

FASTENAL CO
Form 10-K
February 05, 2015
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2014,

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 0-16125

FASTENAL COMPANY

(Exact name of registrant as specified in its charter)

Minnesota

41-0948415

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

2001 Theurer Boulevard

55987-0978

Winona, Minnesota

(Address of principal executive offices)

(Zip Code)

(507) 454-5374

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$.01 per share

The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act: Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, was \$14,587,577,033, based on the closing sale price of the Common Stock on that date. For purposes of determining this number, all executive officers and directors of the registrant as of June 30, 2014 are considered to be affiliates of the registrant. This number is provided only for the purposes of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of January 23, 2015, the registrant had 295,880,219 shares of Common Stock issued and outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the annual meeting of shareholders to be held Tuesday, April 21, 2015 ('Proxy Statement') are incorporated by reference in Part III. Portions of our 2014 Annual Report to Shareholders are incorporated by reference in Part II.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K, or in other reports of the Company and other written and oral statements made from time to time by the Company, do not relate strictly to historical or current facts. As such, they are considered 'forward-looking statements' that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of terminology such as anticipate, believe, should, estimate, expect, intend, may, plan, goal, project, will, potential, momentum, trend, target, generally, typically, experience, strive, and similar words or expressions. Any statement that is not a historical fact, including estimates, projections, future trends, and the outcome of events that have not yet occurred, is a forward-looking statement. Our forward-looking statements generally relate to our expectations regarding the business environment in which we operate, our projections of future performance, our perceived marketplace opportunities, and our strategies, goals, mission, and vision. You should understand that forward-looking statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. Factors that could cause our actual results to differ from those discussed in the forward-looking statements include, but are not limited to, economic downturns, weakness in the manufacturing or commercial construction industries, competitive pressure on selling prices, changes in our current mix of products, customers or geographic locations, change in our average store size, changes in our purchasing patterns, changes in customer needs, changes in fuel or commodity prices, inclement weather, changes in foreign currency exchange rates, difficulty in adapting our business model to different foreign business environments, weak acceptance or adoption of vending technology or increased competition in vending, difficulty in maintaining installation quality as our vending business expands, difficulty in hiring, relocating, training, or retaining qualified personnel, failure to accurately predict the number of North American markets able to support stores or to meet store opening goals, difficulty in controlling operating expenses, difficulty in collecting receivables or accurately predicting future inventory needs, dramatic changes in sales trends, changes in supplier production lead times, changes in our cash position, changes in tax law, changes in the availability or price of commercial real estate, changes in the nature or price of distribution and other technology, cyber-security incidents, potential liability and reputational damage that can arise if our products are defective, and other risks and uncertainties detailed in this Form 10-K under the heading 'Item 1A. Risk Factors'. Each forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any such statement to reflect events or circumstances arising after such date.

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PRESENTATION OF DOLLAR AMOUNTS

All dollar amounts in this Form 10-K are presented in thousands, except for share and per share information or unless otherwise noted.

STOCK SPLIT

All information contained in this Form 10-K reflects the two-for-one stock splits in 2011 and 2005.

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PART I

ITEM 1. BUSINESS

Note – Information in this section is as of year end unless otherwise noted. The year end is typically December 31, 2014 unless additional years are included or noted.

Fastenal Company (together with our subsidiaries, hereinafter referred to as Fastenal or the Company or by terms such as we, our, or us) began as a partnership in 1967, and was incorporated under the laws of Minnesota in 1968. We have 2,637 store locations. The various geographic areas in which we operate these store locations are summarized later in this document.

We employ 18,417 people. We characterize these personnel as follows:

	2014	2013
Store and in-plant	12,293	11,550
Non-store selling	1,349	1,242
Selling subtotal	13,642	12,792
Distribution	3,120	2,931
Manufacturing	630	603
Administrative	1,025	951
Non-selling subtotal	4,775	4,485
Total	18,417	17,277

We sell industrial and construction supplies to end-users (typically business-to-business), and also have some 'walk-in' retail business. These industrial and construction supplies are grouped into twelve product lines described later in this document.

We operate 14 distribution centers in North America from which we distribute products to our store and in-plant locations. Eleven of these are in the United States, two are in Canada, and one is in Mexico.

Our Internet address for corporate and investor information is www.fastenal.com. The information contained on this website or connected to this website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Development of the Business

We began in 1967 with a marketing strategy of supplying threaded fasteners to customers in small, medium-sized, and, in subsequent years, large cities. We believe our success can be attributed to our ability to offer our customers a full line of products at convenient locations and to the high quality of our employees.

We opened our first store in Winona, Minnesota, a city with a population of approximately 27,000. The following table shows our consolidated net sales for each fiscal year during the last ten years and the number of our store locations at the end of each of the last ten years:

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net sales (in millions)	\$3,733.5	3,326.1	3,133.6	2,766.9	2,269.5	1,930.3	2,340.4	2,061.8	1,809.3	1,523.3
Number of stores	2,637	2,687	2,652	2,585	2,490	2,369	2,311	2,160	2,000	1,755

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We operated the following number of store locations:

		2014	2013
North America	United States	2,336	2,394
	Puerto Rico and Dominican Republic	8	8
	Canada	202	204
	Mexico	44	41
	Subtotal	2,590	2,647
Central & South America	Panama, Brazil, Colombia, and Chile	9	8
Asia	China and India	10	8
Southeast Asia	Singapore, Malaysia, and Thailand	7	7
	The Netherlands, Hungary, United Kingdom,		
Europe	Germany, Czech Republic, Italy, Romania, Poland, and	20	17
	Sweden		
Africa	South Africa	1	—
Total		2,637	2,687

We select new locations for our stores based on their proximity to our distribution network, population statistics, and employment data for manufacturing and construction. In 2014, 2013, and 2012, we opened new stores at a rate of approximately 1%, 2%, and 3%, respectively. We expect to open 20 to 30 stores in 2015, which is an annual rate similar to 2014.

We stock all new stores with inventory drawn from all of our product lines. Subsequent to a new opening, district and store personnel may supplement the inventory offering to customize the selection to the needs of our local customer base.

We currently have several versions of selling locations. The first type of selling location – a Fastenal store location – is either (1) a ‘traditional’ store, which services a wide variety of customers and stocks a wide selection of the products we offer or (2) an ‘overseas’ store, which focuses on manufacturing customers and on the fastener product line (this is the type of store format we typically have outside the United States and Canada).

In addition to the Fastenal store type discussed above, we also operate strategic account stores, strategic account sites, and ‘in-plant’ sites. A strategic account store is a unique location that sells to multiple large customers in a market. Because this location sells to multiple customers, it is included in our store count. A strategic account site is essentially the same, but it typically operates out of an existing store location, rather than a unique location; therefore it is not included in our store count. An ‘in-plant’ site is a selling unit located in or near a customer’s facility that sells product solely to that customer. ‘In-plant’ sites are not included in our store count numbers as they represent a customer subset of an existing store.

We currently believe, based on the demographics of the marketplace in North America, there is sufficient potential in this geographic area to support at least 3,500 total stores. Many of the new store locations may be in cities in which we currently operate. While we believe there is sufficient potential in North America for 3,500 total stores, or approximately 900 more than today, we have slowed our store openings in recent years and instead have increased our investments in other growth drivers such as people (both inside and outside our stores), FAST Solutions® (industrial vending), and end-market growth investments. This allows us to maintain an aggressive offense where competitors are investing for growth, and to maintain a steady offense where competitors aren’t investing - namely store openings. Fastenal has not operated outside of North America long enough to assess the market potential of those markets.

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We opened the following stores in the last five years:

		2014	2013	2012	2011	2010
North America	United States	10	30	58	101	111
	Puerto Rico and Dominican Republic	—	—	—	—	—
	Canada	4	10	13	11	7
	Mexico	3	5	2	1	1
	Subtotal	17	45	73	113	119
Central & South America	Panama, Brazil, Colombia, and Chile	1	4	1	1	2
Asia	China and India	2	—	—	3	3
Southeast Asia	Singapore, Malaysia, and Thailand	—	—	2	—	2
Europe	The Netherlands, Hungary, United Kingdom, Germany, Czech Republic, Italy, Romania, Poland, and Sweden	3	4	4	5	1
Africa	South Africa	1	—	—	—	—
Total		24	53	80	122	127

We plan to open additional stores outside of the United States in the future. The stores located outside the United States contributed approximately 11% of our consolidated net sales in 2014, with approximately 56% of this amount attributable to our Canadian operations.

No assurance can be given that any of the expansion plans described above will be achieved, or that new store locations, once opened, will be profitable.

It has been our experience that near-term profitability has been adversely affected by the opening of new store locations. This adverse effect is due to the start-up costs and the time necessary to generate a customer base. A new store generates its sales from direct sales calls, a slow process involving repeated contacts. As a result of this process, sales volume builds slowly and it typically requires ten to twelve months for a new store to achieve its first profitable month. Of the nine stores opened in the first quarter of 2014, four were profitable in the fourth quarter of 2014.

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The data in the following table shows the change in the average sales of our stores from 2013 to 2014 based on the age of each store. Included in the average monthly sales amounts are sales from our non-store selling locations, such as our Holo-Krome® business (included in the 2009 group, the year it was acquired). The stores opened in 2014 contributed approximately \$9,762 (or approximately 0.3%) of our consolidated net sales in 2014, with the remainder coming from stores opened prior to 2014 or from our non-store business.

Age of Stores on December 31, 2014	Year Opened	Number of Stores in Group on December 31, 2014	Closed Stores ¹	Converted Stores ²	Average Monthly Sales 2014	Average Monthly Sales 2013	Percent Change
0-1 year old	2014	24	—	—	\$34	³ N/A	—
1-2 years old	2013	53	0/0	0/0	82	³ 29	182.8 %
2-3 years old	2012	75	3/0	0/-2	83	67	23.9 %
3-4 years old	2011	113	8/1	-1/0	92	78	17.9 %
4-5 years old	2010	116	7/4	0/0	90	79	13.9 %
5-6 years old	2009	62	4/1	0/0	134	125	7.2 %
6-7 years old	2008	140	9/2	0/0	87	77	13.0 %
7-8 years old	2007	144	8/0	0/0	102	90	13.3 %
8-9 years old	2006	219	12/1	0/0	102	91	12.1 %
9-10 years old	2005	205	6/1	0/0	94	84	11.9 %
10-11 years old	2004	208	4/1	0/0	107	95	12.6 %
11-12 years old	2003	141	3/0	0/0	98	88	11.4 %
12-16 years old	1999-2002	387	4/3	-1/0	124	111	11.7 %
16+ years old	1967-1998	750	5/2	1/0	158	145	9.0 %

¹ We closed 73 stores and 16 stores in 2014 and 2013, respectively. The number of closed stores is noted in the table above as 2014 number/2013 number.

We converted two store locations to non-store selling locations, and one non-store selling location to a store in 2014.

² We converted two store locations to non-store selling locations in 2013. The number of converted stores is noted in the table above as 2014 number/2013 number, with store locations converted to non-store locations shown as negative numbers.

³ The average sales include sales of stores open for less than the full fiscal year.

Several years ago, we introduced our FAST Solutions® (industrial vending) offering and it has been an expanding component of our business. We believe industrial vending is the next logical chapter in the Fastenal story and also believe it has the potential to be transformative to industrial distribution, both because of its benefits to our customers such as reduced consumption, reduced purchase orders, reduced product handling, and 24-hour product availability, and its benefits to us in that it allows us to strengthen our relationships with our customers and streamline the supply chain. We believe we have a 'first mover' advantage in industrial vending and are investing to maximize this advantage.

We operate eleven regional distribution centers in the United States—Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, Washington, California, Utah, North Carolina, and Kansas, and three outside the United States – Ontario, Canada; Alberta, Canada; and Nuevo Leon, Mexico. These 14 distribution centers give us approximately 2.9 million square feet of distribution capacity. These distribution centers are located so as to permit twice-a-week to five times-a-week deliveries to our stores using our trucks and overnight delivery by surface common carrier. As the number of stores increases, we intend to add new distribution centers. The distribution centers in Indiana and California also serve as a 'master' hub to support the needs of the stores in their geographic region as well as provide a broader selection of products for the stores serviced by the other distribution centers.

We currently operate our Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, California, and Ontario, Canada distribution centers with 'automated storage and retrieval systems' or ASRS. These eight distribution centers operate with greater speed and efficiency, and currently handle approximately 82% of our picking activity. The Indiana facility also contains our centralized replenishment facility for a portion of our industrial vending business. This

operation is also highly automated. We intend to invest in this type of ASRS distribution infrastructure over the next several years at our Washington, North Carolina, and Kansas locations.

Our information systems department develops, implements, and maintains the computer based technology used to support business functions within Fastenal. Corporate, e-Business, and distribution center systems are primarily supported from central locations, while each store uses a locally installed Point-Of-Sale (POS) system. The systems consist of both customized and purchased software. A dedicated Wide Area Network (WAN) is used to provide connectivity between systems and authorized users.

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Trademarks and Service Marks

We conduct business under various trademarks and service marks, and we utilize a variety of designs and tag lines in connection with each of these marks, including First In Fasteners[®]. Although we do not believe our operations are substantially dependent upon any of our trademarks or service marks, we consider the 'Fastenal' name and our other trademarks and service marks to be valuable to our business.

Products

Our original product offerings were fasteners and other industrial and construction supplies, many of which are sold under the Fastenal[®] product name. This product line, which we refer to as the fastener product line, consists of two broad categories: threaded fasteners, such as bolts, nuts, screws, studs, and related washers; and miscellaneous supplies and hardware, such as various pins and machinery keys, concrete anchors, metal framing systems, wire rope, strut, rivets, and related accessories.

Threaded fasteners are used in most manufactured products and building projects, and in the maintenance and repair of machines and structures. Many aspects of the threaded fastener market are common to all cities. Variations from city to city that do exist typically relate to the types of businesses operating in a market or to the environmental conditions in a market. Therefore, we open each store with a broad selection of base stocks of inventory and then encourage the local store and district leaders to tailor the additional inventory to the local market demand as it develops.

Threaded fasteners accounted for approximately 90% of the fastener product line sales in 2014, 2013, and 2012 and approximately 36%, 38%, and 40% of our consolidated net sales in 2014, 2013, and 2012, respectively.

Since 1993, we have added additional product lines. These product lines are sold through the same distribution channel as the original fastener product line. Our product lines include the following:

Product Line:	Year Introduced
Fasteners	1967
Tools	1993
Cutting tools	1996
Hydraulics & pneumatics	1996
Material handling	1996
Janitorial supplies	1996
Electrical supplies	1997
Welding supplies ¹	1997
Safety supplies	1999
Metals	2001
Direct Ship	2004
Office supplies	2010

¹ We do not sell welding gases.

Each product line listed above may contain multiple product categories. During the last several years, we have added 'private label' brands (we often refer to these as 'exclusive brands') to our offering. These 'private label' brands represented approximately 11% of our total net sales in 2014. Most of these 'private label' products are in the non-fastener product lines.

We plan to continue to add other products in the future.

Inventory Control

Our inventory stocking levels are determined using our computer systems, our sales personnel at the store, district, and region levels, and our product managers. The data used for this determination is derived from sales activity from all of our stores, from individual stores, and from different geographic areas. It is also derived from vendor information and from customer demographic information. The computer system monitors the inventory level for all stock items and triggers replenishment, or prompts a buyer to purchase, as necessary, based on an established minimum-maximum level. All stores stock a base inventory and may expand beyond preset inventory levels as

deemed appropriate by the district and store personnel. Inventories in

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distribution centers are established from computerized data for the stores served by the respective centers. Inventory quantities are continuously re-balanced utilizing an automated transfer mechanism we call 'inventory re-distribution'.
Manufacturing and Support Services Operations

In 2014, approximately 95% of our consolidated net sales were attributable to products manufactured by other companies to industry standards or to customer specific requirements. The remaining 5% related to products manufactured, modified or repaired by our manufacturing businesses or our support services. The manufactured products consist primarily of non-standard sizes of threaded fasteners made to customers' specifications or standard sizes manufactured under our Holo-Krome® product line. The services provided by the support services group include, but are not limited to, items such as tool repair, band saw blade welding, and light manufacturing. We engage in these activities primarily as a service to our customers and expect these activities in the future to continue to contribute in the range of 4% to 10% of our consolidated net sales.

Sources of Supply

We use a large number of suppliers for the standard stock items we distribute. Most items distributed by our network can be purchased from several sources, although preferred sourcing is used for some stock items to facilitate quality control. No single supplier accounted for more than 5% of our purchases in 2014.

Geographic Information

Information regarding our revenues and long-lived assets by geographic location is set forth in Note 8 of the 'Notes to Consolidated Financial Statements' included later in this Form 10-K under the heading 'Item 8. Financial Statements and Supplementary Data'. Foreign currency fluctuations, changes in trade relations, or fluctuations in the relative strength of foreign economies could impact our ability to procure products overseas at competitive prices and our foreign sales.

Customers and Marketing

We believe our success can be attributed to our ability to offer customers a full line of quality products at convenient locations, and to the superior service orientation and expertise of our employees. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both original equipment manufacturers and maintenance and repair operations. The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our products include farmers, truckers, railroads, oil exploration, production, and refinement companies, mining companies, federal, state, and local governmental entities, schools, and certain retail trades. During the fourth quarter of 2014, our total number of active customer accounts (defined as accounts having purchase activity within the last 90 days) was approximately 399,000, while our total 'core accounts' (defined as the average number of accounts each month with purchase activity of at least \$250 per month) was approximately 100,000.

In 2014, no one customer accounted for 10% or more of our sales. We believe that our large number of customers, together with the varied markets that they represent, provide some protection to us from economic downturns that are not across multiple industries and geographic regions.

Direct marketing continues to be the backbone of our business through our local storefronts and selling personnel. We support our stores with multi-channel marketing including email and online marketing, catalogs, promotional flyers, events, and store signage. In recent years, our national advertising has been focused on NASCAR® sponsorships through our partnership with Roush Fenway Racing. From 2012 through 2014, Fastenal was the primary sponsor of Carl Edwards' No. 99 car in the Sprint Cup Series, and we'll continue to present the Fastenal brand to millions of Sprint Cup fans as the primary sponsor of Ricky Stenhouse Jr.'s No. 17 car in 2015. In addition to our NASCAR® sponsorship, we do limited print and online advertising through a variety of publications and outlets.

Seasonality

Seasonality has some impact on our sales. During the winter months, our sales to customers in the non-residential construction market typically slow due to inclement weather. Also, sales to our industrial production customers may decrease during the Fourth of July holiday period, the Thanksgiving holiday period (October in Canada and November in the United States), and the Christmas and New Year holiday period, due to plant shut-downs.

Competition

Our business is highly competitive. Competitors include large distributors located primarily in large cities, smaller distributors located in many of the same smaller markets in which we have stores, and on-line retailers. We believe the principal competitive factors affecting the markets for our products are customer service, price, convenience, product availability, and cost saving solutions.

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Some competitors use vans to sell their products in markets away from their main warehouses, while others rely on mail order, websites, or telemarketing sales. We, however, believe the convenience provided to customers by operating stores in small, medium, and large markets, each offering a wide variety of products, is a competitive selling advantage and the convenience of a large number of stores in a given area, taken together with our ability to provide frequent deliveries to such stores from centrally located distribution centers, makes possible the prompt and efficient distribution of products. We also believe our FAST Solutions® (industrial vending), combined with our local storefront, provides a unique way to provide to our customers convenient access to products and cost saving solutions using a business model not easily replicated by our competitors. Having trained personnel at each store also enhances our ability to compete (see 'Employees' below).

Employees

We employ a total of 18,417 full and part-time employees, most of whom are employed at a store location. A breakout of the number of employees, and their respective roles, is contained earlier in this document.

We believe the quality of our employees is critical to our ability to compete successfully in the markets we currently serve and to our ability to open new stores in new markets. We foster the growth and education of skilled employees throughout the organization by operating training programs and by decentralizing decision-making. Wherever possible, our goal is to 'promote from within'. For example, most new store managers are promoted from an outside sales position and district managers (who supervise a number of stores) are usually former store managers.

The Fastenal School of Business (our internal corporate university program) develops and delivers a comprehensive array of industry and company specific education and training programs that are offered to our employees. Our school of business provides core curricula focused on key competencies determined to be critical to the success of our employees' performance. In addition, we provide specialized educational tracks within various institutes of learning.

These institutes of learning are advanced levels that provide specific concentrations of education and development and have been designed to focus on the critical aspects of our business. These institutes provide a focused educational experience to enhance employee performance in relevant business areas such as leadership, effective store best practices, sales and marketing, product education, and distribution.

Our sales personnel are compensated with a modest base salary and an incentive bonus arrangement that places emphasis on achieving increased sales on a store, district, and regional basis, while still attaining targeted levels of, among other things, gross profit and collections. As a result, a significant portion of our total employment cost varies with sales volume. We also pay incentive bonuses to our leadership personnel based on one or more of the following factors: sales growth, earnings growth (before and after taxes), profitability, and return on assets, and to our other personnel for achieving pre-determined departmental, project, and cost containment goals.

None of our employees is subject to a collective bargaining agreement and we have experienced no work stoppages. We believe our employee relations are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on or through our website at www.fastenal.com as soon as reasonably practicable after such reports have been filed with or furnished to the SEC.

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ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating our business. Our operating results depend upon many factors and are subject to various risks and uncertainties. The material risks and uncertainties known to us which may cause the operating results to vary from anticipated results or which may negatively affect our operating results and profitability are as follows:

A downturn in the economy or in the principal markets served by us and other factors may affect customer spending, which could harm our operating results. In general, our sales represent spending on discretionary items or consumption needs by our customers. This spending is affected by many factors, including, among others:

- general business conditions,
- business conditions in our principal markets,
- interest rates,
- inflation,
- liquidity in credit markets,
- taxation,
- government regulations,
- energy and fuel prices and electrical power rates,
- unemployment trends,
- terrorist attacks and acts of war,
- weather conditions, and
- other matters that influence customer confidence and spending.

A downturn in either the national or local economy where our stores operate, or in the principal markets served by us, or changes in any of the other factors described above, could negatively impact sales at our stores and their level of profitability.

This risk was demonstrated during the last several years. As the economic condition in North America weakened significantly in the fall of 2008 and into 2009, our customers, which operate principally in various manufacturing, non-residential construction, and services sectors, experienced a pronounced slowdown that adversely impacted our sales and operating results in those periods. A lag in these sectors, even as the general economy improves, could adversely impact our business.

Products that we sell may expose us to potential material liability for property damage, environmental damage, personal injury, or death linked to the use of those products by our customers. Some of our customers operate in challenging industries where there is a material risk of catastrophic events, and we are actively seeking to expand our sales to certain categories of customers (such as those in the aerospace industry) whose businesses entail heightened levels of that type of risk. If any of these events are linked to the use by our customers of any of our products, claims could be brought against us by those customers, by governmental authorities, and by third parties who are injured or damaged as a result of such events. In addition, our reputation could be adversely affected by negative publicity surrounding such events regardless of whether or not claims against us are successful. While we maintain insurance coverage to mitigate a portion of this risk and may have recourse against our suppliers for losses arising out of defects in products procured from them, we could experience significant losses as a result of claims made against us to the extent adequate insurance is not in place, the products are manufactured by us or legal recourse against our suppliers is otherwise not available, or our insurers or suppliers are unwilling or unable to satisfy their obligations to us.

Interruptions in the proper functioning of information systems could disrupt operations and cause unanticipated increases in costs and/or decreases in revenues. The proper functioning of our information systems is critical to the successful operation of our business. Although our information systems are protected with robust backup systems, including physical and software safeguards and remote processing capabilities, information systems are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures, and other problems. If critical information systems fail or are otherwise unavailable, our ability to process orders, maintain proper levels of inventories, collect accounts receivable, pay expenses, and maintain the security of the Company and customer data could be adversely affected. Disruptions or failures of, or security breaches with respect to, our information technology infrastructure could have a negative impact on our operations.

In the event of a cyber security incident, we could experience certain operational problems or interruptions, incur substantial additional costs, or become subject to legal or regulatory proceedings, any of which could lead to damage to our reputation in the marketplace. In addition, compliance with cyber security laws, regulations, and standards could be difficult and costly, and failure to comply could expose us to legal risk. The nature of our business requires us to receive, retain, and transmit certain personally identifying information that our customers provide to purchase products or services, register on our websites, or otherwise communicate and interact with us. While we have taken and continue to undertake significant steps to protect our customer and confidential information and the functioning of our computer systems and website, a compromise of our data security systems or those of businesses we interact with could result in information related to our customers or business being obtained by unauthorized persons or other operational problems or interruptions. We

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develop and update processes and maintain systems in an effort to try to prevent this from occurring, but the development and maintenance of these processes and systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Consequently, despite our efforts, the possibility of intrusion, interruption of our business, cyber security incidents and theft cannot be eliminated entirely, and risks associated with each of these remain. While we also seek to obtain assurances that third parties we interact with will protect confidential information, there is a risk the confidentiality of data held or accessed by third parties may be compromised. If a compromise of our data security or function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition and, possibly, subject us to additional legal, regulatory, and operating costs, and damage our reputation in the marketplace. In addition, our handling and use of personal information is regulated at the international, federal, and state levels. Privacy and information security laws, regulations, and standards such as the Payment Card Industry Data Security Standard change from time to time, and compliance with them may result in cost increases due to necessary system changes and the development of new processes, and may be difficult to achieve. If we fail to comply with these laws, regulations, and standards, we could be subjected to legal risk.

Our current estimate for total store market potential in North America could be incorrect. One of our strategies is to grow our business through the introduction of stores into new and existing markets. Based on a snapshot of current marketplace demographics in the United States, Canada, and Mexico, we currently estimate there is potential market opportunity in North America to support approximately 3,500 stores, or approximately 900 more stores than we have today. This estimate is based on our business model today, and market changes such as industrial vending and the internet, or other types of e-business, could cause it to change. In addition, a particular local market's ability to support a store may change because of a change in that market, a change in our store format, or the presence of a competitor's store. We cannot guarantee that our market potential estimates are accurate or that we will decide to open stores to reach the full market opportunity. While we estimate we have the potential in North America for approximately 900 more stores than we have today, we have slowed our store openings in recent years and have focused instead on other growth drivers of our business.

We may be unable to meet our goals regarding new store openings. Our growth is dependent primarily on our ability to attract new customers and increase our activity with existing customers. Historically, the most effective way to attract new customers has been opening new stores, although that has not been our primary growth driver in recent years. We expect to open new stores at the rate of approximately 1% in 2015; however, we cannot assure you that we can open stores at this rate, and failure to do so could negatively impact our long-term growth. We opened stores at the rate of approximately 1%, 2%, and 3% in 2014, 2013, and 2012, respectively.

Our 'pathway-to-profit' strategy, the goal of which is to improve our pre-tax profit margins by growing the average annual sales of our stores, may prove unsuccessful on a long-term basis. In April 2007, we introduced our 'pathway-to-profit' strategy. That strategy involved slowing our annual new store openings and investing the funds saved by opening fewer stores in additional sales and sales leadership personnel. Under the 'pathway-to-profit' strategy, our goal is to increase our average annual sales per store, which would allow us to capture earnings leverage (by spreading operating and administrative expenses over higher sales) and grow our pre-tax profit margin. Our gross profit margin generally decreases as our average per store sales increase, as larger stores sell to larger customers whose more focused buying patterns merit better pricing. However, our operating and administrative expenses, expressed as a percentage of net sales, typically improve as average per store sales grow. In most years the net effect is an increase in our pre-tax profit margin, as the relative improvement in operating and administrative expenses offsets the decrease in gross profit margin. A downturn in the economy or in the principle markets served by us or difficulty in attracting and retaining qualified sales and sales leadership personnel could adversely impact our ability to continue to grow our average per store sales. In addition, greater than expected decreases in our gross profit margin resulting from changes in customer mix or other factors noted below, or the failure to control operating and administrative expenses to the degree necessary to offset expected decreases in our gross profit margin, could adversely impact our pre-tax profit margin even as average per store sales increase. The latter was evidenced in 2014, when the improvement in our operating and administrative expenses as a percentage of net sales was not sufficient to counterbalance the decrease in our gross profit margin, due in part to our push to add more personnel and labor hours

in our stores and more district and regional leaders to better serve our stores, and in part to rising miscellaneous expenses.

Changes in customer or product mix, downward pressure on sales prices, and changes in volume of orders could cause our gross profit percentage to fluctuate or decline in the future. Changes in our customer or product mix could cause our gross profit percentage to fluctuate or decline. From time to time, we have experienced changes in customer or product mix that have caused our gross profit percentage to deteriorate. For example, the portion of our sales attributable to fasteners has been decreasing in recent years. That has adversely affected our gross profit percentage as our non-fastener products generally carry lower gross profit margin than our fastener products. Also, as noted above, our strategy of growing our pre-tax profit margin by increasing our average annual sales per store has contributed to a drop in our gross profit percentage due to resulting changes in our customer mix. If our customer or product mix continues to change, our gross profit percentage may decline further. Downward pressure on sales prices and changes in the volume of our orders could also cause our gross profit percentage to fluctuate or decline. We can experience downward pressure on sales prices as a result of deflation, pressure from customers to

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reduce costs, or increased competition, as was the case in 2009 and the latter half of 2013. Furthermore, reductions in our volume of purchases, as also happened in 2009 and the latter half of 2013, can adversely impact gross profit by reducing supplier volume allowances.

Opening stores in new markets presents increased risks that may prevent us from being profitable in these new locations. We intend to open stores in new markets pursuant to our growth strategy. New stores do not typically achieve operating results comparable to our existing stores until after several years of operation, and stores in new markets face additional challenges to achieving profitability. A new store generates its sales from direct sales calls, a slow process involving repeated contacts. In new markets, we have less familiarity with local customer preferences and customers in these markets are less familiar with our name and capabilities. In addition, entry into new markets may bring us into competition with new, unfamiliar competitors. We cannot assure success in operating our stores on a profitable basis in new markets.

New store openings may negatively impact our operating results. While new stores build the infrastructure for future growth, the first year sales in new stores are low, and the added expenses relating to payroll, occupancy, and transportation costs can impact our ability to leverage earnings. It has been our experience that new stores take at least ten to twelve months to achieve profitability. We cannot assure you that we will be successful in operating our new stores on a profitable basis.

The ability to identify new products and product lines, and integrate them into our store and distribution network, may impact our ability to compete and our sales and profit margins. Our success depends in part on our ability to develop product expertise at the store level and identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our stores and distribution network could impact sales and profit margins.

Changes in energy costs and the cost of raw materials used in our products could impact our net sales, gross profit percentage, cost of goods, distribution expenses, and occupancy expenses, which may result in lower operating income. Costs of raw materials used in our products (e.g., steel) and energy costs have fluctuated during the last several years. Increases in these costs result in increased production costs for our suppliers. These suppliers typically look to pass their increased costs along to us through price increases. The fuel costs of our distribution and store operations have fluctuated as well. While we typically try to pass increased supplier prices and fuel costs through to our customers or to modify our activities to mitigate the impact, we may not be successful, particularly if supplier prices or fuel costs rise rapidly. Failure to fully pass any such increased prices and costs through to our customers or to modify our activities to mitigate the impact would have an adverse effect on our operating income. While increases in the cost of fuel or raw materials could be damaging to us, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate, or by negatively impacting customers in certain industries (such as oil exploration, production, and refinement companies), which could cause our sales to those customers to decline.

Our ability to successfully attract and retain qualified personnel to staff our stores could impact labor costs, sales at existing stores, and the rate of new store openings. Our success depends in part on our ability to attract, motivate, and retain a sufficient number of qualified employees, including store managers, outside sales personnel, and other store associates, who understand and appreciate our culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the industry is high. If we are unable to hire and retain personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and product knowledge, our sales could be materially adversely affected. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may also delay the planned openings of new stores. Any such delays, material increases in employee turnover rates at existing stores, or increases in labor costs, could have a material adverse effect on our business, financial condition, or operating results.

Inclement weather and other disruptions to the transportation network could impact our distribution system and adversely impact demand for our products. Our ability to provide efficient distribution of core business products to our store network is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports, due to events such as the hurricanes of 2005 and 2012 and the longshoreman's strike on the West Coast in 2002, may affect our ability to both maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations. In addition, severe weather conditions could adversely affect demand for our products in particularly hard hit regions. This risk was felt in the first quarter of 2014 as our sales growth was hampered in January and February due to a severe winter in North America and its negative impact on our customers and our trucking network.

We are exposed to foreign currency exchange rate risk, and changes in foreign exchange rates could increase our costs to procure products and our foreign sales. Because the functional currency related to most of our foreign operations is the applicable local currency, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. Fluctuations in the relative strength of foreign economies and their related currencies could impact our ability to

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procure products overseas at competitive prices and our foreign sales. Our primary exchange rate exposure is with the Canadian dollar.

We may not be able to compete effectively against our competitors, which could harm our business and operating results. The industrial, construction, and maintenance supply industry, although consolidating, still remains a large, fragmented industry that is highly competitive. Our current or future competitors may include companies with similar or greater market presence, name recognition, and financial, marketing, and other resources, and we believe they will continue to challenge us with their product selection, financial resources, and services. Increased competition from brick and mortar retailers in markets in which we have stores or from on-line retailers (particularly those major internet providers who can offer a wide range of products and rapid delivery), and the adoption by competitors of aggressive pricing strategies and sales methods, could cause us to lose market share or reduce our prices or increase our spending, thus eroding our operating income.

Products manufactured in foreign countries may cease to be available, which could adversely affect our inventory levels and operating results. We obtain certain of our products, and our suppliers obtain certain of their products, from China, Taiwan, South Korea, Mexico, and other foreign countries. Our suppliers could discontinue selling products manufactured in foreign countries at any time for reasons that may or may not be in our control or our suppliers' control, including foreign government regulations, domestic government regulations, political unrest, war, disruption or delays in shipments, changes in local economic conditions, or trade issues. Our operating results and inventory levels could suffer if we are unable to promptly replace a supplier who is unwilling or unable to satisfy our requirements with another supplier providing equally appealing products.

Our business may be adversely affected by political gridlock in the United States. We primarily operate in the United States. During the last several years there has been significant fiscal uncertainty in the country, the resolution of which has been impeded by political gridlock. We believe this has adversely impacted our business and could negatively impact our business in the future.

Our FAST Solutions[®] (industrial vending) business is relatively new, and our competitive advantage could be eliminated. We believe we have a competitive advantage in industrial vending due to our vending hardware and software, our local store presence (allowing us to service machines more rapidly), our 'vendible' product depth, and, in North America, our distribution strength. These advantages have developed over time; however, other competitors could respond to our expanding industrial vending business with highly competitive platforms of their own. Such competition could negatively impact our ability to expand our industrial vending business or negatively impact the economics of that business.

The industrial, construction, and maintenance supply industry is consolidating, which could cause it to become more competitive and could negatively impact our business. The industrial, construction, and maintenance supply industry in North America is consolidating. This consolidation is being driven by customer needs and supplier capabilities, which could cause the industry to become more competitive as greater economies of scale are achieved by suppliers, or as competitors with new business models are willing and able to operate with lower gross profit on select products. Customers are increasingly aware of the total costs of fulfillment and of the need to have consistent sources of supply at multiple locations. We believe these customer needs could result in fewer suppliers as the remaining suppliers become larger and capable of being a consistent source of supply.

There can be no assurance we will be able in the future to take advantage effectively of the trend toward consolidation. The trend in our industry toward consolidation could make it more difficult for us to maintain our current gross profit and operating income. Furthermore, as our industrial and construction customers face increased foreign competition, and potentially lose business to foreign competitors or shift their operations overseas in an effort to reduce expenses, we may face increased difficulty in growing and maintaining our market share.

We are required to disclose the use of 'conflict minerals' in certain of the products we distribute, which imposes costs on us and could raise reputational and other risks. The SEC has promulgated rules in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding disclosure of the use of certain minerals, known as 'conflict minerals', that are mined from the Democratic Republic of the Congo and adjoining countries. These rules have required and will continue to require due diligence and disclosure efforts. There are and will continue to be costs associated with complying with these disclosure requirements, including costs to determine which of our products are

subject to the rules and the source of any 'conflict minerals' used in those products. In addition, compliance with these rules could adversely affect the sourcing, supply, and pricing of materials used in those products. Also, we may face reputational challenges if we are unable to verify the origins for all 'conflict minerals' used in products through the procedures we have implemented. We may also encounter challenges to satisfy customers that may require all of the components of products purchased to be certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

We own the following facilities in Winona, Minnesota:

Purpose	Tote Locations (ASRS) ¹	Approximate Square Feet
Distribution center and home office	253,000	259,000
Manufacturing facility		100,000
Computer support center		13,000
Winona store		15,000
Winona product support facility		55,000
Rack and shelving storage		42,000
Multi-building complex which houses certain operations of the distribution group, the support services group, and the home office support group		30,000
Supplemental warehouse, office, and potential store space, which is subject to a pre-existing retail lease		100,000

¹ Total number of tote locations for small parts storage included in facilities with an automated storage and retrieval system (ASRS).

We own the following facilities, excluding store locations, outside of Winona, Minnesota:

Purpose	Location	Tote Locations (ASRS) ¹	Approximate Square Feet
Distribution center and manufacturing facility	Indianapolis, Indiana	539,000	² 525,000
Storage facilities	Indianapolis, Indiana		569,000
Distribution center	Atlanta, Georgia	78,000	198,000
Distribution center	Dallas, Texas	41,000	³ 176,000
Distribution center	Scranton, Pennsylvania	87,000	189,000
Distribution center	Akron, Ohio	74,000	152,000
Distribution center	Kansas City, Kansas		300,000
Distribution center	Kitchener, Ontario, Canada	105,000	142,000 ⁴
Distribution center	Kitchener, Ontario, Canada		62,000 ⁴
Distribution center	High Point, North Carolina		256,000
Distribution center and manufacturing facility	Modesto, California	83,000	328,000
Manufacturing facility	Rockford, Illinois		100,000
Local re-distribution center and manufacturing facility	Johor, Malaysia		27,000
Manufacturing facility	Wallingford, Connecticut		187,000

¹ Total number of tote locations for small parts storage included in facilities with an automated storage and retrieval system (ASRS).

² This property contains an ASRS with capacity of 52,000 pallet locations, in addition to the 539,000 tote locations for small parts noted above; 185,000 of these small part tote locations are located in the FAST Solutions® (industrial vending) automated replenishment facility ('T-Hub'), which is also located on this property.

³ This facility contains an ASRS with capacity of 14,000 pallet locations, in addition to the 41,000 tote locations for small parts noted above.

⁴ Our distribution center in Kitchener, Ontario, Canada moved to a new 142,000 square foot facility in 2014. The 62,000 square foot facility is being vacated and is currently for sale.

In addition, we own 177 buildings that house our store locations in various cities throughout North America.

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All other buildings we occupy are leased. Leased stores range from approximately 3,000 to 10,000 square feet, with lease terms of up to 60 months (most initial lease terms are for 36 to 48 months). In addition to our leased store locations, we also lease the following facilities:

Purpose	Location	Approximate Square Feet	Lease Expiration Date	Remaining Lease Renewal Options
Distribution center	Seattle, Washington	100,000	April 2017	Two
Distribution center	Salt Lake City, Utah	74,000	July 2017	Two
Distribution center and packaging facility	Salt Lake City, Utah	26,000	July 2017	One
Distribution center	Apodaca, Nuevo Leon, Mexico	46,000	March 2020	None
Distribution center and manufacturing facility	Edmonton, Alberta, Canada	45,000	July 2020	One
Manufacturing facility	Houston, Texas	21,000	July 2019	None
Local re-distribution center and manufacturing facility	Modrice, Czech Republic	15,000	July 2021	None

If economic conditions are suitable, we will, in the future, consider purchasing store locations to house our older stores. It is anticipated the majority of new store locations will continue to be leased. It is our policy to negotiate relatively short lease terms to facilitate relocation of particular store operations, when desirable. Our experience has been that space suitable for our needs and available for leasing is sufficient.

ITEM 3. LEGAL PROCEEDINGS

A description of our legal proceedings, if any, is contained in Note 10 of the 'Notes to Consolidated Financial Statements'. The description of our legal proceedings, if any, in Note 10 is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Fastenal Company are:

Name