MSC INDUSTRIAL DIRECT CO INC
Form 10-Q
July 06, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 28, 2016
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File No.: 1-14130

MSC INDUSTRIAL DIRECT CO., INC.

(Exact name of registrant as specified in its charter)

New York	11-3289165
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
75 Maxess Road, Melville, New York	11747
(Address of principal executive offices)	(Zip Code)

(516) 812-2000

(Registrant's telephone number, including area code)

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 website, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a "smaller reporting company." See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

As of June 30, 2016, 48,374,634 shares of Class A common stock and 13,085,282 shares of Class B common stock of the registrant were outstanding.

SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q (the “Report”) contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Discussions containing such forward looking statements may be found in Items 2 and 3 of Part I and Item 1 of Part II of this Report, as well as within this Report generally. The words “believes,” “anticipates,” “thinks,” “expects,” “estimates,” “plans,” “intends,” and similar expressions are intended to identify forward looking statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward looking statements. We undertake no obligation to publicly disclose any revisions to these forward looking statements to reflect events or circumstances occurring subsequent to filing this Report with the Securities and Exchange Commission (the “SEC”). These forward looking statements are subject to risks and uncertainties, including, without limitation, those discussed in this section and Items 2 and 3 of Part I, as well as in Part II, Item 1A, “Risk Factors” of this Report, and in Part I, Item 1A, “Risk Factors” and in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended August 29, 2015. In addition, new risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Accordingly, future results may differ materially from historical results or from those discussed or implied by these forward looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward looking statements. These risks and uncertainties include, but are not limited to:

- general economic conditions in the markets in which the Company operates;
- current economic, political, and social conditions;
- changing customer and product mixes;
- competition;
- industry consolidation and other changes in the industrial distribution sector;
- volatility in commodity and energy prices;
- the outcome of potential government or regulatory proceedings or future litigation;
- credit risk of our customers;
- risk of cancellation or rescheduling of customer orders;
- work stoppages or other business interruptions (including those due to extreme weather conditions) at transportation centers or shipping ports;
- risk of loss of key suppliers, key brands or supply chain disruptions;
- dependence on our information systems and the risks of business disruptions arising from changes to our information systems and disruptions due to catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, physical or electronics break-ins and cyber-attacks;
- retention of key personnel;
- failure to comply with applicable environmental, health and safety laws and regulations;
- goodwill and intangible assets recorded as a result of our acquisitions could be impaired; and
- risks associated with the integration of acquired businesses.

MSC INDUSTRIAL DIRECT CO., INC.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

MSC INDUSTRIAL DIRECT CO., INC.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	May 28, 2016 (Unaudited)	August 29, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 32,328	$ 38,267
Accounts receivable, net of allowance for doubtful accounts of $12,410 and $11,312, respectively	395,464	403,468
Inventories	462,141	506,631
Prepaid expenses and other current assets	39,387	39,067
Deferred income taxes	44,643	44,643
Total current assets	973,963	1,032,076
Property, plant and equipment, net	286,251	291,156
Goodwill	624,001	623,626
Identifiable intangibles, net	107,424	119,805
Other assets	31,500	34,543
Total assets	$ 2,023,139	$ 2,101,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Revolving credit note	$ 40,000	$ 188,000
Current maturities of long-term debt	44,635	25,515
Accounts payable	113,109	114,328
Accrued liabilities	95,773	94,494
Total current liabilities	293,517	422,337
Long-term debt, net of current maturities	177,875	214,789
Deferred income taxes and tax uncertainties	131,132	131,210
Total liabilities	602,524	768,336
Commitments and Contingencies		
Shareholders' Equity:		
Preferred stock; $0.001 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Class A common stock (one vote per share); $0.001 par value; 100,000,000 shares authorized; 56,701,173 and 56,400,070 shares issued, respectively	57	56

Class B common stock (ten votes per share); $0.001 par value; 50,000,000 shares authorized; 13,085,282 and 13,295,747 shares issued and outstanding, respectively	13	13
Additional paid-in capital	621,377	604,905
Retained earnings	1,322,057	1,232,381
Accumulated other comprehensive loss	(18,090)	(17,252)
Class A treasury stock, at cost, 8,325,473 and 8,037,696 shares, respectively	(504,799)	(487,233)
Total shareholders' equity	1,420,615	1,332,870
Total liabilities and shareholders' equity	$ 2,023,139	$ 2,101,206

See accompanying notes to condensed consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC.

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Net sales	$ 727,495	$ 745,483	$ 2,118,431	$ 2,182,974
Cost of goods sold	400,467	407,066	1,163,640	1,193,534
Gross profit	327,028	338,417	954,791	989,440
Operating expenses	221,244	234,173	678,077	705,351
Income from operations	105,784	104,244	276,714	284,089
Other (expense) income:				
Interest expense	(1,204)	(1,807)	(4,055)	(4,786)
Interest income	164	166	491	606
Other income (expense), net	110	10	912	(370)
Total other expense	(930)	(1,631)	(2,652)	(4,550)
Income before provision for income taxes	104,854	102,613	274,062	279,539
Provision for income taxes	40,038	39,271	104,692	107,253
Net income	$ 64,816	$ 63,342	$ 169,370	$ 172,286
Per share information:				
Net income per common share:				
Basic	$ 1.06	$ 1.03	$ 2.76	$ 2.79
Diluted	$ 1.05	$ 1.03	$ 2.75	$ 2.78
Weighted average shares used in computing net income per common share:				
Basic	61,133	61,287	61,206	61,294
Diluted	61,369	61,424	61,364	61,510
Cash dividend declared per common share	$ 0.43	$ 0.40	$ 1.29	$ 4.20

See accompanying notes to condensed consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Net income, as reported	$ 64,816	$ 63,342	$ 169,370	$ 172,286
Foreign currency translation adjustments	2,556	59	(838)	(9,338)
Comprehensive income	$ 67,372	$ 63,401	$ 168,532	$ 162,948

See accompanying notes to condensed consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC.

Condensed Consolidated Statement of Shareholders' Equity

Thirty-Nine Weeks Ended May 28, 2016

(In thousands)

(Unaudited)

	Class A Common Stock		Class B Common Stock					Class A Treasury Stock		
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Amount at Cost	Total
Balance at August 29, 2015	56,400	$ 56	13,296	$ 13	$ 604,905	$ 1,232,381	$ (17,252)	8,038	$ (487,233)	$ 1,332,870
Exchange of Class B common stock for Class A common stock	211	—	(211)	—	—	—	—	—	—	—
Exercise of common stock options	99	1	—	—	5,080	—	—	—	—	5,081
Common stock issued under associate stock purchase plan	—	—	—	—	1,090	—	—	(48)	1,806	2,896
Issuance of restricted common stock, net of cancellations	(9)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	10,302	—	—	—	—	10,302
Purchase of treasury stock	—	—	—	—	—	—	—	335	(19,372)	(19,372)
Cash dividends on	—	—	—	—	—	(62,199)	—	—	—	(62,199)

Class A common stock										
Cash dividends on Class B common stock	—	—	—	—	—	(17,152)	—	—	—	(17,152)
Dividend equivalent units declared	—	—	—	—	—	(343)	—	—	—	(343)
Foreign currency translation adjustment	—	—	—	—	—	—	(838)	—	—	(838)
Net income	—	—	—	—	—	169,370	—	—	—	169,370
Balance at May 28, 2016	56,701	$ 57	13,085	$ 13	$ 621,377	$ 1,322,057	$ (18,090)	8,325	$ (504,799)	$ 1,420,615

See accompanying notes to condensed consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015
Cash Flows from Operating Activities:		
Net income	$ 169,370	$ 172,286
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,343	52,095
Stock-based compensation	10,302	11,299
Loss on disposal of property, plant, and equipment	539	665
Provision for doubtful accounts	5,496	4,305
Deferred income taxes and tax uncertainties	(78)	(88)
Excess tax benefits from stock-based compensation	(630)	(3,770)
Changes in operating assets and liabilities:		
Accounts receivable	1,990	(29,547)
Inventories	44,032	(62,832)
Prepaid expenses and other current assets	(348)	967
Other assets	2,892	3,356
Accounts payable and accrued liabilities	(1,086)	14,237
Total adjustments	116,452	(9,313)
Net cash provided by operating activities	285,822	162,973
Cash Flows from Investing Activities:		
Expenditures for property, plant and equipment	(34,714)	(38,176)
Net cash used in investing activities	(34,714)	(38,176)
Cash Flows from Financing Activities:		
Purchases of treasury stock	(19,372)	(26,411)
Payments of regular cash dividends	(79,351)	(74,143)
Payment of special cash dividend	—	(185,403)
Payments on capital lease and financing obligations	(600)	(1,574)
Excess tax benefits from stock-based compensation	630	3,770
Proceeds from sale of Class A common stock in connection with associate stock purchase plan	2,896	3,271
Proceeds from exercise of Class A common stock options	5,081	8,848
Borrowings under financing obligations	453	530
Borrowings under Credit Facility	88,000	306,000
Payment of borrowings under Credit Facility	(254,750)	(181,750)
Net cash used in financing activities	(257,013)	(146,862)

Effect of foreign exchange rate changes on cash and cash equivalents	(34)	(226)
Net decrease in cash and cash equivalents	(5,939)	(22,291)
Cash and cash equivalents—beginning of period	38,267	47,154
Cash and cash equivalents—end of period	$ 32,328	$ 24,863
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	$ 101,178	$ 88,553
Cash paid for interest	$ 3,878	$ 4,190

See accompanying notes to condensed consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements include MSC Industrial Direct Co., Inc. (“MSC”) and all of its subsidiaries (hereinafter referred to collectively as the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. Operating results for the thirteen and thirty-nine week periods ended May 28, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending September 3, 2016. For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 29, 2015.

The Company’s fiscal year ends on the Saturday closest to August 31 of each year. Unless the context requires otherwise, references to years contained herein pertain to the Company’s fiscal year. The Company’s 2016 fiscal year will be a 53-week accounting period that will end on September 3, 2016 and its 2015 fiscal year was a 52-week accounting period that ended on August 29, 2015.

Note 2. Net Income per Share

The Company’s non-vested restricted stock awards contain non-forfeitable rights to dividends and meet the criteria of a participating security as defined by Accounting Standards Codification ("ASC") Topic 260, “Earnings Per Share”. Under the two-class method, net income per share is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, net income is allocated to both common shares and participating securities based on their respective weighted average shares outstanding for the period.

The following table sets forth the computation of basic and diluted net income per common share under the two-class method for the thirteen and thirty-nine weeks ended May 28, 2016 and May 30, 2015, respectively:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Net income as reported	$ 64,816	$ 63,342	$ 169,370	$ 172,286
Less: Distributed net income available to participating securities	(81)	(101)	(251)	(1,439)
Less: Undistributed net income available to participating securities	(170)	(258)	(442)	—
Numerator for basic net income per share:				
Undistributed and distributed net income available to common shareholders	$ 64,565	$ 62,983	$ 168,677	$ 170,847
Add: Undistributed net income allocated to participating securities	170	258	442	—
Less: Undistributed net income reallocated to participating securities	(170)	(257)	(441)	—
Numerator for diluted net income per share:				
Undistributed and distributed net income available to common shareholders	$ 64,565	$ 62,984	$ 168,678	$ 170,847
Denominator:				
Weighted average shares outstanding for basic net income per share	61,133	61,287	61,206	61,294
Effect of dilutive securities	236	137	158	216

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

Weighted average shares outstanding for diluted net income per share	61,369	61,424	61,364	61,510
Net income per share Two-class method:				
Basic	$ 1.06	$ 1.03	$ 2.76	$ 2.79
Diluted	$ 1.05	$ 1.03	$ 2.75	$ 2.78

Antidilutive stock options of 639 and 1,009 were not included in the computation of diluted earnings per share for the thirteen and thirty-nine week periods ended May 28, 2016. Antidilutive stock options of 741 and 736 were not included in the computation of diluted earnings per share for the thirteen and thirty-nine week periods ended May 30, 2015.

Note 3. Stock-Based Compensation

The Company accounts for all share-based payments in accordance with ASC Topic 718, "Compensation—Stock Compensation" ("ASC 718"). Stock based compensation expense included in operating expenses for the thirteen and thirty-nine week periods ended May 28, 2016 and May 30, 2015 was as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Stock options(1)	$ 1,044	$ 1,029	$ 3,296	$ 3,699
Restricted share awards	1,420	1,852	4,619	6,381
Restricted stock units	785	142	2,197	967
Associate Stock Purchase Plan	54	74	190	252
Total stock-based compensation	$ 3,303	$ 3,097	$ 10,302	$ 11,299

(1) Tax benefits related to these expenses for the thirteen week periods ended May 28, 2016 and May 30, 2015 were $396 and $391, respectively, and for the thirty-nine week periods ended May 28, 2016 and May 30, 2015 were $1,252 and $1,406, respectively.

Stock options

The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

	Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015
Expected life (in years)	3.9	3.9
Risk-free interest rate	1.09 %	1.09 %
Expected volatility	21.82 %	24.49 %
Expected dividend yield	2.40 %	1.70 %
Weighted-average grant-date fair value	$ 8.03	$ 14.06

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

A summary of the Company's stock option activity for the thirty-nine week period ended May 28, 2016 is as follows:

	Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding on August 29, 2015	1,274	$ 73.10		
Granted	586	58.90		
Exercised	(99)	51.25		
Canceled/Forfeited	(56)	75.87		
Outstanding on May 28, 2016	1,705	$ 69.40	4.7	$ 14,405
Exercisable on May 28, 2016	672	$ 70.48	3.2	$ 4,799

The unrecognized share based compensation cost related to stock option expense at May 28, 2016 was $8,285 and will be recognized over a weighted average period of 2.7 years. The total intrinsic value of options exercised, which represents the difference between the exercise price and market value of common stock measured at each individual exercise date, during the thirty-nine week periods ended May 28, 2016 and May 30, 2015 was $2,164 and $2,466, respectively.

Restricted share awards

A summary of the non vested restricted share award ("RSA") activity under the Company's 2005 Omnibus Incentive Plan and 2015 Omnibus Incentive Plan for the thirty-nine week period ended May 28, 2016 is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested restricted share awards at August 29, 2015	391	$ 75.39
Granted	1	62.31
Vested	(110)	67.34

Canceled/Forfeited	(10)		78.25
Non-vested restricted share awards at May 28, 2016	272	$	78.47

The fair value of each RSA is the closing stock price on the New York Stock Exchange of the Company’s Class A common stock on the date of grant. Upon vesting, a portion of the RSA award may be withheld to satisfy the minimum statutory withholding taxes. The remaining RSAs will be settled in shares of the Company’s Class A common stock when vested. The unrecognized compensation cost related to RSAs at May 28, 2016 was $10,845 and will be recognized over a weighted average period of 2.5 years.

Restricted stock units

A summary of the Company’s non-vested Restricted Stock Unit (“RSU”) award activity for the thirty-nine week period ended May 28, 2016 is as follows:

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

	Shares	Weighted- Average Grant- Date Fair Value
Non-vested restricted stock unit awards at August 29, 2015	62	$ 55.09
Granted	207	58.83
Vested	(2)	58.89
Canceled/Forfeited	(4)	58.78
Non-vested restricted stock unit awards at May 28, 2016	263	$ 57.94

The fair value of each RSU is the closing stock price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. Upon vesting, a portion of the RSU award may be withheld to satisfy the minimum statutory withholding taxes. The remaining RSUs will be settled in shares of the Company's Class A common stock when vested. These awards accrue dividend equivalents on outstanding units (in the form of additional stock units) based on dividends declared on the Company's Class A common stock and these dividend equivalents convert to unrestricted common stock on the vesting dates of the underlying RSUs. The dividend equivalents are not included in the RSU table above. The unrecognized compensation cost related to the RSUs at May 28, 2016 was $9,503 and is expected to be recognized over a weighted average period of 3.3 years.

Note 4. Fair Value

Fair value accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes the inputs used to measure fair value into three levels, with Level 1 being of the highest priority. The three levels of inputs used to measure fair value are as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

In connection with the construction of the Company's customer fulfillment center in Columbus, Ohio, the Company entered into an arrangement during fiscal 2013 with the Columbus-Franklin County Finance Authority ("Finance Authority") which provides savings on state and local sales taxes imposed on construction materials to entities that finance the transactions through them. Under this arrangement, the Finance Authority issued taxable bonds to finance the structure and site improvements of the Company's customer fulfillment center. The bonds ($27,023 outstanding at both May 28, 2016 and August 29, 2015) are classified as available for sale securities in accordance with ASC Topic 320. The securities are recorded at fair value in Other Assets in the Consolidated Balance Sheet. The fair values of these securities are based on observable inputs in non-active markets, which are therefore classified as Level 2 in the hierarchy. The Company did not record any gains or losses on these securities during the thirty-nine week period ended May 28, 2016. The outstanding principal amount of each bond bears interest at the rate of 2.4% per year.

Interest is payable on a semiannual basis in arrears on each interest payment date.

In addition, based on borrowing rates currently available to the Company for borrowings with similar terms, the carrying values of the Company’s capital lease obligations also approximate fair value. The fair value of the Company’s long-term debt, including current maturities, is estimated based on quoted market prices for the same or similar issues or on current rates offered to the Company for debt of the same remaining maturities. The carrying amount of the Company’s debt at May 28, 2016 approximates its fair value.

The Company’s financial instruments, other than those presented in the disclosure above, include cash, receivables, accounts payable, and accrued liabilities. Management believes the carrying amount of the aforementioned financial

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

instruments is a reasonable estimate of fair value as of May 28, 2016 and August 29, 2015 due to the short-term maturity of these items.

During the thirty-nine weeks ended May 28, 2016 and May 30, 2015, the Company had no measurements of non-financial assets or liabilities at fair value on a non-recurring basis subsequent to their initial recognition.

Note 5. Debt and Capital Lease Obligations

Debt at May 28, 2016 and August 29, 2015 consisted of the following:

	May 28, 2016	August 29, 2015
	(Dollars in thousands)	
Credit Facility:		
Revolving credit note	$ 40,000	$ 188,000
Term loan	193,750	212,500
Capital lease and financing obligations	28,760	27,804
Total debt	$ 262,510	$ 428,304
Less: current portion of Credit Facility	(83,750)	(213,000)
Less: current portion of capital lease and financing obligations	(885)	(515)
Long-term debt	$ 177,875	$ 214,789

Credit Facility

In April 2013, in connection with the acquisition of the Class C Solutions Group (“CCSG”), the Company entered into a $650,000 credit facility (the “Credit Facility”). The Credit Facility, which matures in April 2018, provides for a five-year unsecured revolving loan facility in the aggregate amount of $400,000 and a five-year unsecured term loan facility in the aggregate amount of $250,000.

The Credit Facility also permits the Company, at its request, and upon the satisfaction of certain conditions, to add one or more incremental term loan facilities and/or increase the revolving loan commitments in an aggregate amount not to exceed $200,000. Subject to certain limitations, each such incremental term loan facility or revolving commitment increase will be on terms as agreed to by the Company, the Administrative Agent and the lenders providing such financing.

Borrowings under the Credit Facility bear interest, at the Company's option, either at (i) the LIBOR (London Interbank Offered Rate) rate plus the applicable margin for LIBOR loans ranging from 1.00% to 1.375%, based on the Company's consolidated leverage ratio; or (ii) the greatest of (a) the Administrative Agent's prime rate in effect on such day, (b) the federal funds effective rate in effect on such day, plus 0.50% and (c) the LIBOR rate that would be calculated as of such day in respect of a proposed LIBOR loan with a one-month interest period, plus 1.00%, plus, in the case of each of clauses (a) through (c), an applicable margin ranging from 0.00% to 0.375%, based on the Company's consolidated leverage ratio. The Company is required to pay a quarterly undrawn fee ranging from 0.10% to 0.20% per annum on the unutilized portion of the Credit Facility based on the Company's consolidated leverage ratio. The Company is also required to pay quarterly letter of credit usage fees ranging between 1.00% to 1.375% (based on the Company's consolidated leverage ratio) on the amount of the daily average outstanding letters of credit, and a quarterly fronting fee of 0.125% per annum on the undrawn and unexpired amount of each letter of credit. The applicable borrowing rate for the Company for any borrowings outstanding under the Credit Facility at May 28, 2016 was 1.45% which represents LIBOR plus 1.00%. Based on the interest period the Company selects, interest may be payable every one, two, three or six months. Interest is reset at the end of each interest period. The Company currently elects to have loans under the Credit Facility bear interest based on LIBOR with one-month interest periods.

MSC INDUSTRIAL DIRECT CO., INC.

Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

The Credit Facility contains several restrictive covenants including the requirement that the Company maintain a maximum consolidated leverage ratio of total indebtedness to EBITDA (earnings before interest expense, taxes, depreciation, amortization and stock based compensation) of no more than 3.00 to 1.00, and a minimum consolidated interest coverage ratio of EBITDA to total interest expense of at least 3.00 to 1.00, during the term of the Credit Facility. Borrowings under the Credit Facility are guaranteed by certain of the Company's subsidiaries.

During the thirty-nine week period ended May 28, 2016, the Company borrowed $88,000 under the revolving loan facility and repaid $236,000 and $18,750 of the revolving loan facility and the term loan facility, respectively. At May 28, 2016 and August 29, 2015, the Company was in compliance with the operating and financial covenants of the Credit Facility.

Capital Lease and Financing Obligations

In connection with the construction of the Company's customer fulfillment center in Columbus, Ohio, the Finance Authority holds the title to the building and entered into a long-term lease with the Company. The lease has a 20-year term with a prepayment option without penalty between 7 and 20 years. At the end of the lease term, the building's title is transferred to the Company for a nominal amount when the principal of and interest on the bonds have been fully paid. The lease has been classified as a capital lease in accordance with ASC Topic 840. At May 28, 2016 and August 29, 2015, the capital lease obligation was approximately $27,023. Under this arrangement, the Finance Authority has issued taxable bonds to finance the structure and site improvements of the Company's customer fulfillment center in the amount of $27,023 outstanding at both May 28, 2016 and August 29, 2015.

From time to time, the Company enters into capital leases and financing arrangements with vendors to purchase certain equipment. The equipment acquired from these vendors is paid over a specified period of time based on the terms agreed upon. During the thirty-nine week period ended May 28, 2016, the Company entered into a capital lease and various financing obligations for certain information technology equipment totaling $1,321 and $453, respectively. During the fiscal year ended August 29, 2015, the Company entered into various financing obligations for certain information technology equipment totaling $530. The gross amount of property and equipment acquired under these capital leases and financing agreements at May 28, 2016 and August 29, 2015 was approximately $30,423 and $32,535 respectively. Related accumulated amortization totaled $2,591 and $4,815 as of May 28, 2016 and August 29, 2015, respectively.

Note 6. Shareholders' Equity

The Company paid regular cash dividends of $1.29 per common share totaling $79,351 for the thirty-nine weeks ended May 28, 2016. For the thirty-nine weeks ended May 30, 2015, the Company paid cash dividends of $259,546 which consisted of a special cash dividend of $3.00 per common share and regular cash dividends of $1.20 per common share totaling $185,403 and $74,143, respectively. On June 23, 2016, the Board of Directors declared a quarterly cash dividend of $0.43 per share payable on July 26, 2016 to shareholders of record at the close of business on July 12, 2016. The dividend will result in a payout of approximately $26,428, based on the number of shares outstanding at June 30, 2016.

The Board of Directors established the MSC Stock Repurchase Plan (the "Repurchase Plan") which allows the Company to repurchase shares at any time and in any increments it deems appropriate in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During the thirty-nine week period ended May 28, 2016, the Company repurchased 335 shares of its Class A common stock for $19,372, which is reflected at cost as treasury stock in the accompanying condensed consolidated financial statements. Approximately 37 of these shares were repurchased by the Company to satisfy the Company's associates' tax withholding liability associated with its share-based compensation program. As of May 28, 2016, the maximum number of shares that can be repurchased under the Repurchase Plan was 1,444 shares.

On July 6, 2016, the Company announced its plans to commence a tender offer to purchase for cash up to $300,000 in value of shares of its Class A common stock through a modified "Dutch auction" tender offer at a price per share of not less than $66.00 and not greater than $72.50 (the "Proposed Tender Offer"). The tender offer is expected to commence on or about July 7, 2016 and will remain open for at least 20 business days. In addition, the Company has entered into a stock purchase agreement with the holders of the Company's Class B common stock (the "Class B Holders") to purchase (the

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Notes to Condensed Consolidated Financial Statements

(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

"Stock Purchase") from the Class B Holders a pro rata number of shares at the price per share to be paid by the Company in the Proposed Tender Offer, such that the Class B Holders' percentage ownership and voting power in the Company would remain substantially the same as prior to the Proposed Tender Offer. The Class B Holders also have agreed not to participate in the Proposed Tender Offer. The Company expects that it would finance the purchases in the Proposed Tender Offer and Stock Purchase with proceeds from the sale of $175,000 in principal amount of unsecured Senior Notes (the "Notes") to be issued to New York Life Insurance Company and one or more of its affiliates and borrowings under the Credit Facility. The Proposed Tender Offer would be contingent upon, among other customary items, the successful closing of the sale of the Notes. Shares of the Company's common stock that would be purchased pursuant to the Tender Offer and the Stock Purchase would not reduce the number of shares that may be repurchased under the Repurchase Plan.

Note 7. Product Warranties

The Company generally offers a maximum one-year warranty, including parts and labor, for some of its machinery products. The specific terms and conditions of those warranties vary depending upon the product sold. The Company may be able to recoup some of these costs through product warranties it holds with its original equipment manufacturers, which typically range from thirty to ninety days. In general, many of the Company's general merchandise products are covered by third party original equipment manufacturers' warranties. The Company's warranty expense for the thirteen and thirty-nine week periods ended May 28, 2016 and May 30, 2015 was minimal.

Note 8. Income Taxes

During the thirty-nine week period ended May 28, 2016, there were no material changes in unrecognized tax benefits.

Note 9. Legal Proceedings

There are various claims, lawsuits, and pending actions against the Company incidental to the operation of its business. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Note 10. Recently Issued Accounting Standards

Share-based Payments

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact the adoption of the pronouncement may have on its financial position, results of operations or cash flows.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. ASU 2016-02 requires reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. ASU 2016-02 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. The guidance will be applied on a modified retrospective basis beginning with the earliest period presented. The Company is currently evaluating this standard to determine the impact of adoption on our consolidated financial statements.

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Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax liabilities and assets as non-current within a classified balance sheet. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted. The Company does not expect adoption of ASU 2015-17 to have a material impact on its financial position, results of operations or cash flows.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted. The Company does not expect adoption of ASU 2015-11 to have a material impact on its financial position, results of operations or cash flows.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The Company does not expect adoption of ASU 2015-03 to have a material impact on its financial position, results of operations or cash flows.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company for its fiscal 2019 first quarter. Early application is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has neither selected a transition method, nor determined the impact that the adoption of the pronouncement may have on its financial position, results of operations or cash flows.

Note 11. Subsequent Events

On July 1, 2016, the Company's subsidiary, Sid Tool Co., Inc. ("Sid Tool") entered into an agreement with Mitchmar Atlanta Properties, Inc. ("Mitchmar") to purchase our Atlanta Customer Fulfillment Center ("Atlanta CFC") and the real property on which the Atlanta CFC is situated for a purchase price of $33,650. Sid Tool has leased the Atlanta CFC from Mitchmar since 1989. Mitchmar is owned by Mitchell Jacobson, the Company's Chairman, and his sister, Marjorie Gershwind Fiverson, and two family related trusts, and the beneficiaries of one of such trusts include the children of Erik Gershwind, the Company's Chief Executive Officer. The transaction is expected to close in August 2016.

On July 6, 2016, the Company announced its plans to commence the Proposed Tender Offer. The tender offer is expected to commence on or about July 7, 2016 and will remain open for at least 20 business days. In addition, the Company has entered into a stock purchase agreement with the Class B Holders to purchase from the Class B Holders a pro rata number of shares at the price per share to be paid by the Company in the Proposed Tender Offer, such that the Class B Holders' percentage ownership and voting power in the Company would remain substantially the same as prior to the

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(Dollar amounts and shares in thousands, except per share data)

(Unaudited)

Proposed Tender Offer. The Class B Holders also have agreed not to participate in the Proposed Tender Offer. The Company expects that it would finance the purchases in the Proposed Tender Offer and Stock Purchase with proceeds from the sale of $175,000 in principal amount of Notes to be issued to New York Life Insurance Company and one or more of its affiliates and borrowings under the Credit Facility. The Proposed Tender Offer would be contingent upon, among other customary items, the successful closing of the sale of the Notes. Shares of the Company's common stock that would be purchased pursuant to the Tender Offer and the Stock Purchase would not reduce the number of shares that may be repurchased under the Repurchase Plan.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is intended to update the information contained in the Company's Annual Report on Form 10-K for the fiscal year ended August 29, 2015 and presumes that readers have access to, and will have read, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in such Annual Report on Form 10-K.

Overview

MSC Industrial Direct Co., Inc. (together with its subsidiaries, "MSC," the "Company," "we," "our," or "us") is a leading Nort American distributor of a broad range of metalworking and maintenance, repair, and operations ("MRO") products and services. Our goal is to help our customers drive greater productivity, profitability and growth with more than one million products, inventory management and other supply chain solutions, and deep expertise from 75 years of working with customers across industries. We continue to implement our strategies to gain market share, generate new customers, increase sales to existing customers, and diversify our customer base.

Our experienced team of more than 6,500 associates works with our customers to help drive results for their businesses, from keeping operations running efficiently today to continuously rethinking, retooling, and optimizing for a more productive tomorrow. We offer approximately 1,140,000 stock-keeping units ("SKUs") through our master catalogs; weekly, monthly and quarterly specialty and promotional catalogs; brochures; and the Internet, including our websites, mscdirect.com, and use-enco.com (the "MSC Websites"). We service our customers from 12 customer fulfillment centers (eight customer fulfillment centers are located within the United States which includes five primary customer fulfillment centers, one is located in the United Kingdom (the "U.K."), and three are located in Canada) and 94 branch offices. Many of our products are carried in stock, and orders for these in-stock products are typically fulfilled the day on which the order is received.

Our field sales and service associate headcount was 2,330 at May 28, 2016, compared to 2,350 at August 29, 2015 and 2,334 at May 30, 2015. Beginning in fiscal 2016, we have adjusted this headcount metric to include both field sales associates and service personnel. We believe this better reflects our company as a sales and service organization given our increased concentration in inventory management solutions, including Vendor Managed Inventory ("VMI") systems and vending machine systems. Prior year amounts have been restated to conform to the fiscal 2016 presentation. We will continue to manage our sales and service headcount based on economic conditions and our business plans.

Business Environment

We utilize various indices when evaluating the level of our business activity. Approximately 69% of our revenues came from sales in the manufacturing sector during the first three quarters of our fiscal year 2016, including certain national account customers. Through statistical analysis, we've found the strongest correlation is between customers' activity and the Metalworking Business Index (“MBI”). The MBI measures the economic activity of the metalworking industry, focusing only on durable goods manufacturing. Another index we’ve previously used is the Institute for Supply Management’s Purchasing Manager’s Index (“PMI”). However, recent analysis has shown only a small correlation between the PMI and our net sales. For both indices, a value below 50.0 generally indicates contraction and a value above 50.0 generally indicates expansion. The MBI and PMI indices over the past quarter were as follows:

Period	PMI	MBI
March	51.8	49.7
April	50.8	45.9
May	51.3	45.3
Fiscal 2016 Q3 average	51.3	47.0
Fiscal 2016 YTD average	49.7	45.1
12 month average	50.3	45.3

After an improvement to the MBI in March, April and May readings dropped significantly to below 46. This implies a continued, but elevated contraction in the metalworking manufacturing environment. Details released with the May

MBI indicate contraction for the fourteenth consecutive month, including contraction in new orders and production.

We will continue to monitor the current economic conditions for its impact on our customers and markets and continue to assess both risks and opportunities that may affect our business.

Thirteen Week Period Ended May 28, 2016 Compared to the Thirteen Week Period Ended May 30, 2015

The table below summarizes the Company's results of operations both in dollars (in thousands) and as a percentage of net sales for the periods indicated:

	Thirteen Weeks Ended					
	May 28, 2016		May 30, 2015		Change	
	$	%	$	%	$	%
Net sales	$ 727,495	100.0%	$ 745,483	100.0%	$ (17,988)	(2.4)%
Cost of goods sold	400,467	55.0%	407,066	54.6%	(6,599)	(1.6)%
Gross profit	327,028	45.0%	338,417	45.4%	(11,389)	(3.4)%
Operating expenses	221,244	30.4%	234,173	31.4%	(12,929)	(5.5)%
Income from operations	105,784	14.5%	104,244	14.0%	1,540	1.5%
Total other expense	(930)	(0.1)%	(1,631)	(0.2)%	701	(43.0)%
Income before provision for income taxes	104,854	14.4%	102,613	13.8%	2,241	2.2%
Provision for income taxes	40,038	5.5%	39,271	5.3%	767	2.0%
Net income	$ 64,816	8.9%	$ 63,342	8.5%	$ 1,474	2.3%

Net Sales

Net sales decreased 2.4% or approximately $18.0 million, for the thirteen week period ended May 28, 2016. We estimate that this $18.0 million decrease in net sales is comprised of (i) approximately $11.4 million of lower sales volume, (ii) approximately $1.1 million from foreign exchange impact, and (iii) approximately $5.5 million from pricing, which includes changes in customer and product mix, discounting and other items. Of the above $18.0 million decrease in net sales, sales other than to our Large Account Customers decreased by approximately $19.9 million, partially offset by an increase of sales to our Large Account Customers by approximately $1.9 million.

The table below shows the change in our average daily sales by total company and by customer type for the thirteen week period ended May 28, 2016 compared to the same period in the prior fiscal year:

Average Daily Sales Percentage Change
(unaudited)

2016 vs. 2015 Fiscal Period	Thirteen Week Period Ended Fiscal Q3		% of Total Business	
Total Company	(3.9)	%		
Manufacturing Customers(1)	(6.8)	%	68	%
Non-Manufacturing Customers(1)	2.6	%	32	%

(1) Excludes U.K. operations.

Exclusive of customers in the U.K., average order size decreased to approximately $406 for the thirteen week period ended May 28, 2016 as compared to $410 for the same period in the prior fiscal year.

We believe that our ability to transact business with our customers through various electronic portals and directly through the MSC Websites gives us a competitive advantage over smaller suppliers. Sales made through our eCommerce platforms, including sales made through Electronic Data Interchange ("EDI") systems, VMI systems, Extensible Markup Language ordering based systems, vending machine systems, hosted systems and other electronic portals ("eCommerce platforms"), represented 58.6% of consolidated net sales for the thirteen week period ended May 28, 2016, compared to 56.0% of consolidated net sales for the same period in the prior fiscal year. This increase was primarily associated with the MSC Websites, EDI, and vending machine systems.

Gross Profit

Gross profit margin was 45.0% for the thirteen week period ended May 28, 2016 as compared to 45.4% for the same period in the prior fiscal year. The decline was primarily a result of changes in pricing and customer and product mix.

Operating Expenses

Operating expenses decreased 5.5% to $221.2 million for the thirteen week period ended May 28, 2016, as compared to $234.2 million for the same period in the prior fiscal year. This decrease was primarily the result of lower payroll and payroll related costs.

Operating expenses were 30.4% of net sales for the thirteen week period ended May 28, 2016 compared to 31.4% of net sales for the same period in the prior fiscal year.

Payroll and payroll related costs decreased to approximately 53.4% of total operating expenses for the thirteen week period ended May 28, 2016, as compared to approximately 54.3% for the thirteen week period ended May 30, 2015. Included in these costs are salary, incentive compensation, sales commission and fringe benefit costs. All of these costs decreased for the thirteen week period ended May 28, 2016, as compared to the same period in the prior fiscal year, with the majority of the decrease attributable to the incentive compensation accrual and fringe benefit costs. We decreased the incentive compensation accrual based on our actual third quarter performance and our fourth quarter expectations. Within fringe benefit costs, we experienced lower medical costs for the thirteen week period ended May 28, 2016, as compared to the same period in the prior fiscal year.

Income from Operations

Income from operations increased 1.5% to $105.8 million for the thirteen week period ended May 28, 2016, as compared to $104.2 million for the same period in the prior fiscal year. This increase was primarily attributable to the decrease in operating expenses as discussed above, offset in part by the decrease in gross profit. Income from operations as a percentage of net sales increased to 14.5% for the thirteen week period ended May 28, 2016, as compared to 14.0% for the same period in the prior fiscal year primarily due to a decrease in operating expenses as discussed above.

Provision for Income Taxes

The effective tax rate for the thirteen week period ended May 28, 2016 was 38.2%, as compared to 38.3% for the same period in the prior fiscal year.

Net Income

The factors which affected net income for the thirteen week period ended May 28, 2016, as compared to the same period in the previous fiscal year, have been discussed above.

Thirty-Nine Week Period Ended May 28, 2016 Compared to the Thirty-Nine Week Period Ended May 30, 2015

The table below summarizes the Company's results of operations both in dollars (in thousands) and as a percentage of net sales for the periods indicated:

	Thirty-Nine Weeks Ended					
	May 28, 2016		May 30, 2015		Change	
	$	%	$	%	$	%
Net sales	$ 2,118,431	100.0%	$ 2,182,974	100.0%	$ (64,543)	(3.0)%
Cost of goods sold	1,163,640	54.9%	1,193,534	54.7%	(29,894)	(2.5)%
Gross profit	954,791	45.1%	989,440	45.3%	(34,649)	(3.5)%
Operating expenses	678,077	32.0%	705,351	32.3%	(27,274)	(3.9)%
Income from operations	276,714	13.1%	284,089	13.0%	(7,375)	(2.6)%
Total other expense	(2,652)	(0.1)%	(4,550)	(0.2)%	1,898	(41.7)%
Income before provision for income taxes	274,062	12.9%	279,539	12.8%	(5,477)	(2.0)%
Provision for income taxes	104,692	4.9%	107,253	4.9%	(2,561)	(2.4)%
Net income	$ 169,370	8.0%	$ 172,286	7.9%	$ (2,916)	(1.7)%

Net Sales

Net sales decreased 3.0% or approximately $64.5 million, for the thirty-nine week period ended May 28, 2016. We estimate that this $64.5 million decrease in net sales is comprised of (i) approximately $54.3 million of lower sales volume, (ii) approximately $5.2 million from foreign exchange impact, and (iii) approximately $5.0 million from pricing, which includes changes in customer and product mix, discounting and other items. Of the above $64.5 million decrease in net sales, sales other than to our Large Account Customers decreased by approximately $76.3 million, partially offset by an increase of sales to our Large Account Customers by approximately $11.8 million.

The table below shows the change in our average daily sales by total company and by customer type for the thirty-nine week period ended May 28, 2016 compared to the same period in the prior fiscal year:

Average Daily Sales Percentage Change
(unaudited)

2016 vs. 2015 Fiscal Period	Thirty-Nine Week Period Ended Fiscal Q3		% of Total Business	
Total Company	(3.5)	%		
Manufacturing Customers(1)	(5.7)	%	69	%
Non-Manufacturing Customers(1)	1.4	%	31	%

(1) Excludes U.K. operations.

Exclusive of customers in the U.K., average order size decreased to approximately $413 for the thirty-nine week period ended May 28, 2016 as compared to $416 for the same period in the prior fiscal year.

Sales made through our eCommerce platforms represented 57.8% of consolidated net sales for the thirty-nine week period ended May 28, 2016, compared to 55.3% of consolidated net sales for the same period in the prior fiscal year. This increase was primarily associated with the MSC Websites, EDI, and vending machine systems.

Gross Profit

Gross profit margin was 45.1% for the thirty-nine week period ended May 28, 2016 as compared to 45.3% for the same period in the prior fiscal year. The decline was primarily a result of changes in pricing and customer and product mix.

Operating Expenses

Operating expenses decreased 3.9% to $678.1 million for the thirty-nine week period ended May 28, 2016, as compared to $705.4 million for the same period in the prior fiscal year. This decrease was primarily the result of cost savings initiatives implemented during the second half of fiscal 2015 and fiscal 2016, including freight expense, lower variable payroll costs, as well as the ongoing monitoring of discretionary spending. Freight expense was approximately $87.7 million for the thirty-nine week period ended May 28, 2016, as compared to approximately $94.0 million for the thirty-nine week period ended May 30, 2015. These decreases were partially offset by increases in medical costs.

Operating expenses were 32.0% of net sales for the thirty-nine week period ended May 28, 2016 compared to 32.3% of net sales for the same period in the prior fiscal year.

Payroll and payroll related costs increased to approximately 55.1% of total operating expenses for the thirty-nine week period ended May 28, 2016, as compared to approximately 53.4% for the thirty-nine week period ended May 30, 2015. Included in these costs are salary, incentive compensation, sales commission and fringe benefit costs. An increase in fringe benefit costs was the main driver for the increase in payroll and payroll related costs for the thirty-nine week period ended May 28, 2016, as compared to the same period in the prior fiscal year. Effective January 1, 2016, the Company transitioned from a self-insured plan to a fully insured private healthcare exchange. As a result of associates anticipating this transition, the Company experienced increased medical costs in December 2015. These increases were offset by lower variable payroll costs, including sales salaries and commissions.

Income from Operations

Income from operations decreased 2.6% to $276.7 million for the thirty-nine week period ended May 28, 2016, as compared to $284.1 million for the same period in the prior fiscal year. This decrease was primarily attributable to the decrease in gross profit, offset in part by the decrease in operating expenses discussed above. Income from operations as a percentage of net sales increased to 13.1% for the thirty-nine week period ended May 28, 2016, as compared to 13.0% for the same period in the prior fiscal year primarily due to a decrease in operating expenses as discussed above.

Provision for Income Taxes

The effective tax rate for the thirty-nine week period ended May 28, 2016 was 38.2%, as compared to 38.4% for the same period in the prior fiscal year.

Net Income

The factors which affected net income for the thirty-nine week period ended May 28, 2016, as compared to the same period in the previous fiscal year, have been discussed above.

Liquidity and Capital Resources

As of May 28, 2016, we held $32.3 million in cash and cash equivalent funds. We maintain a substantial portion of our cash, and invest our cash equivalents, with well-known financial institutions. Historically, our primary capital needs have been to fund our working capital requirements necessitated by our sales growth, the costs of acquisitions, adding new products, new facilities, facility expansions, investments in vending solutions, technology investments, and productivity investments. Cash generated from operations, together with borrowings under credit facilities, have been used to fund these needs, to repurchase shares of our Class A common stock, and to pay dividends. At May 28, 2016, total borrowings outstanding, representing amounts due under the Credit Facility (discussed below) and all capital leases and financing arrangements, were approximately $262.5 million. At August 29, 2015, total borrowings outstanding, representing amounts due under the Credit Facility and all capital leases and financing arrangements, were approximately $428.3 million.

As a distributor, maintaining adequate working capital to meet our customer needs is paramount. For the thirty-nine week period ended May 28, 2016, working capital management was the main contributor to the generation of cash flow. Our cash flow from operations is generally utilized to meet capital expenditure commitments for property, plant and equipment which typically consist of information technology assets, warehouse equipment, office furniture and fixtures, building and leasehold improvements, construction and expansion, and vending machines. Therefore, the amount of cash consumed or generated by operations other than from net earnings will primarily be due to changes in working capital mostly due to the rate of increase or decrease in sales.

We believe, based on our current business plan, that our existing cash, cash equivalents, funds available under our revolving credit facility, and cash flow from operations will be sufficient to fund our planned capital expenditures and operating cash requirements for at least the next 12 months.

We are continuing to take advantage of our strong balance sheet, which enables us to maintain optimal inventory and service levels to meet customer demands, while many of our smaller competitors in our fragmented industry continue to have difficulties in offering competitive service levels. We also believe that customers will continue to seek cost reductions and shorter cycle times from their suppliers. Our business model focuses on providing overall procurement cost reduction and just-in-time delivery to meet our customers' needs. We focus on offering inventory, process and procurement solutions that reduce MRO supply chain costs and improve plant floor productivity for our customers. We will seek to continue to drive cost reduction throughout our business through cost saving strategies and increased leverage from our existing infrastructure, and continue to provide additional procurement cost savings solutions to our customers through technology such as our Customer Managed Inventory ("CMI"), VMI, and vending programs.

The table below summarizes information regarding the Company's liquidity and capital resources:

	Thirty-Nine Weeks Ended	
	May 28, 2016	May 30, 2015
	(Amounts in thousands)	
Net cash provided by operating activities	$ 285,822	$ 162,973
Net cash used in investing activities	$ (34,714)	$ (38,176)
Net cash used in financing activities	$ (257,013)	$ (146,862)
Effect of foreign exchange rate changes on cash and cash equivalents	$ (34)	$ (226)
Net decrease in cash and cash equivalents	$ (5,939)	$ (22,291)

Proposed Tender Offer and Stock Purchase

On July 6, 2016, the Company announced its plans to commence a tender offer to purchase for cash up to $300.0 million in value of shares of its Class A common stock through a modified "Dutch auction" tender offer at a price per share of not less than $66.00 and not greater than $72.50 (the "Proposed Tender Offer"). The tender offer is expected to commence on or about July 7, 2016 and will remain open for at least 20 business days. In addition, the Company has entered into a stock purchase agreement with the holders of the Company's Class B common stock (the "Class B Holders") to purchase (the "Stock Purchase") from the Class B Holders a pro rata number of shares at the price per share to be paid by the Company in the Proposed Tender Offer, such that the Class B Holders' percentage ownership and voting power in the Company would remain substantially the same as prior to the Proposed Tender Offer. The Class B Holders also have agreed not to participate in the Proposed Tender Offer. The Company expects that it would finance the purchases in the Proposed Tender Offer and Stock Purchase with proceeds from the sale of $175.0 million in principal amount of unsecured Senior Notes (the "Notes") to be issued to New York Life Insurance Company and one or more of its affiliates and borrowings under the Company's existing credit facility. The Proposed Tender Offer would be contingent upon, among other customary items, the successful closing of the sale of the Notes. Shares of the Company’s common stock that would be purchased pursuant to the Tender Offer and the Stock Purchase would not reduce the number of shares that may be repurchased under the Repurchase Plan.

Operating Activities

Net cash provided by operating activities for the thirty-nine week periods ended May 28, 2016 and May 30, 2015 was $285.8 million and $163.0 million, respectively. There are various increases and decreases contributing to this change. Decreases in inventories and accounts receivable as a result of decreased sales volume contributed to the majority of the increase in net cash provided by operating activities.

The table below provides the Company’s working capital and current ratio:

	May 28, 2016	August 29, 2015	May 30, 2015
	(Dollars in thousands)		
Working Capital	$ 680,446	$ 609,739	$ 565,605
Current Ratio	3.3	2.4	2.2

The increase in working capital and the current ratio at May 28, 2016 compared to August 29, 2015 and May 30, 2015, is primarily related to the repayments under the revolving loan facility in fiscal 2016, partially offset by the decreases in inventories and accounts receivable.

Investing Activities

Net cash used in investing activities for the thirty-nine week periods ended May 28, 2016 and May 30, 2015 was $34.7 million and $38.2 million, respectively. The use of cash for both periods was attributable to expenditures for property, plant, and equipment.

Financing Activities

Net cash used in financing activities for the thirty-nine week periods ended May 28, 2016 and May 30, 2015 was $257.0 million and $146.9 million, respectively. The major components contributing to the use of cash for the thirty-nine week period ended May 28, 2016 were repayments on the Credit Facility of $254.8 million related to both the revolving loan facility and term loan facility, cash dividends paid of $79.4 million, and the repurchase of shares of Class A common stock of $19.4 million. This was partially offset by borrowings under the revolving loan facility in the amount of $88.0 million. The major components contributing to the use of cash for the thirty-nine week period ended May 30, 2015 were cash dividends paid of $259.5 million, and repayments on the Credit Facility of $181.8 million related to both the revolving loan facility and term loan facility. This was partially offset by borrowings under the revolving loan facility in the amount of $306.0 million.

Long-term Debt and Credit Facilities

In April 2013, in connection with the acquisition of CCSG, we entered into a $650.0 million credit facility (the "Credit Facility"). The Credit Facility, which matures in April 2018, provides for a five-year unsecured revolving loan facility in the aggregate amount of $400.0 million and a five-year unsecured term loan facility in the aggregate amount of $250.0 million.

During the thirty-nine week period ended May 28, 2016, we borrowed $88.0 million under the revolving loan facility and repaid $236.0 million of the revolving loan balance and $18.8 million of the term loan. As of May 28, 2016, there were $193.8 million and $40.0 million of borrowings outstanding under the term loan facility and the revolving credit facility, respectively, of which $83.8 million represents current maturities. As of August 29, 2015, there were $212.5 million and $188.0 million of borrowings outstanding under the term loan facility and the revolving credit facility, respectively, of which $213.0 million represents current maturities.

At May 28, 2016, we were in compliance with the operating and financial covenants of the Credit Facility. The Company repaid borrowings of $40.0 million under the revolving loan facility and $6.3 million under the term loan facility in

June 2016. The current unused balance of $400.0 million of the revolving loan facility is available for working capital purposes, if necessary.

Related Party Transactions

On July 1, 2016, the Company’s subsidiary, Sid Tool Co., Inc. (“Sid Tool”) entered into an agreement with Mitchmar Atlanta Properties, Inc. (“Mitchmar”) to purchase our Atlanta Customer Fulfillment Center (“Atlanta CFC”) and the real property on which the Atlanta CFC is situated, comprised of a fee interest of 66.54 acres and a 696,738 square foot distribution center originally built in 1989, with additions in 1996, 2003 and 2008, for a purchase price of $33.65 million. Sid Tool has leased the Atlanta CFC from Mitchmar since 1989. Mitchmar is owned by Mitchell Jacobson, the Company’s Chairman, and his sister, Marjorie Gershwind Fiverson, and two family related trusts, and the beneficiaries of one of such trusts include the children of Erik Gershwind, the Company’s Chief Executive Officer. The purchase price was determined by an independent appraisal process, as provided in the lease agreement for the Atlanta facility. The transaction is expected to close in August 2016.

The transaction was approved by the Company’s Board of Directors upon the recommendation of a special committee of independent directors which was responsible for evaluating the terms of the transaction. Both the Company’s Board of Directors and the special committee determined that the transaction was in the best interests of the Company and its shareholders. The special committee was advised by independent counsel in connection with its evaluation and negotiation of the terms of the transaction and the purchase agreement.

Rent expense applicable to the facility was approximately $1.5 million for the thirty-nine weeks ended May 28, 2016. As a result of the transaction noted above, we are recording accelerated depreciation, partially offset by the release of a deferred rent liability, throughout the remainder of our fiscal 2016.

Contractual Obligations

Capital Lease and Financing Arrangements

In connection with the construction of the Company’s customer fulfillment center in Columbus, Ohio, the Company entered into a long-term lease with the Columbus-Franklin County Finance Authority. The lease has been classified as a capital lease. At May 28, 2016, the capital lease obligation was approximately $27.0 million.

From time to time, we enter into capital leases and financing arrangements to purchase certain equipment. Excluding the Columbus facility capital lease discussed above, we currently have various capital leases and financing obligations for certain information technology equipment in the amount of $3.4 million, of which $1.7 million remains outstanding at May 28, 2016. Refer to Note 5 in our condensed consolidated financial statements.

Operating Leases

As of May 28, 2016, certain of our operations are conducted on leased premises, of which one location is leased from Mitchmar (which requires us to provide for the payment of real estate taxes and other operating costs), as noted above. These leases are for varying periods, the longest extending to the year 2030. In addition, we are obligated under certain equipment and automobile operating leases, which expire on varying dates through 2020.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Critical Accounting Estimates

On an ongoing basis, we evaluate our critical accounting policies and estimates, including those related to revenue recognition, inventory valuation, allowance for doubtful accounts, warranty and self-insured group health plan reserves, contingencies and litigation, income taxes, accounting for goodwill and long-lived assets, stock-based compensation, and business combinations. We make estimates, judgments and assumptions in determining the amounts reported in the condensed consolidated financial statements and accompanying notes. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The estimates are used to form the basis for making judgments about the carrying values of assets and liabilities and the amount of revenues and expenses reported that are not readily apparent from other sources. Actual results may differ from these estimates.

There have been no material changes in the Company’s Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the fiscal year ended August 29, 2015.

Recently Issued Accounting Standards

See Note 10 to the accompanying condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposures to market risks since August 29, 2015. Please refer to the Annual Report on Form 10-K for the fiscal year ended August 29, 2015 for a complete discussion of our exposures to market risks.

Item 4. Controls and Procedures

Our senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, as well as other key members of our management, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Exchange Act) during the fiscal quarter ended May 28, 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are various claims, lawsuits, and pending actions against the Company incidental to the operation of its business. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 29, 2015, which could materially affect our business, financial condition or future results. The risks described in the aforementioned report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially adversely affect our business, financial condition and/or operating results. The following risk has been added:

The Proposed Tender Offer and Stock Purchase could adversely impact us and the trading market for our common stock.

We expect that we would finance the Proposed Tender Offer and Stock Purchase with proceeds from the sale of $175 million in principal amount of unsecured Senior Notes to be issued to New York Life Insurance Company and one or more of its affiliates and borrowings under our existing credit facilities. If we incur such additional indebtedness, this increased leverage would increase our interest expense, could reduce our ability to engage in significant transactions, including acquisitions and future share repurchases, without additional debt or equity financing, and could negatively affect our liquidity during periods of reduced revenue generation, increased capital spending or higher operating expenses. As a result, this increased leverage could have a material adverse effect our business, financial condition and results of operations.

In addition, if we commence and successfully complete the Proposed Tender Offer, the tender offer would reduce our "public float" (the number of shares of our Class A common stock owned by non-affiliate shareholders and available for trading in the securities markets). Securities with a lower public float may command a lower price than would a comparable security with a larger float. As a result, the Proposed Tender Offer could result in lower stock prices or reduced liquidity in the trading market for our shares.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth repurchases by the Company of its outstanding shares of Class A common stock during the thirteen week period ended May 28, 2016:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

2/28/16 - 3/28/16	461	$ 69.79	—	1,444,034
3/29/16 - 4/28/16	6	74.71	—	1,444,034
4/29/16 - 5/28/16	14	75.68	—	1,444,034
Total	481	$ 70.02	—	

(1) During the thirteen weeks ended May 28, 2016, 481 shares of our common stock were withheld by the Company as payment to satisfy our associates' tax withholding liability associated with our share-based compensation program and are included in the total number of shares purchased.

(2) Activity is reported on a trade date basis.

(3) During fiscal year 1999, the Board of Directors established the MSC Stock Repurchase Plan, which we refer to as the "Repurchase Plan." The total number of shares of our Class A common stock initially authorized for future repurchase was set at 5,000,000 shares. On January 8, 2008, the Board of Directors reaffirmed and replenished the Repurchase Plan and set the total number of shares of Class A common stock authorized for future repurchase at 7,000,000 shares. On October 21, 2011, the Board of Directors reaffirmed and replenished the Repurchase Plan and set the total number of shares of Class A common stock authorized for future repurchase at 5,000,000 shares. As of May 28, 2016, the maximum number of shares that may yet be repurchased under the Repurchase Plan was 1,444,034 shares. There is no expiration date for this program.

On July 6, 2016, the Company announced its plans to commence the Proposed Tender Offer. The tender offer is expected to commence on or about July 7, 2016 and will remain open for at least 20 business days. In addition, the Company has entered into a stock purchase agreement with the Class B Holders to purchase from the Class B Holders a pro rata number of shares at the price per share to be paid by the Company in the Proposed Tender Offer, such that the Class B Holders' percentage ownership and voting power in the Company would remain substantially the same as prior to the Proposed Tender Offer. The Class B Holders also have agreed not to participate in the Proposed Tender Offer. The Company expects that it would finance the purchases in the Proposed Tender Offer and Stock Purchase with proceeds from the sale of $175 million in principal amount of Notes to be issued to New York Life Insurance Company and one or more of its affiliates and borrowings under the Company's existing credit facility. The Proposed Tender Offer would be contingent upon, among other customary items, the successful closing of the sale of the Notes. Shares of the Company's common stock that would be purchased pursuant to the Tender Offer and the Stock Purchase would not reduce the number of shares that may be repurchased under the Repurchase Plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

On July 1, 2016, the Company's subsidiary, Sid Tool Co., Inc. ("Sid Tool") entered into an agreement with Mitchmar Atlanta Properties, Inc. ("Mitchmar") to purchase our Atlanta Customer Fulfillment Center ("Atlanta CFC") and the real property on which the Atlanta CFC is situated, comprised of a fee interest of 66.54 acres and a 696,738 square foot distribution center originally built in 1989, with additions in 1996, 2003 and 2008, for a purchase price of $33.65 million. Sid Tool has leased the Atlanta CFC from Mitchmar since 1989. Mitchmar is owned by Mitchell Jacobson, the Company's Chairman, and his sister, Marjorie Gershwind Fiverson, and two family related trusts, and the beneficiaries of one of such trusts include the children of Erik Gershwind, the Company's Chief Executive Officer. The purchase price was determined by an independent appraisal process, as provided in the lease agreement for the Atlanta facility. The transaction is expected to close in August 2016.

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Item 6. Exhibits

Exhibits:

31.1	Chief Executive Officer’s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Chief Financial Officer’s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

MSC Industrial Direct Co., Inc.
(Registrant)

Dated: July 6, 2016 By: /s/ ERIK GERSHWIND

President and Chief Executive Officer
(Principal Executive Officer)

Dated: July 6, 2016 By: /s/ RUSTOM JILLA

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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