ARBITRON INC
Form SC 13G/A
February 21, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G
Rule 13d-102

Under the Securities Exchange Act of 1934
(Amendment No. 4)*

Arbitron Inc.

(Name of Issuer)

common

(Title of Class of Securities)

03875Q108

(CUSIP Number)

12/31/2005

(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

|X| Rule 13d-1 (b)
|_| Rule 13d-1 (c)
|_| Rule 13d-1 (d)

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* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 03875Q108

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(1) Names and I.R.S. Identification Nos.(entities only) of reporting persons.

Neuberger Berman Inc.
061523639

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(2) Check the appropriate box if a member of a group (see instructions) (a)|_|
(b)|X|

---

(3) SEC use only.

---

(4) Citizenship or place of organization.

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power:
30610

(6) Shared voting power:
2798680

(7) Sole dispositive power:
0

(8) Shared dispositive power:
3417490

---

(9) Aggregate amount beneficially owned by each reporting person.

3417490

---

(10) Check if the aggregate amount in Row (9) excludes certain shares (see instructions). |X|

---

(11) Percent of class represented by amount in Row 9.

11.07%

---

(12) Type of reporting person (see instructions).

HC

CUSIP No. 03875Q108

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(1) Names and I.R.S. Identification Nos.(entities only) of reporting persons.

Neuberger Berman, LLC
135521910

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(2) Check the appropriate box if a member of a group (see instructions) (a)|_|
(b)|X|

---

(3) SEC use only.

---

(4) Citizenship or place of organization.

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power:
30610

(6) Shared voting power:

2798680

(7) Sole dispositive power:
0

(8) Shared dispositive power:
3417490

---

(9) Aggregate amount beneficially owned by each reporting person.

3417490

---

(10) Check if the aggregate amount in Row (9) excludes certain shares |X|
(see instructions).

---

(11) Percent of class represented by amount in Row 9.

11.07%

---

(12) Type of reporting person (see instructions).

BD IA

CUSIP No. 03875Q108

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(1) Names and I.R.S. Identification Nos.(entities only) of reporting persons.

Neuberger Berman Management Inc.
132667528

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(2) Check the appropriate box if a member of a group (see instructions) (a)|_|
(b)|X|

---

(3) SEC use only.

---

(4) Citizenship or place of organization.

New York

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power:
0

(6) Shared voting power:
2798680

(7) Sole dispositive power:
0

(8) Shared dispositive power:
2798680

---

(9) Aggregate amount beneficially owned by each reporting person.

2798680

---

(10) Check if the aggregate amount in Row (9) excludes certain shares |_|
(see instructions).

---

(11) Percent of class represented by amount in Row 9.

9.07%

---

(12) Type of reporting person (see instructions).

BD IA

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CUSIP No. 03875Q108

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(1) Names and I.R.S. Identification Nos.(entities only) of reporting persons.

Neuberger Berman Equity Funds
134035886

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(2) Check the appropriate box if a member of a group (see instructions) (a)|_|
(b)|X|

---

(3) SEC use only.

---

(4) Citizenship or place of organization.

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power:
0

(6) Shared voting power:
2761300

(7) Sole dispositive power:
0

(8) Shared dispositive power:
2761300

---

(9) Aggregate amount beneficially owned by each reporting person.

2761300

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(10) Check if the aggregate amount in Row (9) excludes certain shares |_|
(see instructions).

---

(11) Percent of class represented by amount in Row 9.

8.95%

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(12) Type of reporting person (see instructions).

IV

Item 1(a). Name of Issuer:

Arbitron Inc.

Item 1(b). Address of Issuer's Principal Executive Offices:

142 W. 57th St. New York NY 10019

Item 2(a). Name of Person Filing:

Neuberger Berman Inc.

Item 2(b). Address or Principal Business Office or, If None, Residence:

605 Third Ave. New York NY 10158

Item 2(c). Citizenship:

Delaware

Item 2(d). Title of Class of Securities:

common

Item 2(e). CUSIP No.:

03875Q108

Item 3. If This Statement is Filed Pursuant to Rule 13d-1(b), or 13d-2(b) or (c), Check Whether the Person Filing is a:

(a) |_| Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b) |_| Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) |_| Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) |_| Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).

(e) |_| An investment adviser in accordance with ss. 240.13d-1(b)(1)(ii)(E);

(f) |_| An employee benefit plan or endowment fund in accordance with ss.240.13d-1(b)(1)(ii)(F);

(g) |_| A parent holding company or control person in accordance with ss.240.13d- 1(b)(1)(ii)(G);

(h) |_| A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) |_| A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment

Company Act of 1940 (15 U.S.C. 80a-3);

(j) |X| Group, in accordance with ss. 240.13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box. |_|

Item 4. Ownership

(a) Amount beneficially owned:
3417490

(b) Percent of class:
11.07%

(c) Number of shares as to which such person has:

(i) Sole power to direct the vote
30610

(ii) Shared power to direct the vote
2798680

(iii) Sole power to dispose or direct the disposition of
0

(iv) Shared power to dispose or direct the disposition of
3417490

Item 5. Ownership of 5 Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following |_|

Item 6. Ownership of More than 5 Percent on Behalf of Another Person.

Neuberger Berman, LLC is deemed to be a beneficial owner for purpose of Rule 13(d) since it has shared power to make decisions whether to retain or dispose of, and in some cases the sole power to vote the securities of many unrelated clients. Neuberger Berman, LLC does not, however, have any economic interest in the securities of those clients. The clients are the actual owners of the securities and have the sole right to receive and the power to direct the receipt of dividends from or proceeds from the sale of such securities.

With regard to the shares set forth under Item 4.(c)(II), 2,761,300 shares or 8.95% of the outstanding are beneficially owned by Neuberger Berman Genesis Fund Portfolio, a series of Neuberger Berman Equity Funds. Neuberger Berman, LLC and Neuberger Berman Management Inc. are deemed to be beneficial owners of these shares for purposes of Rule 13(d) since they both have shared power to make decisions whether to retain or dispose of the securities. Neuberger Berman, LLC and Neuberger Berman Management Inc. serve as sub-adviser and investment manager, respectively, of Neuberger Berman Genesis Fund Portfolio, which holds such shares in the ordinary course of its business and not with the purpose nor with the effect of changing or influencing the control of the issuer.

With regard to the balance of the shares set forth under Item 4.(c)(II), Neuberger Berman, LLC and Neuberger Berman Management Inc. are deemed to be the beneficial owners for the purposes of Rule 13(d), since they have power to make decisions whether to retain or dispose of securities held by Neuberger Berman's various other Funds. Neuberger Berman, LLC is the sub-advisor to the aforementioned Funds.

No other Neuberger Berman, LLC advisory client has an interest of more than 5% of the issuer.

It should be further noted that the share calculation under item 4.(c)(IV) is derived from a total combination of the shares set forth under Item 4.(c)(I and II). The remaining balance of shares, if any, are for individual client accounts over which Neuberger Berman, LLC has shared power to dispose.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

Neuberger Berman Inc. makes this filing pursuant to the Rule 13d-1 (b) (ii) (G) since it owns 100% of both Neuberger Berman, LLC and Neuberger Berman Management Inc. and does not own over 1% of the issuer. Neuberger Berman, LLC, as investment advisor and broker/dealer with discretion. Neuberger Berman Management Inc. as investment advisor to a series of Public Mutual Funds.

Item 8. Identification and Classification of Members of the Group.

N/A

Item 9. Notice of Dissolution of Group.

N/A

Item 10. Certifications

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Neuberger Berman Inc.

Date: 02/17/2006

/s/ Kevin Handwerker
Name: Kevin Handwerker
Title: Chief Administrative Officer
and General Counsel

Neuberger Berman, LLC

Date: 02/17/2006

/s/ Kevin Handwerker

Name: Kevin Handwerker
Title: Chief Administrative Officer
and General Counsel

Neuberger Berman Management Inc.

Date: 02/17/2006

/s/ Peter Sundman
Name: Peter Sundman
Title: President and Director

Neuberger Berman Equity Funds

Date: 02/17/2006

/s/ Peter Sundman
Name: Peter Sundman
Title: Chairman of the Board, CEO
and Trustee

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, Provided, however, That a power of attorney for this purpose which is already on file with the Commission may be incor porated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

ATTENTION: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001). (Secs. 3(b), 13(d)(1), 13(d)(2), 13(d)(5), 13(d)(6), 13(g)(1), 13(g)(2), 13(g)(5), 23, 48 Stat. 882, 894, 901; sec. 203(a), 49 Stat. 704; sec. 8, 49 Stat. 1379; sec. 10, 78 Stat. 88a; sec. 2, 82 Stat. 454; secs. 1, 2, 84 Stat. 1497; secs. 3, 10, 18, 89 Stat. 97, 119, 155; secs. 202, 203, 91 Stat. 1494, 1498, 1499; (15 U.S.C. 78c(b), 78m(d)(1), 78m(d)(2), 78m(d)(5), 78m(d)(6), 78m(g)(1), 78m(g)(2), 78m(g)(5), 78w)) [43 FR 18499, Apr. 28, 1978, as amended at 43 FR 55756, Nov. 29, 1978; 44 FR 2148, Jan. 9, 1979; 44 FR 11751, Mar. 2, 1979; 61 FR 49959, Sept. 24, 1996; 62 FR 35340, July 1, 1997; 63 FR 2867, Jan. 16, 1998; 63 FR 15287, Mar. 31, 1998]

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w Roman" SIZE="2">$566,210 489,157

Percentage change

15.8% 13.3%

The increase in net sales in the three month period in 2008 came primarily from higher unit sales, and to a lesser degree, increases in prices. The higher unit sales resulted from increases in sales at older store locations (discussed earlier) and the opening of new store locations in 2007 and 2008.

The mix of sales from the original fastener product line and from the newer product lines was as follows:

Product line	Three months ended March 31, 2008	2007
Fastener product line	50.2%	50.8%
Newer product lines	49.8%	49.2%

(Continued)

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ITEM 2. *(Continued)*

Daily sales growth rates for the twelve months of 2006 and 2007, and the first three months of 2008, were as follows (compared to the comparable month in the preceding year):

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2006	23.9%	21.3%	21.1%	19.1%	19.2%	20.6%	19.7%	20.7%	16.1%	15.9%	16.3%	17.7%
2007	12.6%	11.8%	15.5%	12.0%	13.2%	14.8%	13.9%	13.4%	13.7%	14.7%	15.2%	16.8%
2008	15.6%	15.0%	16.9%									

The strong growth in the January 2006 to March 2006 time frame generally represents a continuation of the strong environments experienced in 2004 and 2005. The first two months of the second quarter of 2006 experienced weaker sales growth than we expected. The April 2006 growth was negatively impacted by Easter (which occurred in March during 2005), but was still weaker than we expected. The June to August 2006 time frame represents stronger sales activity than the preceding two to three month period. The daily sales growth amount in September 2006 appears weaker due to the difficult comparison with Hurricane Katrina s added sales in September 2005 (approximately $4,000 impact); however, the increase in our daily sales number from August 2006 to September 2006, of 4.1%, is consistent with historical norms. The final three months of 2006 continued in the same variable fashion as the previous six months. The October growth number was negatively impacted by the difficult comparison with Hurricane Katrina s added sales in October 2005 (approximately $1,500 impact). The months of November and December 2006, like the months of April and May 2006, were weaker than expected. The first five months of 2007 continued the trend of a weak economic environment as experienced during 2006 (as described above). The month of March 2007 improved relative to January and February 2007. The month of June 2007 improved relative to April and May 2007. The June improvement was meaningful as it came in a month with fairly challenging comparisons from 2006. Unfortunately, the strength in June moderated in the third quarter. This pulled our daily sales growth rate from the 14.8% in June to 13.5% in the third quarter of 2007. This moderation reflected a continuation of the weaker economic environment experienced in four of the first five months of the year. The final three months of 2007 continued in the same variable fashion as the previous nine months but showed consistent improvement from the third quarter daily sales growth rate of 13.5%. This improvement remained in the first three months of 2008. We believe the improvement in the final months of 2007 and the first three months of 2008 were driven, in part, by our pathway to profit initiative described below.

(Continued)

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ITEM 2. *(Continued)*

Pathway To Profit During April 2007 we disclosed our intention to alter the growth drivers of our business. For most of the last decade, we have used store openings as the primary growth driver of our business (opening approximately 14% new stores each year). As announced in April 2007, we intend to add outside sales personnel into existing stores at a faster rate than historical patterns. We intend to fund this sales force expansion with the occupancy savings generated by opening stores at the rate of 7% to 10% per year (we opened approximately 8.1% new stores in 2007 or 161 stores) versus the historical rate of approximately 14%. Our goal is four-fold: (1) to continue growing our business at a similar rate with the new outside sales investment model, (2) to grow the sales of our average store to $125 thousand per month during the five year period from 2007 to 2012, (3) to enhance the profitability of the overall business by capturing the natural expense leverage that has historically occurred in our existing stores as their sales grow, and (4) to improve the performance of our business due to the more efficient use of working capital (primarily inventory) as our average store size increases.

Store Count and Full-Time Equivalent (FTE) Headcount Growth In response to the pathway to profit , we have increased our year-over-year store count and FTE head count as follows:

	March 2008	December 2007	September 2007	June 2007	March 2007
Store count	**6.8%**	**8.1%**	**9.7%**	**12.5%**	**13.4%**
Store personnel - FTE	18.5%	18.8%	18.4%	13.7%	13.0%
Distribution and manufacturing personnel - FTE	10.9%	7.7%	12.8%	9.2%	8.9%
Administrative and sales support personnel - FTE	(5.9)%	1.5%	2.1%	4.4%	15.2%
Total - FTE	**13.5%**	**14.1%**	**15.0%**	**11.5%**	**12.5%**

(Continued)

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ITEM 2. *(Continued)*

Store Size and Profitability[1] Approximately 90% and 91% of our sales in the first quarter of 2008 and 2007, respectively, were generated by our stores included in the table set forth below. Our remaining sales related to (1) our in-plant locations, (2) our direct Fastenal Cold Heading business, or (3) our direct import business. Our average store, excluding the business not sold through a store, had sales of $71,600 per month in the first quarter of 2007. This average grew to $76,800 per month in the first quarter of 2008. The average age, number of stores and pre-tax margin data by store size for the first quarter of 2008 and 2007, respectively, was as follows:

Three months ended March 31, 2008

Sales per Month	Average Age (Years)	Number of Stores	Percentage of Stores	Pre-Tax Margin Percentage
$0 to 30,000	2.6	384	17.3%	(20.2)%
$30,001 to 60,000	5.2	718	32.4%	10.3%
$60,001 to 100,000	7.8	555	25.1%	20.9%
$100,001 to $150,000	10.1	342	15.5%	25.4%
Over $150,000	13.3	214	9.7%	27.4%
Total		2,213	100.0%	

Three months ended March 31, 2007

Sales per Month	Average Age (Years)	Number of Stores	Percentage of Stores	Pre-Tax Margin Percentage
$0 to 30,000	1.9	428	20.7%	(22.0)%
$30,001 to 60,000	5.0	664	32.0%	10.9%
$60,001 to 100,000	7.5	493	23.8%	20.7%
$100,001 to $150,000	9.6	307	14.8%	23.8%
Over $150,000	13.6	181	8.7%	25.7%
Total		2,073	100.0%	

Note - Amounts may not foot due to rounding difference.

As we indicated in April 2007, our goal during the five year period from 2007 to 2012 is to increase the sales of our average store to approximately $125,000 per month by 2012. This will shift the store mix emphasis from the first three categories ($0 to $30,000, $30,001 to $60,000, and $60,001 to $100,000) to the last three categories ($60,001 to 100,000, $100,001 to $150,000, and over $150,000), and we believe this will allow us to leverage our fixed cost and increase our overall productivity.

[1]Note - Dollar amounts in this section are presented in whole dollars, not thousands.

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ITEM 2. *(Continued)*

Impact of Fuel Prices During the Quarter Rising fuel prices negatively impacted the year ended December 31, 2007 and the first quarter of 2008. During the first quarter of 2007, our total vehicle fuel costs averaged approximately $2.1 million per month. During the first quarter of 2008, our total vehicle fuel costs averaged approximately $2.9 million per month. The increase resulted from variations in fuel costs, the freight initiative discussed below, increases in product sales, and the increase in the number of vehicles necessary to support additional sales personnel and to support additional store locations. These fuel costs include the fuel utilized in our distribution vehicles (semi-tractors, straight trucks, and sprinter trucks) which is recorded in cost of goods and the fuel utilized in our store delivery vehicles which is included in operating and administrative expenses (the split is approximately 50:50 between distribution and store use).

In 2005, we introduced our new freight model as a means to continue to improve our operating performance. The freight model represents a focused effort to haul a higher percentage of our products utilizing the Fastenal trucking network (which operates at a substantial savings to external service providers because of our ability to leverage our existing routes) and to charge freight more consistently in our various operating units. This initiative positively impacted the latter two-thirds of 2005, all of 2006, all of 2007, and the first three months of 2008 despite the changes in average per gallon fuel costs shown in the following table:

	2007 - Quarter				2008 - Quarter			
	1st	**2nd**	**3rd**	**4th**	**1st**	**2nd**	**3rd**	**4th**
Diesel fuel	$ 2.59	2.85	2.94	3.25	$ 3.47			
Unleaded gasoline	$ 2.31	2.96	2.86	2.92	$ 3.07			

The price of a gallon of diesel fuel and unleaded gasoline increased by 34.0% and 32.9%, respectively, from the first quarter of 2007 to first quarter of 2008. Given the nature of our distribution business, these fluctuations in fuel prices can have a meaningful impact on our short-term results. This impact is also covered later in our discussion about gross margin and operating and administrative expenses.

(Continued)

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ITEM 2. *(Continued)*

Statement of Earnings Information (percentage of net sales)

	Three Months Ended March 31, 2008	2007
Net sales	100.0%	100.0%
Gross profit margin	52.4%	51.0%
Operating and administrative expenses	32.9%	32.9%
Loss on sale of property and equipment	0.0%	0.0%
Operating income	19.4%	18.1%
Interest income	0.0%	0.0%
Earnings before income taxes	19.4%	18.1%

Note Amounts may not foot due to rounding difference.

Gross profit margins for the first quarter of 2008 increased over the same period in 2007. The improvement was driven by several factors: (1) a focused effort to challenge our sales force to increase the gross margin on business with a lower than acceptable margin, (2) a focused effort to stay ahead of inflationary increases in product cost, (3) improvements in our direct sourcing operations and (4) continued focus on our freight initiative (discussed earlier). The rising fuel costs discussed earlier had only a nominal negative impact on our gross margin in the first quarter of 2008 because of item (4). This impact could prove more challenging if fuel costs continue to increase.

Operating and administrative expenses grew at a rate consistent with net sales in the first three months of 2008. As noted in the pathway to profit discussion earlier in this report, we expected to see operating and administrative expenses grow at a rate slower than sales growth due to the added leverage that occurs as the size of our average store increases. On a positive note, we were able to leverage our occupancy costs for the first time since earlier in the decade. Occupancy expenses grew approximately 10.9% in the first quarter of 2008. This leverage was due to the decrease in store openings pursuant to our pathway to profit initiative.

As we have noted in the past, almost 70% of our operating and administrative expenses consist of payroll and payroll related costs. Our employee head count (measured on a full-time equivalent basis) increased 13.5% from March 2007 to March 2008. However, our payroll costs increased approximately 16.9% and did not leverage. This de-leverage occurred because the commission and bonus component of payroll grew approximately 20.5% from the first quarter of 2007 to the first quarter of 2008 (this was driven at the store and district level). Our employees are rewarded for growth in gross profit dollars and pre-tax earnings. The gross profit margin expansion discussed earlier drove this reward faster than sales growth. The other component of

(Continued)

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ITEM 2. *(Continued)*

operating and administrative expenses that experienced meaningful de-leverage was transportation cost. These costs grew approximately 27.3%, primarily driven by the increase in fuel costs discussed earlier and by the increase in the number of vehicles needed to support an expanded sales force.

The operating and administrative expenses for the three months of 2008 include $673 of additional compensation expense related to the adoption of new stock option accounting rules. This expense relates to options granted in April 2007. We anticipate these options, which vest in five to eight years, will result in compensation expense of approximately $224 per month for the next five years; and dropping slightly in the remaining period. No other stock based compensation was outstanding during these periods; however, we did grant additional options during April 2008.

Income taxes, as a percentage of earnings before income taxes, were approximately 38.2% and 39.1% for the first quarter of 2008 and 2007, respectively. During the first quarter of 2007, we implemented FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). As defined in FIN No. 48, we had a discrete event during the first quarter of 2007 which resulted in recognition of approximately $827 of additional tax. Absent this event, our tax rate would have been 38.2% for the first quarter of 2007. This rate fluctuates over time based on the income tax rates in the various jurisdictions in which we operate, and based on the level of profits in those jurisdictions.

Net earnings Net earnings, net earnings per share, and their respective growth rates were as follows:

	Three months ended March 31,	
	2008	**2007**
Net earnings	$ 68,094	54,033
Percentage change	26.0%	12.9%
Basic and diluted net earnings per share	$ 0.46	0.36
Percentage change	27.8%	12.5%

We increased our net earnings in the three month period primarily due to the aforementioned growth in sales and in the gross margin percentage.

(Continued)

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ITEM 2. *(Continued)*

Working Capital The year-over-year dollar and percentage growth related to accounts receivable and inventories were as follows:

Year-over-year change	Balance at March 31, 2008	Balance at March 31, 2007	Twelve Month Dollar Change March 31, 2008	Twelve Month Dollar Change March 31, 2007	Twelve Month Percentage Change March 31, 2008	Twelve Month Percentage Change March 31, 2007
Accounts receivable, net	$ 273,360	238,657	$ 34,703	26,140	14.5%	12.3%
Inventories	$ 494,360	446,192	$ 48,168	75,097	10.8%	20.2%

These two assets were impacted by our initiatives to improve working capital. These initiatives include (1) the establishment of a centralized call center to facilitate accounts receivable management (this facility became operational early in 2005) and (2) the tight management of all inventory amounts not identified as either expected store inventory, new expanded inventory, inventory necessary for upcoming store openings, or inventory necessary for our master stocking hub .

The accounts receivable increase of 12.3% from March 31, 2006 to March 31, 2007 represents a lag behind the daily sales increase of 15.5% in March 2007. The accounts receivable increase of 14.5% from March 31, 2007 to March 31, 2008 also represents a lag behind the 16.9% daily sales increase in March 2008. We continue to be pleased with the improvement in accounts receivable during 2007 and 2008, and with the related reduction in bad debt expense when compared to historical amounts.

The inventory increase from March 31, 2006 to March 31, 2007 of 20.2% is greater than the rate of sales growth of 13.3% from the first quarter of 2006 to the first quarter of 2007. The inventory increase from March 31, 2007 to March 31, 2008 of 10.8% is less than the rate of sales growth of 15.8% from the first quarter of 2007 to the first quarter of 2008. This improvement relates to our conscious decision to limit the growth of inventory in the future, to halt growth or decrease inventory in the short-term, to stock additional products in our Indianapolis, Indiana distribution center, and then to resize the existing store and distribution center inventory through a process we call inventory re-distribution.

As we indicated in earlier communications, our short-term goals center on our ability to move the ratio of annual sales to accounts receivable and inventory (Annual Sales: AR&I) back to better than a 3.0:1 ratio (on December 31, 2007, 2006, and 2005, we had a ratio of 2.8:1, 2.7:1 and 2.8:1, respectively). Historically, we have been able to achieve a 20% after tax return on total assets (our historical internal goal) when our Annual Sales: AR&I ratio is at or above 3.0:1. During 2006, the incremental investments did not allow us to improve our ratio (these investments include certain store upgrades and the implementation of our master stocking hub model). In 2007, we made considerable improvement as detailed above. We need to continue executing better on the inventory portion of these working capital initiatives in 2008. Please refer to our discussion on pathway to profit earlier.

(Continued)

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ITEM 2. *(Continued)*

Fiscal 2008 Reporting As indicated in our 2007 Annual Report, we intend to focus our 2008 commentary away from the four initiatives discussed in earlier communications (new freight model, working capital model, expanded store model called CSP2, and master stocking hub distribution model); instead we will focus our commentary on the pathway to profit . Some key aspects we intend to disclose center on the full-time equivalent statistics shown above, as well as information on the productivity of our outside sales personnel; the latter being information we intend to start disclosing after the second quarter when we are one year into the pathway to profit which began in the spring of 2007.

Critical Accounting Policies A discussion of the critical accounting policies related to accounting estimates is contained in our 2007 Annual Report to Shareholders.

Liquidity and Capital Resources

Cash flow activity was as follows:

	Three months ended March 31, 2008	2007
Net cash provided by operating activities	$ 86,736	84,455
Net cash used in investing activities	$ 31,603	9,482
Net cash used in financing activities	$ 37,280	35,019

Cash flow activity as a percentage of net earnings was as follows:

	Three months ended March 31, 2008	2007
Net cash provided by operating activities	127.4%	156.3%
Net cash used in investing activities	46.4%	17.5%
Net cash used in financing activities	54.7%	64.8%

Net cash provided by operating activities has increased from the prior year as the growth in net earnings was aided by improving trends in working capital management (discussed earlier). This improvement was partially offset by the timing of payments for our profit sharing bonuses and income taxes; both of which increased in meaningful fashion due to our increase in pre-tax earnings.

Net cash used in investing activities changed primarily due to changes in marketable securities and property and equipment.

(Continued)

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ITEM 2. *(Continued)*

Property and equipment expenditures in the first three months of 2008 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 cost related to the relocation of our new Dallas, Texas distribution center, and (8) the cost related to the expansion of our Indianapolis, Indiana master distribution center. The dramatic increase in 2008 from the same period in 2007 related primarily to items (7) and (8). Disposals of property and equipment 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 these expenditures were satisfied from net earnings, cash on hand, and the proceeds of asset disposals. As of March 31, 2008, we had no material outstanding commitments for capital expenditures. We anticipate funding our current expansion plans with cash generated from operations, from available cash and cash equivalents, and, to a lesser degree, from our borrowing capacity.

Net cash used in financing activities consisted of the payment of dividends and cash outflow needed to fund the stock repurchase discussed earlier. No shares were repurchased in the first quarter of 2008.

A discussion of the nature and amount of future cash commitments is contained in our 2007 Annual Report to Shareholders.

(Continued)

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ITEM 2. *(Continued)*

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) working capital goals and expected return on total assets when working capital is appropriately managed, (2) the outcome of our long term growth strategy, pathway to profit , including planned decreases in the rate of new store openings, planned additions to our sales personnel, the expected funding of such additions out of cost savings resulting from the slowing of the rate of new store openings, the growth in average store sales expected to result from this strategy, and our ability to capture leverage, working capital efficiency and improved productivity expected to result from this strategy, (3) the expected amount of future compensation expense resulting from existing stock options, and (4) the funding of expansion plans. 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 cause store openings to change from that expected, and could impact the rate at which additional sales personnel are added, our ability to grow average store sales by adding sales personnel, and our ability to capture leverage and manage support labor, (ii) a change, from that projected, in the number of markets able to support future store sites could impact the rate of new store openings, (iii) our ability to successfully attract and retain additional qualified sales personnel, the success of our additional sales personnel, and our ability to successfully change our sales process could adversely impact our ability to grow average store sales, (iv) a change in accounts receivable collections, a change in the economy from that currently being experienced, a change in buying patterns, or a change in vendor production lead times could cause us to fail to attain our goals regarding working capital and rates of return on assets, and (v) a change in accounting for stock-based compensation or the assumptions used could change the amount of stock-based compensation recognized. A discussion of other risks and uncertainties which could cause the Company s operating results to vary from anticipated results or which could materially adversely affect the Company s business, financial condition or operating results is included in the Company s most recently filed Annual Report on Form 10-K (Item 1A of Part I) and in the Company s most recent Annual Report to Shareholders (under the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations). We assume no obligation to update any forward looking statements or any discussions of risks and uncertainities.

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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 line of credit totaling $40 million which expires on June 1, 2008. The line bears interest at 0.9% over the LIBOR rate. On March 31, 2008 there was $0 outstanding on the line. We pay no fee for the unused portion of the line of credit.

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, 2008.

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 since July 2007. 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 unleaded gasoline and diesel fuel. Historically this risk has been mitigated over time by our ability to pass freight cost to our customers and the efficiency of our trucking distribution 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

On October 18, 2007, a complaint was filed in the United States District Court for the Northern District of California against Fastenal Company on behalf of two former employees claiming to represent all employees employed in the store position of Assistant General Manager in the United States within three years prior to the filing date (four years for California employees). The suit alleges Fastenal misclassified its Assistant General Managers as exempt for purposes of the overtime provisions of the Fair Labor Standards Act (FLSA) and California and Pennsylvania state statutes. This suit also alleges that Assistant General Managers in California did not receive sufficient meal breaks and paid rest periods under the California Labor Code. An opt-in class has been certified for this action. The parties are currently conducting discovery and have agreed to submit the claims to non-binding mediation on or before August 15, 2008. We are not currently able to predict the outcome of this action or reasonably estimate a range of potential loss. We intend to vigorously defend this action.

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 (Item 1A of Part I). There has been no material change in those risk factors.

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ITEM 6. EXHIBITS

3.1 Restated Articles of Incorporation of Fastenal Company, as amended (incorporated by reference to Exhibit 3.1 to Fastenal Company s Form 10-Q for the quarter ended September 30, 2005)

3.2 Restated By-Laws of Fastenal Company (incorporated by reference to Exhibit 3.2 to Fastenal Company s Form 10-K for the year ended December 31, 2007)

31 Certifications under Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification under Section 906 of the Sarbanes-Oxley Act of 2002

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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 25, 2008

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

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INDEX TO EXHIBITS

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