

FASTENAL CO  
Form 10-K  
February 05, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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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, 2015,

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

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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

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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.

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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, 2015, the last business day of the registrant’s most recently completed second fiscal quarter, was \$12,195,658,299, 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, 2015 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 22, 2016, the registrant had 288,403,782 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 19, 2016 ('Proxy Statement') are incorporated by reference in Part III. Portions of our 2015 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, will, plan, goal, project, hope, trend, target, opportunity, and similar words or expressions, or by references to typical outcomes. Any statement that is not a purely historical fact, including estimates, projections, 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, changes 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 industrial vending, difficulty in maintaining installation quality as our industrial 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 or our need to make capital expenditures, credit market volatility, changes in tax law, changes in the availability or price of commercial real estate, changes in the nature, price or availability of distribution, supply chain, or other technology (including software licensed from third parties) and services related to that 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 split in 2011.

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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, 2015 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 2,622 store locations. The various geographic areas in which we operate these store locations are summarized later in this document.

We employ 20,746 people. We characterize these personnel as follows:

|                      |        |        |
|----------------------|--------|--------|
|                      | 2015   | 2014   |
| Store and Onsite     | 13,961 | 12,293 |
| Non-store selling    | 1,566  | 1,349  |
| Selling subtotal     | 15,527 | 13,642 |
| Distribution         | 3,459  | 3,120  |
| Manufacturing        | 662    | 630    |
| Administrative       | 1,098  | 1,025  |
| Non-selling subtotal | 5,219  | 4,775  |
| Total                | 20,746 | 18,417 |

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 Onsite 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](http://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 today 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:

|                         | 2015      | 2014    | 2013    | 2012    | 2011    | 2010    | 2009    | 2008    | 2007    | 2006    |
|-------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Net sales (in millions) | \$3,869.2 | 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 |
| Number of stores        | 2,622     | 2,637   | 2,687   | 2,652   | 2,585   | 2,490   | 2,369   | 2,311   | 2,160   | 2,000   |

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We operated the following number of store locations:

|                         |  | 2015  | 2014  |
|-------------------------|--|-------|-------|
| North America           | United States  | 2,320 | 2,336 |
|                         | Puerto Rico and Dominican Republic                   | 8     | 8     |
|                         | Canada   | 200   | 202   |
|                         | Mexico   | 47    | 44    |
|                         | Subtotal   | 2,575 | 2,590 |
| Central & South America | Panama, Brazil, Colombia, and Chile                  | 9     | 9     |
| Asia                    | China and India                                      | 10    | 10    |
| Southeast Asia          | Singapore, Malaysia, and Thailand                    | 7     | 7     |
|                         | The Netherlands, Hungary, United Kingdom,            |       |       |
| Europe                  | Germany, Czech Republic, Italy, Romania, Poland, and | 20    | 20    |
|                         | Sweden   |       |       |
| Africa                  | South Africa   | 1     | 1     |
| Total                   |  | 2,622 | 2,637 |

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 2015, 2014, and 2013, we opened new stores at a rate of approximately 2%, 1%, and 2%, respectively. We also closed or consolidated certain stores in 2015, 2014, and 2013, which resulted in a net decrease in store locations in the last two years. We expect to open 60 to 75 stores in 2016, which is an annual rate of 2% to 3%, and to continue to close or consolidate stores as the need arises.

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 Onsite locations. 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 Onsite location is a selling unit located in or near a customer’s facility that sells product solely to that customer. Onsite locations 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), 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:

|                         |   | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------|---|------|------|------|------|------|
| North America           | United States   | 32   | 10   | 30   | 58   | 101  |
|                         | Puerto Rico and Dominican Republic  | —    | —    | —    | —    | —    |
|                         | Canada  | 4    | 4    | 10   | 13   | 11   |
|                         | Mexico  | 3    | 3    | 5    | 2    | 1    |
|                         | Subtotal  | 39   | 17   | 45   | 73   | 113  |
| Central & South America | Panama, Brazil, Colombia, and Chile   | 1    | 1    | 4    | 1    | 1    |
| Asia                    | China and India   | 1    | 2    | —    | —    | 3    |
| Southeast Asia          | Singapore, Malaysia, and Thailand   | —    | —    | —    | 2    | —    |
| Europe                  | The Netherlands, Hungary, United Kingdom,<br>Germany, Czech Republic, Italy, Romania, Poland,<br>and Sweden | —    | 3    | 4    | 4    | 5    |
| Africa                  | South Africa  | —    | 1    | —    | —    | —    |
| Total                   |   | 41   | 24   | 53   | 80   | 122  |

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 2015, with approximately 52% 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 at least ten to twelve months for a new store to achieve its first profitable month. Of the two stores opened in the first quarter of 2015, one was profitable in the fourth quarter of 2015.



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The data in the following table shows the change in the average sales of our stores from 2014 to 2015 based on the age of each store. The stores opened in 2015 contributed approximately \$8,745 (or approximately 0.2%) of our consolidated net sales in 2015, with the remainder coming from stores opened prior to 2015 or from our non-store business.

| Age of Stores on December 31, 2015 | Year Opened | Number of Stores in Group on December 31, 2015 | Closed Stores <sup>(1)</sup> | Converted Stores <sup>(2)</sup> | Average Monthly Sales 2015 <sup>(3)</sup> | Average Monthly Sales 2014 <sup>(3)</sup> | Percent Change |
|------------------------------------|-------------|--|------------------------------|---------------------------------|---|---|----------------|
| 0-1 year old                       | 2015        | 41   | 0/0                          | 0/0                             | \$ 18 <sup>(4)</sup>                      | N/A                                       | —              |
| 1-2 years old                      | 2014        | 22   | 2/0                          | 0/0                             | 106                                       | 37 <sup>(4)</sup>                         | 186.5 %        |
| 2-3 years old                      | 2013        | 48   | 3/0                          | -2/0                            | 100                                       | 90  | 11.1 %         |
| 3-4 years old                      | 2012        | 70   | 5/3                          | 0/0                             | 93  | 88  | 5.7 %          |
| 4-5 years old                      | 2011        | 109  | 4/8                          | 0/-1                            | 94  | 96  | -2.1 %         |
| 5-6 years old                      | 2010        | 108  | 7/7                          | -1/0                            | 104                                       | 96  | 8.3 %          |
| 6-7 years old                      | 2009        | 57   | 4/4                          | -1/0                            | 149                                       | 146                                       | 2.1 %          |
| 7-8 years old                      | 2008        | 132  | 6/9                          | -2/0                            | 92  | 93  | -1.1 %         |
| 8-9 years old                      | 2007        | 141  | 3/8                          | 0/0                             | 104                                       | 104                                       | 0.0 %          |
| 9-10 years old                     | 2006        | 217  | 2/12                         | 0/0                             | 105                                       | 102                                       | 2.9 %          |
| 10-11 years old                    | 2005        | 202  | 3/6                          | 0/0                             | 97  | 95  | 2.1 %          |
| 11-12 years old                    | 2004        | 205  | 3/4                          | 0/0                             | 110                                       | 109                                       | 0.9 %          |
| 12-16 years old                    | 2000-2003   | 483  | 2/6                          | 0/-1                            | 119                                       | 115                                       | 3.5 %          |
| 16+ years old                      | 1967-1999   | 787  | 6/6                          | 0/1                             | 163                                       | 158                                       | 3.2 %          |

<sup>(1)</sup> We closed 50 stores and 73 stores in 2015 and 2014, respectively. The number of closed stores is noted in the table above as 2015 number/2014 number.

<sup>(2)</sup> We converted six store locations to non-store selling locations in 2015. We converted two store locations to non-store selling locations, and one non-store selling location to a store in 2014. The number of converted stores is noted in the table above as 2015 number/2014 number, with store locations converted to non-store locations shown as negative numbers.

<sup>(3)</sup> Included in the average monthly sales amounts are sales from our non-store selling locations, such as our Holo-Krome<sup>®</sup> business (included in the 2009 group, the year it was acquired).

<sup>(4)</sup> The average sales include sales of stores open for less than the full fiscal year.

Several years ago, we introduced our 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 3.4 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 81% 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. Construction of an ASRS has begun at our North Carolina distribution center, and we intend to invest in this type of ASRS distribution infrastructure over the next several years at our Washington and Kansas distribution centers.

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<sup>®</sup>. 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<sup>®</sup> 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 2015, 2014, and 2013 and approximately 34%, 36%, and 38% of our consolidated net sales in 2015, 2014, and 2013, 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, and more recently portions of our non-fastener product lines are also sold through industrial vending devices.

Detailed information about our sales by product line is provided later in this document in Note 10 of the Notes to Consolidated Financial Statements included later in this Form 10-K. Each product line may contain multiple product categories. During the last several years, we have added 'private label' brands (we often refer to these as 'Fastenal brands') to our offering. These 'private label' brands represented approximately 12% of our total net sales in 2015. 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 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 2015, 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<sup>®</sup> and Cardinal Fasteners<sup>®</sup> product lines. 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 6% of our consolidated net sales.



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### 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 inventory purchases in 2015.

Beyond inventory, we have some concentration of purchasing activity. For example, we utilize a limited number of suppliers for distribution equipment, two main suppliers for our vehicle fleet, and primarily one supplier for our industrial vending equipment. However, we believe there are viable alternatives to each of these, if necessary.

### Geographic Information

Information regarding our revenues and long-lived assets by geographic location is set forth in Note 7 of the Notes to Consolidated Financial Statements included later in this Form 10-K. Our ability to procure products overseas at competitive prices, as well as sales at our foreign locations, could be impacted by foreign currency fluctuations, changes in trade relations, or fluctuations in the relative strength of foreign economies.

### 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, repair, and 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 2015, our total number of active customer accounts (defined as accounts having purchase activity within the last 90 days) was approximately 394,000, 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 2015, no one customer accounted for more than 5% 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. However, slumps in one industry served by us can rapidly spread to other interrelated industries, which can mute the benefit of this protection. Examples include the collapse of oil and other commodity prices, which has had a detrimental impact not only on customers in the oil and gas, agriculture, and mining industries, but also other industries, such as heavy equipment manufacturers, servicing these customers. This impact is compounded if it is a global rather than a regional issue.

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, print and radio advertising, 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®. In 2015, we presented the Fastenal® brand to millions of Sprint Cup fans as the primary sponsor of Ricky Stenhouse Jr.'s No. 17 car.

### 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.

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, facilitates the prompt and efficient distribution of products. We also believe our industrial vending, combined with our local storefront, provides a unique way to provide to our customers convenient access to products

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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).

Our Onsite service model provides a strategic advantage with our larger customers. Building on our core business strategy of the local store, the Onsite model provides customer value through a customized service model while giving us a stronger competitive advantage and customer relationship, all with a relatively low investment given the existing store and distribution structure.

### Employees

We employ a total of 20,746 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 critical aspects of our business, such as leadership, effective store best practices, sales and marketing, product education, and distribution.

Our sales personnel are compensated with a 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 trade accounts receivable 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](http://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 most significant 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:

Company Risks

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. In addition, certain software used by us is licensed from, and certain services related to our information systems are provided by, third parties who could choose to discontinue their relationship with us. If critical information systems fail or these systems or related software or services are otherwise unavailable, our ability to process orders, maintain proper levels of inventories, collect accounts receivable, pay expenses, and maintain the security of 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 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 are costly and require 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 in the function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition, 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. We may be unable to meet our goals regarding new store openings and other growth drivers of our business. 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 2% to 3% in 2016; however, we cannot assure you that we can open stores at this rate and we may continue to close or consolidate stores as the need arises. In recent years we have devoted increased resources to other growth drivers, including our industrial vending and Onsite businesses, and our

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national accounts team. We have targeted the signing of 200 additional Onsite locations in 2016. While we believe this is achievable with some additional focus from our district managers and our national accounts team, this goal is aggressive and we cannot assure you that we can achieve it. Similarly, while we have taken steps to build momentum in our industrial vending business, we cannot assure you that those steps will lead to additional growth in that business. Failure to achieve any of our goals regarding new store openings, our industrial vending and Onsite businesses, or national accounts signings, could negatively impact our long-term sales growth.

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 2015 and 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 (2015 and 2014) and more district and regional leaders to better serve our stores (2014), 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 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. During 2015, our gross profit continued to be impacted by changes in customer and product mix, the latter of which was amplified by a reduction in our customers' discretionary spending in the fourth quarter.

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.

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, and our ability to transition and retain key senior management may impact our business and financial results. 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 and planned expansion of our other selling channels. Any such delays, material increases in employee turnover rates, or increases in labor costs, could have a material adverse effect on our business, financial condition, or operating results.

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Our success also depends on the efforts and abilities of certain key senior management and we have had some transition in our executive officers over the last couple of years. Difficulties in smoothly implementing that transition or the loss of the services of one or more of such key personnel could have a material adverse effect on our business, financial condition, or operating results.

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.

Our competitive advantage in our industrial vending business could be eliminated and the loss of key suppliers of equipment and services for that business could be disruptive. 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. In addition, we currently rely on a limited number of suppliers for the vending machines used in, and certain software and services needed to operate, our industrial vending business. While these machines, software, and services can be obtained from other sources, loss of our current suppliers could be disruptive.

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.

We may not be successful in integrating acquisitions and achieving intended benefits and synergies. We have completed several acquisitions of businesses, including, in 2015, our acquisition of certain assets of Fasteners, Inc., a regional industrial construction supply distributor with store locations in the states of Washington, Idaho, Oregon, and Montana. We expect to continue to pursue strategic acquisitions that we believe will either expand or complement our business in new or existing markets or further enhance the value and offerings we are able to provide to our existing or future potential customers. Acquisitions involve numerous risks and challenges, including, among others, a risk of potential loss of key employees of an acquired business, and inability to achieve identified operating and financial synergies anticipated to result from an acquisition, diversion of our capital and our management's attention from other business issues, and risks related to the integration of the acquired business including unanticipated changes in our business, our industry, or general economic conditions that affect the assumptions underlying the acquisition. Any one or more of these factors could cause us to not realize the benefits anticipated to result from the acquisitions.

### Industry and General Economic Risks

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,

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• 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, sales through our other selling channels, and the level of profitability of those stores and other selling channels.

This risk was demonstrated during recent 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 improved, has continued to adversely impact our business. In a more recent example, 2015 saw a collapse in the price of oil. When oil companies make less money, they also spend less money. This cut-back had a ripple effect throughout not just the oil and gas industry, but also businesses catering to that industry, and resulted in a slowdown of our business with customers in those markets.

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.

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, which could cause our sales to those customers to decline. This was evidenced in 2015, when our operating results were negatively impacted by a slow down in our business with customers associated with oil exploration, production, and refinement.

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

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

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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 recent 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.

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 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.

Tight credit markets could impact our ability to obtain financing on reasonable terms or increase the cost of existing or future financing. As of December 31, 2015, we had loans outstanding under our revolving credit facility of \$350,000. Loans under the credit facility bear interest at a floating rate based on LIBOR. During periods of volatility and disruption in the U.S. credit markets, financing may become more costly and more difficult to obtain. Although the credit market turmoil of several years ago did not have a significant adverse impact on our liquidity or borrowing costs given that we had not entered into our current credit facility or started borrowing material amounts until after that time, the availability of funds tightened and credit spreads on corporate debt increased. If credit market volatility were to return, then obtaining additional or replacement financing could be more difficult and the cost of doing so could be higher than under our current facility. In addition, due to the floating interest rate provided for under our current credit facility, the cost of servicing loans under that facility could increase. Tight credit conditions could limit our ability to finance stock purchases, dividends, capital expenditures, and other liquidity needs on terms acceptable to us. For more information relating to borrowing and interest rates, see the following sections below: Liquidity and Capital Resources under the heading 'Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations', 'Item 7A. Quantitative and Qualitative Disclosures about Market Risk', and Note 9 of the Notes to Consolidated Financial Statements.

### Investment Risk

We cannot provide any guaranty of future dividend payments or that we will continue to purchase shares of our common stock pursuant to our stock purchase program. Although our board of directors has historically authorized the payment of quarterly cash dividends on our common stock and indicated an intention to do so in the future, there are no assurances that we will continue to pay dividends in the future or continue to increase dividends at historic rates. In addition, although our board of directors has authorized share purchase programs and we have purchased shares in 2016, 2015, and in prior years through these programs, we may discontinue doing so at any time. Any decision to continue to pay quarterly dividends on our common stock, to increase those dividends, or to purchase our common stock in the future will be based upon our financial condition and results of operations, the price of our common stock, credit conditions, and such other factors as are deemed relevant by our board of directors.





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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) <sup>(1)</sup> | 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                 |

<sup>(1)</sup> 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) <sup>(1)</sup> | Approximate Square Feet  |
|---|----------------------------|--------------------------------------|--------------------------|
| Distribution center                                     | Indianapolis, Indiana      | 539,000                              | <sup>(2)</sup> 1,039,000 |
| Manufacturing facility                                  | Indianapolis, Indiana      |                                      | 220,000                  |
| Distribution center                                     | Atlanta, Georgia           | 78,000                               | 198,000                  |
| Distribution center                                     | Dallas, Texas              | 41,000                               | <sup>(3)</sup> 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                  |
| Distribution center                                     | High Point, North Carolina | —                                    | <sup>(4)</sup> 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                  |

<sup>(1)</sup> Total number of tote locations for small parts storage included in facilities with an ASRS.

<sup>(2)</sup> 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 industrial vending automated replenishment facility ('T-Hub'), which is also located on this property.

<sup>(3)</sup> 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.

<sup>(4)</sup> This facility is currently under construction to add an ASRS with capacity of approximately 112,000 tote locations for small parts.

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 9 of the Notes to Consolidated Financial Statements.

**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                  | Employee of<br>Fastenal<br>Since | Age | Position  |
|-----------------------|----------------------------------|-----|---|
| Daniel L. Florness    | 1996                             | 52  | President, Chief Executive Officer, and Director                          |
| Leland J. Hein        | 1985                             | 55  | Senior Executive Vice President – Sales and Director                      |
| James C. Jansen       | 1992                             | 45  | Executive Vice President – Manufacturing                                  |
| Sheryl A. Lisowski    | 1994                             | 48  | Interim Chief Financial Officer, Controller, and Chief Accounting Officer |
| Nicholas J. Lundquist | 1979                             | 58  | Executive Vice President – Operations                                     |
| Charles S. Miller     | 1999                             | 41  | Executive Vice President – Sales  |
| Terry M. Owen         | 1999                             | 47  | Senior Executive Vice President – Sales Operations                        |
| Gary A. Polipnick     | 1983                             | 53  | Executive Vice President – FAST Solution®                                 |
| Ashok Singh           | 2001                             | 53  | Executive Vice President – Information Technology                         |
| John L. Soderberg     | 1993                             | 44  | Executive Vice President – Sales Operations and Support                   |
| Reyne K. Wisecup      | 1988                             | 52  | Executive Vice President – Human Resources and Director                   |

Mr. Florness has been our president and chief executive officer since January 2016. From December 2002 to December 2015, Mr. Florness was an executive vice president and our chief financial officer. From June 1996 to November 2002, Mr. Florness was our chief financial officer. During his time as chief financial officer, Mr. Florness' responsibilities expanded beyond finance, including leadership of product development and procurement and the company's national accounts business. Mr. Florness has served as one of our directors since January 2016.

Mr. Hein has been our senior executive vice president – sales since January 2016. Mr. Hein's responsibilities include sales and operational oversight of our western United States business. From July 2015 to December 2015, Mr. Hein was our chief operating officer. Mr. Hein was our president and chief executive officer from January 2015 to July 2015, and our president from July 2012 to December 2014. From November 2007 to July 2012, Mr. Hein was one of our executive vice presidents – sales. Prior to November 2007, Mr. Hein served in various sales leadership roles at our Company. Mr. Hein has served as one of our directors since 2014.

Mr. Jansen has been our executive vice president – manufacturing since January 2016. Mr. Jansen's responsibilities include oversight of our manufacturing operations. From December 2010 to December 2015, Mr. Jansen was our executive vice president - operations. From November 2007 to December 2010, Mr. Jansen was our executive vice president – internal operations. From May 2005 to November 2007, Mr. Jansen served as leader of systems development (this role encompassed both information systems and distribution systems development). From April 2000 to April 2005, Mr. Jansen served as sales leader of our Texas based region.

Ms. Lisowski has been our interim chief financial officer since January 2016, and our controller and chief accounting officer since October 2013. From March 2007 to October 2013, Ms. Lisowski served as our controller – accounting operations. Ms. Lisowski joined Fastenal in 1994 and, prior to March 2007, served in various roles of increasing responsibility within our finance and accounting team.

Mr. Lundquist has been our executive vice president – operations since July 2012. Mr. Lundquist's responsibilities include distribution development, product development, supplier development, and supply chain. From November 2007 to July 2012, Mr. Lundquist was one of our executive vice presidents – sales. From December 2002 to November 2007, Mr. Lundquist was our executive vice president and chief operating officer.

Mr. Miller has been our executive vice president - sales since November 2015. Mr. Miller's responsibilities include sales and operational oversight of our eastern United States business. From January 2009 to October 2015, Mr. Miller served as regional vice president of our southeast central region based primarily in Tennessee and Kentucky. Prior to January 2009, Mr. Miller served in various sales leadership roles at our Company.

Mr. Owen has been our senior executive vice president – sales operations since January 2016. Mr. Owen's responsibilities include oversight of our information technology, sales operations and support, international sales, national accounts, FAST Solutions®, and manufacturing operations. From July 2015 to December 2015, Mr. Owen

was one of our executive vice president – sales. From May 2014 to June 2015, Mr. Owen served as our executive vice president – e-business, and from December 2007 to May 2014, Mr. Owen was regional vice president of our Texas based and Mexico regions. Prior to December 2007, Mr. Owen served in various distribution center leadership roles.

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Mr. Polipnick has been our executive vice president – FAST Solution® since January 2016. Mr. Polipnick's responsibilities include our FAST Solutions® programs, e-commerce sales, and store inventory modeling and merchandising programs. From July 2015 to December 2015, Mr. Polipnick was our executive vice president – e-business. From July 2012 to June 2015, Mr. Polipnick served as one of our executive vice president – sales. From November 2007 to July 2012, Mr. Polipnick was regional vice president of our Winona based region. Prior to November 2007, Mr. Polipnick served in various sales leadership roles at our Company.

Mr. Singh has been our executive vice president – information technology since January 2011. Mr. Singh joined Fastenal in 2001 and, prior to January 2011, served in various roles of increasing responsibility in the administration and application development areas within our information technology group.

Mr. Soderberg has been our executive vice president – sales operations and support since May 2014. Mr. Soderberg's responsibilities include industry sales, pricing, contracts, and sales support. From April 2010 to May 2014, Mr. Soderberg was one of our vice presidents – sales. From April 2005 to April 2010, Mr. Soderberg served as regional vice president of our Washington based region. Prior to April 2005, Mr. Soderberg served in various sales leadership roles at our Company.

Ms. Wisecup has been our executive vice president – human resources since November 2007. Prior to November 2007, Ms. Wisecup served in various support roles, most recently as director of employee development. Ms. Wisecup has served as one of our directors since 2000.

The executive officers are elected by our board of directors for a term of one year and serve until their successors are elected and qualified. None of our executive officers is related to any other such executive officer or to any of our directors.

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## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

## Common Stock Data

Dollar amounts in this section are stated in whole numbers.

Our shares are traded on The NASDAQ Stock Market under the symbol 'FAST'. As of January 22, 2016, there were approximately 1,200 record holders of our common stock, which includes nominees or broker dealers holding stock on behalf of an estimated 185,000 beneficial owners.

The following table sets forth, by quarter, the high and low closing sale price<sup>(1)</sup> of our shares on The NASDAQ Stock Market for 2015 and 2014.

| 2015           | High    | Low     | 2014           | High    | Low     |
|----------------|---------|---------|----------------|---------|---------|
| First quarter  | \$47.40 | \$39.82 | First quarter  | \$50.43 | \$42.70 |
| Second quarter | 43.41   | 40.01   | Second quarter | 51.20   | 47.80   |
| Third quarter  | 42.82   | 36.13   | Third quarter  | 50.08   | 43.74   |
| Fourth quarter | 41.64   | 35.50   | Fourth quarter | 48.21   | 40.78   |

<sup>(1)</sup> The closing sale price was obtained from Shareholder.com, a division of Nasdaq OMX.

The following table sets forth our dividend payout (on a per share basis) in each of the last two years:

|                | 2015   | 2014   |
|----------------|--------|--------|
| First quarter  | \$0.28 | \$0.25 |
| Second quarter | 0.28   | 0.25   |
| Third quarter  | 0.28   | 0.25   |
| Fourth quarter | 0.28   | 0.25   |
| Total          | \$1.12 | \$1.00 |

On January 14, 2016, we announced a quarterly dividend of \$0.30 per share to be paid on February 26, 2016 to shareholders of record at the close of business on January 29, 2016. Our board of directors intends to continue paying quarterly dividends, provided that any future determination as to payment of dividends will depend upon the financial condition and results of operations of the Company and such other factors as are deemed relevant by the board of directors.

## Issuer Purchases of Equity Securities

The table below sets forth information regarding purchases of our common stock during each of the last three months of 2015:

| Period              | (a)<br>Total Number of Shares Purchased | (b)<br>Average Price Paid per Share | (c)<br>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d)<br>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---------------------|---|-------------------------------------|---|---|
| October 1-31, 2015  | 200,000                                 | \$38.55                             | 200,000   | 3,200,000   |
| November 1-30, 2015 | 200,000                                 | \$38.77                             | 200,000   | 3,000,000   |
| December 1-31, 2015 | 100,000                                 | \$39.97                             | 100,000   | 2,900,000   |
| Total               | 500,000                                 | \$38.92                             | 500,000   | 2,900,000   |

<sup>(1)</sup> On May 1, 2015, our board of directors authorized the purchase by us of an additional 4,000,000 shares of our common stock. The reported purchases were made under this authorization, which does not have an expiration date. As of December 31, 2015, we had remaining authority to purchase 2,900,000 shares under this authorization. See Note 4 of the Notes to Consolidated Financial Statements for a description of certain additional purchases by us of shares of our common stock effected after December 31, 2015.

Purchases of shares of our common stock earlier in 2015 are described later in this Form 10-K under the heading 'Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations'.



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The Fastenal Company Common Stock Comparative Performance Graph

Set forth below is a graph comparing, for the five years ended December 31, 2015, the yearly cumulative total shareholder return on our common stock with the yearly cumulative total shareholder return of the S&P 500 Index and the Dow Jones US Industrial Suppliers Index.

The comparison of total shareholder returns in the performance graph assumes that \$100 was invested on December 31, 2010 in Fastenal Company, the S&P 500 Index, and the Dow Jones US Industrial Suppliers Index, and that dividends were reinvested when and as paid.

Comparison of Five Year Cumulative Total Return Among Fastenal Company, the S&P 500 Index, and the Dow Jones US Industrial Suppliers Index

|   | 2010      | 2011   | 2012   | 2013   | 2014   | 2015   |
|---|-----------|--------|--------|--------|--------|--------|
| Fastenal Company                        | \$ 100.00 | 148.43 | 163.37 | 169.18 | 173.16 | 152.71 |
| S&P 500 Index                           | 100.00    | 102.11 | 118.45 | 156.82 | 178.28 | 180.75 |
| Dow Jones US Industrial Suppliers Index | 100.00    | 132.98 | 145.02 | 167.88 | 167.78 | 136.77 |

Note - The graph and index table above were obtained from Zachs SEC Compliance Services Group.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated herein by reference is Ten-Year Selected Financial Data on pages 4 and 5 of Fastenal's 2015 Annual Report to Shareholders of which this Form 10-K forms a part, a portion of which is filed as Exhibit 13 to this Form 10-K.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements. (Dollar amounts are in thousands except for per share amounts and where otherwise noted.)

**BUSINESS AND OPERATIONAL OVERVIEW**

Fastenal is a North American leader in the wholesale distribution of industrial and construction supplies. We distribute these supplies through a network of approximately 2,600 company owned stores. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both original equipment manufacturers (OEM) and maintenance, repair, and operations (MRO). The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our product include farmers, truckers, railroads, oil exploration, production and refinement companies, mining companies, federal, state, and local governmental entities, schools, and certain retail trades. Geographically, our stores and customers are primarily located in North America.

**BUSINESS DISCUSSION**

We are a growth focused organization and we constantly strive to make investments into the growth drivers of our business. These investments typically center on people. By adding more people we add to our ability to interact with and to serve our customers from our local store and to back them up in some type of support role. In recent years this investment has also centered on more industrial vending devices to serve our customers' needs on a 24 hours a day, 7 days a week basis.

The table below summarizes our store employee count and our total employee count at the end of the periods presented. This is intended to demonstrate the energy (or capacity) added. Later in this document we discuss the average full-time equivalent employee count to help explain the expense trends in more detail. The final two items below summarize our investments in industrial vending devices and in store locations.

|  | Q4<br>2014 | Q4<br>2015 | Twelve-month<br>% Change |   |
|--|------------|------------|--------------------------|---|
| End of period total store employee count             | 12,293     | 13,961     | 13.6                     | % |
| Change in total store employee count                 |            | 1,668      |                          |   |
| End of period total employee count                   | 18,417     | 20,746     | 12.6                     | % |
| Change in total employee count                       |            | 2,329      |                          |   |
| Industrial vending machines (installed device count) | 46,855     | 55,510     | 18.5                     | % |
| Number of store locations                            | 2,637      | 2,622      | -0.6                     | % |

For a quick recap of some positive and negative aspects of our business, we would note the following:

Positive –

- (1) During 2015, we added 1,668 people into our stores. We stated in January 2015 we would add people in an aggressive fashion during 2015. This is the result.
  - (2) After several years of holding back on store openings and even contracting our total store base, we plan to expand our pace of store openings in 2016 with a goal of opening 60 to 75 new stores (an increase of approximately 2% to 3% over our number of stores as of December 31, 2015). We opened 41 and 24 stores in 2015 and 2014, respectively, and we closed or consolidated 50 and 73 stores in 2015 and 2014, respectively.
    - (3) We are seeing a very strong pace of national account signings. During 2015, we signed more new contracts (defined as new customer accounts with a multi-site contract) with national account customers than in 2014. This increase reversed the declining trend in the previous year. Similar to the third quarter of 2015, the business with our top 100 national account customers (representing approximately 25% of sales) experienced poor sales results in the fourth quarter of 2015, with net sales contraction of approximately 4.3%, while sales to our remaining national account customers (representing approximately 22% of sales) grew approximately 8.1%.
      - (4) We have also seen an expansion of our Onsite business (defined as dedicated sales and service provided from within the customer's facility) during 2015. During the year we signed 82 new Onsite customer locations.
        - (5)

We converted approximately 800 stores to the CSP 16 (Customer Service Project 2016) format in the fourth quarter of 2015. This merchandising footprint, disclosed at our November 2015 Investor Day, involves expanded inventory placement at our store locations to enhance same-day capabilities.

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Negative –

- (1) 2015 was hit hard by a slowdown in our business with customers connected to the oil and gas industry. Those customers include direct industry participants as well as other customers serving those participants.
- (2) 2015 was negatively affected by a strong U.S. dollar, relative to other currencies, which hurts our U.S. customer base (which accounts for approximately 89% of sales).
- (3) The net sales of our Canadian business, which grew about 4% in 'local currency' during the fourth quarter of 2015, slowed from 6% growth in the third quarter of 2015.  
During the fourth quarter of 2015 we decided to terminate our manufacturing joint venture in Brazil and settled several unrelated disputes. These items resulted in approximately \$4 million of additional expense in the quarter.
- (4) We listed these as negative due to the immediate financial impact, but consider these to be positive developments allowing us to focus on growth.
- (5) In late November 2015, and even more so in late December 2015, we experienced a greater number and longer duration of customer plant shutdowns related to the holiday season.

The following sections contain an overview of the following:

1. Sales and sales trends – a recap of our recent sales trends and some insight into the activities with different end markets.
2. Growth drivers of our business – a recap of how we grow our business.
3. Profit drivers of our business – a recap of how we increase our profits.
4. Statement of earnings information – a recap of the components of our income statement.
5. Cash flow impact items – a recap of the operational working capital utilized in our business, and the related cash flow.

The most important thing to note before you read this is to remember Fastenal is several businesses within itself; a fastener distributor (about 40% of our business) and a non-fastener distributor (about 60% of our business).

### FASTENER SALES

First and foremost, we are a fastener distributor. We have been in this business for almost 50 years. We are good at it. We have strong capabilities at sourcing and procurement, at quality control, at logistics, and at local customer service. Each of these capabilities is focused on the customer at the end of the supply chain. This business is split about 60% production/construction needs and about 40% maintenance needs. The former is a great business, but it can be cyclical because about 75% of our manufacturing customer base is engaged in some type of heavy manufacturing. The sale of production fasteners is also a sticky business in the short-term as it is expensive and time consuming for our customers to change their supplier relationships. While our customer base values the capabilities we bring to the table, in the last twelve months this group of customers has seen a contraction in its production and therefore its need for fasteners. During this time frame, our fastener product line has seen its daily growth decrease from about 10% growth in the last six months of 2014 to about 6% contraction in the fourth quarter of 2015. Said another way, our market share gains continue to be strong, but the contraction from our existing customers, plus some price deflation, has eliminated our growth and created contraction.

### NON-FASTENER SALES

Second, we have a non-fastener maintenance and supply business. We have actively pursued this business in the last 20 to 25 years. The capabilities we developed as a fastener distributor, described above, provide a backbone to growing this 'newer' business. This backbone has been enhanced in the last five years with our added capabilities in industrial vending. Given our local customer service, we believe we have a structural advantage in the industrial vending business. There is more to industrial vending than the device or the financial resources to deploy; we believe the ability to replenish with a local team from an integrated supply chain network (i.e., the 'Team behind the Machine') is critical to the long-term success of this channel. Because of these capabilities, the non-fastener business remains more resilient. However, similar to our fastener business, our non-fastener business has weakened in the last twelve months. During this time frame, our non-fastener product line has seen its daily sales growth decrease from about 18% growth in the last six months of 2014 to about 1% growth in the fourth quarter of 2015.

Please read through the detailed Sales and Sales Trends section later in this document for additional insight.

Our gross profit decreased from 50.5% in both the fourth quarter of 2014 and third quarter of 2015 to 49.9% in the fourth quarter of 2015. The relationship between sales and gross profit depends on our success within our large account business (an area that is still under-represented in our customer mix). The large account end market produces a below average gross profit; however, as demonstrated in recent quarters, it leverages our existing network of capabilities and allows us to enjoy strong incremental operating income growth. This customer mix change (large versus smaller), as well as our product mix change (from fasteners to non-fasteners), over time are a constant drain on our gross profit, a trend we expect to continue in the future.

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However, this trend had limited relevance in the fourth quarter of 2015. Rather, we saw a noticeable squeezing of discretionary spending by our customers in November and December of 2015 (see related discussion about 2015 later in 'summarizing comments'), which produced a noticeable drop in the sale of less frequently purchased products. This resulted in all of the drop in gross profit, when compared to the third quarter of 2015 and substantially all of the change from the fourth quarter of 2014. We believe this to be a temporary issue; however, we don't know when this drop will subside. Our gross profit is also impacted by supplier incentives. With weaker net sales growth and our tight management of inventory levels, the growth of spending with our suppliers is lower; hence, our supplier incentives are reduced.

In regards to operating expenses, we added 2,329 people to the Fastenal organization in the last twelve months (about 81% of these people were added to a store or some other type of selling location). This provided a meaningful increase in our capacity. However, we needed to fund this increased capacity. We did this by (1) managing our total operating and administrative expenses outside of payroll related costs, and (2) managing our hours worked in a very focused site by site fashion (our store headcount grew by 13.6% in the last twelve months, but our average full-time equivalent store headcount only grew by 10.2%). These two items allowed us to invest in store personnel and fund that investment in a weak economic environment. Below is a quick recap of our full-time equivalent headcount to supplement the information discussed earlier in this document:

|   | Q4<br>2014 | Q4<br>2015 | Twelve-month<br>% Change |   |
|---|------------|------------|--------------------------|---|
| Average full-time equivalent store employee count | 10,376     | 11,436     | 10.2                     | % |
| Average full-time equivalent employee count       | 15,512     | 16,901     | 9.0                      | % |

Note – Full-time equivalent is based on 40 hours per week.

We touched on our industrial vending earlier, but here is a quick recap: During the fourth quarter of 2015, we signed 4,016 devices (we signed 4,689 devices in the third quarter of 2015 and we signed 4,108 devices during the fourth quarter of 2014), our installed device count on December 31, 2015 was 55,510 (an increase of 18.5% over December 31, 2014), and the percent of total net sales to customers with industrial vending was 43.9%. Our total daily sales to customers with industrial vending during the fourth quarter of 2015 grew 0.7% over the fourth quarter of 2014.

However, daily sales of non-fastener products to customers with vending grew approximately 4%, while daily sales of fasteners to customers with vending contracted approximately 8%.

Finally, some thoughts on capital allocation: During the latter half of 2014 and throughout 2015, we have been modifying our capital allocation by buying back some common stock. One factor influencing our stock buybacks is our external valuation. Our relative stock valuation has weakened over the last several years, which prompted us to reassess our cash deployment. To this end, we have spent approximately \$337 million buying back stock in the last six quarters and have repurchased approximately 2.7% of our outstanding shares from the start of this time frame. We are mindful of our shareholders' expectations relative to our dividend paying history and have primarily funded this buyback with debt. Over the last three to four years, we had dramatically increased our capital expenditures, relative to our net earnings, for the rapid deployment of distribution automation and industrial vending over where those expenditures had been in prior years. These investments will continue in the future; however, we expect capital expenditures, relative to our net earnings, will moderate and will allow us to continue to fund our cash needs for our day-to-day business primarily from continuing operations. Please read through the detailed Cash Flow Impact Items section, and the Consolidated Statements of Cash Flows later in this document, for additional insight.

**SALES AND SALES TRENDS**

While reading these items, it is helpful to appreciate several aspects of our marketplace: (1) it's big, the North American marketplace for industrial supplies is estimated to be in excess of \$160 billion per year (and we have expanded beyond North America), (2) no company has a significant portion of this market, (3) many of the products we sell are individually inexpensive, (4) when our customer needs something quickly or unexpectedly our local store is a quick source, (5) the cost and time to manage and procure these products is meaningful, (6) the cost to move these products, many of which are bulky, can be significant, (7) many customers would prefer to reduce their number of suppliers to simplify their business, and (8) many customers would prefer to utilize various technologies to improve availability and reduce waste.

Our motto is Growth through Customer Service<sup>®</sup>. This is important given the points noted above. We believe in efficient markets – to us, this means we can grow our market share if we provide the greatest value to our customers. We believe our ability to grow is amplified if we can service our customers at the closest economic point of contact. For us, this 'closest economic point of contact' is the local store; therefore, our focus centers on understanding our customers' day, their opportunities, and their obstacles.

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The concept of growth is simple, find more customers every day and increase our activity with them. However, execution is hard work. First, we recruit service-minded individuals to support our customers and their business. Second, we operate in a decentralized fashion to help identify the greatest value for our customers. Third, we have a great team behind the store to operate efficiently and to help identify new business solutions. Fourth, we do these things every day. Finally, we strive to generate strong profits; these profits produce the cash flow necessary to fund our growth and to support the needs of our customers.

**SALES GROWTH**

Note – Daily sales are defined as the total net sales for the period divided by the number of business days (in the United States) in the period.

Net sales and daily sales were as follows:

|  | 2015        | 2014      | 2013      |  |   |
|--|-------------|-----------|-----------|--|---|
| Net sales  | \$3,869,187 | 3,733,507 | 3,326,106 |  |   |
| Percentage change                                  | 3.6         | % 12.2    | % 6.1     |  | % |
| Business days                                      | 254         | 253       | 254       |  |   |
| Daily sales  | \$15,233    | 14,757    | 13,095    |  |   |
| Percentage change                                  | 3.2         | % 12.7    | % 6.1     |  | % |
| Impact of currency fluctuations (primarily Canada) | -1.2        | % -0.5    | % -0.2    |  | % |

The increase in net sales in 2015, 2014, and 2013 came primarily from higher unit sales. Our growth in net sales was impacted by slight inflationary price changes in our non-fastener products and some price deflation in our fastener products, with the net impact being a slight drag on growth. The higher unit sales resulted primarily from increases in sales at older store locations (discussed below and again later in this document) and to a lesser degree the opening of new store locations in the last several years. Our growth in net sales was not meaningfully impacted by the introduction of new products or services, with one exception. Over the last several years, our industrial vending initiative has stimulated faster growth with a subset of our customers (discussed later in this document). The growth in net sales at the older store locations was due to the growth drivers of our business (discussed later in this document). The rate of growth in net sales in 2015 was hindered by weakness in the industrial production and non-residential construction industries served by us. The added growth in 2014 was largely related to two things – the expansion, which began in the latter half of 2013, in the number of our store employees and the number of district and regional leaders supporting our stores, all in effort to generate more selling energy within our stores, and a stabilization in our OEM fastener business.

The impact of the economy is best reflected in the growth performance of our stores opened greater than ten years ago (store sites opened as follows: 2015 group – opened 2005 and earlier, 2014 group – opened 2004 and earlier, and 2013 group – opened 2003 and earlier) and opened greater than five years ago (store sites opened as follows: 2015 group – opened 2010 and earlier, 2014 group – opened 2009 and earlier, and 2013 group – opened 2008 and earlier). These two groups of stores are more cyclical due to the increased market share they enjoy in their local markets. The stores opened greater than two years ago represent a consistent ‘same store’ view of our business (store sites opened as follows: 2015 group – opened 2013 and earlier, 2014 group – opened 2012 and earlier, and 2013 group – opened 2011 and earlier). The daily sales change for each of these groups was as follows:

| Store Age                    | 2015 | 2014  | 2013 |
|------------------------------|------|-------|------|
| Opened greater than 10 years | 2.7% | 10.5% | 2.1% |
| Opened greater than 5 years  | 2.5% | 10.9% | 3.6% |
| Opened greater than 2 years  | 2.5% | 11.5% | 4.4% |

Note: The age groups above are measured as of the last day of each respective year.

Stores opened in 2015 contributed approximately \$8,745 (or 0.2%) to 2015 net sales. Stores opened in 2014 contributed approximately \$28,028 (or 0.7%) to 2015 net sales and approximately \$9,762 (or 0.3%) to 2014 net sales. The rate of growth in sales of store locations generally levels off after they have been open for five years, and, as stated earlier, the sales generated at our older store locations typically vary more with the economy than do the sales of younger stores.





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## SALES BY PRODUCT LINE

The approximate mix of sales from the fastener product line and from the other product lines was as follows:

|                       | 2015 | 2014 | 2013 |
|-----------------------|------|------|------|
| Fastener product line | 38%  | 40%  | 42%  |
| Other product lines   | 62%  | 60%  | 58%  |

The decrease in our fastener sales as a percentage of total sales has been driven by the continued success of our non-fastener product lines, which we began to add in the 1990's, and by the growth of our industrial vending program. Since we sell primarily non-fastener products in our industrial vending machines, this program has led to greater resilience to weak industrial production of our non-fastener business compared to our fastener business.

## MONTHLY SALES CHANGES, SEQUENTIAL TRENDS, AND END MARKET PERFORMANCE

This section focuses on three distinct views of our business – monthly sales changes, sequential trends, and end market performance. The first discussion regarding monthly sales changes provides a good mechanical view of our business based on the age of our stores. The second discussion provides a framework for understanding the sequential trends (that is, comparing a month to the immediately preceding month, and also looking at the cumulative change from an earlier benchmark month) in our business. Finally, we believe the third discussion regarding end market performance provides insight into activities with our various types of customers.

## Monthly Sales Changes:

All company sales – During the months noted below, all of our selling locations, when combined, had daily sales growth rates of (compared to the same month in the preceding year):

|      | Jan.   | Feb.  | Mar.   | Apr.   | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2015 | 12.0 % | 8.6 % | 5.6 %  | 6.1 %  | 5.3 %  | 3.7 %  | 3.2 %  | 1.6 %  | -0.3 % | -0.8 % | -1.1 % | -3.8 % |
| 2014 | 6.7 %  | 7.7 % | 11.6 % | 10.0 % | 13.5 % | 12.7 % | 14.7 % | 15.0 % | 12.9 % | 14.6 % | 15.3 % | 17.4 % |
| 2013 | 6.7 %  | 8.2 % | 5.1 %  | 4.8 %  | 5.3 %  | 6.0 %  | 2.9 %  | 7.2 %  | 5.7 %  | 7.7 %  | 8.2 %  | 6.7 %  |

Stores opened greater than two years – Our stores opened greater than two years (store sites opened as follows: 2015 group – opened 2013 and earlier, 2014 group – opened 2012 and earlier, and 2013 group – opened 2011 and earlier) represent a consistent 'same-store' view of our business. During the months noted below, the stores opened greater than two years had daily sales growth rates of (compared to the same month in the preceding year):

|      | Jan.   | Feb.  | Mar.   | Apr.  | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|------|--------|-------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2015 | 11.2 % | 7.8 % | 4.8 %  | 5.4 % | 4.6 %  | 3.2 %  | 2.6 %  | 1.0 %  | -0.9 % | -1.1 % | -2.1 % | -5.0 % |
| 2014 | 5.5 %  | 6.5 % | 10.2 % | 8.4 % | 12.1 % | 11.4 % | 13.4 % | 14.0 % | 11.8 % | 13.5 % | 14.0 % | 16.5 % |
| 2013 | 5.0 %  | 6.5 % | 3.4 %  | 3.1 % | 3.5 %  | 4.3 %  | 1.4 %  | 5.5 %  | 4.2 %  | 6.1 %  | 6.2 %  | 4.9 %  |

Stores opened greater than five years – The impact of the economy, over time, is best reflected in the growth performance of our stores opened greater than five years (store sites opened as follows: 2015 group – opened 2010 and earlier, 2014 group – opened 2009 and earlier, and 2013 group – opened 2008 and earlier). This group, which represented about 90% of our total sales in 2015, is more cyclical due to the increased market share they enjoy in their local markets. During the months noted below, the stores opened greater than five years had daily sales growth rates of (compared to the same month in the preceding year):

|      | Jan.   | Feb.  | Mar.  | Apr.  | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|------|--------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2015 | 10.8 % | 7.2 % | 4.8 % | 5.6 % | 4.6 %  | 3.1 %  | 3.1 %  | 1.3 %  | -1.1 % | -1.0 % | -1.8 % | -5.3 % |
| 2014 | 4.6 %  | 5.4 % | 9.5 % | 7.7 % | 11.5 % | 10.8 % | 12.9 % | 13.4 % | 11.7 % | 13.3 % | 13.6 % | 16.2 % |
| 2013 | 3.2 %  | 5.6 % | 2.3 % | 2.0 % | 2.7 %  | 3.4 %  | 0.6 %  | 4.7 %  | 3.2 %  | 5.3 %  | 6.1 %  | 4.8 %  |

Summarizing comments – There are three distinct influences to our growth: (1) execution, (2) currency fluctuations, and (3) economic fluctuations. This discussion centers on (2) and (3).

The change in currencies in foreign countries (primarily Canada) relative to the United States dollar impacted our net sales growth over the last several years. During the years 2013, 2014, and 2015, it lowered our net sales growth by 0.2%, 0.5%, and 1.2%, respectively.

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During the first half of 2013, the fastener product line was heavily impacted by our industrial production business. These customers utilize our fasteners in the manufacture/assembly of their finished products. The end markets with the most pronounced weakening included heavy machinery manufacturers with exposure to: mining, military, agriculture, and construction. The daily sales growth in July 2013 and December 2013 were negatively impacted by the timing of the July 4th holiday (Thursday in 2013 versus Wednesday in 2012) and the Christmas/New Year holiday (Wednesday in 2013 versus Tuesday in 2012). This resulted in a 'lone' business day on Friday, July 5, 2013, in which many of our customers were closed, and three distinct one to two day work periods in the last two weeks of December 2013. The December 2013 impact was amplified due to poor weather conditions.

Our sales to customers engaged in light and medium duty manufacturing (largely related to consumer products) began to improve late in 2013 and into 2014. This made sense given the trends in the PMI Index at that time. In the first quarter of 2014, our sales growth was hampered in January and February due to a weak economy and foreign exchange rate fluctuations (primarily related to the Canadian dollar); however, the biggest impact was a severe winter in North America and its negative impact on our customers and our trucking network. In March 2014, the weak economy and negative foreign exchange rate fluctuations continued; however, the weather normalized and our daily sales growth expanded to 11.6%. This double digit growth in March was helped by the Easter timing (April in 2014). In the second quarter of 2014, the negative impact of the Easter timing was felt, and then a 'less noisy' picture emerged in May and June. Our sales to customers engaged in heavy machinery manufacturing (primarily serving the mining, military, agricultural, and construction end markets), which represents approximately one fifth of our business, had a very weak 2013, but stabilized late in 2013 and improved in 2014.

During 2015, our business weakened. As mentioned earlier in this document and in prior quarterly disclosures, the weakening initially involved customers tied to the oil and gas sector, but grew during the course of the year to include customers across additional industries and in geographic areas not typically associated with the oil and gas sector. In November and December one distinct trend emerged involving customer plant shutdowns. This is not uncommon during the holiday season; however, we experienced a greater number and duration of shutdowns than in prior years during both late November and late December, with the trend more pronounced in late December.

Sequential Trends:

We find it helpful to think about the monthly sequential changes in our business using the analogy of climbing a stairway – This stairway has several predictable landings where there is a pause in the sequential gain (i.e. April, July, and October to December), but generally speaking, climbs from January to October. The October landing then establishes the benchmark for the start of the next year.

History has identified these landings in our business cycle. They generally relate to months with impaired business days (certain holidays). The first landing centers on Easter, which alternates between March and April (Easter occurred in April 2015, in April 2014, and in March 2013), the second landing centers on July 4th, and the third landing centers on the approach of winter with its seasonal impact on primarily our construction business and with the Christmas/New Year holidays. The holidays we noted impact the trends because they either move from month-to-month or because they move around during the week (the July 4th and Christmas/New Year holiday impacts are examples).

The table below shows the pattern to the sequential change in our daily sales. The line labeled 'Benchmark' is an historical average of our sequential daily sales change for the period 1998 to 2013, excluding 2008 and 2009. We believe this time frame will serve to show the historical pattern and could serve as a benchmark for current performance. We excluded the 2008 to 2009 time frame because it contains an extreme economic event and we don't believe it is comparable. The '2015', '2014', and '2013' lines represent our actual sequential daily sales changes. The '15Delta', '14Delta', and '13Delta' lines indicate the difference between the 'Benchmark' and the actual results in the respective year.

|           | Jan. <sup>(1)</sup> | Feb.   | Mar.  | Apr.   | May   | June  | July   | Aug.  | Sept.  | Oct.   | Cumulative<br>Change from<br>Jan. to Oct. |
|-----------|---------------------|--------|-------|--------|-------|-------|--------|-------|--------|--------|---|
| Benchmark | 0.8                 | % 2.2  | % 3.8 | % 0.4  | % 3.1 | % 2.7 | % -2.1 | % 2.5 | % 3.7  | % -1.2 | % 15.9%                                   |
| 2015      | -3.6                | % -0.1 | % 4.2 | % -2.1 | % 3.4 | % 0.9 | % -4.3 | % 4.1 | % -0.9 | % -2.0 | % 2.9%                                    |

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|         |      |   |      |   |      |   |      |   |      |   |      |   |      |   |     |   |      |   |      |   |        |
|---------|------|---|------|---|------|---|------|---|------|---|------|---|------|---|-----|---|------|---|------|---|--------|
| 15Delta | -4.4 | % | -2.3 | % | 0.4  | % | -2.5 | % | 0.3  | % | -1.8 | % | -2.2 | % | 1.6 | % | -4.6 | % | -0.8 | % | -13.0% |
| 2014    | -1.4 | % | 3.0  | % | 7.1  | % | -2.6 | % | 4.2  | % | 2.5  | % | -3.8 | % | 5.8 | % | 1.0  | % | -1.5 | % | 16.2%  |
| 14Delta | -2.2 | % | 0.8  | % | 3.3  | % | -3.0 | % | 1.1  | % | -0.2 | % | -1.7 | % | 3.3 | % | -2.7 | % | -0.3 | % | 0.3%   |
| 2013    | -0.4 | % | 2.0  | % | 3.4  | % | -1.1 | % | 1.0  | % | 3.2  | % | -5.5 | % | 5.5 | % | 2.9  | % | -2.9 | % | 8.2%   |
| 13Delta | -1.2 | % | -0.2 | % | -0.4 | % | -1.5 | % | -2.1 | % | 0.5  | % | -3.4 | % | 3.0 | % | -0.8 | % | -1.7 | % | -7.7%  |

<sup>(1)</sup> The January figures represent the percentage change from the previous October, whereas the remaining figures represent the percentage change from the previous month.

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A graph of the sequential daily sales change pattern discussed above, starting with a base of '100' in the previous October and ending with the next October, would be as follows:

End Market Performance:

Fluctuations in end market business – The sequential trends noted above were directly linked to fluctuations in our end markets. To place this in perspective – approximately 50% of our business has historically been with customers engaged in some type of manufacturing. The daily sales growth rates to these customers, when compared to the same period in the prior year, were as follows:

|      | Q1  | Q2     | Q3     | Q4     | Annual |   |
|------|-----|--------|--------|--------|--------|---|
| 2015 | 6.9 | % 3.8  | % 1.1  | % -2.2 | % 2.3  | % |
| 2014 | 9.0 | % 11.2 | % 13.7 | % 13.8 | % 12.0 | % |
| 2013 | 7.0 | % 5.9  | % 4.7  | % 7.2  | % 6.3  | % |

As indicated earlier, our manufacturing business consists of two subsets: the industrial production business (this is business where we supply products that become part of the finished goods produced by our customers and is sometimes referred to as OEM - original equipment manufacturing) and the maintenance portion (this is business where we supply products that maintain the facility or the equipment of our customers engaged in manufacturing and is sometimes referred to as MRO - maintenance, repair, and operations). The industrial business is more fastener centered, while the maintenance portion is represented by all product categories.

The best way to understand the change in our industrial production business is to examine the results in our fastener product line (just under 40% of our business) which is heavily influenced by changes in our business with heavy equipment manufacturers. From a company perspective, sales growth rates of fasteners, when compared to the same period in the prior year, were as follows (note: this information includes all end markets):

|      | Q1  | Q2    | Q3     | Q4     | Annual |   |
|------|-----|-------|--------|--------|--------|---|
| 2015 | 5.5 | % 0.0 | % -4.4 | % -6.2 | % -1.4 | % |
| 2014 | 1.6 | % 5.5 | % 9.9  | % 11.4 | % 6.9  | % |
| 2013 | 1.7 | % 1.9 | % 1.0  | % 1.9  | % 1.6  | % |

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By contrast, the best way to understand the change in the maintenance portion of the manufacturing business is to examine the results in our non-fastener product lines. From a company perspective, sales growth rates of non-fasteners, when compared to the same period in the prior year, were as follows (note: this information includes all end markets):

|      | Q1   | Q2     | Q3     | Q4     | Annual |   |
|------|------|--------|--------|--------|--------|---|
| 2015 | 11.7 | % 9.0  | % 5.9  | % 1.2  | % 6.8  | % |
| 2014 | 14.2 | % 17.1 | % 17.6 | % 19.0 | % 17.2 | % |
| 2013 | 10.8 | % 8.5  | % 8.9  | % 12.0 | % 10.1 | % |

The non-fastener business demonstrated greater relative resilience over the last several years, when compared to our fastener business and to the distribution industry in general, due to our strong industrial vending program. However, this business was not immune to the impact of a weak industrial environment.

Our non-residential construction customers have historically represented 20% to 25% of our business. The daily sales growth rates to these customers, when compared to the same period in the prior year, were as follows:

|      | Q1  | Q2    | Q3     | Q4     | Annual |   |
|------|-----|-------|--------|--------|--------|---|
| 2015 | 6.2 | % 1.6 | % -1.7 | % -6.1 | % -0.2 | % |
| 2014 | 2.9 | % 7.5 | % 9.3  | % 12.6 | % 7.8  | % |
| 2013 | 2.9 | % 0.7 | % 3.9  | % 2.8  | % 2.5  | % |

Our non-residential construction business is heavily influenced by the industrial economy, particularly the energy sector. The volatility and weakness of energy prices has weakened this business, particularly in the last three quarters. A graph of the sequential daily sales trends to these two end markets in 2015, 2014, and 2013, starting with a base of '100' in the previous October and ending with the next October, would be as follows:

## Manufacturing

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Non-Residential Construction

GROWTH DRIVERS OF OUR BUSINESS

Note – Dollar amounts in this section are presented in whole dollars, not thousands.

We grow by continuously adding customers and by increasing the activity with each customer. We believe this growth is enhanced by great people located in close proximity to our customers. This allows us to provide a range of services and product availability that our competitors can't easily match. Historically, we expanded our reach by opening stores at a very fast pace. These openings were initially in the United States and expanded beyond the United States beginning in the mid 1990's.

For a little perspective, we began our business in 1967 with an idea to sell nuts and bolts (fasteners) through vending machines. We soon learned the technology of the 1960's wasn't ready, and also learned a lot of products didn't fit, so we went to 'Plan B': sell to business users with a direct sales force. It took us a number of years to 'work out the bugs', but ten years later we began to pick up the pace of store openings. After another ten years of expansion we had approximately 50 stores and sales of about \$20 million. Our need for cash to fund our growth was growing, as was our desire to allow employee ownership. This led us to a public offering in 1987.

In our first ten years of being public (1987 to 1997), we opened stores at an annual rate approaching 30% per year. In the next ten years (1997 to 2007), we opened stores at an annual rate of approximately 10% to 15% and, since 2007, at an annual rate of approximately 1% to 8%. We opened 24 stores in 2014, at an annual rate of approximately 1%, and 41 stores in 2015, at an annual rate of approximately 2%. Our preliminary estimate for 2016 is to open 60 to 75 stores, which is an annual rate of approximately 2% to 3%.

During our almost 50 years of business existence, we have constantly evolved to better serve the market (as is described in the paragraphs below) and have always been willing to challenge our approach. In our first 20 to 25 years, we closed several store locations because we felt the market was insufficient to operate a profitable 'fastener only' business. Every one of those locations was subsequently 'reopened' when our business model evolved to serve these markets profitably. During the last 20 to 25 years, we have enjoyed continued success with our store-based model, but we continue to challenge our approach. This resulted in our closing approximately 85 stores in the ten years prior to 2014 - not because they weren't successful, but rather because we felt we had a better approach to growth. During 2014, we continued to challenge our approach and closed 73 stores. Several items we think are noteworthy: the group of stores we identified for closure in the second half of 2014 was profitable in the first quarter of 2014 (our 2014 analysis measurement period); those stores operated with average sales of about \$36 thousand per month. We chose to close this group because we felt this was simply a better approach to growing our business profitably. During 2015, we closed 50 stores. Similar to 2014, we chose to close this group of stores because we felt this was

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simply a better approach. During the third quarter of 2014 (our 2015 analysis measurement period), 35 of these 50 stores were profitable.

There is a short-term price for closing these stores; and, since we believe we will maintain the vast majority of the sales associated with these locations and most of the impacted employees have a nearby store from which to operate, the price primarily relates to the future commitments related to the leased locations. We have recorded the impaired future costs related to these commitments. The related expense was not material as these locations have relatively short lease commitments and minimal leasehold improvements. We use the term closed; however, we consider them to be consolidated into another location since the vast majority are in close proximity to another store.

During the years, our expanding footprint has provided us with greater access to more customers, and we have continued to diversify our growth drivers. This was done to provide existing store personnel with more tools to grow their business organically, and the results of this are reflected in our earlier discussion on sales growth at stores opened greater than five years. In the early 1990's, we began to expand our product lines beyond primarily fasteners, and we added new product knowledge to our bench (the non-fastener products now represent about 60% of our sales). This was our first big effort to diversify our growth drivers. The next step began in the mid to late 1990's when we began to add sales personnel with certain specialties or focus. This began with our National Accounts group in 1995, and over time, has expanded to include individuals dedicated to: (1) sales related to our internal manufacturing division, (2) government sales, (3) internet sales, (4) construction, (5) specific products (most recently metalworking), and (6) industrial vending. Another step occurred at our sales locations (this includes Fastenal stores as well as strategic account stores and Onsite locations) and at our distribution centers, and began with a targeted merchandising and inventory placement strategy that included our 'Customer Service Project' approximately thirteen years ago and our 'Master Stocking Hub' initiative approximately eight years ago. These strategies allowed us to better target where to stock certain products (local store, regional distribution center, master stocking hub, or supplier) and allowed us to improve our fulfillment, lower our freight costs, and improve our ability to serve a broader range of customers. During 2013 and 2014, we expanded our store-based inventory offering around select industries (with an emphasis on fasteners, construction products, and safety products) and beginning in the latter half of 2013 we expanded two key employee groups: (1) the number of employees working in our stores and (2) the number of district and regional leaders supporting our stores. To improve the efficiency, accuracy, and capacity of our distribution centers, we made significant investments into distribution automation over the last several years (a majority of our facilities are now automated, and greater than 80% of our picking occurs at an automated distribution center). Finally, we also added a high frequency distribution center, internally known as T-hub, to support vending and other high frequency selling activities. During 2015, we continued to enhance the technology in our automated distribution centers, and sharpened our focus on growing our Onsite business. In the fourth quarter of 2015, we also began further expansion of our store-based inventory offering (CSP 16). This merchandising footprint involves expanded inventory placement at our store locations to enhance same-day delivery capabilities. The theme that shines through in all these changes is a simple one – invest into and support our sales machine – the local store.

Over the last several years, our industrial vending operation has been an expanding component of our store-based business. We believe industrial vending will be an important chapter in the Fastenal story; we also believe it has the potential to be transformative to industrial distribution, and that we have a 'first mover' advantage. Given this, we have been investing aggressively to maximize the advantage.

Our expanded industrial vending portfolio consists of 20 different vending devices, with the FAST 5000 device, our helix based machine (think candy machine), representing approximately 40% of the installed machines. We have learned much about these devices over the last several years and currently have target monthly revenue ranging from under \$1,000 to in excess of \$3,000 per device. The following two tables provide two views of our data: (1) actual device count regardless of the type of machine and (2) 'machine equivalent' count based on the weighted target monthly revenue of each device (compared to the FAST 5000 device, which has a \$2,000 monthly revenue target). For example, the 12-door locker, with target monthly revenue of \$750, would be counted as '0.375 machine equivalent' ( $0.375 = \$750/\$2,000$ ).





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The industrial vending information related to contracts signed during each period was as follows:

|   |      | Q1    | Q2    | Q3    | Q4    | Annual |
|---|------|-------|-------|-------|-------|--------|
| Device count signed during the period               | 2015 | 3,962 | 5,144 | 4,689 | 4,016 | 17,811 |
|   | 2014 | 4,025 | 4,137 | 4,072 | 4,108 | 16,342 |
|   | 2013 | 6,568 | 6,084 | 4,836 | 4,226 | 21,714 |
| 'Machine equivalent' count signed during the period | 2015 | 2,916 | 3,931 | 3,769 | 3,319 | 13,935 |
|   | 2014 | 2,974 | 3,179 | 3,189 | 3,243 | 12,585 |
|   | 2013 | 4,825 | 4,505 | 3,656 | 3,244 | 16,230 |

The industrial vending information related to installed machines at the end of each period was as follows:

|   |      | Q1     | Q2     | Q3     | Q4     |
|---|------|--------|--------|--------|--------|
| Device count installed at the end of the period               | 2015 | 48,545 | 50,620 | 53,547 | 55,510 |
|   | 2014 | 42,153 | 43,761 | 45,596 | 46,855 |
|   | 2013 | 32,007 | 36,452 | 39,180 | 40,775 |
| 'Machine equivalent' count installed at the end of the period | 2015 | 35,997 | 37,714 | 40,067 | 41,905 |
|   | 2014 | 30,326 | 31,713 | 33,296 | 34,529 |
|   | 2013 | 22,020 | 25,512 | 27,818 | 29,262 |

The following table includes some additional statistics regarding our sales and sales growth:

|  |      | Q1   | Q2     | Q3     | Q4     |   |
|--|------|------|--------|--------|--------|---|
| Percent of total net sales to customers with industrial vending <sup>(1)</sup> | 2015 | 40.5 | % 40.9 | % 42.1 | % 43.9 | % |
|  | 2014 | 37.8 | % 37.0 | % 37.8 | % 39.3 | % |
|  | 2013 | 27.5 | % 30.0 | % 33.3 | % 36.6 | % |
| Daily sales growth to customers with industrial vending <sup>(2)</sup>         | 2015 | 12.3 | % 8.6  | % 4.8  | % 0.7  | % |
|  | 2014 | 19.7 | % 20.9 | % 21.9 | % 20.0 | % |
|  | 2013 | 23.9 | % 18.9 | % 15.2 | % 18.7 | % |

<sup>(1)</sup> The percentage of total sales (vended and traditional) to customers currently using a vending solution.

<sup>(2)</sup> The growth in total sales (vended and traditional) to customers currently using a vending solution compared to the same period in the preceding year.

Our total daily sales growth to customers with industrial vending declined during 2015, which was primarily the result of the slowdown in our business with customers connected to the oil and gas industry, including direct industry participants as well as other customers serving those participants. To put this into perspective, in the third quarter of 2015, daily sales to customers with vending grew 4.8% over the third quarter of 2014; however, daily sales of non-fastener products to customers with vending grew approximately 8%, while daily sales of fasteners to customers with vending contracted approximately 3%. Further, in the fourth quarter of 2015, daily sales to customers with vending grew 0.7% over the fourth quarter of 2014; however, daily sales of non-fastener products to customers with vending grew approximately 4%, while daily sales of fasteners to customers with vending contracted approximately 8%.

In addition to the industrial vending operation noted above, which primarily relates to our non-fastener business, we also provide bin stock programs (also known as 'keep fill' programs in the industry) to numerous customers. This business, which relates to both our maintenance customers (MRO fasteners and non-fasteners) and original equipment manufacturers (OEM fasteners), has many similar attributes to our industrial vending relationships. These attributes include a strong relationship with these customers, where we are often their preferred supplier, and a frequent level of business transactions. This business is performed without the aid of a vending machine, but does make use of the latest scanning technologies, scale systems, and our fully integrated distribution network to manage the supply chain for all sizes of customers. In recent years, we have begun to refer to this business as FMI (Fastenal Managed Inventory).



Table of Contents**PROFIT DRIVERS OF OUR BUSINESS**

As we state several times in this document, profit is important to us. For a distribution business profit and cash flow go hand in hand, and this cash flow funds our growth; creates value for our customers, our employees, our suppliers, and our shareholders; and provides us with short-term and long-term flexibility. Over time, we grow our profits by continuously working to grow sales and to improve our relative profitability. We achieve our improvements in relative profitability by improving our relative gross profit, by structurally lowering our operating and administrative expenses, or both.

We also grow our profits by allowing our inherent profitability to shine through - we refer to this as the 'pathway to profit'. The distinction is important. The 'pathway to profit' to which we refer is merely the natural 'per store' leverage that occurs as the average net sales per month of a store increases. There are two diverging trends that occur as a store grows; first, the gross profit percentage at a store generally declines and, second, our operating and administrative expenses as a percentage of net sales generally improve. The expense improvement starts on day one, the gross profit percentage decline typically occurs when the average sales at a store move above \$100 thousand per month.

Fortunately, the expense improvements typically far outweigh the gross profit percentage declines.

The best way to appreciate this dynamic is to look at the cost components of our business. The cost components of a store include the following: (1) cost of sales and (2) operating and administrative expenses. The operating and administrative expenses can be further split into (listed by relative size): (1) people costs (base pay, incentive pay, benefits, training, and payroll related taxes), (2) occupancy costs (facility expenses such as rent, property taxes, repairs, and depreciation on owned facilities, as well as utility costs, equipment expenses, and vending machine related expenses), and (3) 'all other' expenses. The largest component of the last category is the vehicles needed in each store to support selling activities.

The first component, costs of sales, is directly related to sales and fluctuations in sales. However, it is also heavily influenced by product and customer mix. Because of this influence, our gross profit (the residual of net sales after deducting the related cost of sales), when stated as a percentage of net sales, generally declines as the average monthly net sales of a store increases. This is due to the mix impact of larger customers.

The second component, operating and administrative expenses, does just the opposite, it generally improves as a percentage of net sales. This is due to the fixed nature of our 'open for business' expenses and the attractive incremental profit margin typically realized in our remaining variable expenses. The 'open for business' expenses are the expenses needed to 'just keep the front door open', and they relate to a base staffing level, a base facility cost, and base vehicle costs. These expenses do not generate a profit; however, they create the opportunity for future sales growth that will generate profits. This drives our 'pathway to profit'.

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

|  | Twelve-month Period |         |         |   |
|--|---------------------|---------|---------|---|
|  | 2015                | 2014    | 2013    |   |
| Net sales                              | 100.0               | % 100.0 | % 100.0 | % |
| Gross profit                           | 50.4                | % 50.8  | % 51.7  | % |
| Operating and administrative expenses  | 29.0                | % 29.8  | % 30.3  | % |
| Gain on sale of property and equipment | 0.0                 | % 0.0   | % 0.0   | % |
| Operating income                       | 21.4                | % 21.1  | % 21.4  | % |
| Net interest income (expense)          | -0.1                | % 0.0   | % 0.0   | % |
| Earnings before income taxes           | 21.3                | % 21.1  | % 21.5  | % |

Note – Amounts may not foot due to rounding difference.

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

|      | Q1   | Q2     | Q3     | Q4     |   |
|------|------|--------|--------|--------|---|
| 2015 | 50.8 | % 50.3 | % 50.5 | % 49.9 | % |
| 2014 | 51.2 | % 50.8 | % 50.8 | % 50.5 | % |
| 2013 | 52.3 | % 52.2 | % 51.7 | % 50.6 | % |

Over the last several years our gross profit has fluctuated due to our mix of store sizes, customer sizes, products, geographies, end markets, and end market uses (such as industrial production business versus maintenance business). We have previously indicated a short-term expectation for gross profit of around 51%; however, we would expect this percentage to decline over time as our average store size grows (see discussion earlier under 'Profit Drivers of our Business' and below). As stated below,

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this structural gross profit change centers primarily on customer mix and, to a lesser degree, product mix. However, as discussed in the operating and administrative expenses section below, we would expect this structural change to improve operating and administrative expenses as a percentage of net sales.

Ignoring the long-term trend just noted, our short-term gross profit percentages historically fluctuate due to impacts related to (1) transactional gross profit (either related to product and customer mix or to freight), (2) organizational gross profit (sourcing strength that can occur as we leverage buying scale and efficiency), and (3) supplier incentive gross profit (impacts from supplier volume allowances). In the short-term, periods of inflation or deflation can influence the first two categories, while sudden changes in business volume can influence the third. The transactional gross profit, our most meaningful component, is heavily influenced by our store-based compensation programs, which are directly linked to sales growth and gross profit, and incentivize our employees to improve both.

An important aspect of our gross profit relates to our locations, our product mix, and our customer mix. Given the close proximity of our sales personnel to our customer's business, we offer a very high service level with our sales, which is valued by our customers and improves our gross profit. Fasteners are our highest gross profit product line given the high transaction cost surrounding the sourcing and supply of the product for our customers. Fasteners currently account for approximately 40% of our sales. We expect any reduction in the mix of our sales attributable to fasteners to negatively impact gross profit, particularly as it relates to maintenance fasteners. Gross profit is also influenced by average store sales as noted earlier in this document. Larger stores have larger customers, whose more focused buying patterns allow us to offer them better pricing. As a result, growth in average store sales is expected to negatively impact gross profit. A final item of note, our fourth quarter has typically been the season with the most challenges surrounding gross profit. This relates to the decline in sales in November and December due to the 'holiday season' and due to the drop off in non-residential construction business. This drop off in sales reduces the utilization of our trucking network and can slightly reduce our gross profit.

During 2015, our gross profit, as a percentage of net sales, decreased when compared to 2014. This decrease centered on transactional impacts driven by changes in product and customer mix. Our gross profit, as a percentage of net sales, also decreased in the fourth quarter of 2015 when compared to the fourth quarter of 2014. We saw a noticeable squeezing of discretionary spending by our customers in November and December of 2015, which produced a noticeable drop in sales of less frequently purchased products. This resulted in all of the drop in gross profit when compared to the third quarter of 2015, and substantially all of the change from the fourth quarter of 2014.

During 2014, our gross profit dropped below 51%. The drop generally centered on transactional impacts driven by product and customer mix and our strong emphasis on growing average store sales.

Operating and administrative expenses - as a percentage of sales improved from 2014 to 2015.

Historically, our two largest components of operating and administrative expenses have consisted of employee related expenses (approximately 65% to 70%) and occupancy related expenses (approximately 15% to 20%). The remaining expenses cover a variety of items with selling transportation typically being the largest.

The three largest components of operating and administrative expenses grew (or contracted) as follows for the periods ended December 31 (compared to the same periods in the preceding year):

|                              | Twelve-month Period |   |      |   |      |   |
|------------------------------|---------------------|---|------|---|------|---|
|                              | 2015                |   | 2014 |   | 2013 |   |
| Employee related expenses    | 0.7                 | % | 11.7 | % | 4.6  | % |
| Occupancy related expenses   | 7.4                 | % | 6.9  | % | 11.2 | % |
| Selling transportation costs | -13.1               | % | 10.1 | % | 0.8  | % |

Employee related expenses include: (1) payroll (which includes cash compensation, stock option expense, and profit sharing), (2) health care, (3) personnel development, and (4) social taxes. The slight increase in 2015, when compared to 2014, was caused by increases in full-time equivalent headcount (see table below) and growth in our profit sharing contribution, primarily due to our expanding growth in operating income. Offsetting factors included lower performance bonuses and commissions due to the decrease in our gross profit percentage, and a focused reduction in overtime hours paid. The increase in 2014, when compared to 2013, was driven by (1) an increase in performance bonuses and commissions due to our expanding sales growth from the past year, (2) a contraction in profit sharing contribution due to lower relative profitability, and (3) an increase in health care costs. These factors, combined with

an increase in full-time equivalent headcount (see table below), caused employee related costs to grow.

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On average, the full-time equivalent (FTE) headcount grew as follows (compared to the same period in the preceding years):

|                                | Twelve-month Period |   |      |   |      |
|--------------------------------|---------------------|---|------|---|------|
|                                | 2015                |   | 2014 |   | 2013 |
| Store based                    | 6.2                 | % | 12.5 | % | 2.3  |
| Total selling (includes store) | 6.1                 | % | 12.3 | % | 3.3  |
| Distribution                   | 6.1                 | % | 11.5 | % | 4.3  |
| Manufacturing                  | 0.1                 | % | 10.7 | % | 6.0  |
| Administrative                 | 6.7                 | % | 8.9  | % | 7.1  |
| Total average FTE headcount    | 5.9                 | % | 11.9 | % | 3.8  |

Occupancy related expenses include: (1) building rent and depreciation, (2) building utility costs, (3) equipment related to our stores and distribution locations, and (4) industrial vending equipment (we consider the vending equipment to be a logical extension of our store operation and classify the expense as occupancy). The increase in 2015, when compared to 2014, was driven by (1) an increase in the amount of industrial vending equipment as discussed earlier in this document, and (2) an increased investment in our distribution infrastructure over the last several years, primarily related to automation. The increase in 2014, when compared to 2013, was driven by (1) an increase in the amount of industrial vending equipment as discussed earlier in this document, (2) an increase in building utility cost due to a severe winter in January and February 2014 and increases in natural gas prices during the 2014 heating season, (3) an increased investment in our distribution infrastructure over the last several years, primarily related to automation, and (4) an accrual related to store closings. In 2015 and 2014, the industrial vending component represented approximately 42% and 45%, respectively, of the increase.

Our selling transportation costs consist primarily of our store fleet as most of the distribution fleet costs are included in cost of sales. Selling transportation costs included in operating and administrative expenses contracted in 2015, when compared to 2014. This was driven by the decline in fuel costs (see discussion below). The growth in selling transportation costs included in operating and administrative expenses in 2014, when compared to 2013, was driven by the increase in store headcount and by a reduction in mileage per gallon associated with severe winter driving conditions.

The last several years have seen some variation in the cost of diesel fuel and gasoline. During the first, second, third, and fourth quarters of 2015, our total vehicle fuel costs were approximately \$8.8 million, \$9.1 million, \$8.6 million, and \$7.8 million, respectively. During the first, second, third, and fourth quarters of 2014, our total vehicle fuel costs were approximately \$11.9 million, \$12.5 million, \$11.5 million, and \$9.5 million, respectively. The changes resulted from variations in fuel costs, variations in the service levels provided to our stores from our distribution centers, changes in the number of vehicles at our store locations, changes in the number of other sales centered vehicles as a result of store openings and the expansion of our non-store sales force, and changes in driving conditions. These fuel costs include the fuel utilized in our distribution vehicles (semi-tractors, straight trucks, and sprinter trucks) which is recorded in cost of sales and the fuel utilized in our store delivery and other sales centered vehicles which is included in operating and administrative expenses (the split in the last several years has been approximately 50:50 between distribution and store and other sales centered use).

Income taxes – Income taxes, as a percentage of earnings before income taxes, were approximately 37.5%, 37.2%, and 37.1% for 2015, 2014, and 2013, respectively. The increase in our income tax rate from 2014 to 2015 was driven by an increase in valuation allowances on deferred tax assets and changes in the reserve for uncertain tax positions. Our income tax rate increased slightly from 2013 to 2014. As our international business and profits grew the past several years, the lower income tax rates in those jurisdictions, relative to the United States, have lowered our effective tax rate.

Net earnings – Net earnings, net earnings per share (EPS), percentage change in net earnings, and the percentage change in EPS, were as follows:

| Dollar Amounts | 2015      | 2014    | 2013    |
|----------------|-----------|---------|---------|
| Net earnings   | \$516,361 | 494,150 | 448,636 |
| Basic EPS      | 1.77      | 1.67    | 1.51    |



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|                   |      |        |       |   |  |
|-------------------|------|--------|-------|---|--|
| Diluted EPS       | 1.77 | 1.66   | 1.51  |   |  |
| Percentage Change | 2015 | 2014   | 2013  |   |  |
| Net earnings      | 4.5  | % 10.1 | % 6.7 | % |  |
| Basic EPS         | 6.0  | % 10.6 | % 6.3 | % |  |
| Diluted EPS       | 6.6  | % 9.9  | % 6.3 | % |  |

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During 2015, the net earnings increase was greater than that of sales primarily due to the effective management of operating expenses. During 2014, the net earnings increase was less than that of sales primarily due to the reduction in the gross profit percent realized. During 2013, the net earnings increase was greater than that of sales primarily due to the expansion in the gross profit percent realized and a slightly lower income tax rate.

**CASH FLOW IMPACT ITEMS**

Operational working capital – Operational working capital, which we define as accounts receivable, net and inventories, are highlighted below. The annual dollar change and the annual percentage change were as follows:

|                             |          |         |   |  |
|-----------------------------|----------|---------|---|--|
| Dollar change               | 2015     | 2014    |   |  |
| Accounts receivable, net    | \$6,298  | 47,746  |   |  |
| Inventories                 | 44,039   | 85,156  |   |  |
| Operational working capital | \$50,337 | 132,902 |   |  |
| Annual percentage change    | 2015     | 2014    |   |  |
| Accounts receivable, net    | 1.4      | % 11.5  | % |  |
| Inventories                 | 5.1      | % 10.9  | % |  |
| Operational working capital | 3.8      | % 11.1  | % |  |

The growth in net accounts receivable noted above was comparative to our sales growth in the final two months of the year. The strong growth in recent years with our international business and of our large customer accounts has created some difficulty with managing the growth of accounts receivable relative to the growth in sales.

Our growth in inventory balances over time does not have as direct a relationship to our monthly sales patterns as does our growth in accounts receivable. This is impacted by other aspects of our business. For example, the dramatic economic slowdown in late 2008 and early 2009 caused our inventory to spike. This occurred because the lead time for inventory procurement is typically longer than the visibility we have into future monthly sales patterns. Over the last decade, we increased our relative inventory levels due to the following: (1) new store openings, (2) expanded stocking breadth at distribution centers (for example, our master stocking hub in Indianapolis expanded its product breadth over six fold from 2005 to 2011), (3) expanded direct sourcing, (4) expanded Fastenal brands (private label), (5) expanded industrial vending solutions, (6) national accounts growth, (7) international growth, and (8) expanded stocking breadth at individual stores. While all of these items impacted both 2015 and 2014, items (3) through (8) had the greatest impact.

The approximate percentage mix of inventory stocked at our stores versus our distribution center locations was as follows at year end:

|                     |      |       |       |   |
|---------------------|------|-------|-------|---|
|                     | 2015 | 2014  | 2013  |   |
| Store               | 61   | % 56  | % 58  | % |
| Distribution center | 39   | % 44  | % 42  | % |
| Total               | 100  | % 100 | % 100 | % |

New stores open with the standard store model (CSP 16), which consists of a core stocking level of approximately \$60 thousand per location. This inventory level grows as the level of business in a store grows. In the fourth quarter of 2015, we began expanding the inventory offering at our existing store locations to the CSP 16 format.

As we indicated in earlier communications, our goal is to target a ratio of annual sales to accounts receivable and inventory (Annual Sales: AR&I) of approximately a 3.0:1 ratio. On December 31, 2015 and 2014, we had a ratio of 2.8:1.

Acquisition – On October 31, 2015 we acquired certain assets of Fasteners, Inc., a regional industrial and construction supply distributor with store locations in the states of Washington, Idaho, Oregon, and Montana. The business did not have a material impact on our 2015 operating results although the all-cash acquisition had some impact on our current assets and cash flow. The acquisition is not expected to have a material impact on our overall net sales in 2016.



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## Liquidity and Capital Resources:

Net cash provided by operating activities — Net cash provided by operating activities in dollars and as a percentage of net earnings were as follows:

|                   | 2015      | 2014    | 2013    |   |
|-------------------|-----------|---------|---------|---|
| Net cash provided | \$546,940 | 499,392 | 416,120 |   |
| % of net earnings | 105.9     | % 101.1 | % 92.8  | % |

In 2015, the increase in the net cash provided by operating activities was driven by growth in net earnings, and a decrease in the cash required to fund our net working capital, which includes accounts receivable and inventory changes. This was partially offset by an increase in cash paid for income taxes. In 2014, the increase in the net cash provided by operating activities was primarily due to increases in net earnings.

Net cash used in investing activities — Net cash used in investing activities in dollars and as a percentage of net earnings were as follows:

|                   | 2015      | 2014    | 2013    |   |
|-------------------|-----------|---------|---------|---|
| Net cash used     | \$180,627 | 188,781 | 201,792 |   |
| % of net earnings | 35.0      | % 38.2  | % 45.0  | % |

The changes in net cash used in investing activities were primarily related to changes in our net capital expenditures as discussed below and cash paid for acquisitions in 2015 and 2014.

Net capital expenditures (purchases of property and equipment, less proceeds from the sale of property and equipment) in dollars and as a percentage of net earnings were as follows:

|                          | 2015      | 2014    | 2013    |   |
|--------------------------|-----------|---------|---------|---|
| Net capital expenditures | \$145,227 | 183,655 | 201,550 |   |
| % of net earnings        | 28.1      | % 37.2  | % 44.9  | % |

Our net capital expenditures decreased in both 2015 and 2014. This was largely related to the completion of distribution automation projects in process during 2014 and 2013.

Property and equipment expenditures in 2015, 2014, and 2013 consist of: (1) purchase of software and hardware for Fastenal's information processing systems, (2) addition of certain pickup trucks, (3) purchase of signage, shelving, and other fixed assets related to store openings, (4) addition of manufacturing and warehouse equipment, (5) expansion or improvement of certain owned or leased store properties, (6) expansion of Fastenal's distribution/trucking fleet, (7) purchases related to industrial vending, which primarily consists of automated vending equipment and construction of a new centralized distribution facility (2014 and 2013), and (8) costs related to enhancements to distribution centers with existing automation (2015, 2014, and 2013), and the expansion of our distribution centers in High Point, North Carolina (2015), Modesto, California (2014), Scranton, Pennsylvania (2014 and 2013), Kitchener, Ontario, Canada (2014 and 2013), Akron, Ohio (2013), Atlanta, Georgia (2013), and Indianapolis, Indiana (2013). Disposals of property and equipment consist of the planned disposition of certain pick-up trucks, semi-tractors, and trailers in the normal course of business, and the disposition of real estate relating to several store locations (2015, 2014, and 2013) and a distribution center (2015).

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Set forth below is an estimate of our 2016 net capital expenditures and a recap of our 2015, 2014, and 2013 net capital expenditures.

|  | 2016<br>(Estimate) | 2015<br>(Actual) | 2014<br>(Actual) | 2013<br>(Actual) |
|--|--------------------|------------------|------------------|------------------|
| Net Capital Expenditures   |                    |                  |                  |                  |
| Manufacturing, warehouse and packaging equipment, industrial vending equipment, and facilities | \$66,000           | 112,460          | 144,649          | 164,940          |
| Shelving and related supplies for store openings and for product expansion at existing stores  | 22,000             | 8,958            | 6,712            | 6,354            |
| Data processing software and equipment   | 24,000             | 19,653           | 23,978           | 12,652           |
| Real estate and improvements to store locations  | 5,000              | 4,247            | 4,091            | 9,603            |
| Vehicles   | 18,000             | 9,850            | 10,044           | 12,991           |
| Proceeds from sale of property and equipment   | (7,000 )           | (9,941 )         | (5,819 )         | (4,990 )         |
|  | \$128,000          | 145,227          | 183,655          | 201,550          |

We anticipate funding our current expansion plans with cash generated from operations, from available cash and cash equivalents, and from our borrowing capacity. Because of the considerable cash needed to expand our industrial vending business, to increase the use of automation in our distribution centers, and to fund purchases of our common stock and dividends, we increased our borrowing under our \$700,000 unsecured revolving credit facility. The credit facility has an expiration date of March 1, 2018.

The borrowings under the credit facility peaked during each quarter as follows:

|                 | 2015    | 2014    |
|-----------------|---------|---------|
| Peak borrowings |         |         |
| First quarter   | 185,000 | 85,000  |
| Second quarter  | 400,000 | 115,000 |
| Third quarter   | 395,000 | 160,000 |
| Fourth quarter  | 390,000 | 155,000 |

As of December 31, 2015, we had loans outstanding under the credit facility of \$350,000 and undrawn letters of credit outstanding under the credit facility in an aggregate face amount of \$36,266.

We have future commitments for facilities and equipment and for vehicles at year end. The facility and vehicle amounts primarily consist of future payments under operating leases. The expected future cash obligations related to the commitments are as follows:

|                          | Total     | 2016    | 2017 and<br>2018 | 2019 and<br>2020 | After<br>2020 |
|--------------------------|-----------|---------|------------------|------------------|---------------|
| Facilities and equipment | \$247,128 | 95,789  | 113,782          | 35,978           | 1,579         |
| Vehicles                 | 54,581    | 27,599  | 25,540           | 1,442            | —             |
| Total                    | \$301,709 | 123,388 | 139,322          | 37,420           | 1,579         |

Net cash used in financing activities – Net cash used in financing activities in dollars and as a percentage of net earnings were as follows:

|                   | 2015      | 2014    | 2013    |   |
|-------------------|-----------|---------|---------|---|
| Net cash used     | \$337,563 | 249,732 | 234,443 |   |
| % of net earnings | 65.4      | % 50.5  | % 52.3  | % |

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The fluctuations in net cash used in financing activities are due to changes in the level of our dividend payments and in the level of common stock purchases. These amounts were partially offset by the exercise of stock options and the related tax impact, and net borrowings under the credit facility. These items in dollars and as a percentage of earnings were as follows:

|   |             |          |          |   |
|---|-------------|----------|----------|---|
|   | 2015        | 2014     | 2013     |   |
| Dividends paid  | \$327,101   | 296,581  | 237,456  |   |
| % of net earnings   | 63.3        | % 60.0   | % 52.9   | % |
| Common stock purchases  | 292,951     | 52,942   | 9,080    |   |
| % of net earnings   | 56.7        | % 10.7   | % 2.0    | % |
| Total returned to shareholders  | \$620,052   | 349,523  | 246,536  |   |
| % of net earnings   | 120.1       | % 70.7   | % 54.9   | % |
| Proceeds from the exercise of stock options and the related excess tax benefits from stock-based compensation | \$(22,489)  | (9,791)  | (12,093) |   |
| % of net earnings   | -4.4        | % -2.0   | % -2.6   | % |
| Cash borrowings, net  | \$(260,000) | (90,000) | —        |   |
| % of net earnings   | -50.4       | % -18.2  | % —      | % |
| Net cash used   | \$337,563   | 249,732  | 234,443  |   |
| % of net earnings   | 65.4        | % 50.5   | % 52.3   | % |

Cash Commitments – The portion of debt outstanding under our credit facility classified as long-term, and the maturity of that debt, is described later in Note 9 of the Notes to Consolidated Financial Statements.

Unremitted Foreign Earnings – Approximately \$94,000 of cash and cash equivalents are held by non-U.S. subsidiaries. These funds may create foreign currency translation gains or losses depending on the functional currency of the entity holding the cash. There are no significant restrictions that would preclude us from bringing the majority of these funds back to the U.S. The income tax impact of repatriating cash associated with certain undistributed earnings is discussed in Note 6 of the Notes to Consolidated Financial Statements.

Stock Purchases — During 2015, we purchased 7,100,000 shares of our common stock at an average price of approximately \$41.26 per share. During 2014, we purchased 1,200,000 shares of our common stock at an average price of approximately \$44.12 per share. During 2013, we purchased 200,000 shares of our common stock at an average price of approximately \$45.40 per share.

Dividends — We declared a quarterly dividend of \$0.30 per share on January 14, 2016. We paid aggregate annual dividends per share of \$1.12, \$1.00, and \$0.80 in 2015, 2014, and 2013, respectively.

Line of Credit — A description of our credit facility is contained in Note 9 of the Notes to Consolidated Financial Statements.

Effects of Inflation — We experienced some deflation in our fastener products and minimal price movements in our non-fastener products in 2015 and 2014, with the net impact being a slight drag on growth.

Critical Accounting Policies – Our accounting policies related to certain assets and liabilities are an integral part of our consolidated financial statements. These policies are considered critical because they require application of assumptions and judgments based on historical trends and the composition of account balances. Although we believe our reserves are adequate, the results could be materially different if our assumptions and historical trends do not reflect actual results.

Allowance for doubtful accounts – This reserve is for accounts receivable balances that are potentially uncollectible. The reserve is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. The analysis includes the aging of accounts receivable, the financial condition of a customer or industry,

and general economic conditions. Historically, results have reflected the reserves previously recorded.

Inventory reserves – The reserves are for potentially obsolete or excess inventory and shrinkage. The reserves are based on an analysis of inventory trends. The analysis includes inventory levels, sales information, physical inventory counts, cycle count adjustments, and the on-hand quantities relative to the sales history for the product. Historically, results have reflected the reserves previously recorded.

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Insurance reserves – These reserves are for general claims related to workers' compensation, property and casualty losses, health claims, and other self-insured losses. The reserves are based on an analysis of external data related to our historical claim trends. Historically, results have reflected the reserves previously recorded.

New Accounting Pronouncements

A description of new accounting pronouncements is contained in Note 12 of the Notes to Consolidated Financial Statements.

Geographic Information

Information regarding our revenues and long-lived assets by geographic area is contained in Note 7 of the Notes to Consolidated Financial Statements. Risks related to our foreign operations are described earlier in this Form 10-K under the heading 'Forward-Looking Statements' and 'Item 1A. Risk Factors'.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

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

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 year end.

Commodity steel pricing – We buy and sell various types of steel products; these products consist primarily of different types of threaded fasteners. In 2013, 2014, and 2015, we noted some deflation in overall steel pricing. We are exposed to the impacts of commodity steel pricing and our related ability to pass through the impacts to our end customers.

Commodity energy prices – We have market risk for changes in prices of gasoline, diesel fuel, natural gas, and electricity; however, this risk is mitigated in part by our ability to pass freight costs to our customers, the efficiency of our trucking distribution network, and the ability, over time, to manage our occupancy costs related to the heating and cooling of our facilities through better efficiency.

Interest rates - Loans under our credit facility bear interest at floating rates tied to LIBOR. As a result, changes in LIBOR can affect our operating results and liquidity to the extent we do not have effective interest rate swap arrangements in place. We have not historically used interest rate swap arrangements to hedge the variable interest rates under our credit facility. However, due to the relatively small size of our debt, we do not believe our operations are currently subject to significant market risk for interest rate exposure under the credit facility. A description of our credit facility is contained in Note 9 of the Notes to Consolidated Financial Statements.



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ITEM 8. FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Fastenal Company:

We have audited the accompanying consolidated balance sheets of Fastenal Company and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the table of contents at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Fastenal Company's management is responsible for these consolidated financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fastenal Company and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, Fastenal Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based

on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

/s/ KPMG LLP  
Minneapolis, Minnesota  
February 5, 2016

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## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Balance Sheets

(Amounts in thousands except share information)

|  | December 31 |           |
|--|-------------|-----------|
|  | 2015        | 2014      |
| Assets   |             |           |
| Current assets:  |             |           |
| Cash and cash equivalents  | \$129,019   | 114,496   |
| Trade accounts receivable, net of allowance for doubtful accounts of \$11,729 and \$12,619, respectively             | 468,375     | 462,077   |
| Inventories  | 913,263     | 869,224   |
| Deferred income tax assets   | —           | 21,765    |
| Prepaid income taxes   | 22,558      | —         |
| Other current assets   | 131,561     | 115,703   |
| Total current assets   | 1,664,776   | 1,583,265 |
| Property and equipment, net  | 818,889     | 763,889   |
| Other assets, net  | 48,797      | 11,948    |
| Total assets   | \$2,532,462 | 2,359,102 |
| Liabilities and Stockholders' Equity   |             |           |
| Current liabilities:   |             |           |
| Current portion of debt  | \$62,050    | 90,000    |
| Accounts payable   | 125,973     | 103,909   |
| Accrued expenses   | 185,143     | 174,002   |
| Income taxes payable   | —           | 7,442     |
| Total current liabilities  | 373,166     | 375,353   |
| Long-term debt   | 302,950     | —         |
| Deferred income tax liabilities  | 55,057      | 68,532    |
| Commitments and contingencies (Notes 4, 8, and 9)  |             |           |
| Stockholders' equity:  |             |           |
| Preferred stock, 5,000,000 shares authorized   | —           | —         |
| Common stock, 400,000,000 shares authorized, 289,581,682 and 295,867,844 shares issued and outstanding, respectively | 2,896       | 2,959     |
| Additional paid-in capital   | 2,024       | 33,744    |
| Retained earnings  | 1,842,772   | 1,886,350 |
| Accumulated other comprehensive (loss) income  | (46,403     | ) (7,836  |
| Total stockholders' equity   | 1,801,289   | 1,915,217 |
| Total liabilities and stockholders' equity   | \$2,532,462 | 2,359,102 |
| See accompanying Notes to Consolidated Financial Statements.   |             |           |

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## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Earnings

(Amounts in thousands except earnings per share)

For the year ended December 31

|   | 2015        | 2014      | 2013      |
|---|-------------|-----------|-----------|
| Net sales                                   | \$3,869,187 | 3,733,507 | 3,326,106 |
| Cost of sales                               | 1,920,253   | 1,836,105 | 1,606,661 |
| Gross profit                                | 1,948,934   | 1,897,402 | 1,719,445 |
| Operating and administrative expenses       | 1,121,590   | 1,110,776 | 1,007,431 |
| Gain on sale of property and equipment      | (1,411      | ) (964    | ) (643    |
| Operating income                            | 828,755     | 787,590   | 712,657   |
| Interest income                             | 373         | 759       | 924       |
| Interest expense                            | (3,108      | ) (915    | ) (113    |
| Earnings before income taxes                | 826,020     | 787,434   | 713,468   |
| Income tax expense                          | 309,659     | 293,284   | 264,832   |
| Net earnings                                | \$516,361   | 494,150   | 448,636   |
| Basic net earnings per share                | \$1.77      | 1.67      | 1.51      |
| Diluted net earnings per share              | \$1.77      | 1.66      | 1.51      |
| Basic weighted average shares outstanding   | 291,453     | 296,490   | 296,754   |
| Diluted weighted average shares outstanding | 292,045     | 297,313   | 297,684   |

See accompanying Notes to Consolidated Financial Statements.

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## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

(Amounts in thousands)

For the year ended December 31

|  | 2015      | 2014      | 2013     |
|--|-----------|-----------|----------|
| Net earnings   | \$516,361 | 494,150   | 448,636  |
| Other comprehensive (loss) income, net of tax:                                       |           |           |          |
| Foreign currency translation adjustments (net of tax of \$0 in 2015, 2014, and 2013) | (38,567 ) | (18,683 ) | (7,354 ) |
| Change in marketable securities (net of tax of \$0 in 2015, 2014, and 2013)          | —         | (254 )    | 98       |
| Comprehensive income   | \$477,794 | 475,213   | 441,380  |
| See accompanying Notes to Consolidated Financial Statements.                         |           |           |          |

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## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Stockholders' Equity

(Amounts in thousands)

|   | Common Stock |         |                            | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|--------------|---------|----------------------------|-------------------|---|----------------------------|
|   | Shares       | Amount  | Additional Paid-in Capital |                   |   |                            |
| Balance as of December 31, 2012                   | 296,564      | \$2,966 | 61,436                     | 1,477,601         | 18,357  | 1,560,360                  |
| Dividends paid in cash                            | —            | —       | —                          | (237,456 )        | —   | (237,456 )                 |
| Purchases of common stock                         | (200 )       | (2 )    | (9,078 )                   | —                 | —   | (9,080 )                   |
| Stock options exercised                           | 389          | 4       | 9,302                      | —                 | —   | 9,306                      |
| Stock-based compensation                          | —            | —       | 5,400                      | —                 | —   | 5,400                      |
| Excess tax benefits from stock-based compensation | —            | —       | 2,787                      | —                 | —   | 2,787                      |
| Net earnings                                      | —            | —       | —                          | 448,636           | —   | 448,636                    |
| Other comprehensive income (loss)                 | —            | —       | —                          | —                 | (7,256 )                                      | (7,256 )                   |
| Balance as of December 31, 2013                   | 296,753      | \$2,968 | 69,847                     | 1,688,781         | 11,101  | 1,772,697                  |
| Dividends paid in cash                            | —            | —       | —                          | (296,581 )        | —   | (296,581 )                 |
| Purchases of common stock                         | (1,200 )     | (12 )   | (52,930 )                  | —                 | —   | (52,942 )                  |
| Stock options exercised                           | 315          | 3       | 7,694                      | —                 | —   | 7,697                      |
| Stock-based compensation                          | —            | —       | 7,039                      | —                 | —   | 7,039                      |
| Excess tax benefits from stock-based compensation | —            | —       | 2,094                      | —                 | —   | 2,094                      |
| Net earnings                                      | —            | —       | —                          | 494,150           | —   | 494,150                    |
| Other comprehensive income (loss)                 | —            | —       | —                          | —                 | (18,937 )                                     | (18,937 )                  |
| Balance as of December 31, 2014                   | 295,868      | \$2,959 | 33,744                     | 1,886,350         | (7,836 )                                      | 1,915,217                  |
| Dividends paid in cash                            | —            | —       | —                          | (327,101 )        | —   | (327,101 )                 |
| Purchases of common stock                         | (7,100 )     | (71 )   | (60,042 )                  | (232,838 )        | —   | (292,951 )                 |
| Stock options exercised                           | 814          | 8       | 19,091                     | —                 | —   | 19,099                     |
| Stock-based compensation                          | —            | —       | 5,841                      | —                 | —   | 5,841                      |
| Excess tax benefits from stock-based compensation | —            | —       | 3,390                      | —                 | —   | 3,390                      |
| Net earnings                                      | —            | —       | —                          | 516,361           | —   | 516,361                    |
| Other comprehensive income (loss)                 | —            | —       | —                          | —                 | (38,567 )                                     | (38,567 )                  |
| Balance as of December 31, 2015                   | 289,582      | \$2,896 | 2,024                      | 1,842,772         | (46,403 )                                     | 1,801,289                  |

See accompanying Notes to Consolidated Financial Statements.

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## FASTENAL COMPANY AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Amounts in thousands)

For the year ended December 31

|  | 2015      | 2014       | 2013       |
|--|-----------|------------|------------|
| Cash flows from operating activities:  |           |            |            |
| Net earnings   | \$516,361 | 494,150    | 448,636    |
| Adjustments to reconcile net earnings to net cash provided by operating activities, net of acquisitions: |           |            |            |
| Depreciation of property and equipment   | 86,071    | 72,145     | 63,770     |
| Gain on sale of property and equipment   | (1,411)   | ) (964     | ) (643     |
| Bad debt expense   | 8,769     | 11,480     | 9,421      |
| Deferred income taxes  | 8,290     | 1,760      | 8,129      |
| Stock-based compensation   | 5,841     | 7,039      | 5,400      |
| Excess tax benefits from stock-based compensation  | (3,390)   | ) (2,094   | ) (2,787   |
| Amortization of non-compete agreements   | 527       | 527        | 421        |
| Changes in operating assets and liabilities, net of acquisitions:  |           |            |            |
| Trade accounts receivable  | (20,608   | ) (63,418  | ) (51,593  |
| Inventories  | (47,830   | ) (87,622  | ) (68,685  |
| Other current assets   | (15,778   | ) (7,510   | ) (10,627  |
| Accounts payable   | 20,617    | 12,501     | 13,234     |
| Accrued expenses   | 11,141    | 25,263     | 22,424     |
| Income taxes   | (26,610   | ) 34,405   | (14,714    |
| Other  | 4,950     | 1,730      | (6,266     |
| Net cash provided by operating activities  | 546,940   | 499,392    | 416,120    |
| Cash flows from investing activities:  |           |            |            |
| Purchases of property and equipment  | (155,168  | ) (189,474 | ) (206,540 |
| Cash paid for acquisitions   | (23,493   | ) (5,575   | ) —        |
| Proceeds from sale of property and equipment   | 9,941     | 5,819      | 4,990      |
| Net decrease (increase) in marketable securities   | —         | 451        | (97        |
| Other  | (11,907   | ) (2       | ) (145     |
| Net cash used in investing activities  | (180,627  | ) (188,781 | ) (201,792 |
| Cash flows from financing activities:  |           |            |            |
| Borrowings under credit facility   | 1,215,000 | 705,000    | 260,000    |
| Payments against credit facility   | (955,000  | ) (615,000 | ) (260,000 |
| Proceeds from exercise of stock options  | 19,099    | 7,697      | 9,306      |
| Excess tax benefits from stock-based compensation  | 3,390     | 2,094      | 2,787      |
| Purchases of common stock  | (292,951  | ) (52,942  | ) (9,080   |
| Payments of dividends  | (327,101  | ) (296,581 | ) (237,456 |
| Net cash used in financing activities  | (337,563  | ) (249,732 | ) (234,443 |
| Effect of exchange rate changes on cash and cash equivalents   | (14,227   | ) (4,889   | ) (990     |
| Net increase in cash and cash equivalents  | 14,523    | 55,990     | (21,105    |
| Cash and cash equivalents at beginning of year   | 114,496   | 58,506     | 79,611     |
| Cash and cash equivalents at end of year   | \$129,019 | 114,496    | 58,506     |
| Supplemental disclosure of cash flow information:  |           |            |            |
| Cash paid during each year for interest  | \$3,103   | 915        | 113        |
| Net cash paid during each year for income taxes  | \$327,034 | 257,514    | 270,615    |
| See accompanying Notes to Consolidated Financial Statements.   |           |            |            |





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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Business Overview and Summary of Significant Accounting Policies

Business Overview

Fastenal is a leader in the wholesale distribution of industrial and construction supplies operating a store-based business with approximately 2,600 locations. These locations are primarily in North America.

Principles of Consolidation

The consolidated financial statements include the accounts of Fastenal Company and its subsidiaries (collectively referred to as 'Fastenal' or by terms such as 'we', 'our', or 'us'). All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition and Accounts Receivable

Net sales include products, services, and shipping and handling charges billed, net of any related sales incentives, and net of an estimate for product returns. We recognize revenue when persuasive evidence of an arrangement exists, title and risk of ownership have passed, the sales price is fixed or determinable, and collectibility is reasonably assured. These criteria are met at the time the product is shipped to or picked up by the customer. We recognize services at the time the service is completed and product is provided to the customer. We recognize revenue for shipping and handling charges billed at the time the products are shipped to or picked up by the customer. We estimate product returns based on historical return rates. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. Sales taxes (and value added taxes in foreign jurisdictions) collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

Foreign Currency Translation and Transactions

The functional currency of our foreign operations is typically the applicable local currency. The functional currency is translated into United States dollars for balance sheet accounts, except retained earnings, using current exchange rates as of the balance sheet date, for retained earnings at historical exchange rates, and for revenue and expense accounts using a weighted average exchange rate during the period. The translation adjustments are deferred as a separate component of stockholders' equity captioned accumulated other comprehensive (loss) income. Gains or losses resulting from transactions denominated in foreign currencies are included in operating and administrative expenses.

Cash and Cash Equivalents

We consider all investments purchased with original maturities of three months or less to be cash equivalents.

Financial Instruments and Marketable Securities

All financial instruments are carried at amounts that approximate fair value. The fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. Assets measured at fair value are categorized based upon the lowest level of significant input to the valuations. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. In determining fair value we use observable market data when available. Due to the varying short-term cash needs of our business, we periodically have available-for-sale marketable securities. We did not have any marketable securities as of December 31, 2015 or December 31, 2014.

Available-for-sale securities are recorded at fair value based on current market value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings but are included in comprehensive income and are reported as a separate component of stockholders' equity until realized, unless a decline in the market value of any available-for-sale security is below cost, then the amount is deemed other than temporary and is charged to net earnings, resulting in the establishment of a new cost basis for the security.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Inventories

Inventories, consisting of finished goods merchandise held for resale, are stated at the lower of cost (first in, first out method) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation on property and equipment is provided for using the straight-line method over the anticipated economic useful lives of the related property. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by the asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There were no impairments recorded during any of the three years reported in these consolidated financial statements.

Leases

We lease space under operating leases for certain distribution centers, stores, and manufacturing locations. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Any such terms are recognized as rent expense over the term of the lease. Further, the leases do not contain contingent rent provisions. Leasehold improvements on operating leases are amortized over their estimated service lives on a straight-line basis, or the remaining lease term, whichever is shorter. We lease certain semi-tractors, pick-ups, and equipment under operating leases.

Other Long-Lived Assets

Other assets consist of prepaid deposits, goodwill, non-compete agreements, and other related intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is reviewed for impairment annually. The non-compete and related intangible assets are amortized on a straight-line basis over their estimated life.

Accounting Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Insurance Reserves

We are self-insured for certain losses relating to medical, dental, workers' compensation, and other casualty losses. Specific stop loss coverage is provided for catastrophic claims in order to limit exposure to significant claims. Losses and claims are charged to operations when it is probable a loss has been incurred and the amount can be reasonably estimated. Accrued insurance liabilities are based on claims filed but unpaid and estimates of claims incurred but not reported.

Product Warranties

We offer a basic limited warranty for certain of our products. The specific terms and conditions of those warranties vary depending upon the product sold. We typically recoup these costs through product warranties we hold with the original equipment manufacturers. Our warranty expense has historically been minimal.

Stock-Based Compensation

We estimate the value of stock option grants using a Black-Scholes valuation model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. Our stock-based compensation expense is recorded in operating and administrative expenses.

We report the benefits of tax deductions in excess of recognized stock-based compensation as cash flows from financing activities, thereby reducing net cash flows from operating activities and increasing net cash flows from financing activities.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

Earnings Per Share

Basic net earnings per share is calculated using net earnings available to common stockholders divided by the weighted average number of shares of common stock outstanding during the year. Diluted net earnings per share is similar to basic net earnings per share except that the weighted average number of shares of common stock outstanding includes the incremental shares assumed to be issued upon the exercise of stock options considered to be 'in-the-money' (i.e. when the market price of our stock is greater than the exercise price of our outstanding stock options).

Segment Reporting

We have determined that we meet the aggregation criteria outlined in the accounting standards as our various operations have similar (1) economic characteristics, (2) products and services, (3) customers, (4) distribution channels, and (5) regulatory environments. Therefore, we report as a single business segment.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 2. Long-Lived Assets

## Property and equipment

Property and equipment at year end consisted of the following:

|   | Depreciable Life<br>in Years | 2015      | 2014      |
|---|------------------------------|-----------|-----------|
| Land                                      | —                            | \$37,671  | 36,511    |
| Buildings and improvements                | 15 to 40                     | 271,302   | 224,365   |
| Automated storage and retrieval equipment | 5 to 30                      | 139,101   | 116,127   |
| Equipment and shelving                    | 3 to 10                      | 614,528   | 519,635   |
| Transportation equipment                  | 3 to 5                       | 61,429    | 59,459    |
| Construction in progress                  | —                            | 200,892   | 237,637   |
|   |                              | 1,324,923 | 1,193,734 |
| Less accumulated depreciation             |                              | (506,034) | (429,845) |
| Property and equipment, net               |                              | \$818,889 | 763,889   |

## Note 3. Accrued Expenses

Accrued expenses at year end consisted of the following:

|   | 2015      | 2014    |
|---|-----------|---------|
| Payroll and related taxes                       | \$24,407  | 21,928  |
| Bonuses and commissions                         | 15,441    | 20,910  |
| Profit sharing contribution                     | 13,669    | 11,460  |
| Insurance                                       | 31,821    | 31,137  |
| Promotions                                      | 25,261    | 23,224  |
| Sales, real estate, and personal property taxes | 66,563    | 58,716  |
| Deferred revenue                                | 2,875     | 3,125   |
| Legal reserves                                  | 1,930     | 1,684   |
| Other   | 3,176     | 1,818   |
| Accrued expenses                                | \$185,143 | 174,002 |

## Note 4. Stockholders' Equity

Our authorized, issued, and outstanding shares (stated in whole numbers) at year end consisted of the following:

|                               | Par Value    | 2015        | 2014        |
|-------------------------------|--------------|-------------|-------------|
| Preferred stock               | \$0.01/share |             |             |
| Shares authorized             |              | 5,000,000   | 5,000,000   |
| Shares issued and outstanding |              | —           | —           |
| Common stock                  | \$0.01/share |             |             |
| Shares authorized             |              | 400,000,000 | 400,000,000 |
| Shares issued and outstanding |              | 289,581,682 | 295,867,844 |
| Dividends                     |              |             |             |

On January 14, 2016, our board of directors declared a quarterly dividend of \$0.30 per share of common stock to be paid in cash on February 26, 2016 to shareholders of record at the close of business on January 29, 2016. We paid aggregate annual dividends per share of \$1.12, \$1.00, and \$0.80 in 2015, 2014, and 2013, respectively.



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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Stock Purchases

Subsequent to December 31, 2015, we have purchased 1,600,000 shares of our common stock at an average price of approximately \$37.15 per share.

## Stock Options

The following tables summarize the details of grants made under our stock option plan that are still outstanding, and the assumptions used to value these grants. All options granted were effective at the close of business on the date of grant.

| Date of Grant  | Options<br>Granted | Option Exercise<br>(Strike) Price | Closing Stock<br>Price on Date<br>of Grant | December 31, 2015      |                        |
|----------------|--------------------|-----------------------------------|--|------------------------|------------------------|
|                |                    |                                   |  | Options<br>Outstanding | Options<br>Exercisable |
| April 21, 2015 | 893,220            | \$ 42.00                          | \$41.26                                    | 817,990                | —                      |
| April 22, 2014 | 955,000            | \$ 56.00                          | \$50.53                                    | 797,500                | 5,000                  |
| April 16, 2013 | 205,000            | \$ 54.00                          | \$49.25                                    | 125,000                | 2,500                  |
| April 17, 2012 | 1,235,000          | \$ 54.00                          | \$49.01                                    | 1,039,500              | 341,250                |
| April 19, 2011 | 410,000            | \$ 35.00                          | \$31.78                                    | 250,300                | 150,300                |
| April 20, 2010 | 530,000            | \$ 30.00                          | \$27.13                                    | 210,350                | 120,350                |
| April 21, 2009 | 790,000            | \$ 27.00                          | \$17.61                                    | 293,100                | 200,600                |
| April 15, 2008 | 550,000            | \$ 27.00                          | \$24.35                                    | 147,750                | 122,750                |
| April 17, 2007 | 4,380,000          | \$ 22.50                          | \$20.15                                    | 849,492                | 849,492                |
| Total          | 9,948,220          |                                   |  | 4,530,982              | 1,792,242              |

| Date of Grant  | Risk-free<br>Interest Rate | Expected Life<br>of Option in<br>Years | Expected<br>Dividend<br>Yield | Expected<br>Stock<br>Volatility | Estimated Fair<br>Value of<br>Stock<br>Option |
|----------------|----------------------------|--|-------------------------------|---------------------------------|---|
|                |                            |  |                               |                                 |   |
| April 22, 2014 | 1.8                        | % 5.00                                 | 2.0                           | % 28.55                         | % \$9.57                                      |
| April 16, 2013 | 0.7                        | % 5.00                                 | 1.6                           | % 37.42                         | % \$12.66                                     |
| April 17, 2012 | 0.9                        | % 5.00                                 | 1.4                           | % 39.25                         | % \$13.69                                     |
| April 19, 2011 | 2.1                        | % 5.00                                 | 1.6                           | % 39.33                         | % \$11.20                                     |
| April 20, 2010 | 2.6                        | % 5.00                                 | 1.5                           | % 39.10                         | % \$8.14                                      |
| April 21, 2009 | 1.9                        | % 5.00                                 | 1.0                           | % 38.80                         | % \$3.64                                      |
| April 15, 2008 | 2.7                        | % 5.00                                 | 1.0                           | % 30.93                         | % \$7.75                                      |
| April 17, 2007 | 4.6                        | % 4.85                                 | 1.0                           | % 31.59                         | % \$5.63                                      |

All of the options in the tables above vest and become exercisable over a period of up to eight years. Generally, each option will terminate approximately nine years after the grant date.

The fair value of each share-based option is estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions listed above. The risk-free interest rate is based on the U.S. Treasury rate over the expected life of the option at the time of grant. The expected life is the average length of time over which we expect the employee groups will exercise their options, which is based on historical experience with similar grants. The dividend yield is estimated over the expected life of the option based on our current dividend payout, historical dividends paid, and expected future cash dividends. Expected stock volatilities are based on the movement of our stock over the most recent historical period equivalent to the expected life of the option.





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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

A summary of the activity under our stock option plan is as follows:

|                                     | Options<br>Outstanding | Exercise<br>Price <sup>(1)</sup> | Remaining<br>Life <sup>(2)</sup> |
|-------------------------------------|------------------------|----------------------------------|----------------------------------|
| Outstanding as of January 1, 2015   | 4,712,330              | \$38.52                          | 4.59                             |
| Granted                             | 893,220                | \$42.00                          | 8.41                             |
| Exercised                           | (813,838 )             | \$23.47                          |                                  |
| Cancelled/forfeited                 | (260,730 )             | \$45.84                          |                                  |
| Outstanding as of December 31, 2015 | 4,530,982              | \$41.49                          | 4.89                             |
| Exercisable as of December 31, 2015 | 1,792,242              | \$31.00                          | 2.15                             |
|                                     | Options<br>Outstanding | Exercise<br>Price <sup>(1)</sup> | Remaining<br>Life <sup>(2)</sup> |
| Outstanding as of January 1, 2014   | 4,356,630              | \$34.06                          | 4.66                             |
| Granted                             | 955,000                | \$56.00                          | 8.41                             |
| Exercised                           | (314,300 )             | \$24.49                          |                                  |
| Cancelled/forfeited                 | (285,000 )             | \$44.39                          |                                  |
| Outstanding as of December 31, 2014 | 4,712,330              | \$38.52                          | 4.59                             |
| Exercisable as of December 31, 2014 | 1,972,330              | \$27.89                          | 2.51                             |

<sup>(1)</sup> Weighted average exercise price.

<sup>(2)</sup> Weighted average remaining contractual life in years.

The total intrinsic value of stock options exercised during the years ended December 31, 2015, 2014, and 2013 was \$14,174, \$7,466, and \$9,925, respectively. The intrinsic value represents the difference between the exercise price and fair value of the underlying shares at the date of exercise.

At December 31, 2015, there was \$15,073 of total unrecognized stock-based compensation expense related to outstanding unvested stock options granted under the plan. This expense is expected to be recognized over a weighted average period of 4.60 years. Any future change in estimated forfeitures will impact this amount. The total grant date fair value of stock options vesting under our stock option plan during 2015, 2014, and 2013 was \$5,143, \$7,287, and \$3,508, respectively.

Total stock-based compensation expense related to our stock option plan was \$5,841, \$7,039, and \$5,400 for 2015, 2014, and 2013, respectively.

**Earnings Per Share**

The following tables present a reconciliation of the denominators used in the computation of basic and diluted earnings per share and a summary of the options to purchase shares of common stock which were excluded from the diluted earnings calculation because they were anti-dilutive:

| Reconciliation   | 2015        | 2014        | 2013        |
|--|-------------|-------------|-------------|
| Basic weighted average shares outstanding              | 291,453,107 | 296,490,378 | 296,754,160 |
| Weighted shares assumed upon exercise of stock options | 592,335     | 822,866     | 929,428     |
| Diluted weighted average shares outstanding            | 292,045,442 | 297,313,244 | 297,683,588 |
| Summary of Anti-dilutive Options Excluded              | 2015        | 2014        | 2013        |
| Options to purchase shares of common stock             | 2,611,367   | 1,903,767   | 1,273,527   |
| Weighted average exercise prices of options            | \$51.89     | 54.67       | 54.00       |

Any dilutive impact summarized above related to periods when the average market price of our stock exceeded the exercise price of the potentially dilutive options then outstanding.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 5. Retirement Savings Plan

The Fastenal Company and Subsidiaries 401(k) and Employee Stock Ownership Plan covers all of our employees in the United States. Our employees in Canada may participate in a Registered Retirement Savings Plan. The general purpose of both of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. In addition to the contributions of our employees, we make a profit sharing contribution on an annual basis based on an established formula. Our contribution expense under this profit sharing formula was approximately \$13,669, \$11,460, and \$12,211 for 2015, 2014, and 2013, respectively.

## Note 6. Income Taxes

Earnings before income taxes were derived from the following sources:

|          | 2015      | 2014    | 2013    |
|----------|-----------|---------|---------|
| Domestic | \$785,916 | 757,896 | 697,062 |
| Foreign  | 40,104    | 29,538  | 16,406  |
|          | \$826,020 | 787,434 | 713,468 |

Components of income tax expense (benefit) were as follows:

| 2015 :  | Current   | Deferred | Total   |
|---------|-----------|----------|---------|
| Federal | \$256,748 | 7,362    | 264,110 |
| State   | 31,297    | 227      | 31,524  |
| Foreign | 13,677    | 348      | 14,025  |
|         | \$301,722 | 7,937    | 309,659 |
| 2014 :  | Current   | Deferred | Total   |
| Federal | \$250,527 | 1,919    | 252,446 |
| State   | 30,768    | 256      | 31,024  |
| Foreign | 10,518    | (704)    | 9,814   |
|         | \$291,813 | 1,471    | 293,284 |
| 2013 :  | Current   | Deferred | Total   |
| Federal | \$220,588 | 8,547    | 229,135 |
| State   | 29,073    | 527      | 29,600  |
| Foreign | 7,487     | (1,390)  | 6,097   |
|         | \$257,148 | 7,684    | 264,832 |

Income tax expense in the accompanying consolidated financial statements differed from the expected expense as follows:

|  | 2015      | 2014    | 2013    |
|--|-----------|---------|---------|
| Federal income tax expense at the 'expected' rate of 35% | \$289,107 | 275,602 | 249,714 |
| Increase (decrease) attributed to:                       |           |         |         |
| State income taxes, net of federal benefit               | 21,613    | 20,549  | 16,683  |
| Other, net   | (1,061)   | (2,867) | (1,565) |
| Total income tax expense                                 | \$309,659 | 293,284 | 264,832 |
| Effective income tax rate                                | 37.5%     | 37.2%   | 37.1%   |

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at year end were as follows:

|  | 2015      | 2014      |
|--|-----------|-----------|
| Deferred income tax assets (liabilities):            |           |           |
| Inventory costing and valuation methods              | \$4,556   | 4,311     |
| Allowance for doubtful accounts receivable           | 4,529     | 4,873     |
| Insurance claims payable                             | 10,930    | 10,404    |
| Promotions payable                                   | 1,738     | 1,586     |
| Stock-based compensation                             | 8,270     | 7,837     |
| Federal and state benefit of uncertain tax positions | 1,911     | 1,327     |
| Foreign net operating loss and credit carryforwards  | 5,155     | 5,768     |
| Foreign valuation allowances                         | (3,406    | ) (3,007  |
| Other, net   | 1,541     | 592       |
| Total deferred income tax assets                     | 35,224    | 33,691    |
| Property and equipment                               | (90,281   | ) (80,458 |
| Total deferred income tax liabilities                | (90,281   | ) (80,458 |
| Net deferred income tax liabilities                  | \$(55,057 | ) (46,767 |

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-17, Income Taxes (Topic 740), to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. This standard will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016, with early adoption allowed. As of December 31, 2014, we had deferred taxes that were classified as current assets and noncurrent liabilities. During the fourth quarter of 2015, we elected to prospectively adopt this standard, thus reclassifying \$23,300 of current deferred tax assets to noncurrent (netted within noncurrent liabilities) on the accompanying consolidated balance sheet. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on our Consolidated Statements of Earnings and Comprehensive Income.

A reconciliation of the beginning and ending amount of total gross unrecognized tax benefits was as follows:

|  | 2015    | 2014   |
|--|---------|--------|
| Balance at beginning of year:                    | \$3,772 | 3,282  |
| Increase related to prior year tax positions     | 704     | 185    |
| Decrease related to prior year tax positions     | (43     | ) (113 |
| Increase related to current year tax positions   | 984     | 924    |
| Decrease related to statute of limitation lapses | —       | (506   |
| Balance at end of year:                          | \$5,417 | 3,772  |

Included in the liability for gross unrecognized tax benefits is an immaterial amount for interest and penalties, both of which we classify as a component of income tax expense. The amount of gross unrecognized tax benefits that would favorably impact the effective tax rate, if recognized, is not material.

Fastenal files income tax returns in the United States federal jurisdiction, all states, and various local and foreign jurisdictions. With limited exceptions, we are no longer subject to income tax examinations by taxing authorities for taxable years before 2012 in the case of United States federal and foreign examinations and 2011 in the case of state and local examinations.

In general, it is our practice and intention to permanently reinvest the earnings of our foreign subsidiaries and repatriate earnings only when the tax impact is zero or very minimal. As of December 31, 2015, we have not made a provision for United States income taxes or for additional foreign withholding taxes on \$140,000 of unremitted earnings. Generally, such amounts become subject to United States taxation upon the remittance of dividends and

under certain other circumstances. It is not practicable to estimate the amount of deferred income tax liabilities related to investments in these foreign subsidiaries.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 7. Geographic Information

Our revenues and long-lived assets related to the following geographic areas:

|                         |             |           |           |
|-------------------------|-------------|-----------|-----------|
| Revenues                | 2015        | 2014      | 2013      |
| United States           | \$3,441,141 | 3,308,226 | 2,951,673 |
| Canada                  | 223,270     | 238,590   | 227,756   |
| Other foreign countries | 204,776     | 186,691   | 146,677   |
|                         | \$3,869,187 | 3,733,507 | 3,326,106 |
| Long-Lived Assets       | 2015        | 2014      | 2013      |
| United States           | \$821,063   | 725,189   | 632,783   |
| Canada                  | 32,290      | 37,580    | 22,572    |
| Other foreign countries | 14,333      | 13,068    | 11,968    |
|                         | \$867,686   | 775,837   | 667,323   |

The accounting policies of the operations in the various geographic areas are the same as those described in the summary of significant accounting policies. Long-lived assets consist of property and equipment, deposits, goodwill, and other intangibles. Revenues are attributed to countries based on the location of the store from which the sale occurred. No single customer represents more than 5% of our consolidated net sales.

## Note 8. Operating Leases

We lease space under non-cancelable operating leases for several distribution centers, several manufacturing locations, and certain store locations. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Any such terms are recognized as rent expense over the term of the lease. Further, the leases do not contain contingent rent provisions. The net book value of leasehold improvements at December 31, 2015 was \$2,858. We lease certain semi-tractors and pick-ups under operating leases. Future minimum annual rentals for the leased facilities and equipment, and the leased vehicles, are as follows:

|                     | Leased<br>Facilities and<br>Equipment | Leased<br>Vehicles | Total   |
|---------------------|---------------------------------------|--------------------|---------|
| 2016                | \$95,789                              | 27,599             | 123,388 |
| 2017                | 68,833                                | 17,713             | 86,546  |
| 2018                | 44,949                                | 7,827              | 52,776  |
| 2019                | 24,486                                | 1,442              | 25,928  |
| 2020                | 11,492                                | —                  | 11,492  |
| 2021 and thereafter | 1,579                                 | —                  | 1,579   |
|                     | \$247,128                             | 54,581             | 301,709 |

Rent expense under all operating leases was as follows:

|      | Leased<br>Facilities and<br>Equipment | Leased<br>Vehicles | Total   |
|------|---------------------------------------|--------------------|---------|
| 2015 | \$105,961                             | 38,178             | 144,139 |
| 2014 | \$103,294                             | 35,731             | 139,025 |
| 2013 | \$99,483                              | 32,907             | 132,390 |

Certain operating leases for pick-up trucks contain residual value guarantee provisions which would generally become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. The aggregate residual value guarantee related to these leases was approximately \$61,304. We believe the likelihood of funding the guarantee obligation under any provision of the operating lease agreements is remote other than where we have established an accrual for estimated losses, which was immaterial at December 31, 2015. To the extent our fleet contains vehicles we estimate will settle at a gain, such gains on these vehicles will be recognized

when we sell the vehicle.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Note 9. Debt Commitments and Contingencies

## Credit Facility, Note, and Commitments

Debt obligations and undrawn letters of credit outstanding at year-end were as follows:

|   | 2015      | 2014      |
|---|-----------|-----------|
| Outstanding loans under unsecured revolving credit facility | \$350,000 | 90,000    |
| Note  | 15,000    | —         |
| Total debt  | 365,000   | 90,000    |
| Less: Current portion of debt                               | (62,050   | ) (90,000 |
| Long-term debt  | \$302,950 | —         |

|   |          |        |
|---|----------|--------|
| Undrawn letters of credit under unsecured revolving credit facility - face amount | \$36,266 | 37,315 |
|---|----------|--------|

## Unsecured Revolving Credit Facility

We have a \$700,000 unsecured revolving credit facility ('Credit Facility'). The Credit Facility includes a committed letter of credit subfacility of \$55,000. The commitments under the Credit Facility will expire (and any borrowings outstanding under the Credit Facility will become due and payable) on March 1, 2018. In the next twelve months, we have the ability and intent to repay a portion of the outstanding line of credit obligations using cash; therefore, we have classified this portion of the line of credit as a current liability. The Credit Facility contains certain financial and other covenants, and our right to borrow under the Credit Facility is conditioned upon, among other things, our compliance with these covenants. We are currently in compliance with these covenants.

Borrowings under the Credit Facility generally bear interest at a rate per annum equal to the London Interbank Offered Rate ('LIBOR') for interest periods of various lengths selected by us, plus 0.95%. A change in LIBOR impacts the interest rate on our borrowings, which in turn impacts interest expense incurred and cash flows. Based on the interest periods we have chosen, our weighted per annum interest rate at December 31, 2015 was approximately 1.4%. We pay a commitment fee for the unused portion of the Credit Facility. This fee is either 0.10% or 0.125% per annum based on our usage of the Credit Facility.

## Note

On December 7, 2015, we signed an agreement to acquire, effective January 2, 2017, certain assets related to the collection and management of certain portions of our business and financial data from Apex Industrial Technologies, LLC ('Apex'), a provider of automated point-of-use dispensing and supply chain technologies. The agreement includes a transition arrangement which requires us to assume responsibility for certain software that is licensed by Apex assuming that hosting services are transitioned from Apex to us. The total consideration for the assets and transition arrangement is \$27,000, of which \$12,000 was paid in cash in December 2015 to cover costs associated with decoupling systems and programs, transition planning expenses, completing system enhancements, and engaging in training to effectively and efficiently transfer hosting activities to us. The remaining \$15,000 is payable pursuant to an unsecured note and covers equipment costs and post transfer expenses related to the transition. Payment of the \$15,000 is dependent upon the transfer of hosting activities to us. We also reserve the right to terminate the transition of hosting services from Apex to us and, if we decide to exercise that option, then we will not be required to make the \$15,000 payment and Apex will continue to provide us with fee-based hosting services. The note bears interest at an annual rate of 0.56%. Interest on the unpaid principal balance of the note is due and payable on the last day of each calendar quarter, commencing on December 31, 2015. The \$12,000 payment is included in our Consolidated Statements of Cash Flows for 2015, as net cash used in investing activities in 'Other', and the \$15,000 note represents a non-cash investing and financing activity.

Annual maturities of the note are as follows:

|      | Total   |
|------|---------|
| 2016 | \$5,000 |
| 2017 | 10,000  |





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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

## Legal Contingencies

We are involved in certain legal actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, that could require significant expenditures or result in lost revenues. We record a liability for these legal actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. As of December 31, 2015, there were no litigation matters that we consider to be probable or reasonably possible to have a material adverse outcome.

## Note 10. Sales by Product Line

The percentages of our net sales by product line were as follows:

| Type                            | Introduced | 2015   | 2014   | 2013   |
|---------------------------------|------------|--------|--------|--------|
| Fasteners <sup>(1)</sup>        | 1967       | 38.3%  | 40.2%  | 42.1%  |
| Tools                           | 1993       | 9.5%   | 9.3%   | 9.2%   |
| Cutting tools                   | 1996       | 5.6%   | 5.5%   | 5.4%   |
| Hydraulics & pneumatics         | 1996       | 7.2%   | 7.2%   | 7.3%   |
| Material handling               | 1996       | 6.5%   | 6.1%   | 5.7%   |
| Janitorial supplies             | 1996       | 7.5%   | 7.3%   | 7.0%   |
| Electrical supplies             | 1997       | 4.7%   | 4.7%   | 4.6%   |
| Welding supplies <sup>(2)</sup> | 1997       | 4.7%   | 4.7%   | 4.5%   |
| Safety supplies <sup>(3)</sup>  | 1999       | 13.9%  | 12.8%  | 11.2%  |
| Metals                          | 2001       | 0.5%   | 0.4%   | 0.5%   |
| Direct ship <sup>(4)</sup>      | 2004       | 0.4%   | 1.0%   | 1.5%   |
| Office supplies                 | 2010       | 0.1%   | 0.1%   | 0.1%   |
| Other                           |            | 1.1%   | 0.7%   | 0.9%   |
|                                 |            | 100.0% | 100.0% | 100.0% |

(1) Fastener product line represents fasteners and miscellaneous supplies.

(2) We do not sell welding gases.

(3) The safety supplies product line has expanded, as a percentage of sales, in the last several years due to our industrial vending program.

(4) Direct ship represents a cross section of products from the remaining product lines. The items included here represent certain items with historically low margins which are shipped directly from our distribution channel to our customers, bypassing our store network.

## Note 11. Subsequent Events

We evaluated all subsequent event activity and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the Notes to Consolidated Financial Statements, with the exception of the dividend declaration and stock purchases disclosed in Note 4.

## Note 12. New Accounting Pronouncements

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11, Simplifying the Measurement of Inventory which changes the measurement principle for inventory for entities using first-in, first-out (FIFO) or average cost from the lower of cost or market to lower of cost and net realizable value. This standard defines net realizable value as estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. This standard should be applied prospectively. We are evaluating the impact of the future adoption of this standard, but we do not expect the adoption

to have a material effect on our consolidated financial statements.

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Fastenal Company and Subsidiaries

Notes to Consolidated Financial Statements—Continued

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (ASU 2015-14), which defers the effective date of ASU 2014-09 for all entities by one year. This update is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 was to become effective for us beginning January 2017. ASU 2015-14 defers our effective date until January 2018. We are evaluating the impact this ASU will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), to simplify the presentation of deferred income taxes. During the fourth quarter of 2015, we elected to prospectively adopt this standard. Additional information regarding our adoption of this standard is contained in Note 6 of the Notes to Consolidated Financial Statements.

## Note 13. Selected Quarterly Financial Data (Unaudited)

(Amounts in thousands except per share information)

| 2015 :         | Net Sales   | Gross Profit | Pre-tax Earnings | Net Earnings | Basic Net Earnings per Share | Diluted Net Earnings per Share |
|----------------|-------------|--------------|------------------|--------------|------------------------------|--------------------------------|
| First quarter  | \$953,317   | 484,050      | 203,512          | 127,606      | 0.43                         | 0.43                           |
| Second quarter | 997,827     | 502,087      | 225,099          | 140,357      | 0.48                         | 0.48                           |
| Third quarter  | 995,250     | 502,225      | 219,204          | 136,494      | 0.47                         | 0.47                           |
| Fourth quarter | 922,793     | 460,572      | 178,205          | 111,904      | 0.39                         | 0.39                           |
| Total          | \$3,869,187 | 1,948,934    | 826,020          | 516,361      | 1.77                         | 1.77                           |
| 2014 :         | Net Sales   | Gross Profit | Pre-tax Earnings | Net Earnings | Basic Net Earnings per Share | Diluted Net Earnings per Share |
| First quarter  | \$876,501   | 448,478      | 178,845          | 111,931      | 0.38                         | 0.38                           |
| Second quarter | 949,938     | 482,667      | 206,782          | 130,514      | 0.44                         | 0.44                           |
| Third quarter  | 980,814     | 498,693      | 212,988          | 133,314      | 0.45                         | 0.45                           |
| Fourth quarter | 926,254     | 467,564      | 188,819          | 118,391      | 0.40                         | 0.40                           |
| Total          | \$3,733,507 | 1,897,402    | 787,434          | 494,150      | 1.67                         | 1.66                           |

\*\*\*End of Notes to Consolidated Financial Statements\*\*\*

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ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 our principal executive officer and principal financial officer, 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 'Securities 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 Securities 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 required disclosure.

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Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this item is contained earlier in this Form 10-K under the heading 'Item 8, Financial Statements and Supplementary Data'.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;  
provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (ii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2015. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Daniel L. Florness  
Daniel L. Florness  
President and Chief Executive Officer

/s/ Sheryl A. Lisowski  
Sheryl A. Lisowski  
Interim Chief Financial Officer, Controller, and Chief Accounting Officer

Winona, Minnesota  
February 5, 2016

ITEM 9B. OTHER INFORMATION  
None.

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## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Incorporated herein by reference is the information appearing under the headings 'Proposal #1 — Election of Directors', 'Corporate Governance and Director Compensation—Board Leadership Structure and Committee Membership', 'Corporate Governance and Director Compensation—Audit Committee', and 'Corporate Governance and Director Compensation—Section 16(a) Beneficial Ownership Reporting Compliance' in the Proxy Statement. See also Part I hereof under the heading 'Item X. Executive Officers of the Registrant'.

There have been no material changes to the procedures by which security holders may recommend nominees to the board of directors since our last report.

In January 2004, our board of directors adopted a supplement to our existing standards of conduct designed to qualify the standards of conduct as a code of ethics within the meaning of Item 406(b) of Regulation S-K promulgated by the SEC ('Code of Ethics'). The standards of conduct, as supplemented, apply to all of our directors, officers, and employees, including without limitation our chief executive officer, chief financial officer, principal accounting officer, and controller (if any), and persons performing similar functions ('Senior Financial Officers'). Those portions of the standards of conduct, as supplemented, that constitute a required element of a Code of Ethics are available without charge by submitting a request to us pursuant to the directions detailed under 'Does Fastenal have a Code of Conduct?' on the 'Investor FAQs' page of the 'Investors' section of our website at [www.fastenal.com](http://www.fastenal.com). In the event we amend or waive any portion of the standards of conduct, as supplemented, that constitutes a required element of a Code of Ethics and such amendment or waiver applies to any of our Senior Financial Officers, we intend to post on our website, within four business days after the date of such amendment or waiver, a brief description of such amendment or waiver, the name of each Senior Financial Officer to whom the amendment or waiver applies, and the date of the amendment or waiver.

ITEM 11. EXECUTIVE  
COMPENSATION

Incorporated herein by reference is the information appearing under the headings 'Corporate Governance and Director Compensation—Compensation Committee Interlocks and Insider Participation', 'Executive Compensation', and 'Corporate Governance and Director Compensation—Compensation of our Directors' in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
RELATED STOCKHOLDER MATTERS

Incorporated herein by reference is the information appearing under the heading 'Security Ownership of Principal Shareholders and Management' in the Proxy Statement.

## Equity Compensation Plan Information

| Plan Category  | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|--|--|--|---|
|  | (a)  | (b)  | (c)   |
| Equity compensation plans approved by security holders     | 4,530,982  | \$41.49  | 6,120,700   |
| Equity compensation plans not approved by security holders | —  | —  | —   |
| Total  | 4,530,982  |  | 6,120,700   |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference is the information appearing under the headings ‘Corporate Governance and Director Compensation—Director Independence and Other Board Matters’, ‘Corporate Governance and Director Compensation—Related Person Transaction Approval Policy’, and ‘Corporate Governance and Director Compensation—Transactions with Related Persons’ in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference is the information appearing under the heading ‘Audit and Related Matters—Audit and Related Fees’ and ‘Audit and Related Matters—Pre-Approval of Services’ in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) 1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Earnings for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

3. Exhibits:

3.1 Restated Articles of Incorporation of Fastenal Company, as amended effective as of April 17, 2012 (incorporated by reference to Exhibit 3.1 to Fastenal Company's Form 10-Q for the quarter ended March 31, 2012)

3.2 Restated By-Laws of Fastenal Company (incorporated by reference to Exhibit 3.2 to Fastenal Company's Form 8-K dated as of October 15, 2010 (file no. 000-16125))

10.1 Description of Bonus Arrangements for Executive Officers (incorporated by reference to the information appearing under the heading 'Executive Compensation – Compensation Discussion and Analysis' in the Proxy Statement)\*

10.2 Fastenal Company Stock Option Plan as amended and restated effective as of December 12, 2014 (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated December 17, 2014)\*

10.3 Fastenal Company Incentive Plan (incorporated by reference to Appendix A to Fastenal Company's Proxy Statement dated February 23, 2012)\*

10.4 Credit Agreement dated as of May 1, 2015 among Fastenal Company, the Lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated May 5, 2015), as amended by the First Amendment to Credit Agreement dated as of November 23, 2015 (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated November 25, 2015)

13 Portions of 2015 Annual Report to Shareholders not included in this Form 10-K (only those sections specifically incorporated by reference in this Form 10-K shall be deemed filed with the SEC)

21 List of Subsidiaries

23 Consent of Independent Registered Public Accounting Firm

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

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



101 The following materials formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements

We will furnish copies of these Exhibits upon request and payment of our reasonable expenses in furnishing the Exhibits.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

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## FASTENAL COMPANY

## Schedule II—Valuation and Qualifying Accounts

Years ended December 31, 2015, 2014, and 2013

(Amounts in thousands)

| Description                     | Balance at<br>Beginning<br>of Year | “Additions”<br>Charged<br>to<br>Costs and<br>Expenses | “Other”<br>Additions<br>(Deductions) | “Less”<br>Deductions | Balance<br>at End<br>of Year |
|---------------------------------|------------------------------------|---|--------------------------------------|----------------------|------------------------------|
| Year ended December 31, 2015    |                                    |   |                                      |                      |                              |
| Allowance for doubtful accounts | \$12,619                           | 8,769   | —                                    | 9,659                | 11,729                       |
| Insurance reserves              | \$31,137                           | 54,341  | (1) —                                | 53,657               | (2) 31,821                   |
| Year ended December 31, 2014    |                                    |   |                                      |                      |                              |
| Allowance for doubtful accounts | \$9,248                            | 11,480  | —                                    | 8,109                | 12,619                       |
| Insurance reserves              | \$30,880                           | 52,858  | (1) —                                | 52,601               | (2) 31,137                   |
| Year ended December 31, 2013    |                                    |   |                                      |                      |                              |
| Allowance for doubtful accounts | \$6,728                            | 9,421   | —                                    | 6,901                | 9,248                        |
| Insurance reserves              | \$25,188                           | 52,658  | (1) —                                | 46,966               | (2) 30,880                   |

(1) Includes costs and expenses incurred for premiums and claims related to health and general insurance.

(2) Includes costs and expenses paid for premiums and claims related to health and general insurance.

See accompanying Report of Independent Registered Public Accounting Firm incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 5, 2016

FASTENAL COMPANY

By /s/ Daniel L. Florness  
Daniel L. Florness, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 5, 2016

/s/ Daniel L. Florness  
Daniel L. Florness, President and Chief Executive Officer (Principal Executive Officer), and Director

/s/ Sheryl A. Lisowski  
Sheryl A. Lisowski, Interim Chief Financial Officer, Controller, and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)

/s/ Willard D. Oberton  
Willard D. Oberton, Director (Chairman)

/s/ Rita J. Heise  
Rita J. Heise, Director

/s/ Michael J. Ancius  
Michael J. Ancius, Director

/s/ Darren R. Jackson  
Darren R. Jackson, Director

/s/ Michael J. Dolan  
Michael J. Dolan, Director

/s/ Hugh L. Miller  
Hugh L. Miller, Director

/s/ Stephen L. Eastman  
Stephen L. Eastman, Director

/s/ Scott A. Satterlee  
Scott A. Satterlee, Director

/s/ Leland J. Hein  
Leland J. Hein, Director

/s/ Reyne K. Wisecup  
Reyne K. Wisecup, Director

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| 3.1        | Restated Articles of Incorporation of Fastenal Company, as amended  | Incorporated by Reference |
| 3.2        | Restated By-Laws of Fastenal Company  | Incorporated by Reference |
| 10.1       | Description of Bonus Arrangements for Executive Officers  | Incorporated by Reference |
| 10.2       | Fastenal Company Stock Option Plan as amended and restated effective as of December 12, 2014  | Incorporated by Reference |
| 10.3       | Fastenal Company Incentive Plan   | Incorporated by Reference |
| 10.4       | Credit Agreement dated as of May 1, 2015 among Fastenal Company, the Lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, as amended by the First Amendment to Credit Agreement dated as of November 23, 2015 | Incorporated by Reference |
| 13         | Portions of 2015 Annual Report to Shareholders not included in this Form 10-K (only those sections specifically incorporated by reference in this Form 10-K shall be deemed filed with the SEC)   | Electronically Filed      |
| 21         | List of Subsidiaries  | Electronically Filed      |
| 23         | Consent of Independent Registered Public Accounting Firm  | Electronically Filed      |
| 31         | Certifications under Section 302 of the Sarbanes-Oxley Act of 2002  | Electronically Filed      |
| 32         | Certification under Section 906 of the Sarbanes-Oxley Act of 2002   | Electronically Filed      |
| EX 101.INS | XBRL Instance Document  | Electronically Filed      |
| EX 101.SCH | XBRL Taxonomy Extension Schema Document   | Electronically Filed      |
| EX 101.CAL | XBRL Taxonomy Calculation Linkbase Document   | Electronically Filed      |
| EX 101.DEF | XBRL Taxonomy Definition Linkbase Document  | Electronically Filed      |
| EX 101.LAB | XBRL Taxonomy Label Linkbase Document   | Electronically Filed      |
| EX 101.PRE | XBRL Taxonomy Presentation Linkbase Document  | Electronically Filed      |