

FASTENAL CO
Form 11-K
June 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT
TO SECTION 15(d) OF THE
SECURITIES EXCHANGE
ACT OF 1934

(Mark One)

☑ Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017,

or

☐ Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-16125

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND
EMPLOYEE STOCK OWNERSHIP PLAN

B. Name of issuer of the securities held pursuant to the plan and address of its principal executive office:

FASTENAL COMPANY
2001 Theurer Boulevard
Winona, Minnesota 55987

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN
Table of Contents

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>1</u>
Financial Statements	
<u>Statements of Net Assets Available for Benefits as of December 31, 2017 and 2016</u>	<u>2</u>
<u>Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2017</u>	<u>3</u>
<u>Notes to Financial Statements as of December 31, 2017 and 2016, and for the year ended December 31, 2017</u>	<u>4</u>
Supplemental Schedule	
<u>Form 5500, Schedule H, Part IV, Line 4i – Schedule of Assets (Held at End of Year) as of December 31, 2017</u>	<u>10</u>
Note: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.	
Signatures	
Exhibit	
<u>23 Consent of Independent Registered Public Accounting Firm</u>	

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN
Financial Statements and Supplemental Schedule
December 31, 2017 and 2016
(With Report of Independent Registered Public Accounting Firm)

Report of Independent Registered Public Accounting Firm

The Plan Administrator

Fastenal Company & Subsidiaries 401(k) and Employee Stock Ownership Plan:

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of the Fastenal Company & Subsidiaries 401(k) and Employee Stock Ownership Plan (the Plan) as of December 31, 2017 and 2016, the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Accompanying Supplemental Information

The supplemental information in the accompanying Form 5500, Schedule H, Part IV, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2017, has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ KPMG LLP

We have served as the Plan's auditor since 1998.

Minneapolis, Minnesota

June 8, 2018

FASTENAL COMPANY & SUBSIDIARIES 401(k)
 AND EMPLOYEE STOCK OWNERSHIP PLAN
 Statements of Net Assets Available for Benefits
 December 31, 2017 and 2016

	2017	2016
Assets:		
Investments at fair value:		
Mutual funds	\$252,760,468	193,320,653
Fastenal Company common stock	119,134,454	103,627,366
Stable value fund	8,924,268	9,130,211
Total investments at fair value	380,819,190	306,078,230
Employer contribution receivable	9,832,879	8,043,846
Participant contribution receivable	85,184	53,456
Total assets	390,737,253	314,175,532
Liabilities:		
Excess contributions payable	316,773	562,469
Net assets available for benefits	\$390,420,480	313,613,063
See accompanying Notes to Financial Statements.		

FASTENAL COMPANY & SUBSIDIARIES 401(k)
 AND EMPLOYEE STOCK OWNERSHIP PLAN
 Statement of Changes in Net Assets Available for Benefits
 For the year ended December 31, 2017

Additions:

Investment income:

Dividends	\$ 12,588,075
Net appreciation in fair value of investments	47,859,860
Net investment income	60,447,935

Contributions:

Participant	26,848,290
Rollover	1,872,052
Employer	9,833,269
Total contributions	38,553,611
Total additions	99,001,546

Deductions:

Benefits paid to participants	(21,702,125)
Administrative expenses	(492,004)
Total deductions	(22,194,129)
Increase in net assets	76,807,417

Net assets available for benefits:

Beginning of year	313,613,063
End of year	\$ 390,420,480

See accompanying Notes to Financial Statements.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

(1) Description of the Plan

The following description of the Fastenal Company & Subsidiaries 401(k) and Employee Stock Ownership Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan covering all full-time and part-time U.S. employees of Fastenal Company & Subsidiaries (the Company). Employees are eligible to participate in the Plan beginning on the first of the month on or after completing 60 days of service and attaining the age of 18. Merrill Lynch, a division of Bank of America, N.A., serves as the trustee and recordkeeper of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Fastenal Company common stock is available through the portion of the Plan that is classified as an Employee Stock Ownership Plan (ESOP). The Plan is intended, in part, as a voluntary stock ownership vehicle for those participants who wish to use the Plan for that purpose. The Plan offers participants a voluntary dividend pass-through option to have dividends paid in cash. Any dividends paid by Fastenal Company on stock held by the Plan are deductible to Fastenal Company for federal income tax purposes.

Effective January 1, 2016, the Plan was amended and restated, which included an automatic enrollment provision for newly hired and rehired employees meeting eligibility requirements. Effective June 20, 2016, the Plan was amended to apply a limitation that a participant may elect to invest no more than 25% of the value of each incoming Plan contribution into Fastenal Company common stock. Subsequent participant directed investment fund transfers into Fastenal Company common stock are not subject to this limit. On October 6, 2017, the Plan was amended to make certain minor language changes requested by the Internal Revenue Service (IRS) as part of the IRS determination letter review.

Contributions

Participants' contributions are recorded in the period that the participants' payroll deductions are made. Participants may contribute an amount not less than 1% or more than 100% of their eligible compensation. Employee contributions are 100% vested at all times. The Plan's discretionary employer matching contributions are also 100% vested when made. For the year ended December 31, 2017, the Company made a discretionary matching contribution of \$9,832,879 to the Plan. This amount was accrued and paid to the Plan subsequent to December 31, 2017.

The Company does not limit participant contributions other than as required by certain Internal Revenue Code (IRC) limitations.

Highly compensated employees may be limited to lower contribution percentages in order for the Plan to satisfy the nondiscrimination tests of the IRC. Changes in contributions are allowed based on the provisions of the Plan.

The Plan allows for rollover contributions to be made to the Plan by eligible participants. These rollover contributions are eligible distributions from other tax-qualified plans or individual retirement accounts that participants elect to have invested in the Plan either by a direct rollover to the Plan or by a distribution followed by a contribution within 60 days of receipt.

Participant Allocation of Income and Loss

Each participant's account is credited with the participant's contributions, employer contributions, and allocations of Plan earnings as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants may elect to have their contributions invested in the investment options available under the Plan as they choose.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

Payment of Benefits

On termination of employment with the Company (including termination of service due to death or retirement), a participant may generally elect to receive distribution equal to the value of the participant's account balance either by one lump-sum payment or under installments.

Participants are also eligible to make in-service withdrawals from their account balance upon occurrence of certain events. In-service withdrawals are permitted if a participant is still employed and has reached age 59 1/2, has been called to active military service for more than thirty days, or has completed a rollover of funds into the Plan.

Participants are also eligible to make hardship withdrawals in the event of certain financial hardships. Following a hardship withdrawal, participants are not allowed to contribute to the Plan for a period of six months. In-service withdrawals are not eligible for installment payments.

Forfeitures

Forfeitures are transferred to a forfeiture account, which is maintained for the Plan as a whole and is not attributable to any given participant. The balance of the forfeiture account may be used to reduce matching contributions to the Plan or pay other miscellaneous plan expenses, as directed by the Company. Total forfeitures used in 2017 were \$28,904.

Plan Termination

The Company intends to continue the Plan indefinitely, but reserves the right to terminate the Plan at any time.

Administrative Expenses

Investment manager fees are paid from the investment funds. Recordkeeping, trustee/custodial services, and other administrative costs are paid quarterly using any applicable investment-related revenue, and the balance is paid by participants quarterly on a per capita basis. The Company pays for investment advisory services, audit fees, and adhoc administrative services.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares of Company common stock allocated to his or her account and will be notified prior to the time that such rights are to be exercised.

The Company will vote shares for which no directions have been timely received in proportion to the vote cast by participants who have responded timely.

Investment Options

Participants direct elective contributions, including employer matching contributions, into a variety of fund options and Company common stock. Changes to contribution allocations may be made by participants on a daily basis. Exchanges between investment options may also be made by participants on a daily basis; however, exchanges involving the Company's common stock are subject to the Company's Confidentiality and Securities Trading policy.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles (GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risk and Uncertainties

The Plan offers a number of investment options to participants that are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant accounts.

At December 31, 2017 and 2016, approximately 31% and 33%, respectively, of the Plan's net assets were invested in the common stock of Fastenal Company. The underlying value of the Fastenal Company common stock is entirely dependent upon the performance of Fastenal Company and the market's evaluation of such performance. It is at least reasonably possible that changes in the fair value of Fastenal Company common stock in the near term could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Fair value is the sales price of an asset in an orderly transaction between market participants at the measurement date. See Note 3 for a discussion of fair value measurements. Purchases and sales of investments are reflected on a trade-date basis. Net appreciation in the fair value of investments includes gains and losses on investments bought and sold, as well as held, during the year. Dividend income is recorded on the ex-dividend date. Accrued investment income is reflected in the investment balance.

Benefits

Benefit payments to participants are recorded upon distribution. Amounts allocated to accounts of persons who have elected to withdraw from the Plan, but have not yet been paid, were \$13,951 and \$181,014 at December 31, 2017 and 2016, respectively.

Excess Contributions Payable

The Plan is required to return contributions received during the Plan year in excess of the IRC limits.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

(3) Fair Value Measurements

Under Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, various inputs are used in determining the fair value of the Plan's investments. These inputs are summarized in a hierarchy that segregates fair value measurements into three levels (Levels 1, 2, and 3), determined by the nature of input as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value.

Level 2 – Other significant observable inputs, including quoted prices for similar securities in active markets, quoted prices for identical securities in markets that are not active, and other market-corroborated inputs.

Level 3 – Significant unobservable inputs, including the Plan's own assumptions in determining the fair value of investments, based on the best information available in the circumstances.

The level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation levels are not necessarily an indication of the risk associated with investing in those securities.

The following is a description of the valuation methodologies used for assets held and carried at fair value:

Common stock – Valued daily based on quoted prices from national exchanges.

Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded. Mutual funds also include interest-bearing cash and money market funds.

Stable value fund - The stable value fund has the characteristics of a structure similar to a mutual fund, therefore, as clarified by Accounting Standards Update (ASU) 2015-10, Technical Corrections and Improvements, its value is considered readily determinable. As such, the fair value of the stable value fund, based on the published net asset value and the resulting daily transactions of the fund, is reflected in the fair value hierarchy as a Level 1 investment.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date.

The following tables present the level within the fair value hierarchy at which the investments are measured on a recurring basis as of December 31, 2017 and 2016:

	Fair value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$252,760,468	—	—	252,760,468
Fastenal Company common stock	119,134,454	—	—	119,134,454
Stable value fund	8,924,268	—	—	8,924,268
Total investments at fair value	\$380,819,190	—	—	380,819,190

7

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

	Fair value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$193,320,653	—	—	193,320,653
Fastenal Company common stock	103,627,366	—	—	103,627,366
Stable value fund	9,130,211	—	—	9,130,211
Total investments at fair value	\$306,078,230	—	—	306,078,230

For the years ended December 31, 2017 and 2016, the Plan did not have any transfers between Levels 1, 2, and 3.

(4) Tax Status

The Plan has received a determination letter from the IRS dated August 28, 2017, stating that the Plan is qualified under Section 401(a) of the IRC, and exempt from taxation. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. Therefore, no provision for income taxes has been included in the Plan's financial statements.

U.S. GAAP requires plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to income tax examinations for years prior to 2014.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN

Notes to Financial Statements

As of December 31, 2017 and 2016, and for the year ended December 31, 2017

(5) Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31	
	2017	2016
Net assets available for benefits per the financial statements	\$390,420,480	313,613,063
Excess contributions payable	316,773	562,469
Net assets available for benefits per the Form 5500	\$390,737,253	314,175,532

The following is a reconciliation of total additions and deductions per the financial statements for the year ended December 31, 2017 to the Form 5500:

Total additions per the financial statements	\$99,001,546
2017 excess contributions payable	316,773
Total income per the Form 5500	\$99,318,319
Total deductions per the financial statements	\$(22,194,129)
2016 excess contributions payable	(562,469)
Total expenses per the Form 5500	\$(22,756,598)

(6) Exempt Party-in-Interest Transactions

The Plan allows for transactions with certain parties who may perform services or have fiduciary responsibilities to the Plan, including the Company. Certain Plan investments are shares of Fastenal Company common stock and Fastenal Company is the Plan sponsor. Therefore, these transactions qualify as exempt party-in-interest transactions. At December 31, 2017 and 2016, the Plan held 2,178,359 and 2,205,776 shares, respectively, of common stock of the Company. During the year ended December 31, 2017, the Plan made purchases of \$16,133,105 and sales of \$17,815,675 of Fastenal Company stock. During the year ended December 31, 2017, the Plan recorded dividend income of \$2,731,013, net of pass-through dividends from Fastenal Company common stock.

FASTENAL COMPANY & SUBSIDIARIES 401(k) AND EMPLOYEE STOCK OWNERSHIP PLAN
 Form 5500, Schedule H, Part IV, Line 4i—Schedule of Assets (Held at End of Year)
 As of December 31, 2017

Issuer and Description	Face Amount or Number of Shares/Units	Current Value
*Fastenal Company common stock	2,178,359	\$ 119,134,454
Invesco Stable Value Retirement Fund	8,924,268	8,924,268
American Funds Capital World Growth and Income Fund	544,800	27,839,269
American Funds EuroPacific Growth Fund	242,549	13,616,716
John Hancock Disciplined Value Mid Cap Fund	1,544,022	35,960,269
Victory Munder Mid-Cap Core Growth Fund	188,831	7,024,503
Metropolitan West Total Return Bond Fund	843,684	8,462,150
T. Rowe Price International Discovery Fund	43,675	3,120,603
T. Rowe Price Small-Cap Stock Fund	157,047	7,492,731
Vanguard Institutional Index Fund	219,354	53,404,036
Vanguard Federal Money Market Fund	2,383,480	2,383,480
Vanguard Mid-Cap Index Fund	6,328	1,212,145
Vanguard Small-Cap Index Fund	9,174	649,339
Vanguard Total Bond Market Index Fund	311,921	3,353,151
Vanguard Target Retirement 2015 Fund	44,935	688,858
Vanguard Target Retirement 2020 Fund	92,151	2,891,684
Vanguard Target Retirement 2025 Fund	295,645	5,469,437
Vanguard Target Retirement 2030 Fund	238,666	8,026,351
Vanguard Target Retirement 2035 Fund	507,257	10,495,141
Vanguard Target Retirement 2040 Fund	350,672	12,543,549
Vanguard Target Retirement 2045 Fund	874,502	19,676,297
Vanguard Target Retirement 2050 Fund	482,391	17,462,545
Vanguard Target Retirement 2055 Fund	189,517	7,434,765
Vanguard Target Retirement 2060 Fund	74,406	2,577,426
Vanguard Target Retirement 2065 Fund	9,463	205,354
Vanguard Target Retirement Income Fund	41,521	562,613
Blackrock BIF Money Fund	13,132	13,132
Pending settlement fund		194,924
		\$380,819,190

*Denotes a party-in-interest.

See accompanying Report of Independent Registered Public Accounting Firm.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 8, 2018

**FASTENAL COMPANY & SUBSIDIARIES 401(k) AND
EMPLOYEE STOCK OWNERSHIP PLAN**

By Fastenal Company, Plan Administrator

By /s/ Sheryl A. Lisowski

Sheryl A. Lisowski,
Controller, Chief Accounting Officer, and Treasurer