

MSC INDUSTRIAL DIRECT CO INC
Form 10-Q
July 03, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 26, 2007
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, NY

(Address of principal executive offices)

11747

(Zip Code)

(516) 812-2000

(Registrant's telephone number, including area code)

Website: www.mscdirect.com

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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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 July 2, 2007, 47,149,550 shares of Class A common stock and 18,839,874 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 hereof, as well as within this Report generally. In addition, when used in this Report, the words believes, anticipates, expects, estimates, plans, intends, and similar expressions are intended to identify forward-looking statements. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from projected results, as discussed below under the heading Risk Factors. Factors that may cause these differences include, but are not limited to:

- the Company's ability to timely and efficiently integrate the J&L America, Inc. (J&L) business acquired in June 2006 and realize the anticipated revenue and cost synergies from this transaction;
- changing customer and product mixes;
- changing market conditions and industry consolidation;
- competition;
- general economic conditions in the markets in which the Company operates;
- rising commodity and energy prices;
- 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;
- risk of war, terrorism and similar hostilities;
- dependence on our information systems;
- the outcome of potential government or regulatory proceedings or future litigation relating to pending claims, inquiries or audits;
- dependence on key personnel; and
- other matters discussed in the Business Description contained in the Company's Annual Report on Form 10-K for the fiscal year ended August 26, 2006.

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not undertake any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

Available Information

We file annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (the SEC). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at Station Place, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Internet Address

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The Company's Internet address is <http://www.mscdirect.com>. We make available on or through our investor relations page on our website, free of charge, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and beneficial ownership reports on Forms 3, 4, and 5 and amendments to those reports as soon as reasonably practicable after this material is electronically filed or furnished to the SEC. We also make available, on our website, the charters of the committees of our Board of Directors and Management's Code of Ethics, the Code of Business Conduct and Corporate Governance Guidelines pursuant to SEC requirements and New York Stock Exchange listing standards.

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MSC INDUSTRIAL DIRECT CO., INC.

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PART I. FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements****MSC INDUSTRIAL DIRECT CO., INC.****Consolidated Balance Sheets**

(In thousands, except share data)

	May 26, 2007 (Unaudited)	August 26, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,892	\$ 7,718
Accounts receivable, net of allowance for doubtful accounts of \$6,218 and \$4,914, respectively	196,295	185,734
Inventories	317,153	298,391
Prepaid expenses and other current assets	19,874	21,341
Deferred income taxes	19,786	14,289
Total current assets	563,000	527,473
Property, plant and equipment, net	127,323	122,100
Goodwill	272,806	271,652
Identifiable intangibles, net	72,753	76,292
Other assets	8,819	16,781
Total Assets	\$ 1,044,701	\$ 1,014,298
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term notes payable	48,221	7,843
Accounts payable	58,925	56,877
Accrued liabilities	62,728	88,007
Total current liabilities	169,874	152,727
Long-term notes payable	152,490	192,986
Deferred income tax liabilities	32,101	29,312
Total liabilities	354,465	375,025
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; 58,018,223 and 57,475,835 shares issued, and 47,106,956 and 48,087,141 shares outstanding, respectively	58	57
Class B common stock (ten votes per share); \$0.001 par value; 50,000,000 shares authorized; 18,839,874 shares issued and outstanding	19	19
Additional paid-in capital	396,129	379,630
Retained earnings	574,231	477,305
Other comprehensive income	517	27
Class A treasury stock, at cost, 10,911,267, and 9,388,694 shares, respectively	(280,718)	(217,765)
Total shareholders' equity	690,236	639,273
Total Liabilities and Shareholders' Equity	\$ 1,044,701	\$ 1,014,298

See accompanying notes.

MSC INDUSTRIAL DIRECT CO., INC.

Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 26, 2007	May 27, 2006	May 26, 2007	May 27, 2006
Net sales	\$ 431,057	\$ 329,817	\$ 1,237,687	\$ 931,650
Cost of goods sold	231,752	173,812	665,090	491,345
Gross profit	199,305	156,005	572,597	440,305
Operating expenses	123,896	96,977	358,413	275,671
Income from operations	75,409	59,028	214,184	164,634
Other (Expense) Income:				
Interest expense	(3,125)	(7)	(9,667)	(21)
Interest income	271	1,250	708	3,185
Other (expense) income, net	238	56	205	207
Total other (expense) income	(2,616)	1,299	(8,754)	3,371
Income before provision for income taxes	72,793	60,327	205,430	168,005
Provision for income taxes	27,028	23,309	78,862	65,723
Net income	\$ 45,765	\$ 37,018	\$ 126,568	\$ 102,282
Per Share Information (Note 1):				
Net income per common share:				
Basic	\$ 0.70	\$ 0.55	\$ 1.92	\$ 1.53
Diluted	\$ 0.69	\$ 0.54	\$ 1.89	\$ 1.50
Weighted average shares used in computing net income per common share:				
Basic	65,418	67,076	65,834	66,743
Diluted	66,740	68,730	67,079	68,283
Cash dividend paid per common share	\$ 0.18	\$ 0.14	\$ 0.46	\$ 0.40

See accompanying notes.

MSC INDUSTRIAL DIRECT CO., INC.

Consolidated Statement of Shareholders Equity

Thirty-Nine weeks ended May 26, 2007

(In thousands)

(Unaudited)

	Class A		Class B		Additional	Retained	Comprehensive	Class A		Total	
	Common Stock		Common Stock		Paid-In			Other	Treasury Stock		
	Shares	Amount	Shares	Amount	Capital			Earnings	Income		Shares
Balance at August 26, 2006	57,476	\$ 57	18,840	\$ 19	\$ 379,630	\$ 477,305	\$ 27	9,389	\$ (217,765)	\$ 639,273	
Exercise of common stock options, including income tax benefits of \$3,606	405	1			10,070					10,071	
Common stock issued under associate stock purchase plan					199	776		(58)	1,121	2,096	
Grants of restricted stock, net of cancellations	137										
Amortization of restricted stock					1,910					1,910	
Share-based compensation expense					4,320					4,320	
Purchase of treasury stock								1,580	(64,074)	(64,074)	
Cash dividends paid						(30,418)				(30,418)	
Cumulative translation adjustment											