

MSC INDUSTRIAL DIRECT CO INC  
Form 10-Q  
January 08, 2009

**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 November 29, 2008

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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**11-3289165**  
(I.R.S. Employer Identification No.)

**75 Maxess Road, Melville, New York**  
(Address of principal executive offices)

**11747**  
(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 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

Smaller reporting  
company

(Do not check if a  
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

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As of January 6, 2009, 43,872,904 shares of Class A common stock and 18,389,874 shares of Class B common stock of the registrant were outstanding.

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**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 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 year ended August 30, 2008. 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:

current economic, political, and social unrest;

general economic conditions in the markets in which the Company operates;

competition;

industry consolidation;

changing customer and product mixes;

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 orders;

work stoppages or other business interruptions (including those due to extreme weather conditions) at transportation centers or shipping ports;

financial restrictions on outstanding borrowings;

retention of key personnel;

changing market conditions; and

dependence on our information systems.



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)

	November 29, 2008	August 30, 2008
	(Unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 91,259	\$ 42,843
Accounts receivable, net of allowance for doubtful accounts of \$6,535 and \$6,002, respectively	201,564	216,407
Inventories	324,705	320,434
Prepaid expenses and other current assets	16,226	19,185
Deferred income taxes	24,816	23,807
Total current assets	658,570	622,676
Property, plant and equipment, net	130,305	128,931
Goodwill	272,143	272,143
Identifiable intangibles, net	61,050	62,885
Other assets	13,373	16,091
Total assets	\$ 1,135,441	\$ 1,102,726
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Revolving credit notes	\$ 95,000	\$ 91,000
Current maturities of long-term notes payable	46,289	43,726
Accounts payable	54,717	54,511
Accrued liabilities	63,532	61,364
Total current liabilities	259,538	250,601
Long-term notes payable	85,618	98,473
Deferred income tax liabilities	44,083	42,040
Total liabilities	389,239	391,114
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; 59,545,232 and 59,320,412 shares issued, and 43,883,060 and 43,640,352 shares outstanding, respectively	60	59
Class B common stock (ten votes per share); \$0.001 par value; 50,000,000 shares authorized; 18,389,874 shares issued and outstanding	18	18
Additional paid-in capital	435,103	431,330
Retained earnings	790,994	758,347
Accumulated other comprehensive loss	(2,810)	(676)

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Class A treasury stock, at cost, 15,662,172 and 15,680,060 shares, respectively	(477,163)	(477,466)
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<b>Total shareholders' equity</b>	<b>746,202</b>	<b>711,612</b>
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Total liabilities and shareholders' equity	\$ 1,135,441	\$ 1,102,726
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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	
	November 29, 2008	December 1, 2007
Net sales	\$ 433,022	\$ 437,554
Cost of goods sold	228,948	234,984
Gross profit	204,074	202,570
Operating expenses	129,646	124,600
Income from operations	74,428	77,970
Other (Expense) Income:		
Interest expense	(1,894)	(2,464)
Interest income	312	239
Other income, net	5	41
Total other expense	(1,577)	(2,184)
Income before provision for income taxes	72,851	75,786
Provision for income taxes	27,756	28,920
Net income	\$ 45,095	\$ 46,866
Per Share Information:		
Net income per common share:		
Basic	\$ 0.73	\$ 0.71
Diluted	\$ 0.72	\$ 0.70
Weighted average shares used in computing net income per common share:		
Basic	61,613	65,617
Diluted	62,494	66,704
Cash dividend declared per common share	\$ 0.20	\$ 0.18

See accompanying notes to condensed consolidated financial statements.



**MSC INDUSTRIAL DIRECT CO., INC.**  
**Condensed Consolidated Statement of Shareholders' Equity**  
**Thirteen Weeks Ended November 29, 2008**  
(In thousands)  
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Class A Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Cost	
Balance at August 30, 2008	59,320	\$ 59	18,390	\$ 18	\$ 431,330	\$ 758,347	\$ (676)	15,680	\$ (477,466)	\$ 711,612
Exercise of common stock options, including income tax benefits of \$210	36	1			782					783
Common stock issued under associate stock purchase plan					245			(19)	383	628
Grant of restricted common stock, net of cancellations	189									
Stock-based payment expense					2,746					2,746
Purchase of treasury stock								1	(80)	(80)
Cash dividends paid on Class A common stock						(8,770)				(8,770)
Cash dividends paid on Class B common stock						(3,678)				(3,678)
Cumulative translation adjustment							(2,134)			(2,134)
Net income						45,095				45,095
<b>Comprehensive income</b>										<b>42,961</b>
Balance at November 29, 2008	59,545	\$ 60	18,390	\$ 18	\$ 435,103	\$ 790,994	\$ (2,810)	15,662	\$ (477,163)	\$ 746,202

See accompanying notes to condensed consolidated financial statements.

**MSC INDUSTRIAL DIRECT CO., INC.**

**Condensed Consolidated Statements of Cash Flows**

**(In thousands)**

**(Unaudited)**

	<b>Thirteen Weeks Ended</b>	
	<b>November 29,</b>	<b>December 1,</b>
	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 45,095	\$ 46,866