Bank of New York Mellon CORP
Form 8-K
October 22, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 19, 2010

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in charter)

Delaware	000-52710	13-2614959
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

One Wall Street

New York, New York 10286

(Address of principal executive offices) (Zip code)

Registrant s telephone number, including area code (212) 495-1784

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On October 19, 2010, the Registrant conducted a conference call and webcast with respect to results of operations for the third quarter 2010 for The Bank of New York Mellon Corporation. In conjunction with the conference call and webcast, the Registrant made available on its website, beginning on October 19, 2010, a Quarterly Earnings Review and Financial Trends information. The Quarterly Earnings Review is included as Exhibit 99.1 to this report and the Financial Trends information is included as Exhibit 99.2 to this report. Both exhibits are furnished pursuant to General Instruction B.2. of Form 8-K and are not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not incorporated by reference into any filings the Registrant has made or may make under the Securities Act of 1933.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

Exhibit 99.1 and 99.2 to this report contains information which may be considered to constitute non-GAAP financial measures as defined in Item 10 of Regulation S-K. The Registrant s management believes that these measures are useful to the investment community in analyzing the financial results and trends of ongoing operations. Management believes that they facilitate comparisons with prior periods and reflect the principal basis on which management monitors financial performance. Management also believes this presentation allows investors to more appropriately evaluate the impact of revenues from both taxable and tax-exempt sources.

(d) EXHIBITS.

Exhibit Number	Description
99.1	The Bank of New York Mellon Quarterly Earnings Review for third quarter 2010 dated October 19, 2010.
99.2	The Bank of New York Mellon Corporation 3Q 2010 Financial Trends.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Bank of New York Mellon Corporation

(Registrant)

Date: October 22, 2010

By: /s/ Arlie R. Nogay
Name: Arlie R. Nogay
Title: Corporate Secretary

EXHIBIT INDEX

Number	Description	Method of Filing
99.1	The Bank of New York Mellon Quarterly Earnings Review for third quarter 2010 dated October 19, 2010.	Furnished herewith
99.2	The Bank of New York Mellon 3Q 2010 Financial Trends	Furnished herewith

pt;">70.1
%

66.2
%

60.2
%

57.2
%

2011

78.6
%

76.0
%

74.7
%

72.8
%

Percent of total net sales to
2013

27.5
%

customers with vending machines[4]
2012

17.8
%

20.8
%

23.2
%

25.8
%

2011

8.9
%

10.5
%

13.1
%

15.7
%

Daily sales growth to customers
2013

23.9
%

with vending machines[5]
2012

33.9
%

34.3
%

32.9
%

28.6
%

2011

50.6
%

43.9
%

42.5
%

40.7
%

[1] This represents the gross number of machines signed during the quarter, not the number of contracts.
[2] This represents the number of machines installed and dispensing product on the last day of the quarter.
[3] This information is intended to highlight the mix change in the machines deployed as our business expands beyond the flagship FAST 5000 machine.
[4] The percentage of total sales (vended and traditional) to customers currently using a vending solution.
[5] The growth in total sales (vended and traditional) to customers currently using a vending solution compared to the same period in the preceding year.

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PROFIT DRIVERS OF OUR BUSINESS

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

We achieve improvements in our relative profitability by increasing our gross margin, by structurally lowering our operating expenses, or both. We advance on the 'pathway to profit' by increasing the average store size (measured in terms of monthly sales), and by allowing the changing store mix to improve our profits. This is best explained by comparing the varying profitability of our 'traditional' stores in the table below. The average store size for the group, and the average age, number of stores, and pre-tax earnings data by store size for the first quarter of 2013, 2012, and 2011, respectively, were as follows:

Sales per Month	Average Age (Years)	Number of Stores	Percentage of Stores	Pre-Tax Earnings Percentage
Three months ended March 31, 2013				Average store sales = $88,267
$0 to $30,000	5.4	261	9.8 %	-11.6 %
$30,001 to $60,000	8.2	771	29.0 %	13.9 %
$60,001 to $100,000	10.9	765	28.8 %	22.5 %
$100,001 to $150,000	12.8	437	16.4 %	25.5 %
Over $150,000	16.0	305	11.5 %	29.0 %
Strategic Account/Overseas Store		121	4.5 %	
Company Total		2,660	100.0 %	21.7 %
Three months ended March 31, 2012				Average store sales = $86,449
$0 to $30,000	4.4	289	11.1 %	-17.4 %
$30,001 to $60,000	7.6	795	30.4 %	11.9 %
$60,001 to $100,000	9.9	719	27.5 %	21.5 %
$100,001 to $150,000	12.5	419	16.0 %	24.9 %
Over $150,000	15.6	287	11.0 %	28.4 %
Strategic Account/Overseas Store		102	3.9 %	
Company Total		2,611	100.0 %	21.0 %
Three months ended March 31, 2011				Average store sales = $74,421
$0 to $30,000	4.2	397	15.7 %	-12.2 %
$30,001 to $60,000	7.5	874	34.7 %	12.6 %
$60,001 to $100,000	10.2	668	26.5 %	22.2 %
$100,001 to $150,000	12.4	310	12.3 %	25.5 %
Over $150,000	15.7	193	7.7 %	27.5 %
Strategic Account/Overseas Store		80	3.2 %	
Company Total		2,522	100.0 %	20.1 %

Note – Amounts may not foot due to rounding difference.

When we originally announced the 'pathway to profit' strategy in 2007, our goal was to increase our pre-tax earnings, as a percentage of sales, from 18% to 23%. This goal was to be accomplished by slowly moving the mix from the first three categories ($0 to $30,000, $30,001 to $60,000, and $60,001 to $100,000, these groups represented 76.5% of our store base in the first three months of 2007, the last quarter before we announced the 'pathway to profit') to the last three categories ($60,001 to $100,000, $100,001 to $150,000, and over $150,000, these groups represented 56.7% of our store base in the first quarter of 2013) and by increasing the average store sales to approximately $125,000 per month. The weak economic environment in 2009 caused our average store size to decrease, and consequently lowered our level of profitability; however, subsequent to this period we improved our gross margin and structurally lowered our operating expenses. This improvement allowed us to amplify the 'pathway to profit' and effectively lowered the

average store size required to hit our 23% goal. Today we believe we can accomplish our 'pathway to profit' goal with average store sales of approximately $100,000 to $110,000 per month.
Note – Dollar amounts in this section are presented in whole dollars, not thousands.

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Store Count and Full-Time Equivalent (FTE) Headcount – The table below highlights certain impacts on our business of the 'pathway to profit' since its introduction in 2007. Under the 'pathway to profit' we increased both our store count and our store FTE headcount during 2007 and 2008. However, the rate of increase in store locations slowed and our FTE headcount for all types of personnel was reduced when the economy weakened late in 2008. In the table that follows, we refer to our 'store' net sales, locations, and personnel. When we discuss 'store' net sales, locations, and personnel, we are referring to (1) 'Fastenal' stores and (2) strategic account stores. 'Fastenal' stores are either a 'traditional' store, the typical format in the United States or Canada, or an 'overseas' store, which is the typical format outside the United States and Canada. This is discussed in greater detail in our 2012 annual report on Form 10-K. Strategic account stores are stores that are focused on selling to a group of large customers in a limited geographic market. The sales, outside of our 'store' group, relate to either (1) our in-plant locations, (2) the portion of our internally manufactured product that is sold directly to a customer and not through a store (including our Holo-Krome business acquired in December 2009), or (3) our direct import business.
The breakdown of our sales, the average monthly sales per store, the number of stores at quarter end, the average headcount at our stores during a quarter, the average FTE headcount during a quarter, and the percentage change were as follows for the first quarter of 2007 (the last completed quarter before we began the 'pathway to profit'), for the third quarter of 2008 (our peak quarter before the economy weakened), and for each of the last five quarters:

	Q1 2007	Q3 2008	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Total net sales reported	$489,157	$625,037	$768,875	$804,890	$802,577	$757,235	$806,326
Less: Non-store sales (approximate)	40,891	57,267	92,459	98,735	100,124	95,951	101,624
Store net sales (approximate)	$448,266	$567,770	$676,416	$706,155	$702,453	$661,284	$704,702
% change since Q1 2007		26.7 %	50.9 %	57.5 %	56.7 %	47.5 %	57.2 %
% change (twelve months)		17.5 %	20.2 %	14.6 %	10.1 %	8.2 %	4.2 %
Percentage of sales through a store	92 %	91 %	88 %	88 %	88 %	87 %	87 %
Average monthly sales per store (using ending store count)	$72	$82	$86	$89	$88	$83	$88
% change since Q1 2007		13.9 %	19.4 %	23.6 %	22.2 %	15.3 %	22.2 %
% change (twelve months)		9.3 %	16.2 %	11.3 %	6.0 %	5.1 %	2.3 %

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	Q1 2007	Q3 2008		Q1 2012		Q2 2012		Q3 2012		Q4 2012		Q1 2013	
Store locations - quarter end count	2,073	2,300		2,611		2,635		2,650		2,652		2,660	
% change since Q1 2007		11.0	%	26.0	%	27.1	%	27.8	%	27.9	%	28.3	%
% change (twelve months)		7.2	%	3.5	%	3.0	%	3.3	%	2.6	%	1.9	%
Store personnel - absolute headcount	6,849	9,123		10,486		10,637		10,604		10,347		10,108	
% change since Q1 2007		33.2	%	53.1	%	55.3	%	54.8	%	51.1	%	47.6	%
% change (twelve months)		17.9	%	12.2	%	9.3	%	5.4	%	0.2	%	-3.6	%
Store personnel - FTE	6,383	8,280		8,900		9,126		9,244		9,035		8,875	
Non-store selling personnel - FTE	616	599		998		1,054		1,066		1,070		1,121	
Sub-total of all sales personnel - FTE	6,999	8,879		9,898		10,180		10,310		10,105		9,996	
Distribution personnel-FTE	1,646	1,904		1,815		1,881		1,887		1,872		1,819	
Manufacturing personnel - FTE[1]	316	340		527		545		544		544		565	
Administrative personnel-FTE	767	805		796		794		808		811		832	
Sub-total of non-sales personnel - FTE	2,729	3,049		3,138		3,220		3,239		3,227		3,216	
Total - average FTE headcount	9,728	11,928		13,036		13,400		13,549		13,332		13,212	
% change since Q1 2007													
Store personnel - FTE		29.7	%	39.4	%	43.0	%	44.8	%	41.5	%	39.0	%
Non-store selling personnel - FTE		-2.8	%	62.0	%	71.1	%	73.1	%	73.7	%	82.0	%
Sub-total of all sales personnel - FTE		26.9	%	41.4	%	45.4	%	47.3	%	44.4	%	42.8	%
Distribution personnel-FTE		15.7	%	10.3	%	14.3	%	14.6	%	13.7	%	10.5	%
Manufacturing personnel-FTE[1]		7.6	%	66.8	%	72.5	%	72.2	%	72.2	%	78.8	%
Administrative personnel-FTE		5.0	%	3.8	%	3.5	%	5.3	%	5.7	%	8.5	%
Sub-total of non-sales personnel - FTE		11.7	%	15.0	%	18.0	%	18.7	%	18.2	%	17.8	%
Total - average FTE headcount		22.6	%	34.0	%	37.7	%	39.3	%	37.0	%	35.8	%
% change (twelve months)													
Store personnel - FTE		15.2	%	13.7	%	10.6	%	7.1	%	4.0	%	-0.3	%
Non-store selling personnel - FTE		-2.4	%	28.1	%	24.0	%	15.9	%	12.3	%	12.3	%
Sub-total of all sales personnel - FTE		13.8	%	15.0	%	11.8	%	8.0	%	4.9	%	1.0	%
Distribution personnel-FTE		6.0	%	12.9	%	7.1	%	3.1	%	2.9	%	0.2	%

Manufacturing personnel - FTE[1]	1.8 %	14.3 %	10.8 %	6.0 %	5.4 %	7.2 %
Administrative personnel - FTE	7.9 %	4.7 %	1.4 %	-0.4 %	1.9 %	4.5 %
Sub-total of non-sales personnel - FTE	6.0 %	10.9 %	6.2 %	2.7 %	3.0 %	2.5 %
Total - average FTE headcount	11.7 %	14.0 %	10.4 %	6.7 %	4.4 %	1.4 %

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

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

	Three-month period	
	2013	2012
Net sales	100.0 %	100.0 %
Gross profit	52.3 %	51.3 %
Operating and administrative expenses	30.7 %	30.3 %
(Gain) loss on sale of property and equipment	0.0 %	0.0 %
Operating income	21.7 %	20.9 %
Interest income/expense (net)	0.0 %	0.0 %
Earnings before income taxes	21.7 %	21.0 %

Note – Amounts may not foot due to rounding difference.

Gross profit – percentage for the first quarter of 2013 increased from the same period in 2012. Sequentially, the gross profit percentage increased from the fourth quarter of 2012.

The gross profit percentage in the first, second, third, and fourth quarters was as follows:

	Q1	Q2	Q3	Q4
2013	52.3 %			
2012	51.3 %	51.6 %	51.6 %	51.6 %
2011	52.0 %	52.2 %	51.9 %	51.2 %

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

We believe a normal gross profit percentage range for our business is 51% to 53%. This is based on our current mix of products, geographies, end markets, and end market uses (such as industrial production business versus maintenance business). The following narrative may be more detail than you want; however, we believe it is an important recap to understanding the dynamics surrounding our gross margin patterns. Our business operated below our expected gross profit range at the end of 2009, and expanded into the low end of this range during 2010. In the second quarter of 2010, we moved into the middle of the range as the three components of gross profit improved, the contribution being split fairly evenly between the three components. We remained in the middle of the range until the fourth quarter of 2011. In the fourth quarter of 2011, our gross margin felt pressure and dropped to the lower end of the range. This drop was primarily due to changes in our transactional margin (primarily due to changes in product and customer mix), lower vendor incentive gross profit, and lower freight utilization. The latter two items created half of the gross margin drop and are more of a seasonal issue. In the first quarter of 2012, our gross margin improved nominally over the previous quarter. This was primarily caused by the seasonal improvement of vendor volume allowances as rising fuel prices offset our improvements in freight utilization. In the second, third, and fourth quarters of 2012, our gross margin improved when compared to the first quarter. Most of this improvement related to improvements in our transactional gross margin. The improvement was partially offset by the weakening of our selling prices in certain foreign markets due to changes in the exchange rate. One item of note, in the fourth quarter of 2012 we experienced a drop off in the freight component of our gross margin due to lower freight utilization, a typical pattern due to the seasonal drop off in business; this gross margin decline was offset by an improvement in the remaining portion of our transactional gross margin that centers on product transactional cost and customer pricing. The first quarter of 2013 experienced a strong improvement in gross margin. A piece of this related to the seasonal impact of improving freight utilization, but this improvement was constrained due to the weak sales growth. The real driver of improvement related to improved pricing habits largely resulting from store personnel exercising great judgment that is guided by better information in our newly implemented price guidance system.

Operating and administrative expenses - increased as a percentage of sales in the first quarter of 2013 versus the first quarter of 2012. This was primarily a function of slowing sales growth versus our original expectations.

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Historically, our two largest components to operating and administrative expenses have consisted of employee related expenses (approximately 65% to 70%) and occupancy related expenses (approximately 15% to 20%). The remaining expenses cover a variety of items with selling transportation typically being the largest.
The three largest components of operating and administrative expenses grew as follows for the periods ended March 31 (compared to the same quarter in the preceding year):

	Three-month period	
	2013	2012
Employee related expenses	5.5 %	14.9 %
Occupancy related expenses	13.6 %	0.3 %
Selling transportation costs	0.9 %	19.3 %

Employee related expenses include: (1) payroll (which includes cash compensation, stock option expense, and profit sharing), (2) health care, (3) personnel development, and (4) social taxes. Performance bonuses were down in the first quarter of 2013; however, this decrease was offset by increases related to the following factors: (1) average employee headcount, measured on a full-time equivalent basis, grew 1.4% (2) sales commissions grew due to the gross profit improvement, (3) bonus amounts related to our growth drivers grew (this includes items such as industrial vending bonuses which grew due to the strength in the vending rollout), (4) our profit sharing contribution grew, and (5) our health care costs grew. The latter two items drove 21% of the increase. The increase in the first quarter of 2012 was driven by the following factors: (1) average employee headcount, measured on a full-time equivalent basis, grew 14.0%, (2) sales commissions grew, (3) bonus amounts related to our growth drivers grew (this includes items such as industrial vending bonuses and manager minimum pay adjustments), and (4) our profit sharing contribution grew.
Occupancy related expenses include: (1) building rent and depreciation, (2) building utility costs, (3) equipment related to our stores and distribution locations, and (4) FAST Solutions^{SM} (industrial vending) equipment (we consider the vending equipment to be a logical extension of our store operation and classify the expense as occupancy). The increase in the first quarter of 2013 was driven by (1) a dramatic increase in the amount of FAST Solutions^{SM} (industrial vending) equipment as discussed earlier in this document, (2) an increase in the number of locations, and (3) an increased investment in our distribution infrastructure over the last several years. In the first quarter of 2013, the industrial vending component represented 62% of the increase and utilities represented 18% of the increase. The utility increase was due to a more severe winter and increases in natural gas prices during the heating season. Almost all of our occupancy increase in the first quarter of 2012 related to the increase in the amount of FAST Solutions^{SM} (industrial vending) equipment, as our energy savings offset most of the increase relating to items (1) and (3). The energy savings were driven by our efforts to lower energy consumption, a mild winter, and a drop in natural gas prices during the heating season.
Our selling transportation costs consist primarily of our store fleet as most of the distribution fleet costs are included in the cost of sales. Selling transportation costs included in operating and administrative expenses increased in the first quarter of 2013; however, they increased at a rate much less than sales growth. The increase in the first quarter of 2012 was primarily related to the increase in per gallon fuel costs discussed below and the expansion of our fleet related to additions to our non-store sales personnel, particularly FAST Solutions^{SM} (industrial vending) vehicles.

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The last several years have seen some variation in the cost of diesel fuel and gasoline – During the first quarter of 2013, our total vehicle fuel costs were approximately $10.6 million. During the first, second, third, and fourth quarters of 2012, our total vehicle fuel costs were approximately $10.6, $10.8, $10.8, and $10.3 million, respectively. The changes resulted from variations in fuel costs, variations in the service levels provided to our stores from our distribution centers, changes in the number of vehicles at our store locations, and changes in the number of other sales centered vehicles as a result of store openings and the expansion of our non-store sales force. These fuel costs include the fuel utilized in our distribution vehicles (semi-tractors, straight trucks, and sprinter trucks) which is recorded in cost of sales and the fuel utilized in our store delivery and other sales centered vehicles which is included in operating and administrative expenses (the split in the last several years has been approximately 50:50 between distribution and store and other sales centered use).
The average per gallon fuel costs (in actual dollars) and the percentage change (on a year-over-year basis) for the last three years was as follows:

Per gallon average price	Q1	Q2	Q3	Q4	Annual Average[1]
2013 price					
Diesel fuel	$4.02				
Gasoline	$3.51				
2012 price					
Diesel fuel	$3.92	3.98	3.88	4.05	3.96
Gasoline	$3.53	3.73	3.61	3.53	3.60
2011 price					
Diesel fuel	$3.60	4.04	3.90	3.87	3.85
Gasoline	$3.22	3.78	3.62	3.37	3.50

Per gallon price change	Q1	Q2	Q3	Q4	Annual[1]
2013 change					
Diesel fuel	2.6 %				
Gasoline	-0.6 %				
2012 change					
Diesel fuel	8.9 %	-1.5 %	-0.5 %	4.7 %	2.9 %
Gasoline	9.6 %	-1.3 %	-0.3 %	4.7 %	2.9 %

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

Income taxes – Incomes taxes, as a percentage of earnings before income taxes, were approximately 37.8% for the first quarter of 2013 and 2012. As our international business and profits grow over time, the lower income tax rates in those jurisdictions, relative to the United States, have begun to lower our effective tax rate.

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OPERATIONAL WORKING CAPITAL:

The year-over-year comparison and the related dollar and percentage changes related to accounts receivable and inventories were as follows:

	Balance at March 31:			Twelve Month Dollar Change		Twelve Month Percentage Change			
	2013	2012	2011	2013	2012	2013		2012	
Accounts receivable, net	$418,733	386,882	325,685	31,851	61,197	8.2	%	18.8	%
Inventories	$700,484	647,886	576,451	52,598	71,435	8.1	%	12.4	%
Operational working capital[1]	$1,119,217	1,034,768	902,136	84,449	132,632	8.2	%	14.7	%
Sales in last two months	$531,460	522,905	437,773	8,555	85,132	1.6	%	19.4	%

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

The growth in accounts receivable noted above was driven by our sales growth in the final two months of the period. The strong growth in recent years of our international business and of our large customer accounts has created meaningful difficulty with managing the growth of accounts receivable relative to the growth in sales. The timing of month end and the Easter holiday in late March also impacted normal payment patterns.

Our growth in inventory balances over time does not have as direct a relationship to our monthly sales patterns as does our growth in accounts receivable. This is impacted by other aspects of our business. For example, the dramatic economic slowdown in late 2008 and early 2009 caused our inventory to spike. This occurred because the lead time for inventory procurement is typically longer than the visibility we have into future monthly sales patterns. Over the last decade, we increased our relative inventory levels due to the following: (1) new store openings, (2) expanded stocking breadth at individual stores, (3) expanded stocking breadth at our distribution centers (for example, our master stocking hub in Indianapolis expanded its product breadth over six fold from 2005 to 2011), (4) expanded direct sourcing, (5) expanded exclusive brands (private label), and (6) expanded industrial vending solutions. Items (4), (5), and (6) created most of our inventory growth in the first quarter of both 2013 and 2012.

BALANCE SHEET AND CASH FLOW:

Our balance sheet continues to be very strong and our operations have good cash generating characteristics. During the first quarter of 2013, we generated $160,244 (or 146.9% of net earnings) of operating cash flow. Our first quarter typically has stronger cash flow characteristics due to the timing of tax payments; this benefit reverses itself in the second, third, and fourth quarters as income tax payments go out in April, June, September, and December. The remaining amounts of cash flow from operating activities are largely linked to the pure dynamics of a distribution business and its strong correlation to working capital as discussed above.

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STOCK REPURCHASE:
We did not purchase any stock in the first quarter of 2013. We currently have authority to purchase up to 1,800,000 shares of our common stock.
CRITICAL ACCOUNTING POLICIES:
A discussion of the critical accounting policies related to accounting estimates is contained in our 2012 annual report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES:
Cash flow activity in dollars and as a percentage of net earnings was as follows:

	Three-month period			
	2013		2012	
Net cash provided by operating activities	$160,244		132,188	
Net cash used in investing activities	$54,312		27,313	
Net cash used in financing activities	$25,887		24,215	
Net cash provided by operating activities	146.9	%	131.9	%
Net cash used in investing activities	49.8	%	27.3	%
Net cash used in financing activities	23.7	%	24.2	%

Net cash provided by operating activities increased from the prior year. This increase was driven by the expansion of both our absolute and relative profitability from 2012 to 2013. The increase was also driven by a slower growth in the cash required to fund our working capital growth. These include: accounts receivable changes, inventory, and related accounts payable changes.
Net cash used in investing activities changed primarily due to changes in capital expenditures. Property and equipment expenditures in the first three months of 2013 and 2012 consisted of: (1) the purchase of software and hardware for Fastenal's information processing systems, (2) the addition of certain pickup trucks, (3) the purchase of signage, shelving, and other fixed assets related to store openings, (4) the addition of manufacturing and warehouse equipment, (5) the expansion or improvement of certain owned or leased store properties, (6) the expansion of Fastenal's distribution/trucking fleet, (7) the expansion of our Winona, Minnesota distribution center (primarily a 2012 item), (8) purchases related to FAST Solutions[SM] (industrial vending), and (9) the expansion of distribution capabilities related to automation (including with respect to vending, which is primarily a 2013 item). Of these factors, the items related to industrial vending or distribution automation created the greatest impact to our capital expenditures in 2013 and 2012. Disposals of property and equipment in both periods consisted of the planned disposition of certain pickup trucks, semi-tractors, and trailers in the normal course of business and the disposition of real estate relating to several store locations.
Cash requirements for property and equipment expenditures were satisfied from net earnings, cash on hand, and the proceeds of disposals. We anticipate funding our current expansion plans with cash generated from operations, from available cash and cash equivalents, and from our borrowing capacity.
Net cash used in financing activities consisted of the payment of dividends, with some offset related to the exercise of stock options.
A discussion of the nature and amount of future cash commitments is contained in our 2012 annual report on Form 10-K.
Certain Risks and Uncertainties – This report contains statements that are not historical in nature and that are intended to be, and are hereby identified as, “forward-looking statements” under the Private Securities Litigation Reform Act of 1995, including statements regarding (1) the goals of our long-term growth strategy, 'pathway to profit', including the growth in average store sales and profitability expected to result from that strategy (including our belief that we can achieve targeted profitability due to an improvement in our gross margins and a lowering of our operating expenses even if our average store sales do not grow as originally expected), (2) the expected rate of new store openings, (3) our belief in the transformative nature of FAST Solutions[SM] (industrial vending) and our advantage as a first mover in this area, and our expectations regarding expansion of that business, including our goals regarding our rate of 'machine

signings', (4) our expected gross profit range, (5) our intention to expand store based inventory around certain industries, (6) our plans to reinvigorate our fastener growth and improve sales at under-performing locations, (7) our expectation that total unrecognized tax benefits will not change significantly during the next twelve months, (8) the expected unrecognized compensation expense related to stock options, and (9) our ability to mitigate the effect of rising fuel prices by passing freight costs on to our customers. The following factors are

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among those that could cause the Company's actual results to differ materially from those predicted in such forward-looking statements: (1) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, changes in the expected rate of new store openings, difficulties in successfully attracting and retaining additional qualified sales personnel, an inability to realize or sustain improvements in our gross margins and savings from lowering our operating expenses, and difficulties in changing our sales process could adversely impact our ability to achieve the goals of our 'pathway to profit' initiative, (2) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, a change from that projected in the number of North American markets able to support stores, or an inability to recruit and retain qualified employees could cause the rate of new store openings to change from that expected, (3) a weaker level of industry acceptance or adoption of the vending technology from what we are currently experiencing could cause us to fail to meet our goals from industrial vending business including those regarding our rate of 'machine signings', or cause industrial vending to be less transformative than expected, (4) our competitors could choose, over time, to open additional locations and to develop their own vending platform which could allow our competitors to replicate our local storefront combined with industrial vending business model mitigating our first mover advantage, (5) a downturn or continued weakness in the economy or in the manufacturing or commercial construction industries, a change in our current mix of products, customers, or geographic locations, a change in our purchasing patterns, a significant change in commodity prices, or increased competitive pressure on our selling prices could impact our ability to achieve gross margins within the range we expect, (6) changes in customer mix could cause us to alter our plans to expand store based inventory around certain industries, (7) difficulties in hiring, relocating, or training qualified personnel could adversely impact our ability to reinvigorate our fastener growth and improve sales at under-performing locations, (8) changes in tax law or changes in the interpretation of tax law at the federal, state or local level could impact our expectation about total unrecognized tax benefits during the next twelve months, (9) an unexpected change in forfeiture rates due to demotion or turnover could impact the unrecognized compensation expense related to stock options, and (10) our ability to pass freight costs on to our customers could be adversely impacted by, in the short term, changes in fuel prices and by competitive selling pressures. A discussion of other risks and uncertainties which could cause our operating results to vary from anticipated results or which could materially adversely effect our business, financial condition, or operating results is included in our 2012 annual report on Form 10-K under the sections captioned Certain Risks and Uncertainties and Item 1A – Risk Factors. We assume no obligation to update any forward-looking statements or any discussions of risks and uncertainties.

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ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates – We have a credit facility totaling $125 million which expires December 13, 2015. This facility includes a $40 million letter of credit subfacility. Loans under the facility bear interest at a rate per annum equal to LIBOR plus 0.875%, we pay a commitment fee of 0.10% to 0.125% per annum (depending on usage), and we pay a fee of 0.875% per annum and, subject to certain exceptions, an issuance fee of 0.075% of the face amount for outstanding letters of credit. During the quarter ended March 31, 2013, we received loan advances under the credit facility and repaid all advances during the quarter. On March 31, 2013, there were no loan advances outstanding and there was one undrawn letter of credit outstanding under the letter of credit subfacility for $29,250.

Foreign Currency Exchange Rates – Foreign currency fluctuations can affect our net investments and earnings denominated in foreign currencies. Our primary exchange rate exposure is with the Canadian dollar against the United States dollar. Our estimated net earnings exposure for foreign currency exchange rates was not material at March 31, 2013.

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

Commodity Fuel Prices – We have market risk for changes in gasoline and diesel fuel costs, related to our trucking fleet as well as natural gas costs related to our numerous locations and to our heat treating operations. Historically the risk related to our trucking fleet has been mitigated over time by our ability to pass freight costs to our customers and the efficiency of our trucking distribution network. We also have market risk for energy costs outside of transportation. This is primarily related to energy utilized in the production of products we sell (see also commodity steel pricing discussion above) and the energy needed to heat or cool our extensive store network.

ITEM 4 — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures – As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer of Fastenal, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the 'Exchange Act')). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow for timely decisions regarding disclosure. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

A description of our legal proceedings, if any, is contained in Note 6 to the 'Notes to Consolidated Financial Statements'. The description of legal proceedings, if any, in Note 6 is incorporated herein by reference.

ITEM 1A — RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are described in Item 2 of Part I above and in our most recently filed annual report on Form 10-K under Certain Risks and Uncertainties and Item 1A – Risk Factors. There has been no material change in those risk factors.

ITEM 6 — EXHIBITS

3.1	Restated Articles of Incorporation of Fastenal Company, as amended effective as of April 17, 2012 (incorporated by reference to Exhibit 3.1 to Fastenal Company's Form 10-Q for the quarter ended March 31, 2012)
3.2	Restated By-Laws of Fastenal Company (incorporated by reference to Exhibit 3.2 to Fastenal Company's Form 8-K dated as of October 15, 2010)
31	Certifications under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification under Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from Fastenal Company's Quarterly Report on Form 10-Q for the quarter ended March 31. 2013, filed on April 15, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Earnings, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FASTENAL COMPANY

/s/ Willard D. Oberton
(Willard D. Oberton, Chief Executive Officer)
(Duly Authorized Officer)

Date April 15, 2013

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

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INDEX TO EXHIBITS

3.1	Restated Articles of Incorporation of Fastenal Company, as amended effective as of April 17, 2012	(Incorporated by reference)
3.2	Restated By-Laws of Fastenal Company	(Incorporated by reference)
31	Certifications under Section 302 of the Sarbanes-Oxley Act of 2002	Electronically Filed
32	Certification under Section 906 of the Sarbanes-Oxley Act of 2002	Electronically Filed
101.INS	XBRL Instance Document	Electronically Filed
101.SCH	XBRL Taxonomy Extension Schema Document	Electronically Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Electronically Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Electronically Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Electronically Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Electronically Filed