the continued success of Fastenal.



January 16, 2001



2000 | Six -Year Selected Financial Data

(Amounts in Thousands Except earnings And Dividends per share information.)

Operating Results Years Ended Dec. 31

	2000	Percent Change	1999	1998	1997	1996	1995
Net sales	\$ 745,740	+22.4%	\$ 609,186	503,100	397,992	287,691	222,555
Gross profit	388,560	+21.7%	319,266	264,280	208,929	152,880	118,944
Earnings before income taxes	131,430	+23.4%	106,479	86,123	67,336	54,432	46,206
Net earnings	80,730	+23.3%	65,455	52,953	40,834	32,539	27,411
Basic and diluted earnings per share	2.13	+23.3%	1.73	1.40	1.08	.86	.72
Dividends per share	\$.08	+100%	\$.04	.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	\$ 256,845	+32.6%	\$ 193,744	142,459	106,555	78,417	66,100
Total assets	402,464	+26.3%	318,621	251,234	205,137	151,545	109,320
Total stockholders' equity	\$ 359,258	+27.4%	\$ 281,960	217,646	165,872	125,967	94,323

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.

(Amounts in Thousands Except Personnel counts and dividends per share.)

Results of Operations

Net sales for 2000 exceeded net sales for 1999 by 22.4%. This compares with a 21.1% net sales growth rate experienced from 1998 to 1999. The increase in net sales in 2000 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 in the first half of the year. 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. The growth in 1999 was also tempered by a slight deflationary impact to pricing. The following tables indicate: (1) sales from the Fastenal product line and from the newer product lines, and (2) product lines added to the original fastener product line and the year of introduction.

	2000	1999
Fastenal Product Line	64.5%	68.3%
Newer Product Lines	35.5%	31.7%

Product Line	Introduced
Tools	1993
Cutting Tools	1996
Hydraulics & Pneumatics	1996
Material Handling	1996
Janitorial Supplies	1996
Electrical Supplies	1997
Welding Supplies	1997
Safety Supplies	1999

Threaded fasteners accounted for approximately 51%, 51% and 55% of the Company's consolidated sales in 2000, 1999 and 1998, respectively. Sites opened in 2000 contributed approximately \$8,500 (or 1.1%) to 2000 net sales. Sites opened in 1999 contributed approximately \$17,900 (or 2.4%) to 2000 net sales and approximately \$1,900 (or 0.3%) to 1999 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 52.1% in 2000, 52.4% in 1999 and 52.5% in 1998. The fluctuations resulted primarily from changes in the mix of products being sold.

Operating and administrative expenses were 34.7% of net sales in 2000 after having been 35.1% of net sales in 1999 and 35.2% of net sales in 1998. The fluctuations in operating and administrative costs were primarily due to changes in payroll and related costs and changes in occupancy costs. In both 2000 and 1999, 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:

	2000	1999
Sales Personnel	18.7%	21.3%
Support Personnel	16.3%	19.6%

In 2000 and 1999, the rate of increase in occupancy costs was less than the rate of increase in net sales. Occupancy costs increased in both years due to an 11.1% and a 5.6% increase in the number of sites in 2000 and 1999, 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, from the 30% historical annual store growth rate, was due to a shift of emphasis, which began in 1999, from new store openings to growth of existing stores. Distribution costs benefited from productivity gains in both 2000 and 1999.

Net interest income/expense in 2000 improved \$1,458 over 1999. Net interest income/expense in 1999 increased \$1,626 over 1998. Changes were due to the fluctuations in the weighted average amount of outstanding Company borrowings and investments. The loss/gains on disposal of property and equipment in 2000, 1999 and 1998 came primarily from the disposal of used vehicles.

Net earnings grew 23.3% from 1999 to 2000 and 23.6% from 1998 to 1999. The growth in net earnings in both years resulted primarily from increased net sales. In 2000 and 1999 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.

(Amounts in Thousands Except Personnel counts and Dividends per share.)

The Asian economic turmoil impacted the Company in several ways during 2000 and 1999. During 1999, the Company experienced lower prices on low-carbon and stainless steel fasteners imported from the Far East when compared to most of 1998. 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. During the winter of 1999/2000 this trend began to reverse itself and prices began to increase. To the extent the Company was able to pass on these increases, gross margins were not impacted. However, during the second quarter of 2000 the Company did experience a reduction in the gross margin percentage. This trend was reversed in the third and fourth quarters of 2000. In 2000 and 1999 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 most of 1998.

In addition to the impacts of the Far East situation, 2000 and 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 net sales in 2000, 1999 and 1998.

Liquidity and Capital Resources

Net cash provided by operating activities was:

2000	\$ 38,253
1999	\$ 55,989
1998	\$ 43,316

The 2000 decrease was primarily due to the 34.2% increase in inventory levels. The 1999 increase was 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:

2000	\$ 30,360
1999	\$ 24,654
1998	\$ 28,609

The 2000 increase in net cash used in investing activities resulted primarily from a decrease in the proceeds from sale of property and equipment. This decrease is directly related to the migration of our vehicles from owned to leased in 1999 and 2000.

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 Company had no long-term debt at December 31, 2000, 1999, or 1998. 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 \$.08 per share in 2000, \$.04 per share in 1999 and \$.02 per share in 1998.

As of December 31, 2000, the Company had no material outstanding commitments for capital expenditures.

The Company expects to make approximately \$40,000 in total capital expenditures in 2001, consisting of approximately \$21,200 for manufacturing, warehouse and packaging equipment and facilities, approximately \$10,000 for data processing equipment, and approximately \$8,800 for vehicles. The capital expenditures for vehicles, which represented a substantial portion of the total amount in prior years, represented a smaller portion in both 2000 and 1999. This decrease, from earlier years, is a direct result of increases in the number of vehicles leased as opposed to owned. We expect this to recur in 2001.

Management anticipates funding its current expansion plans with cash generated from operations, from available cash and cash equivalents, 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.

(Amounts in Thousands Except Personnel counts and DIVIDENDS per share.)

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:

Interest Rates – The Company has a \$15,000 line of credit of which \$0 was outstanding at December 31, 2000. The line bears interest at .9% over the LIBOR rate.

Foreign Currency Exchange Rates – 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, 2000.

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, 2000, 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 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 rates of new store openings and additions of new employees, (ii) a change, from that projected, in the number of smaller communities able to support future store sites could impact the rates of new store openings

and additions of new employees, (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, and (ix) 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, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new standards for recognizing all derivatives as either assets or liabilities, and measuring those instruments at fair value. The new standard will be effective for the Company in the first quarter of 2001. The adoption of SFAS 133 will not have a significant impact on the Company's financial condition or results of operations.

2000 | *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 2000 and 1999.

2000:	High	Low
First quarter	\$ 49 ³ / ₄	35 ¹¹ / ₁₆
Second quarter	73 ⁵ / ₁₆	45 ¹ / ₄
Third quarter	68 ⁷ / ₈	51 ¹ / ₁₆
Fourth quarter	62 ³ / ₄	45 ¹ / ₈

1999:	High	Low
First quarter	\$ 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

As of February 16, 2001, there were approximately 2,400 recordholders of the Company's Common Stock. An \$.08 annual dividend per share was paid in 2000 and a \$.04 annual dividend per share was paid in 1999. On January 16, 2001, the Company announced a \$.09 annual dividend per share to be paid on March 9, 2001 to shareholders of record at the close of business on February 23, 2001. The Company expects that it will continue to pay comparable cash dividends in the foreseeable future, provided that any future determination as to payment of 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)

2000:	Net sales	Gross profit	Net earnings	Earnings per share
First quarter	\$ 176,268	92,187	20,046	.53
Second quarter	188,589	97,662	20,975	.55
Third quarter	192,922	100,460	20,802	.55
Fourth quarter	187,961	98,251	18,907	.50
Total	\$ 745,740	388,560	80,730	2.13

1999:	Net sales	Gross profit	Net earnings	Earnings per share
First quarter	\$ 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

2000 Consolidated Balance Sheets

December 31, 2000 & 1999

(Amounts in Thousands Except share information.)

Assets	2000	1999
Current assets:		
Cash and cash equivalents	\$ 32,707	27,849
Trade accounts receivable, net of allowance for doubtful accounts of \$2,238 and \$1,400, respectively	106,120	84,563
Inventories	143,068	106,597
Deferred income tax asset	4,060	2,886
Other current assets	7,469	5,510
Total current assets	293,424	227,405
Marketable securities	—	215
Property and equipment, less accumulated depreciation	105,807	87,630
Other assets, net	3,233	3,371
Total assets	\$ 402,464	318,621
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 19,898	19,325
Accrued expenses	13,502	11,785
Income tax payable	3,179	2,551
Total current liabilities	36,579	33,661
Deferred income tax liability	6,627	3,000
Stockholders' equity:		
Preferred stock	—	—
Common stock, 50,000,000 shares authorized 37,938,688 shares issued	379	379
Additional paid-in capital	4,424	4,424
Retained earnings	355,248	277,553
Accumulated other comprehensive loss	(793)	(396)
Total stockholders' equity	359,258	281,960
Commitments (notes 4, 7, and 8)		
Total liabilities and stockholders' equity	\$ 402,464	318,621

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

2000 Consolidated Statements of Earnings

(Amounts in Thousands Except earnings per share)

Years Ended December 31,
2000, 1999 & 1998

	2000	1999	1998
Net sales	\$ 745,740	609,186	503,100
Cost of sales	357,180	289,920	238,820
Gross profit	388,560	319,266	264,280
Operating and administrative expenses	259,003	213,580	177,180
Operating income	129,557	105,686	87,100
Other income (expense):			
Interest income	2,035	634	4
Interest expense	—	(57)	(1,053)
(Loss) gain on disposal of property and equipment	(162)	216	72
Total other income (expense)	1,873	793	(977)
Earnings before income taxes	131,430	106,479	86,123
Income tax expense	50,700	41,024	33,170
Net earnings	\$ 80,730	65,455	52,953
Basic and diluted earnings per share	\$ 2.13	1.73	1.40
Weighted average shares outstanding	37,939	37,939	37,939

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

2000

Consolidated Statements of Stockholders' Equity & Comprehensive Income

(Amounts in Thousands)

Years Ended December 31,
2000, 1999 & 1998

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital		Comprehensive	Equity
					Income (Loss)	
Balances as of						
December 31, 1997	37,939	\$ 379	4,424	161,421	(352)	165,872
Dividends paid in cash	—	—	—	(759)	—	(759)
Net earnings for the year	—	—	—	52,953	—	52,953
Translation adjustment	—	—	—	—	(420)	(420)
Total comprehensive income						52,533
Balances as of						
December 31, 1998	37,939	\$ 379	4,424	213,615	(772)	217,646
Dividends paid in cash	—	—	—	(1,517)	—	(1,517)
Net earnings for the year	—	—	—	65,455	—	65,455
Translation adjustment	—	—	—	—	376	376
Total comprehensive income						65,831
Balances as of						
December 31, 1999	37,939	\$ 379	4,424	277,553	(396)	281,960
Dividends paid in cash	—	—	—	(3,035)	—	(3,035)
Net earnings for the year	—	—	—	80,730	—	80,730
Translation adjustment	—	—	—	—	(397)	(397)
Total comprehensive income						80,333
Balances as of						
December 31, 2000	37,939	\$ 379	4,424	355,248	(793)	359,258

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

2000 Consolidated Statements of Cash Flows

(Amounts in Thousands)

Years Ended December 31,
2000, 1999 & 1998

	2000	1999	1998
Cash flows from operating activities:			
Net earnings	\$ 80,730	65,455	52,953
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation of property and equipment	11,757	11,777	11,040
Loss (gain) on disposal of property and equipment	162	(216)	(72)
Deferred income taxes	2,453	(354)	410
Amortization of goodwill and non-compete agreement	220	220	220
Changes in operating assets and liabilities:			
Trade accounts receivable	(21,557)	(16,065)	(10,956)
Inventories	(36,471)	(12,863)	(14,319)
Other current assets	(1,959)	1,127	(1,400)
Accounts payable	573	1,914	4,461
Accrued expenses	1,717	2,786	1,685
Income taxes payable	628	2,208	(706)
Net cash provided by operating activities	38,253	55,989	43,316
Cash flows from investing activities:			
Sales of marketable securities	215	50	—
Additions of property and equipment	(36,729)	(39,176)	(37,232)
Proceeds from sale of property and equipment	6,633	14,197	9,136
Translation adjustment	(397)	376	(420)
Increase in other assets	(82)	(101)	(93)
Net cash used in investing activities	(30,360)	(24,654)	(28,609)
Cash flows from financing activities:			
Net decrease in line of credit	—	(4,055)	(12,030)
Payment of note payable	—	—	(218)
Payment of dividends	(3,035)	(1,517)	(759)
Net cash used in financing activities	(3,035)	(5,572)	(13,007)
Net increase in cash and cash equivalents	4,858	25,763	1,700
Cash and cash equivalents at beginning of year	27,849	2,086	386
Cash and cash equivalents at end of year	\$ 32,707	27,849	2,086
Supplemental disclosure of cash flow information:			
Cash paid during each year for:			
Income taxes	\$ 50,072	38,183	34,100
Interest	\$ —	87	1,073

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data)

Years Ended December 31,
2000, 1999 & 1998

1 Summary of Significant Accounting Policies

1 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.

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 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.

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data.)

Years Ended December 31,
2000, 1999 & 1998

1 Summary of Significant Accounting Policies continued

1 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 reviews tangible and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. 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 accounting principles generally accepted in the United States of America 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. During 2000, the Company established a stock appreciation rights plan (SAR). During July 2000, the Company granted 10,000 SAR units under this plan. The SAR units are exercisable from July 2002 through December 2002. The Company recognized no compensation expense during 2000 related to the SAR.

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data.)

Years Ended December 31,
2000, 1999 & 1998

1 Summary of Significant Accounting Policies continued

ONE 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:

	<i>Depreciable life in years</i>	<i>2000</i>	<i>1999</i>
Land	—	\$ 6,703	4,442
Buildings and improvements	31 to 39	34,123	29,255
Equipment and shelving	3 to 10	82,180	63,999
Transportation equipment	3 to 5	18,362	21,352
Construction in progress	—	17,461	12,365
		158,829	131,413
Less accumulated depreciation		(53,022)	(43,783)
Net property and equipment		\$ 105,807	87,630

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data.)

Years Ended December 31,
2000, 1999 & 1998

3

Accrued Expenses

Accrued expenses as of December 31 consist of the following:

	2000	1999
Payroll and related taxes	\$ 6,359	5,927
Bonuses and commissions	3,480	3,393
Insurance	1,577	1,072
Sales and real estate taxes	982	866
Other	1,104	527
	<u>\$ 13,502</u>	<u>11,785</u>

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, 2000 and 1999.

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, 2000 and 1999.

Dividends

On January 16, 2001, the Company's board of directors declared a dividend of \$.09 per share of Common Stock to be paid in cash on March 9, 2001 to shareholders of record at the close of business on February 23, 2001.

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 2000, 1999 or 1998.

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data.)

Years Ended December 31,
2000, 1999 & 1998

6 Income Taxes

Components of income tax expense are as follows:

2000:	Current	Deferred	Total
Federal	\$ 41,472	2,110	43,582
State	6,775	343	7,118
	<u>\$ 48,247</u>	<u>2,453</u>	<u>50,700</u>

1999:	Current	Deferred	Total
Federal	\$ 35,618	(305)	35,313
State	5,760	(49)	5,711
	<u>\$ 41,378</u>	<u>(354)</u>	<u>41,024</u>

1998:	Current	Deferred	Total
Federal	\$ 28,199	353	28,552
State	4,561	57	4,618
	<u>\$ 32,760</u>	<u>410</u>	<u>33,170</u>

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

	2000	1999	1998
Federal income tax expense at the “expected” rate of 35%	\$ 46,000	37,268	30,143
Increase attributed to:			
State income taxes, net of federal benefit	4,627	3,712	3,002
Other, net	73	44	25
Total income tax expense	<u>\$ 50,700</u>	<u>41,024</u>	<u>33,170</u>

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

	2000	1999
Deferred tax asset (liability):		
Inventory costing and valuation methods	\$ 2,597	1,940
Allowance for doubtful accounts receivable	862	539
Insurance claims payable	628	434
Fixed assets	(6,627)	(3,000)
Other, net	(27)	(27)
Net deferred tax liability	<u>\$ (2,567)</u>	<u>(114)</u>

No valuation allowance for deferred tax assets was necessary as of December 31, 2000 and 1999. The character of the deferred tax assets is such that they can be realized through carry-back to prior tax periods or offset against future taxable income.

2000 | Notes to Consolidated Financial Statements

(Amounts in Thousands except share data.)

Years Ended December 31,
2000, 1999 & 1998

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:

	<i>Distribution Centers, Packaging Center and Store Sites</i>	<i>Semi-tractors and Pick-ups</i>	<i>Total</i>
2001	\$ 14,725	5,985	20,710
2002	8,674	1,899	10,573
2003	3,352	1,200	4,552
2004	461	0	461
2005 and thereafter	119	0	119

Rent expense under all operating leases was as follows:

	<i>Distribution Centers, Packaging Center and Store Sites</i>	<i>Semi-tractors and Pick-ups</i>	<i>Total</i>
2000	\$ 16,899	8,328	25,227
1999	14,867	4,282	19,149
1998	13,040	0	13,040

8 Lines of Credit and Commitments

The Company has a line of credit arrangement with a bank which expires June 30, 2001. The line allows for borrowings of up to \$15,000 at .9% over the LIBOR rate. On December 31, 2000 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, 2000, the total undrawn balance of this letter of credit was \$3,600.

2000 | *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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Minneapolis, Minnesota
January 16, 2001

Officers

Robert A. Kierlin

Chairman of the Board,
Chief Executive Officer and President

Willard D. Oberton

Chief Operating Officer
and Executive Vice-President

Nicholas J. Lundquist

Vice-President of Sales

Daniel L. Florness

Chief Financial Officer
and Treasurer

Stephen M. Slaggie

Secretary

Directors

Michael M. Gostomski

President and Chief Executive Officer
Winona Heating & Ventilating Company
(sheet metal and roofing contractor)

Michael J. Dolan

Chief Operating Officer and Executive Vice-President
The Smead Manufacturing Company
(office products manufacturer)

Robert A. Hansen

Associate Professor of Marketing and Logistics
Management, 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

Reyne K. Wisecup

Human Resource Manager
Fastenal Company Services

Corporate Information

Annual Meeting

The annual meeting of shareholders
will be held at 10:00 a.m.,
Tuesday, April 17, 2001,
at Corporate Headquarters,
2001 Theurer Boulevard,
Winona, Minnesota

Corporate Headquarters

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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 2000 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, unaudited supplemental Company information and monthly sales information (beginning with October 2000 sales) are available at the Fastenal Company World Wide Web site at: www.fastenal.com

Auditors

KPMG LLP
Minneapolis, Minnesota

Transfer Agent

Wells Fargo Bank Minnesota, National Association
Minneapolis, Minnesota

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