MSC INDUSTRIAL DIRECT CO INC
Form 10-K
October 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended August 29, 2015

OR

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

For the transition period from to

Commission file number 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)

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value $.001	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of Class A common stock held by non-affiliates of the registrant as of February 28, 2015 was approximately $3,471,671,271. As of October 15, 2015, 48,366,309 shares of Class A common stock and 13,295,747 shares of Class B common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's Proxy Statement for its 2016 annual meeting of stockholders is hereby incorporated by reference into Part III of this Annual Report on Form 10-K.

MSC INDUSTRIAL DIRECT CO., INC.

TABLE OF CONTENTS

PART I.

FORWARD LOOKING STATEMENTS

Except for historical information contained herein, certain matters included in this Annual Report on Form 10-K are, or may be deemed to be forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words "will," "may," "designed to," "believe," "should," "anticipat "plan," "expect," "intend," "estimate" and similar expressions identify forward looking statements, which speak only as of the date of this annual report. These forward looking statements are contained principally under Item 1, "Business," and under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Because these forward-looking statements are subject to risks and uncertainties, actual results could differ materially from the expectations expressed in the forward looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward looking statements include those described in Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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. Given these risks and uncertainties, the reader should not place undue reliance on these forward looking statements. We undertake no obligation to update or revise these forward looking statements to reflect subsequent events or circumstances.

ITEM 1. BUSINESS.

General

MSC Industrial Direct Co., Inc. (together with its subsidiaries, "MSC," the "Company," "we," "our," or "us") is a leading Nort American distributor of metalworking and maintenance, repair and operations ("MRO") products and services. We 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 operate primarily in the United States, with customers in all 50 states, through a network of 12 customer fulfillment centers (eight customer fulfillment centers are located within the United States, one is located in the United Kingdom (the "U.K."), and three are located in Canada) and 98 branch offices (97 branches are located within the United States and one is located in the U.K). MSC's primary customer fulfillment centers are located in or near Harrisburg, Pennsylvania; Atlanta, Georgia; Elkhart, Indiana; Reno, Nevada; and Columbus, Ohio. In addition, we operate 7 smaller customer fulfillment centers in or near Hanover Park, Illinois; Dallas, Texas; Shelbyville, Kentucky (repackaging and replenishment center); Wednesbury, United Kingdom; Edmonton, Canada; Beamsville, Canada; and Moncton, Canada. We offer a nationwide cutoff time of 8:00 P.M., Eastern Time on qualifying orders (excluding Class C Solutions Group "CCSG"), which will be delivered to the customer the next-day at no additional cost over standard MSC ground delivery charges. Our experience has been that areas accessible by next-day delivery generate significantly greater sales than areas where next-day delivery is not available.

We offer approximately 1,000,000 stock keeping units ("SKUs") through our master catalogs, weekly, monthly and quarterly specialty and promotional catalogs, brochures and our websites, mscdirect.com and use-enco.com (the "MSC Websites"). 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 business strategy is to provide an integrated, lower cost solution to the purchasing, management and administration of our customers' day-to-day MRO needs. We provide solutions to our customers' MRO needs by providing technical knowledge, metalworking expertise and inventory management capabilities.

We believe we add value to our customers' purchasing process by reducing their total costs for MRO supplies, taking into account both the direct cost of products and the administrative, personnel and financial cost of obtaining and maintaining MRO supplies. We reduce our customers' costs for their MRO supplies in the following manner:

•our extensive product offerings enable customers to reduce the administrative burden of dealing with many suppliers for their MRO needs;

•we guarantee same-day shipping of our catalog SKUs, which represent our core metalworking and MRO products, and offer next-day delivery on qualifying orders (excluding CCSG) placed up until 8:00 P.M., Eastern Time, which enables our customers to reduce their inventory investment and carrying costs;

1

•we consolidate multiple purchases into a single order, provide a single invoice relating to multiple purchases over varying periods of time and offer direct shipments to specific departments and personnel within a single facility or multiple facilities, allowing our customers to reduce administrative paperwork, costs of shipping and personnel costs related to internal distribution and purchase order management;

•we have extensive eCommerce capabilities that enable our customers to lower their procurement costs. These include many features such as sophisticated search and transaction capabilities, access to real-time inventory, customer specific pricing, workflow management tools, customized reporting and other features. We can also interface directly with many purchasing portals, such as ARIBA and Perfect Commerce, in addition to ERP Procurement Solutions, such as Oracle and SAP; and

•we offer inventory management solutions with our Vendor Managed Inventory ("VMI"), Customer Managed Inventory ("CMI") systems and vending solutions, that can lower our customers' inventory investment, reduce sourcing costs and out-of-stock situations and increase business efficiency. Orders generated through these inventory management solutions are integrated directly with mscdirect.com and many third party eProcurement software solutions.

Our customers include a wide range of purchasers of industrial supply products, from individual machine shops to Fortune 100 companies, to government agencies such as the General Services Administration ("GSA") and the Department of Defense. Our business focuses on selling relatively higher margin, lower volume products for which we had an average order size of approximately $417 in fiscal 2015 (excluding U.K. operations). Exclusive of U.K. operations, we have approximately 366,000 active customers (defined as those that have purchased at least one item during the past 12 months). Our customers select desired products from MSC's various publications and the MSC Websites and place their orders through MSC Websites, eProcurement platforms, telephone or facsimile. In addition, customers may place their orders through direct communication with our outside sales associates.

Industry Overview

MSC operates in a large, fragmented industry characterized by multiple channels of distribution. We believe that there are numerous suppliers that serve MRO customers, including retail outlets, small distributorships, national, regional and local distributors, direct mail suppliers, large warehouse stores and manufacturers' own sales forces.

Almost every industrial, manufacturing and service business has an ongoing need for MRO supplies. We believe that, except in the largest industrial plants, inventories for MRO supplies generally are not effectively managed or monitored, resulting in higher purchasing costs and increased administrative burdens. In addition, within larger facilities, such items are frequently stored in multiple locations, resulting in excess inventories and duplicate purchase orders. MRO items also are frequently purchased by multiple personnel in quantities that are not economical and a substantial portion of most facilities' MRO supplies are generally "one-time purchases," resulting in higher purchasing costs and time-consuming administrative efforts by multiple plant personnel.

We believe that there are significant administrative costs associated with generating and manually placing a purchase order. Awareness of these high costs and purchasing inefficiencies has been driving large companies to streamline the purchasing process by utilizing a limited number of suppliers which are able to provide a broad selection of products, inventory management solutions, eCommerce procurement solutions, prompt delivery and superior customer service. Customized billing practices and report generation capabilities tailored to customer objectives are becoming increasingly important to customers seeking to reduce costs, enabling them to significantly reduce the need for purchasing agents and administrative resources. We believe that industry trends and economic pressures have caused customers to reduce their supplier base and move toward more efficient cost-saving models, such as those offered by larger companies like MSC.

Despite the inefficiencies of the traditional MRO purchasing process, long-standing relationships with local retailers and distributors have generally perpetuated the status quo. Due to limited capital availability, eCommerce capabilities and operating leverage, smaller suppliers to the industrial market have been experiencing increasing pressure to consolidate and/or curtail services and certain product lines in order to remain competitive. We believe that the relative inability of these smaller, more traditional distribution channels to respond to these changing industry dynamics has created a continuing opportunity for the growth of larger distributors with the financial strength, skills, eCommerce capabilities and resources of larger distributors such as MSC. As a result of these dynamics, we continue to capture an increased share of sales by providing lower total purchasing costs, broader product selection and a higher level of service to our customers.

We provide a low-cost solution to the purchasing inefficiencies and high costs. Customers that purchase products from us will generally find that their total purchasing costs, including shipping, inventory investment and carrying costs, administrative costs and internal distribution costs are reduced. We achieve these reduced costs through the following:

•consolidation of multiple sources of supply into fewer suppliers;

•consolidation of multiple purchase orders into a single purchase order;

•consolidation of multiple invoices into a single invoice;

•significant reduction in tracking of invoices;

•significant reduction in stocking decisions;

•reduction of purchases for inventory;

•reduction in out-of-stock situations for our customers;

•eCommerce and eProcurement integration capabilities; and

•inventory management solutions including VMI, CMI and vending solutions.

Business Strategy

MSC's business strategy is to help our customers drive greater productivity, profitability and growth by reducing their total cost for obtaining, using, and maintaining their MRO supplies. We do that by offering more than one million products, inventory management and other supply chain solutions, superior customer service and value-added offerings, and deep expertise from 75 years of working with customers across industries.

Our strategy includes the following key elements:

•providing a full suite of inventory management solutions, services and skills to reduce the total cost of procuring, using and disposing of inventory;

•providing a broad selection of in-stock products, including national industry brands and brands exclusive to MSC;

•providing prompt response, same-day shipping, and next-day delivery;

•delivering superior, "one call does it all" customer service and technical support;

•providing a unique, specialized technical process to optimize our customers' tooling usage;

•using advanced technologies to reduce procurement costs; and

•offering competitive pricing that reflects our value offering.

Inventory Management Solutions. Our inventory management solutions approach starts with the understanding that a proper customer assessment is critical to determining the service or group of services that will best meet our customers' needs. Through our associates and their expertise with managing inventory solutions, we are able to develop and recommend solutions that provide a value driven response. Solution options that are customized to address customer size, complexity and processes as well as specific product, technical and cost targets, might include one or several of eProcurement, CMI, VMI, Vending, crib control, or part time or full time on-site resources. The success of each customer engagement is optimized by our world class sourcing, logistics and business systems that provide predictable, reliable and scalable service.

Broad Selection of Products. Our customers are increasingly purchasing from fewer suppliers to reduce the administrative burden of ordering from multiple sources. We believe that our ability to offer customers a broad spectrum of brand name, MSC exclusive brand and generic MRO products and a "good-better-best" product selection alternative has been critical to our success. We offer products with varying degrees of brand name recognition, quality and price, thus permitting the customer to choose the appropriate product based on cost, quality and the customer's specific needs. We offer approximately 1,000,000 SKUs, many of which are in stock and available for immediate shipment, and we aim to provide a broad range of merchandise in order to become our customers' preferred supplier of MRO products.

Same-Day Shipping and Next-Day Delivery. We guarantee same-day shipping of our core metalworking and MRO products. This prompt fulfillment and delivery enables customers to reduce the administrative burden of dealing with many suppliers and reduces their inventory investment and carrying costs. We fulfill our same-day shipment guarantee approximately 99% of the time. We offer a nationwide cutoff time of 8:00 P.M., Eastern Time on qualifying orders (excluding CCSG), which will be delivered to the customer the next-day at no additional cost over standard MSC ground delivery charges. Historically, our results indicate that areas accessible by next-day delivery generate significantly greater sales than areas where next-day delivery is not available.

Superior Customer Service. Customer service is a key element in becoming a customer's preferred provider of MRO supplies. Our commitment to customer service is demonstrated by our investment in sophisticated information systems and extensive training of our associates. Utilizing our proprietary customer support software, MSC's in-bound sales representatives implement the "one call does it all" philosophy. In-bound sales representatives are able to inform customers on a real-time basis of the availability of a product, recommend substitute products, verify credit information, receive special, custom or manufacturer direct orders, cross check inventory items using customer product codes previously entered into our information systems, and arrange or provide technical assistance. We believe that our approach to fulfilling all purchasing needs of a customer through highly trained customer service representatives supported by our proprietary information systems, results in greater efficiency for customers and increased customer satisfaction. To complement our customer service, we seek to ease the administrative burdens on our customers by offering customized billing services, customer savings reports and other customized report features, electronic data interchange ordering, eCommerce capabilities, bulk discounts and stocking of specialty items specifically requested by customers.

We also offer our customers technical support in our value-added solutions for their diverse procurement needs, as well as customized one-on-one service through our field or telemarketing sales representatives. We continue to develop our technical support capabilities in order to better serve our customers. Our customers recognize the value of a distributor that can provide technical support to improve their operations and productivity. We deliver this support through a field-based team of metalworking specialists that provide on-site technical applications support for our customers. In addition, we have centralized technical support teams that can provide phone and email support to both our sales teams and customers on MRO products and applications.

Commitment to Technological Innovation. We take advantage of technological innovations to support growth, improve customer service and reduce our operating costs through more effective buying practices, automated inventory replenishment and efficient order fulfillment operations. MSC's proprietary software tracks all of the SKUs available on the MSC Websites (approximately 1,000,000 SKUs) and enables customers and sales representatives to determine the availability of products in stock on a real-time basis and evaluate alternative products and pricing. The MSC Websites contain a searchable online catalog with electronic ordering capabilities designed to take advantage of the opportunities created by eCommerce. The MSC Websites offer a broad array of products, services, workflow management tools and related information to meet the needs of customers seeking to reduce process costs through eCommerce enabled solutions. Our information systems have been designed to enhance inventory management and turnover, customer service and cost reduction for both MSC and our customers. In addition to internal and customer information systems, we continually upgrade our distribution methods and systems to improve productivity and efficiency. We also provide comprehensive electronic ordering capabilities ("EDI" and "XML") to support our customers' purchase order processing. We continue to invest in inventory management solutions with our VMI, CMI, and vending solutions. These solutions enable our customers to streamline their replenishment processes for products and lower their overall procurement costs by maintaining lower inventory levels at their sites, reducing consumption, and providing product accountability. The vending solutions also broaden the range of products that customers may purchase from MSC, as customers with vending solutions often choose to also reduce their overall number of vendors. MSC's vending solutions include different kinds of machines such as storage lockers or carousels, that can stand alone or be combined with other machines. MSC vending machines use network or web-based software to enable customers to manage inventory throughout their production areas.

Advanced Technologies and www.mscdirect.com. We offer advanced technologies that reduce customers' acquisition costs for MRO supplies. These programs include solutions such as vending, VMI, CMI, eCommerce, eProcurement, and workflow management tools. Industrial vending solutions are becoming increasingly valued by our customers as they focus on improving their operations, cost control and vendor consolidation. These solutions can accommodate a range of products from precision cutting tools to MRO supplies. We will continue to invest in our vending program in support of our overall growth strategy as well as our goal to support the identified needs of our customers. The MSC Websites are available 24 hours a day, seven days a week, providing personalized real-time inventory availability, superior search capabilities, online bill payment, delivery tracking status and a number of other enhancements, including work flow management tools. The user-friendly search engine allows customers to search for SKUs by keyword, part description, competitive part number, vendor number or brand. We believe the MSC Websites are a key component of our strategy to reduce customers' transaction costs and internal requisition time. Many large customer accounts transact business with MSC using eProcurement solution providers that sell a suite of eCommerce products designed to meet the needs of businesses seeking reduced procurement costs and increased effectiveness of their MRO/direct materials ordering process by using Internet enabled solutions. We have associations with many of these providers, including ARIBA (now part of SAP), Perfect Commerce, Oracle, and SAP. We continue to evaluate and expand our eProcurement capabilities, as the needs of our customers grow.

Competitive Pricing. Customers are increasingly evaluating their total cost of procurement, of which pricing is a component. We offer market competitive pricing to our customers reflective of the service level and solutions we provide in reducing our customers' overall procurement costs.

Growth Strategy

Our goal is to become the preferred supplier of MRO supplies for businesses throughout the United States. We continue to implement our strategies to gain market share relative to other suppliers, generate new customers, increase sales to existing customers, and diversify our customer base by:

- expanding government and national account programs;
- expanding our direct sales force and increasing their productivity;
- expanding and enhancing our metalworking capabilities to aggressively penetrate customers in heavy and light manufacturing;
- increasing sales from existing customers and generating new customers by offering various value-added programs designed to reduce our customers' supply chain costs, including vendor and customer managed inventory, along with point-of-use vending;
- expanding our product lines, including the addition of new products and exclusive brand alternatives;
- improving our direct marketing programs;
- enhancing our eCommerce capabilities;
- improving our excellent customer support service and technical support capabilities; and
- selectively pursuing strategic acquisitions.

Expanding programs for government and national account customers. We have customized government and national account programs to meet the specific needs of these types of customers. Significant growth opportunities exist within these types of customers. Allocating the appropriate resources to these customers has allowed us to provide better support and expand our customer acquisition and penetration activities, as this is a key component in our overall growth strategy.

While we've been providing MRO and metalworking supplies to the commercial sector for 75 years, the development of our Government Solutions program is more recent. In addition to a large, growing contract business with numerous federal, state, and local/education agencies, we are enjoying significant success with government contractors, and the USPS as well. These agencies have responded very positively to the value proposition we offer, including the breadth and depth of inventory; world-class service with same-day shipping; government contract vehicles, and best-in-class eSolutions, from our website to the barcoding replenishment of consumable items.

Increasing the size and improving the productivity of our direct sales force. We believe that increasing the size of our sales force, providing high levels of customer service and improving sales force productivity can have a positive effect on our sales per customer. The focus is to enable our sales force to spend more time with our customers and provide increased support during the MRO purchasing process thereby capturing more of their MRO spend. As of August 29, 2015, we had

1,972 field sales representatives, including U.K. operations, and 1,131 in-bound sales representatives. We believe that continued investment in our sales force enables us to increase our market share, and we will continue to do so.

Expanding and enhancing our metalworking capabilities to aggressively penetrate customers in heavy and light manufacturing. Our goal is to become the preferred distributor of choice for our customers' metalworking needs. We intend to accomplish this through continued expansion of our metalworking sales team, increased technical support, and enhanced supplier relationships. In addition, we will continue to develop and introduce value-added solutions, services and products to support the identified needs of our customers. Our product focus will include the continued development of high performance metalworking products marketed under MSC proprietary brand platforms as well as leading industry brands. We will continue to drive high value product alternatives for our customers. Through this combined focus, we seek to gain market share with existing customers and attract new customers for metalworking products.

Our metalworking field specialists and centralized technical support team members have diverse backgrounds in machining, programming, management and engineering. We leverage their expertise to drive time and cost savings for customers by selecting the right tool for the job from our deep supplier base to optimize performance.

Increasing sales from existing customers and generating new customers with various value added programs. In order to increase sales to existing customers and generate new customers, we offer value added programs that reduce customers' acquisition costs for MRO supplies. Value added programs include: business needs analysis; inventory management solutions such as vending, VMI, CMI and eCommerce; training; and workflow management tools. Industrial vending solutions specifically are becoming increasingly valued by our customers as they focus on improving their operations and controlling their costs. These solutions can accommodate a range of products from precision cutting tools to MRO supplies. We will continue to invest in our vending program in support of our overall growth strategy as well as our goal to support the identified needs of our customers.

Increasing the number of product lines and productive SKUs. Customers continue to drive more of their fulfillment needs electronically. To support this trend, we believe that increasing the breadth and depth of our online product offering and removing non-value-added SKUs is critical to our continued success. In addition, we are focused on providing our customers with new product alternatives that will help them achieve their cost savings objectives while meeting their demands for higher quality products. In fiscal year 2015, we added approximately 150,000 SKUs to our searchable database on www.mscdirect.com, bringing the total to approximately 1,000,000 SKUs, net of SKU removals. This increase in SKUs translated to our full ordering database, bringing MSC's total, active, saleable SKU count to approximately 1,350,000 SKUs. We expect this SKU expansion plan driven by our eCommerce strategy to continue throughout fiscal 2016.

The most recent MSC catalog issued in September 2015 merchandises approximately 505,000 core metalworking and MRO products, which are included in the SKU totals above. Approximately 17% of these SKUs are MSC exclusive brands. We guarantee same-day shipping of our core metalworking and MRO products, and offer next-day delivery on qualifying orders placed up until 8:00 P.M., Eastern Time. We fulfill our same-day shipment guarantee approximately 99% of the time.

We have also begun to leverage the depth and breadth of MSC's product portfolio within our CCSG sales channel and have extended full access of MSC catalog SKUs to the CCSG sales team.

Improving our direct marketing programs. Through our marketing efforts, we have accumulated an extensive buyer database and industry expertise within specific markets. We utilize empirical information from our marketing database to prospect for new customers and target the circulation of our master catalogs to those most likely to purchase. We supplement our master catalogs with direct mail, online digital catalogs, search engine marketing, and email to further increase customer response and product purchases. Industry specific expertise is used to target customer growth areas and focus sales and marketing campaigns.

Enhancing eCommerce capabilities. MSC's Websites are a proprietary business-to-business horizontal marketplace serving the metalworking and MRO market and are supported by the complete MSC service model. All qualified orders placed online at mscdirect.com are backed by our same-day shipping guarantee, unless otherwise stated. The MSC Websites utilize the same highly trained sales force and support services as MSC's traditional business, emphasizing MSC's values of placing customers' needs first. The MSC Websites are available 24 hours a day, seven days a week, providing personalized real-time inventory availability, superior search capabilities, online bill payment, delivery tracking status and a number of other enhancements, including work flow management tools. The user-friendly search engine allows customers to search for SKUs by keyword, part description, competitive part number, vendor number or brand. We believe the MSC Websites are a key component of our strategy to reduce customers' transaction costs and internal requisition time. Most orders move directly from the customer's desktop to our customer fulfillment center floor, removing human error, reducing handling costs and speeding up the transaction flow. MSC continues to evaluate the MSC Websites and solicit customer feedback, making on-going improvements targeted at ensuring that they remain premier websites in our marketplace. The marketing campaign of the MSC Websites continues to raise awareness and drive volume to the websites.

Many large customer accounts transact business with MSC using eProcurement solution providers that sell a suite of eCommerce products designed to meet the needs of businesses seeking reduced procurement costs and increased effectiveness of their MRO/indirect materials ordering process by using Internet enabled solutions. We have associations with many of these providers and continue to evaluate and expand our eProcurement capabilities, as the needs of our customers grow.

Improving our excellent customer support service. Our goal is to anticipate our customers' service needs. We are continuing to proactively expand the services that we provide and respond and build programs at customer requests. MSC's "one call does it all" philosophy continues to be the cornerstone of our service model even as the complexity of the needs of our customers continues to grow. This focus on our customers' needs provides a market differentiator, which enables us to retain existing customers and to grow our customer base. In addition, MSC employs customer comment cards, surveys and other proactive customer outreach tools to maintain an open line of communication with our customers. The feedback from these contact points is used to drive change and improvement that enhances the customer experience. We also continue to develop our technical support capabilities in order to better serve our customers. Our customers recognize the value of a distributor that can provide technical support to improve their operations and productivity.

Selectively pursuing strategic acquisitions. We actively pursue strategic acquisitions that we believe will either expand or complement our business in new or existing markets or further enhance the value and offerings we are able to provide to our existing or future potential customers. We completed our acquisition of CCSG in fiscal year 2013. We believe that the highly fragmented nature of the MRO supply industry will continue to provide acquisition opportunities. We expect that any future acquisitions will be financed with internally generated funds and/or additional debt.

Products

Our products represent a broad range of MRO products that include cutting tools; measuring instruments; tooling components; metalworking products; fasteners; flat stock; raw materials; abrasives; machinery hand and power tools; safety and janitorial supplies; plumbing supplies; materials handling products; power transmission components; and electrical supplies. We believe that by offering a large number of SKUs we enable our customers to reduce the number of suppliers they use to meet their MRO needs, thereby reducing their costs. In this regard, we intend to continue to add new value adding products to our existing product categories. Our assortment of products from multiple manufacturers at different price and quality levels provides our customers a "good-better-best" product selection alternative. This value proposition provides similar product offerings with varying degrees of brand recognition, quality and price, which enables our customers to choose the appropriate product for a specific application on the most cost-effective basis. MSC seeks to distinguish itself from its competition by offering name brand, exclusive brand, and generic products, as well as by offering significant depth in its core product lines, while maintaining competitive pricing.

Our in-bound sales representatives and technical support associates are trained to assist customers in making suitable cost-saving purchases. We believe this approach results in significant amounts of repeat business and is an integral part of our strategy to reduce our customers' industrial supply costs.

We purchase substantially all of our products directly from approximately 3,000 suppliers. No single supplier accounted for more than 6% of our total purchases in fiscal 2015, fiscal 2014, or fiscal 2013.

Customer Fulfillment Centers

A significant number of our products are carried in stock. Approximately 79% of sales are fulfilled from our customer fulfillment centers or branch offices. Certain products, such as specialty or custom items and some very large orders, are shipped directly from the manufacturer. Our primary customer fulfillment centers are managed via computer based SKU tracking systems and radio frequency devices that facilitate the location of specific stock items to make the selection process more efficient. We have invested significant resources in technology and automation to increase efficiency and reduce costs, and continually monitor our order fulfillment process. We currently utilize 12 customer fulfillment centers for product shipment.

Sales and Marketing

Our customers include a broad range of purchasers of industrial supply products, from individual machine shops, to Fortune 100 companies, to government agencies. Our core business focuses on selling relatively higher-margin, lower-volume products, for which we had an average order size of approximately $417 in fiscal 2015 (excluding U.K. operations). With the acquisition of CCSG, we have increased our presence in the Fastener and Class C ("Consumables") product categories and significantly increased our presence in the VMI space. VMI involves not only the selling of the maintenance consumables by our associates, but also the management of appropriate stock levels for the customer, writing the necessary replenishment orders, putting away the stock, and maintaining a clean and organized inventory area.

We market to small, medium and large companies in a wide range of sectors, including, but not limited to, durable and non-durable goods manufacturing (which accounted for a substantial portion of our revenue in fiscal 2015), education, government and health care. We also have government and national account programs designed to address the needs of these customers.

Another focus area for our sales force is the execution of contracts with various federal, state, and local government agencies. These relationships are for MRO products and are well matched to MSC's product breadth and depth. Federal government customers include large and small military bases, Veterans Affairs hospitals, federal correctional facilities, the United States Postal Service, and the Department of Defense. In addition to the individual state contracts that MSC already has, we continue to pursue and are engaged in a number of state cooperatives that present MSC an opportunity to leverage a single relationship over numerous states and agencies.

Our national account program also includes large, Fortune 1000 companies, as well as large privately-held companies, and international companies doing business in the U.S. The MSC value proposition is consistent with the procurement strategies of these companies as they seek to reduce their supply base by partnering with suppliers that can serve their needs nationally and drive costs out of their supply chain while providing them a higher degree of visibility utilizing eCommerce and inventory management solutions such as mscdirect.com, VMI, CMI and vending solutions. We have identified hundreds of additional national account prospects and have given our sales team tools to ensure we are targeting and implementing programs with the companies that best fit the MSC model.

Typically, a customer's industrial supply purchases are managed by several buyers within its organization responsible for different categories of products. In fiscal year 2013, we implemented advanced analytics and the findings from an advanced buyer segmentation study to significantly increase the return on our direct marketing investments designed to acquire new customers and increase our share of business with current customers. While master catalogs, promotional catalogs and brochures continued to play an important role in our efforts, we accelerated a shift in our focus to search engine marketing, email marketing and online advertising in line with changes in our customers' buying behavior. We use our own database of over three million contacts together with external mailing lists to target our offline and online investments to buyers with the highest likelihood to buy from MSC. By applying new analytics and moving expenditures to more efficient online tactics, we reduced publication circulation while significantly increasing revenue contribution.

Our sales representatives are highly trained individuals who build relationships with customers, assist customers in reducing costs, provide technical support, coordinate special orders and shipments with vendors and update customer account profiles in our information systems databases. Our "one call does it all" philosophy is predicated on the ability of the sales representative, utilizing our information systems' comprehensive databases as a resource, to respond effectively to the customer's needs. When a customer places a call to MSC, the sales representative taking the call has immediate access to that customer's company and specific buyer profile, as well as inventory levels by the customer fulfillment center on all of the SKUs offered by MSC. The customer's profile includes historical and current billing information, historical purchasing information, and plant and industry information.

Our in-bound sales representatives at our call centers undergo an intensive seven-week training course, are required to attend regular on-site training seminars and workshops, and are monitored and evaluated at regular intervals. Additionally, the sales representatives are divided into teams that are evaluated monthly and monitored on a daily basis by team supervisors. Sales representatives receive technical training regarding various products from vendors and in-house training specialists. We also maintain a separate technical support group dedicated to answering specific customer inquiries, assisting customers with the operation of products and finding the most efficient solutions to manufacturing problems. We entered into an exclusive agreement with ToolingU-SME, a company owned by the Society of Manufacturing Engineers, to create certified online training for MSC associates, who are already among the industry's most highly trained metalworking specialists.

As of August 29, 2015, we had 1,972 field sales representatives working throughout North America and the United Kingdom. Our field sales representatives are responsible for increasing sales per customer and servicing existing customers. The sales representatives accomplish this by communicating our product offering, distribution capabilities, customer service models and value-added programs directly to the customer. These associates are a touch point to the customer and provide the organization with feedback on the competitive landscape and purchasing trends, which contributes to customer service improvements.

Branch Offices

We currently operate 98 branch offices. There are 97 branch offices within the United States located in 40 states, and one location in the U.K. We have experienced higher sales growth and market penetration in areas where we have established a branch office and believe our branch offices are important to the success of our business strategy of obtaining and penetrating new and existing accounts. There were no branch openings during fiscal 2015.

Publications

Our primary reference publications are our master catalogs, which are supported by specialty and promotional catalogs and brochures. MSC produces two annual catalogs: the MSC Big Book, which contains a comprehensive offering across all product lines, and the MSC Metalworking catalog, which is focused on our metalworking product offering along with a broad range of ancillary products. We use specialty and promotional publications to target customers in specific areas, such as metal fabrication, facilities management, safety and janitorial. We distribute specialty and promotional catalogs and brochures based on information in our databases and purchased mailing lists of customers whose purchasing history or profile suggests that they are most likely to purchase according to specific product categories or product promotions. Consequently, specialty and promotional catalogs offer a more focused selection of products at a lower catalog production cost and more efficient use of advertising space.

Historically, MSC's in-house marketing staff has primarily designed and produced all of our catalogs and brochures, but we have begun outsourcing more and more of these capabilities to experts in these areas. Each publication contains photographs, detailed product descriptions and a toll-free telephone number and website address to be used by customers to place a product order.

We balance ongoing strategies to improve direct marketing productivity and increase overall return on advertising dollars spent against programs designed to increase revenue and lifetime value. As a result, the quantity mailed from year to year may fluctuate as we develop programs to target greater product penetration at existing customers, acquire new customers, and develop new industry sectors.

	Fiscal Years Ended (1)		
	August 31, 2013 (52 weeks) (2)	August 30, 2014 (52 weeks)	August 29, 2015 (52 weeks)
Number of publication titles	95	101	98
Number of publications mailed	16,308,000	18,152,000	18,265,589

(1) Excludes U.K. operations.
(2) Excludes CCSG operations.

Customer Service

One of our goals is to make purchasing our products as convenient as possible. Over 50% of our orders are submitted digitally through our technology platform (i.e., website, vending machines, and eProcurement). The remaining orders are placed via the telephone. The efficient handling of orders is an extremely important aspect of our business. Order entry and fulfillment occurs at each of our branches and our main call centers, mostly located at our customer fulfillment centers. Calls are received by customer service phone representatives who utilize online terminals to enter customer orders into computerized order processing systems. In general, our telephone ordering system is flexible and in the event of a local or regional breakdown, it can be re-routed to alternative locations. When an order is entered into the system, a credit check is performed; if the credit is approved, the order is generally electronically transmitted to the customer fulfillment center closest to the customer where the order is shipped. We believe that our relationships with all of our freight carriers are satisfactory. Customers are invoiced for merchandise, shipping and handling promptly after shipment.

Information Systems

Our core business' information systems enable centralized management of key functions, including communication links between customer fulfillment centers, inventory and accounts receivable management, purchasing, pricing, sales and distribution, and the preparation of daily operating control reports that provide concise and timely information regarding key aspects of our business. These systems enable us to ship to customers on a same-day basis, respond quickly to order changes, provide a high level of customer service, achieve cost savings, deliver superior customer service and manage our operations centrally. Our eCommerce environment is built upon a combined platform of our own intellectual property, state of the art software components from the world's leading internet technology providers and world class product data. This powerful combination of resources helps us deliver an unmatched online shopping experience to our customers with extremely high levels of reliability.

Most of our information systems operate over a wide area network and are real-time information systems that enable each customer fulfillment center and branch office to share information and monitor daily progress relating to sales activity, credit approval, inventory levels, stock balancing, vendor returns, order fulfillment and other measures of performance. We maintain a sophisticated buying and inventory management system that monitors all of our SKUs and automatically purchases inventory from vendors for replenishment based on projected customer ordering models. We also maintain an Electronic Data Interchange ("EDI") purchasing program with our vendors with the objectives of enabling more efficient order placement, reducing order cycle processing time, and increasing order accuracy.

In addition to developing the proprietary computer software programs for use in the customer service and distribution operations, we also provide a comprehensive EDI and Extensible Markup Language ("XML") ordering system to support our customer-based purchase order processing. We provide product information and ordering capabilities on the MSC Websites. We also maintain a proprietary hardware and software platform in support of our VMI program which allows customers to integrate scanner accumulated orders directly into our Sales Order Entry system and website. Our CMI program enables our customers to simply and effectively replenish inventory by submitting orders directly to our website. Our customized vending systems are used by our customers in manufacturing plants across the U.S. to help them achieve supply chain and shop floor optimization, through inventory management and reduced tooling and labor costs. Our VMI, CMI and vending capabilities function directly as front-end ordering systems for our e-Portal based customers. These solutions take advantage of advanced technologies built upon the latest innovations in wireless and cloud based computing.

Our core business' systems run in a highly distributed computing environment and utilize world class software and hardware platforms from key partners. We utilize disaster recovery techniques and procedures, which are adequate to fulfill our needs and are consistent with best practices in enterprise IT. Given such a distributed IT environment, we regularly review and upgrade our systems. We believe that our current systems and practice of implementing regular updates are adequate to support our current needs.

With the advent of advanced mobile technologies such as smart phones and tablets, access to information and decision making can now be made anytime, anywhere. Recognizing this need, we have deployed technology to securely manage and maintain access to enterprise information from mobile devices that meet our security standards. Our sales force is equipped with proprietary mobile technology that allows them to tap into the power of MSC's supply chain directly from our customers' manufacturing plants to make sure that critical inventory is always on site and available. In addition, we are enhancing our customer websites and portals to reflect this new mobile reality at a pace in line with customer adoption of mobile technology.

Competition

The MRO supply industry is a large, fragmented industry that is highly competitive. We face competition from traditional channels of distribution such as retail outlets, small dealerships, regional or national distributors utilizing direct sales forces, manufacturers of MRO supplies, large warehouse stores and larger direct mail distributors. We also face emerging competitors participating primarily in the online distribution space whose primary customers we believe are typically individuals and small merchants. We believe that sales of MRO supplies will become more concentrated over the next few years, which may make MRO supply distribution more competitive. Some of our competitors challenge us with a large variety of product offerings, financial resources, services or a combination of all of these factors. In the industrial products market, customer purchasing decisions are primarily based on one or more of the following criteria: price, product selection, product availability, technical support relationship, level of service and convenience. We believe we compete effectively on all such criteria.

Seasonality

During any given time period, we may be impacted by our industrial customers' plant shutdowns (particularly during the summer months or our fourth fiscal quarter). In addition, we may be impacted by weather-related disruptions.

Compliance with Health and Safety and Environmental Protection Laws

Our operations are subject to and affected by a variety of federal, state, local and non-U.S. health and safety and environmental laws and regulations relating to the discharge, treatment, storage, disposal, investigation and remediation of certain materials, substances and wastes. We continually assess our compliance status and management of environmental matters in an effort to ensure that our operations are in compliance with all applicable environmental laws and regulations.

Operating and maintenance costs associated with environmental compliance and management of sites are a normal and recurring part of our operations. With respect to all other matters that may currently be pending, in the opinion of management, based on our analysis of relevant facts and circumstances, compliance with applicable environmental laws is not likely to have a material adverse effect upon our capital expenditures, earnings or competitive position.

Associates

As of August 29, 2015, we employed 6,642 associates (6,533 full-time and 109 part-time associates), which includes our U.K. and Canada operations. No associate is represented by a labor union. We consider our relationships with associates to be good and have experienced no work stoppages.

Available Information

We file annual, quarterly and current reports, and other reports and documents 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 website is http://www.sec.gov.

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 with 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. Information on our website does not constitute a part of this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

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

Our business depends heavily on the operating levels of our customers and the economic factors that affect them.

Many of the primary markets for the products and services we sell are subject to cyclical fluctuations that affect demand for goods and materials that our customers produce. Consequently, demand for our products and services has been and will continue to be influenced by most of the same economic factors that affect demand for and production of our customers’ products.

When, as occurred in the latest economic downturn, customers or prospective customers reduce production levels because of lower demand or tight credit conditions, their need for our products and services diminishes. Selling prices and terms of sale come under pressure, adversely affecting the profitability and the durability of customer relationships. Credit losses increase as well. Volatile economic and credit conditions also make it more difficult for distributors, as well as customers and suppliers, to forecast and plan future business activities.

In addition, as various sectors of our industrial customer base face increased foreign competition, and in fact lose business to foreign competitors or shift their operations overseas in an effort to reduce expenses, we may face increased difficulty in growing and maintaining our market share and growth prospects.

Changes in our customer and product mix, or adverse changes to the cost of goods we sell, could cause our gross margin percentage to fluctuate, or decrease.

From time to time, we have experienced changes in our customer mix and in our product mix. Changes in our customer mix have resulted from geographic expansion, daily selling activities within current geographic markets, and targeted selling activities to new customers. Changes in our product mix have resulted from marketing activities to existing customers and needs communicated to us from existing and prospective customers as well as from business acquisitions. As our large account customer program sales grow, we will face continued pressures on maintaining gross margin because these customers receive lower pricing due to their higher sales volumes. In addition, our recent expansion of our vending program has placed pressure on our gross margin. There can be no assurance that we will be able to maintain our historical gross margins. In addition, we may also be subject to price increases from vendors that we may not be able to pass along to our customers.

We operate in a highly competitive industry.

The MRO supply industry, although consolidating, still remains a large, fragmented industry that is highly competitive. We face competition from traditional channels of distribution such as retail outlets, small dealerships, regional or national distributors utilizing direct sales forces, manufacturers of MRO supplies, large warehouse stores and larger direct mail distributors. We believe that sales of MRO supplies will become more concentrated over the next few years, which may make the industry more competitive. Our competitors challenge us with a greater variety of product offerings, financial resources, services or a combination of all of these factors. In addition, we also face the risk of companies which operate primarily outside of our industry entering our marketplace.

We also face emerging competitors participating primarily in the online distribution space whose primary customers we believe are typically individuals and small merchants.

Our industry is consolidating which could adversely affect our business and financial results.

The business of selling MRO supplies in North America is currently undergoing some consolidation. This consolidation is being driven by customer needs and supplier capabilities as greater economies of scale are achieved by suppliers.

Traditional MRO suppliers are attempting to consolidate the market through internal expansion, through acquisitions or mergers with other industrial and construction suppliers, or through a combination of both. This consolidation allows suppliers to improve efficiency and spread fixed costs over a greater number of sales, and to achieve other benefits derived from economies of scale.

Customers are increasingly aware of the total costs of fulfillment, and of their need to have consistent sources of supply at multiple locations. Consistent sources of supply provide not just reliable product quantities, but also consistent pricing, quality, and service capabilities. We believe these customer needs could result in fewer suppliers as the industry consolidates, and as the remaining suppliers become larger and capable of being a consistent source of supply.

The trend of our industry toward consolidation could make it more difficult for us to maintain our operating margins. There can be no assurance that we will be able to take advantage of the trend or that we can do so effectively.

Volatility in commodity and energy prices may adversely affect operating margins.

In times of commodity and energy price increases, we may be subject to price increases from our vendors and freight carriers that we may be unable to pass along to our customers. Raw material costs used in our vendors' products (steel, tungsten, etc.) and energy costs may increase, which may result in increased production costs for our vendors. The fuel costs of our independent freight companies have been volatile. Our vendors and independent freight carriers typically look to pass increased costs along to us through price increases. When we are forced to accept these price increases, we may not be able to pass them along to our customers, resulting in lower operating margins.

In addition to increases in commodity and energy prices, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate, or by negatively impacting customers in certain industries, which could cause our sales to those customers to decline.

As a United States government contractor, we are subject to certain laws and regulations which may increase our costs of doing business and which subject us to certain compliance requirements and potential liabilities.

As a supplier to the United States government, we must comply with certain laws and regulations, including the Trade Agreements Act, the Buy American Act and the Federal Acquisition Regulation, relating to the formation, administration and performance of United States government contracts. These laws and regulations affect how we do business with government customers, and in some instances, impose added compliance and other costs on our business. From time to time, we are subject to governmental or regulatory inquiries or audits relating to our compliance with these laws and regulations. A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of our United States government contracts and could harm our reputation and cause our business to suffer.

Our business is exposed to the credit risk of our customers which could adversely affect our operating results.

We perform periodic credit evaluations of our customers' financial condition and collateral is generally not required. Receivables are generally due within thirty days. We evaluate the collectability of accounts receivable based on numerous factors, including past transaction history with customers and their credit worthiness and we provide a reserve for accounts that we believe to be uncollectible. A significant deterioration in the economy could have an adverse effect on the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults.

The risk of cancellation or rescheduling of orders may cause our operating results to fluctuate.

The cancellation or rescheduling of orders may cause our operating results to fluctuate. Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that orders may be cancelled or rescheduled due to fluctuations in our customers' business needs or purchasing budgets, including changes in national and local government budgets. Additionally, although our customer base is diverse, ranging from individual machine shops to Fortune 100 companies and large governmental agencies, the cancellation or rescheduling of significant orders by larger customers may still have a material adverse effect on our operating results from time to time.

Work stoppages and other disruptions, including those due to extreme weather conditions, at transportation centers or shipping ports may adversely affect our ability to obtain inventory and make deliveries to our customers.

Our ability to provide same-day shipping and next-day delivery of our core metalworking and MRO products is an integral component of our overall business strategy. Disruptions at transportation centers or shipping ports, due to labor stoppages or severe weather conditions affect both our ability to maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our customer relationships and results of operations. In addition, severe weather conditions, including winter storms, could adversely affect demand for our products in particularly hard hit regions and impact our sales.

The terms of our credit facility impose operating and financial restrictions on us, which may limit our ability to respond to changing business and economic conditions.

We currently have a $650.0 million unsecured term loan and revolving loan credit facility, with the right to increase the aggregate amount available to be borrowed by an additional $200.0 million, in $50.0 million increments, subject to lending group approval. The term loan facility matures on, and the revolving loan facility is available through April 22, 2018. We are subject to various operating and financial covenants under the credit facility which restrict our ability to, among other things, incur additional indebtedness, make particular types of investments, incur certain types of liens, engage in fundamental corporate changes, enter into transactions with affiliates or make substantial asset sales. Any failure to comply with these covenants may constitute a breach under the credit facility, which could result in the acceleration of all or a substantial portion of any outstanding indebtedness and termination of revolving credit commitments under the facility. Our inability to maintain our credit facility could materially adversely affect our liquidity and our business.

Disruptions of our information systems could adversely affect us.

We believe that our information technology ("IT") systems are an integral part of our business and growth strategies. We depend upon our IT systems to help process orders, to manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations, to operate our websites and to help provide superior service to our customers. Our IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control, such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, physical or electronic break-ins, and cyber-attacks. The failure of our IT systems to perform as we anticipate could disrupt our business and could result in transaction errors, loss of data, processing inefficiencies, downtime, litigation, substantial remediation costs (including potential liability for stolen assets or information and the costs of repairing system damage), and the loss of sales and customers. In addition, changes to our information systems could disrupt our business operations. Any one or more of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Our success is dependent on certain key personnel.

Our success depends largely on the efforts and abilities of certain key senior management. The loss of the services of one or more of such key personnel could have a material adverse effect on our business and financial results. We do not maintain any key-man insurance policies with respect to any of our executive officers.

Our business depends on our ability to retain and to attract qualified sales and customer service personnel.

There are significant costs associated with hiring and training sales and customer service professionals. We greatly benefit from having associates who are familiar with the products we sell and their applications, as well as with our customer and supplier relationships. We could be adversely affected by a shortage of available skilled workers or the loss of a significant number of our sales or customer service professionals.

The loss of key suppliers or supply chain disruptions could adversely affect our operating results.

We believe that our ability to offer a combination of well-known brand name products and competitively priced exclusive brand products is an important factor in attracting and retaining customers. Our ability to offer a wide range of products and services is dependent on obtaining adequate product supply and services from our key suppliers. The loss of, or a substantial decrease in the availability of products or services from key suppliers at competitive prices, or the loss of a key brand could cause our revenues and profitability to decrease. In addition, supply interruptions could arise due to transportation disruptions, labor disputes or other factors beyond our control. Disruptions in our supply chain could result in a decrease in revenues and profitability.

Opening or expanding our customer fulfillment centers exposes us to risks of delays and may affect our operating results.

In the future, as part of our long-term strategic planning, we may open new customer fulfillment centers to improve our efficiency, geographic distribution and market penetration and intend to make, as we have in the past, capital improvements and operational enhancements to certain of our existing customer fulfillment centers. Moving or opening customer fulfillment centers and effecting such improvements requires a substantial capital investment, including expenditures for real estate and construction, and opening new customer fulfillment centers requires a substantial investment in inventory. In addition, the opening of new customer fulfillment centers would have an adverse impact on distribution expenses as a percentage of sales, inventory turnover and return on investment in the periods prior to and for some time following the commencement of operations of each new customer fulfillment center. Additionally, until sales volumes mature at new customer fulfillment centers, operating expenses as a percentage of sales may be adversely impacted. Further, substantial or unanticipated delays in the commencement of operations at new customer fulfillment centers could have a material adverse effect on our geographic expansion and may impact results of operations.

In order to support our growth strategy and maintain our signature service model as we grow, we recently built a new customer fulfillment center in Columbus, Ohio. We spent approximately $3.3 million in fiscal 2015 and $49.9 million in fiscal 2014 for the purchase of the land and costs to construct and outfit the facility. We have completed construction and began operations on September 30, 2014.

An interruption of operations at our headquarters or customer fulfillment centers could adversely impact our business.

Our business depends on maintaining operations at our co-located headquarters and customer fulfillment centers. A serious, prolonged interruption due to power outage, telecommunications outage, terrorist attack, earthquake, hurricane, fire, flood or other natural disaster, or other interruption could have a material adverse effect on our business and financial results.

We are subject to litigation risk due to the nature of our business, which may have a material adverse effect on our business.

From time to time, we are involved in lawsuits or other legal proceedings that arise from business transactions. These may, for example, relate to product liability claims, commercial disputes, or employment matters. In addition, we could face claims over other matters, such as claims arising from our status as a government contractor or corporate or securities law matters. The defense and ultimate outcome of lawsuits or other legal proceedings may result in higher operating expenses, which could have a material adverse effect on our business, financial condition, or results of operations.

We are subject to environmental, health and safety laws and regulations.

We are subject to federal, state, local, foreign and provincial environmental, health and safety laws and regulations. Fines and penalties may be imposed for non-compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. The failure by us to comply with applicable environmental, health and safety requirements could result in fines, penalties, enforcement actions, third party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup, or regulatory or judicial orders requiring corrective measures, which could have a material adverse effect on our business, financial condition, or results of operations.

We are subject to disclosure requirements of our use of “conflict minerals” in certain of the products we distribute, which will impose costs on us and could raise reputational and other risks.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established disclosure requirements regarding the use of certain minerals, known as “conflict minerals”, that are mined from the Democratic Republic of the Congo and adjoining countries. There are costs associated with complying with these disclosure requirements, including costs to determine which of our products are subject to the rules and the source of any “conflict minerals” used in those products. In addition, these rules could adversely affect the sourcing, pricing and availability of materials used in the manufacture of certain of our products. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we implement.

Goodwill and indefinite life intangible assets recorded as a result of our acquisitions could become impaired.

As of August 29, 2015, our combined goodwill and indefinite life intangible assets amounted to $638.8 million. To the extent we do not generate sufficient cash flows to recover the net amount of any investments in goodwill and other indefinite life intangible assets recorded, the investment could be considered impaired and subject to write-off. We expect to record further goodwill and other indefinite life intangible assets as a result of future acquisitions we may complete. Future amortization of such assets or impairments, if any, of goodwill or indefinite life intangible assets would adversely affect our results of operations in any given period.

We may encounter difficulties with acquisitions, which could harm our business.

We have completed several acquisitions of businesses, including our acquisition of CCSG completed in fiscal 2013, and we expect to continue to pursue strategic acquisitions that we believe will either expand or complement our business in new or existing markets or further enhance the value and offerings we are able to provide to our existing or future potential customers.

Acquisitions involve numerous risks and challenges, including the following:

•diversion of management’s attention from the normal operation of our business;

•potential loss of key associates and customers of the acquired companies;

•difficulties managing and integrating operations in geographically dispersed locations;

•the potential for deficiencies in internal controls at acquired companies;

•increases in our expenses and working capital requirements, which reduce our return on invested capital;

•lack of experience operating in the geographic market or industry sector of the acquired business; and

•exposure to unanticipated liabilities of acquired companies.

To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The difficulties of this integration may be further complicated by geographic distances. The integration of acquired businesses may not be successful and could result in disruption to other parts of our business.

Our common stock price may be volatile.

We believe factors such as fluctuations in our operating results or the operating results of our competitors, changes in economic conditions in the market sectors in which our customers operate, notably the durable and non-durable goods manufacturing industry, which accounted for a substantial portion of our revenue for fiscal year 2015, fiscal year 2014 and fiscal year 2013, and changes in general market conditions, could cause the market price of our Class A common stock to fluctuate substantially.

Our principal shareholders exercise significant control over us.

We have two classes of common stock. Our Class A common stock has one vote per share and our Class B common stock has ten votes per share. As of October 15, 2015, the Chairman of our Board of Directors, his sister, certain of their family members including our President and Chief Executive Officer, and related trusts collectively owned 100% of the outstanding shares of our Class B common stock and approximately 1.8% of the outstanding shares of our Class A common stock, giving them control over approximately 73.8% of the combined voting power of our Class A common stock and our Class B common stock. Consequently, such shareholders will be in a position to elect all of the directors of the Company and to determine the outcome of any matter submitted to a vote of the Company's shareholders for approval, including amendments to our certificate of incorporation and our amended and restated by-laws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. Because this concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to our shareholders, the market price of our Class A common stock could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We have customer fulfillment centers in or near the following locations:

Location	Approx. Sq. Ft.	Operational Date	Leased/ Owned
Atlanta, Georgia	721,000	1990	Leased (1)
Elkhart, Indiana	545,000	1996	Owned
Harrisburg, Pennsylvania	637,000	1997	Owned
Reno, Nevada	419,000	1999	Owned
Wednesbury, United Kingdom	75,000	1998	Leased

Columbus, Ohio	468,000	2014	Owned
Hanover Park, Illinois	182,000	2003	Leased
Dallas, Texas	135,000	2003	Leased
Edmonton, Canada	32,000	2007	Leased
Beamsville, Canada	110,000	2004	Owned
Moncton, Canada	16,000	1981	Owned
Shelbyville, Kentucky(2)	110,000	1973	Owned

(1) The related party lease for this facility expires on July 1, 2030.
(2) Repackaging and replenishment center.

We maintain 97 branch offices within the United States located in 40 states and one location in the U.K. The branches range in size from 1,800 to 55,000 square feet. The leases for these branch offices will expire at various periods between October 2015 and August 2024. The aggregate annual lease payments on these branch offices and the leased customer fulfillment centers in fiscal 2015 were approximately $14.5 million.

We maintain our co-located headquarters at a 170,000 square foot facility that we own in Melville, New York and a 162,000 square foot facility that we own in Davidson, North Carolina. In addition, we maintain office space in a 50,000 square foot facility that we lease in Southfield, Michigan. We believe that our existing facilities are adequate for our current needs and will be adequate for the foreseeable future; we also expect that suitable additional space will be available as needed.

In order to support our growth strategy and maintain our signature service model as we grow, we recently built a new customer fulfillment center in Columbus, Ohio. We began operations on September 30, 2014.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

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

MSC's Class A common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "MSM". MSC's Class B common stock is not traded in any public market.

The following table sets forth the range of the high and low sales prices as reported by the NYSE and cash dividends per share for the period from September 1, 2013 to August 29, 2015:

	Price of Class A Common Stock		Dividend Per Share Common Stock Class A & Class B(1)
Fiscal Year Ended August 29, 2015	High	Low	
First Quarter – November 29, 2014	$ 91.91	$ 77.52	$ 3.40
Second Quarter – February 28, 2015	83.03	72.92	0.40
Third Quarter – May 30, 2015	74.13	68.16	0.40
Fourth Quarter – August 29, 2015	72.40	64.50	0.40

	Price of Class A Common Stock		Dividend Per Share Common Stock Class A & Class B
Fiscal Year Ended August 30, 2014	High	Low	
First Quarter – November 30, 2013	$ 87.54	$ 74.87	$ 0.33
Second Quarter – March 1, 2014	89.36	76.33	0.33
Third Quarter – May 31, 2014	93.02	84.08	0.33
Fourth Quarter – August 30, 2014	96.62	84.26	0.33

(1) In the first quarter of fiscal 2015, the Company paid a special cash dividend of $3.00 per share.

On July 10, 2003, our Board of Directors instituted a policy of paying regular quarterly cash dividends to our shareholders. The Company paid total annual cash dividends of $4.60 and $1.32 per share for fiscal 2015 and fiscal 2014, respectively. This policy is reviewed periodically by the Board of Directors.

On October 21, 2015, the Board of Directors declared a quarterly cash dividend of $0.43 per share, payable on November 24, 2015 to shareholders of record at the close of business on November 10, 2015. The dividend will result in a payout of approximately $26.5 million, based on the number of shares outstanding at October 15, 2015.

On October 15, 2015, the last reported sales price for MSC's Class A common stock on the NYSE was $61.46 per share. The approximate number of holders of record of MSC's Class A common stock as of October 15, 2015 was 650. The number of holders of record of MSC's Class B common stock as of October 15, 2015 was 67.

Purchases of Equity Securities

The following table sets forth repurchases by the Company of its outstanding shares of Class A common stock, during the quarter ended August 29, 2015:

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
06/01/15-07/01/15	—	$ —	—	1,842,548
07/02/15-08/01/15	100,086	69.67	100,000	1,742,548
08/02/15-08/29/15	396	70.27	—	1,742,548
Total	100,482	$ 69.67	100,000	

(1)During the three months ended August 29, 2015, 482 shares of our common stock were purchased by the Company as payment to satisfy our associate's 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 1999, our 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, our 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 August 29, 2015, the maximum number of shares that may yet be repurchased under the Repurchase Plan was 1,742,548 shares. There is no expiration date for the Repurchase Plan.

Performance Graph

The following stock price performance graph and accompanying information is not deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any filings under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, or be subject to the liabilities of Section 18 of the Exchange Act, regardless of any general incorporation language in any such filing.

The following graph compares the cumulative total return on an investment in our common stock with the cumulative total return of an investment in each of the S&P Midcap 400 Index, the Dow Jones US Industrial Supplier Index ("New Index"), and the Dow Jones US Business Support Services Index ("Former Index"). Both Dow Jones indices represent subsectors based on Dow Jones' Sector Classifications. The Former Index contains "providers of nonfinancial services to a wide range of industrial enterprises and governments. Includes providers of printing services, management consultants, office cleaning services, and companies that install, service and monitor alarm and security systems", while the New Index contains "Distributors and wholesalers of diversified products and equipment primarily used in the commercial and industrial sectors. Includes builders merchants." according to the Dow Jones Sector Classification: Structure and Definitions map found at https://www.djindexes.com/mdsidx/downloads/Sector_Classification_Structure_Definitions.pdf.

Given the Company's status as a leading distributor of diversified MRO products and services, the Company believes the New Index more closely aligns with its business. Further, the New Index maintains more significant stock price correlations to MSC than the Former Index, as shown in the chart below. Correlation is a measure of how securities move in relation to each other, with a correlation of 1 representing a perfect positive correlation. The higher correlations reflect a stronger alignment between MSC and the New Index and suggest they are affected by similar market forces.

As a result, the Company has chosen to change to the New Index for Fiscal 2015, which more closely aligns with the industry of MSC and the group of publicly traded companies currently used by the Compensation Committee for benchmarking compensation of our named executive officers. The Former Index is included for comparative purposes.

The graph assumes $100 invested at the closing price of our Class A common stock on the New York Stock Exchange and each index on August 28, 2010 and assumes that all dividends paid on such securities during the applicable fiscal years were reinvested. Indices are calculated on a month-end basis. The comparisons in this table are based on historical data and are not intended to forecast or to be indicative of the possible future performance of our Class A common stock.

Cumulative Total Stockholder Return

for the Period from August 28, 2010 through August 29, 2015

	8/28/2010	8/27/2011	9/1/2012	8/31/2013	8/30/2014	8/29/2015
MSC Industrial Direct Co., Inc.	100.00	132.02	157.31	175.32	211.14	167.43
S&P Midcap 400	100.00	115.37	136.20	168.48	207.65	209.04
Dow Jones US Industrial Supplier	100.00	134.16	176.18	199.30	206.91	172.31
Dow Jones US Business Support Services	100.00	120.13	146.38	183.00	209.69	230.72

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial information is qualified by reference to, and should be read in conjunction with, the Company's consolidated financial statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere herein. The selected consolidated income statement data for the fiscal years ended August 31, 2013, August 30, 2014 and August 29, 2015 and the selected consolidated balance sheet data as of August 30, 2014 and August 29, 2015 are derived from MSC's audited consolidated financial statements which are included elsewhere herein. The selected consolidated income statement data for the fiscal years ended August 27, 2011 and September 1, 2012, and the selected consolidated balance sheet data as of August 27, 2011, September 1, 2012 and August 31, 2013 are derived from MSC's audited consolidated financial statements not included herein.

	Fiscal Years Ended August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)	August 31, 2013 (52 weeks)	September 1, 2012 (53 weeks)	August 27, 2011 (52 weeks)
	(In thousands, except per share data)				
Consolidated Income Statement Data:					
Net sales	$ 2,910,379	$ 2,787,122	$ 2,457,649	$ 2,355,918	$ 2,021,792
Gross profit	1,316,575	1,286,256	1,118,516	1,078,203	940,925
Operating expenses	937,046	903,072	732,990	665,987	591,160
Income from operations	379,529	383,184	385,526	412,216	349,765
Income taxes	141,833	143,458	145,434	153,111	130,544
Net income	231,308	236,067	237,995	259,031	218,786
Net income per common share:					
Basic	3.75	3.78	3.77	4.12	3.45
Diluted	3.74	3.76	3.75	4.09	3.43
Weighted average common shares outstanding:					
Basic	61,292	62,026	62,695	62,434	62,902
Diluted	61,487	62,339	63,011	62,803	63,324
Cash dividends declared per common share(2), (4)	$ 4.60	$ 1.32	$ 1.20	$ 1.00	$ 1.88
Consolidated Balance Sheet Data (at period end):					
Working capital	$ 609,739	$ 652,251	$ 679,910	$ 749,596	$ 586,232
Total assets	2,101,206	2,060,747	1,943,003	1,444,876	1,244,423
Short-term debt including capital lease and financing obligations	213,515	96,829	14,184	1,007	—
Long-term debt including capital lease obligations, net of current maturities	214,789	240,235	241,566	2,189	—
Deferred income taxes and tax uncertainties	131,210	112,785	97,475	85,061	79,109
Shareholders' equity	1,332,870	1,398,563	1,390,383	1,187,111	993,112
Selected Operating Data:(1), (3)					
Active customers(5)	366	364	322	325	320
Approximate Number of SKUs	1,000	850	685	600	600
Orders shipped(5)	6,626	6,630	5,957	6,150	5,784
Number of publications mailed(5)	18,266	18,152	16,308	18,032	18,600
Number of publication titles (not in thousands)(5)	98	101	95	100	111

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—General."
(2) In the first quarter of fiscal 2011, the Company paid a special cash dividend of $1.00 per share.
(3) CCSG data is included in Selected Operating Data beginning in fiscal 2014.
(4) In the first quarter of fiscal 2015, the Company paid a special cash dividend of $3.00 per share.
(5) Excludes U.K. operations.

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

General

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 1,000,000 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 98 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.

Overview

For the fiscal years ended August 29, 2015 and August 30, 2014, net sales increased by 4.4% and 13.4%, respectively, over the 2014 and 2013 fiscal years. We have invested in our business by increasing our sales force and making various productivity and infrastructure investments. Additionally, by increasing our investments in custom supply chain and inventory management solutions such as vending solutions, Vendor Managed Inventory (“VMI”), Customer Managed Inventory (“CMI”), eCommerce and electronic procurement tools, we have strengthened our strategic position with our customers. We believe these investments, combined with our strong balance sheet, extensive product assortment, high in-stock levels, same-day shipping, and high levels of execution, have increased our competitive advantage over smaller distributors.

The waterfall chart below displays a three-year comparison of our net sales:

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(1) Pricing is offset by changes in customer and product mix, discounting and other items.

The table below shows the pattern to the change in our fiscal quarterly and annual average daily sales by total company and by customer type from the same periods in the prior fiscal year:

22

Average Daily Sales Percentage Change
(unaudited)

2015 vs. 2014 Fiscal Period	Thirteen Week Period Ended Fiscal Q1		Thirteen Week Period Ended Fiscal Q2		Thirteen Week Period Ended Fiscal Q3		Thirteen Week Period Ended Fiscal Q4		Fiscal Year Ended	
Total Company(1)	7.8	%	6.8	%	3.5	%	0.1	%	4.4	%
Manufacturing Customers(1)	4.8	%	4.1	%	1.2	%	(1.8)	%	2.0	%
Non-Manufacturing Customers(1)	15.6	%	14.0	%	10.1	%	5.4	%	11.0	%

Average Daily Sales Percentage Change
(unaudited)

2014 vs. 2013 Fiscal Period	Thirteen Week Period Ended Fiscal Q1		Thirteen Week Period Ended Fiscal Q2		Thirteen Week Period Ended Fiscal Q3		Thirteen Week Period Ended Fiscal Q4		Fiscal Year Ended	
Total Company(1)	17.5	%	16.2	%	13.1	%	7.8	%	13.4	%
Total Company(2)	5.0	%	3.9	%	7.1	%	8.6	%	6.2	%
Manufacturing Customers(2)	5.1	%	3.9	%	6.3	%	7.4	%	5.8	%
Non-Manufacturing Customers(2)	3.9	%	3.1	%	8.9	%	11.6	%	6.8	%

(1) Includes CCSG operations.
(2) Excludes CCSG operations.

The trends noted above reflect that, excluding our U.K. operations, our manufacturing customers represented approximately 70% of our business and our non-manufacturing customers represented approximately 30% of our business during fiscal 2015. During fiscal 2014, excluding CCSG and U.K. operations, our manufacturing customers represented approximately 76% of our business and our non-manufacturing customers represented approximately 24% of our business.

Exclusive of customers in the U.K., average order size increased to approximately $417 in fiscal 2015 as compared to $409 in fiscal 2014 and $403 in fiscal 2013 (fiscal 2013 excludes CCSG operations).

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 systems, VMI systems, Extensible Markup Language ordering based systems, vending machine systems, hosted systems and other electronic portals, represented 55.6% of consolidated net sales in fiscal 2015, compared to 48.0% of consolidated net sales in fiscal 2014 and 44.0% of consolidated net sales in fiscal 2013 (fiscal 2014 and 2013 exclude CCSG operations).

We grew our field sales associate headcount to 1,972 at August 29, 2015, an increase of approximately 2.5% from field sales associates of 1,923 at August 30, 2014. Field sales associate headcount also increased 7.4% to 1,923 at August 30, 2014 from 1,790 at August 31, 2013. There were no branch openings during fiscal 2015 and fiscal 2014. These headcount increases support our strategy to acquire new accounts and expand existing accounts across all customer types. We plan to continue to increase our field sales associate headcount through fiscal 2016. We will continue to manage the timing of field sales associate increases and branch openings based on economic conditions and our selected mix of growth investments.

Customers continue to drive more of their fulfillment needs electronically. To support this trend, we believe that increasing the breadth and depth of our online product offering and removing non-value-added SKUs is critical to our continued success. In addition, we are focused on providing our customers with new product alternatives that will help them achieve their cost savings objectives while meeting their demands for higher quality products. In fiscal 2015, we added approximately 150,000 SKUs to our searchable database on www.mscdirect.com, bringing the total to approximately 1,000,000 SKUs, net of SKU removals. This increase in SKUs translated to our full ordering database, bringing MSC’s total, active, saleable SKU count to approximately 1,350,000 SKUs. We expect this SKU expansion plan driven by our eCommerce strategy to continue into fiscal 2016.

The most recent MSC catalog issued in September 2015 offers approximately 505,000 core metalworking and MRO products. Approximately 17% of these SKUs are MSC exclusive brands. We have also leveraged the depth and breadth of MSC's product portfolio within our CCSG sales channel and now offer all MSC catalog items to our CCSG customers.

We also continue to focus on expanding our Large Account Customer business, which consists of our national account customers and government accounts, and continues to be an important component of our overall customer mix, revenue base, and planned business expansion. Servicing our Large Account Customer business is more complex as we look to provide customer specific solutions as our Large Account Customers continue to focus on ways to drive costs out of their businesses. By expanding sales to these customers, which involve customers with multiple locations and high volume MRO needs, we have diversified our customer base beyond small and mid-sized customers. Sales to our government accounts represented approximately 9% and 8%, respectively, of our total sales for the fiscal years ended August 29, 2015 and August 30, 2014.

We utilize various indices when measuring our business. The Institute for Supply Management's Purchasing Manager's Index ("PMI"), which measures the economic activity of the U.S. manufacturing sector, is important to our planning because it historically has been an indicator of our manufacturing customers' activity. Approximately 70% of our revenues came from sales in the manufacturing sector during fiscal 2015, including certain national account customers. A PMI reading below 50.0% generally indicates that the manufacturing sector is expected to contract. Conversely, a PMI reading above 50.0% generally indicates that the manufacturing sector is expected to expand. The PMI evidenced an expanding manufacturing sector environment throughout our fiscal year 2015, however, at an overall declining pace. The ISM index was 50.2% for the month of September 2015 and averaged 53.4% for the past twelve months. The rapid drop in oil prices along with reduced export demand has contributed to an overall declining index. Details released with the most recent index indicate that economic activity in the manufacturing sector related to new orders, production and employment are growing, while inventories are contracting from the previous month. Pricing continues to decline and to be constrained due to the lack of commodities inflation and the most recent index has indicated a decrease in raw materials prices for the eleventh consecutive month.

In addition to the PMI, we utilize The Metalworking Business Index ("MBI"). The MBI measures the economic activity of the metalworking industry, focusing only on durable goods manufacturing. The MBI functions similarly to the PMI, where a value below 50.0 generally indicates contraction and a value above 50.0 generally indicates expansion. The MBI of 44.1 showed that the industry contracted in September 2015 for the sixth month in a row and averaged 48.8 for the past twelve months. The rate of contraction accelerated significantly in July 2015 and August 2015 to its lowest level since July 2009 when the index was 36.5. New orders, production, and pricing sub-indices began to contract in the second half of our fiscal 2015 with accelerated contraction occurring in our fiscal fourth quarter of 2015. Employment was expanding during the majority of our fiscal 2015, with contraction occurring in September 2015 after a significant drop from July 2015. 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.

Our gross profit margin decreased in fiscal 2015 to 45.2% from 46.1% in fiscal 2014. The decrease was primarily a result of increases in product costs, changes in pricing, customer and product mix and growth in our vending program sales. Our gross profit margin in fiscal 2014 increased to 46.1% from 45.5% in fiscal 2013. The increase in gross profit margin was primarily driven by higher gross margins from CCSG which includes a full year's impact in fiscal 2014 compared to only a portion of the year in fiscal 2013, partially offset by increases in product costs, changes in customer and product mix and an increased percentage of sales from our vending programs.

Operating expenses increased 3.8% in fiscal 2015 as compared to fiscal 2014. The increase is primarily the result of increased payroll and payroll related costs to support our increased revenues, increased depreciation expense associated primarily with our recent infrastructure and other growth investments, and increased advertising costs related to additional advertising activities. This increase was partially offset by a decrease in the incentive compensation accrual, in addition to decreases in non-recurring integration costs and restructuring charges associated with the CCSG acquisition and in relocation expenses associated with the establishment of our co-located headquarters in Davidson, North Carolina.

Operating expenses increased 23.2% in fiscal 2014 as compared to fiscal 2013. The increase is primarily the result of additional operating expenses incurred as a result of the acquired CCSG operations. In addition, we incurred operating expenses for fiscal year 2014 related to non-recurring integration costs and restructuring charges associated with the acquisition. Excluding CCSG, operating expenses increased as a result of increased payroll and payroll related costs, increased freight costs, increased depreciation and amortization related to our infrastructure and other investment programs, and increased advertising costs.

We expect operating costs to continue to increase throughout fiscal year 2016 as compared to fiscal year 2015 due to increased operating costs associated with the establishment of our new customer fulfillment center in Columbus, Ohio, increased compensation expenses and fringe benefits costs as a result of an increase in our staffing levels primarily related to sales associates and other program development and volume related positions to support our growth initiatives, and increased costs associated with executing on our vending and other investment programs. We will continue to opportunistically seek additional growth opportunities that will help position us for future expansion. We believe that cash flows from operations, available cash and funds available under our revolving credit facility will be adequate to support our operations and growth plans for the next twelve 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 CMI, VMI, and vending programs.

Results of Operations

Fiscal Year Ended August 29, 2015 Compared to the Fiscal Year Ended August 30, 2014

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:

	Fiscal Years Ended August 29, 2015		August 30, 2014		Change	
	$	%	$	%	$	%
Net sales	$ 2,910,379	100.0%	$ 2,787,122	100.0%	$ 123,257	4.4%
Cost of goods sold	1,593,804	54.8%	1,500,866	53.9%	92,938	6.2%
Gross profit	1,316,575	45.2%	1,286,256	46.1%	30,319	2.4%
Operating expenses	937,046	32.2%	903,072	32.4%	33,974	3.8%
Income from operations	379,529	13.0%	383,184	13.7%	(3,655)	(1.0)%
Total other expense	(6,388)	(0.2)%	(3,659)	(0.1)%	(2,729)	74.6%
Income before provision for income taxes	373,141	12.8%	379,525	13.6%	(6,384)	(1.7)%
Provision for income taxes	141,833	4.9%	143,458	5.1%	(1,625)	(1.1)%
Net income	$ 231,308	7.9%	$ 236,067	8.5%	$ (4,759)	(2.0)%

Net Sales

Net sales increased 4.4% or approximately $123.3 million, for the fiscal year ended 2015. We estimate that this $123.3 million increase in net sales is comprised of: (i) approximately $135.1 million of higher sales volume; partially offset by (ii) $3.7 million from pricing, which includes changes in customer and product mix, discounting and other items; and (iii) approximately $8.1 million from unfavorable foreign currency fluctuations. Of the above $123.3 million increase in net sales, our government and national account programs (“Large Account Customer”) increased by approximately $108.0 million and there was an increase in our remaining business of approximately $15.3 million.

Gross Profit

Gross profit margin was 45.2% in fiscal 2015 as compared to 46.1% in fiscal 2014. The decline in gross profit margin was primarily a result of increases in product costs, changes in pricing, customer and product mix and growth in our vending program sales.

Operating Expenses

Operating expenses increased 3.8% to $937.0 million in fiscal 2015, as compared to $903.1 million in fiscal 2014. The increase is primarily the result of increased payroll and payroll related costs to support our increased revenues, increased depreciation expense associated primarily with our recent infrastructure and other growth investments, and increased advertising costs related to additional advertising activities. This increase was partially offset by a decrease in the incentive compensation accrual, in addition to decreases in non-recurring integration costs and restructuring charges associated with the CCSG acquisition and in relocation expenses associated with the establishment of our co-located headquarters in Davidson, North Carolina. Approximately $1.1 million and $11.8 million of expenses related to non-recurring integration costs and restructuring charges associated with the CCSG acquisition were included in operating expenses in fiscal years 2015 and 2014, respectively. Approximately $3.4 million and $3.0 million of executive separation costs were included in operating expenses for fiscal years 2015 and 2014, respectively. In addition, approximately $2.6 million of expenses associated with the establishment of our co-located headquarters in Davidson, North Carolina were included in operating expenses in fiscal 2014.

Operating expenses represented approximately 32.2% of net sales in fiscal 2015, as compared to approximately 32.4% in fiscal 2014, respectively. Excluding the reduction in the non-recurring charges discussed above, operating expenses as a percentage of net sales in fiscal 2015 increased as compared to the prior fiscal year.

Payroll and payroll related costs represented approximately 53.3% of total operating expenses in fiscal 2015, as compared to approximately 53.5% in fiscal 2014, respectively. Included in these costs are salary, incentive compensation, sales commission and fringe benefit costs. Salary, incentive compensation and sales commission increased in fiscal 2015 as compared to the prior fiscal year, primarily due to an increase in salaries as a result of an increase in our staffing levels primarily related to sales associates and other program development and volume related positions to support our growth initiatives as well as significant investments in vending programs. Fringe benefit costs increased as a result of increased medical costs of our self-insured group health plan. There was an increase in the number of participants in the plan as a result of the increases in headcount discussed above, which resulted in an increase in the number of medical claims filed. The number of medical claims filed increased 7.0% in fiscal 2015 compared to fiscal 2014. In addition, the average cost per claim increased by 5.3% in fiscal 2015 as compared to fiscal 2014. These increases were partially offset by a decrease in the incentive compensation accrual.

Payroll and payroll related costs decreased as a percentage of operating expenses in fiscal 2015 as compared to the prior fiscal year as a result of increased other operating expenses due to the factors discussed above.

Freight expense was approximately $123.9 million in fiscal 2015, as compared to approximately $119.8 million in fiscal 2014. The primary driver of this increase was increased sales.

Income from Operations

Income from operations decreased 1.0% to $379.5 million in fiscal 2015, as compared to $383.2 million in fiscal 2014. This decrease was primarily attributable to the increase in operating expenses described above, offset in part by an increase in gross profit. Income from operations as a percentage of net sales decreased to 13.0% in fiscal 2015 as compared to 13.7% for the prior fiscal year primarily due to a decrease in the gross profit margin as discussed above.

Other Expense

The increase in other expense in fiscal 2015 compared to fiscal 2014 was primarily due to increases in interest expense due to increased borrowings under our Credit Facility in fiscal 2015.

Provision for Income Taxes

Our fiscal 2015 effective tax rate was 38.0% as compared to 37.8% in fiscal 2014. This fluctuation resulted from changes in the tax laws, income allocation and regulations in the various jurisdictions in which we operate and expiring statutes of limitations.

Net Income

The factors which affected net income for fiscal 2015 as compared to the prior period have been discussed above.

Fiscal Year Ended August 30, 2014 Compared to the Fiscal Year Ended August 31, 2013

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:

	Fiscal Years Ended August 30, 2014		August 31, 2013		Change	
	$	%	$	%	$	%
Net sales	$ 2,787,122	100.0%	$ 2,457,649	100.0%	$ 329,473	13.4%
Cost of goods sold	1,500,866	53.9%	1,339,133	54.5%	161,733	12.1%
Gross profit	1,286,256	46.1%	1,118,516	45.5%	167,740	15.0%
Operating expenses	903,072	32.4%	732,990	29.8%	170,082	23.2%
Income from operations	383,184	13.7%	385,526	15.7%	(2,342)	(0.6)%
Total other expense	(3,659)	(0.1)%	(2,097)	(0.1)%	(1,562)	74.5%
Income before provision for income taxes	379,525	13.6%	383,429	15.6%	(3,904)	(1.0)%
Provision for income taxes	143,458	5.1%	145,434	5.9%	(1,976)	(1.4)%
Net income	$ 236,067	8.5%	$ 237,995	9.7%	$ (1,928)	(0.8)%

Net Sales

Net sales increased 13.4%, or approximately $329.5 million, for the fiscal year ended 2014. We estimate that this $329.5 million increase in net sales is comprised of: (i) approximately $183.8 million of incremental net sales from CCSG operations, reflecting a full year of CCSG net sales, as compared to CCSG net sales for only a portion of the year in fiscal 2013; (ii) approximately $128.7 million of higher sales volume; (iii) approximately $13.6 million from improved pricing, which includes changes in customer and product mix, discounting and other items; and (iv) approximately $3.4 million from favorable foreign currency fluctuations. Of the above $329.5 million increase in net sales, our Large Account Customers increased by approximately $82.3 million and there was an increase in our remaining business of approximately $247.2 million.

Gross Profit

Gross profit margin was 46.1% in fiscal 2014 as compared to 45.5% in fiscal 2013. Gross profit margin increased in fiscal 2014 primarily as a result of higher gross margins from CCSG, which included a full year of impact in fiscal 2014 compared to only a portion of the year in fiscal 2013. This was partially offset by increases in product costs, changes in customer and product mix and an increased percentage of sales from our vending programs. Price increases were constrained as a result of low commodity inflation.

Operating Expenses

Operating expenses increased 23.2% to $903.1 million in fiscal 2014, as compared to $733.0 million in fiscal 2013. Operating expenses represented approximately 32.4% of net sales in fiscal 2014, as compared to approximately 29.8% in fiscal 2013, respectively. The increase in operating expense in dollars and as a percentage of net sales for fiscal year 2014, as compared to the prior period, was primarily a result of additional operating expenses incurred as a result of the acquired CCSG operations, as well as non-recurring integration costs and restructuring charges associated with the acquisition.

CCSG’s operating expenses accounted for approximately $144.6 million and $52.1 million of total operating expenses for fiscal 2014 and fiscal 2013, respectively. In addition, approximately $11.8 million and $11.6 million of expenses related to non-recurring integration costs and restructuring charges associated with the CCSG acquisition were also included in operating expenses for fiscal 2014 and fiscal 2013, respectively. Excluding CCSG, operating expenses increased in fiscal 2014 primarily due to an increase in payroll and payroll related costs (including an increase in incentive compensation), increased freight costs, increased depreciation and amortization related to our infrastructure and other investment programs, increased costs associated with our vending program and increased advertising costs. In addition, approximately $3.0 million and $2.6 million of non-recurring executive separation costs and relocation costs, respectively, was included in operating expenses for fiscal 2014.

Payroll and payroll related costs represented approximately 53.5% of total operating expenses in fiscal 2014, as compared to approximately 54.0% in fiscal 2013, respectively. Included in these costs are salary, incentive compensation, fringe benefits, and sales commission. These costs increased in fiscal 2014 as compared to fiscal 2013, primarily due to increased costs associated with the acquired CCSG operations, increased incentive compensation, and an increase in our staffing levels primarily related to sales associates, other program development and volume related positions to support our growth initiatives. We experienced an increase in the medical costs of our self-insured group health plan in fiscal 2014 compared to fiscal 2013. This is a result of an increased number of participants in the plan and an increase in the number of medical claims primarily due to additional headcount as a result of the CCSG acquisition. The number of medical claims filed increased 15.4% in fiscal 2014 as compared to fiscal 2013, which was driven by increased associate participation in the plan through increased company headcount. The average cost per claim increased by 8.7% in fiscal 2014 as compared to fiscal 2013.

Payroll and payroll related costs decreased as a percentage of operating expenses in fiscal 2014 as compared to the prior fiscal year as a result of increases in other operating expenses due to the factors discussed above.

Freight expense was approximately $119.8 million in fiscal 2014, as compared to $105.2 million in fiscal 2013. The primary driver of this increase was increased sales from the acquired CCSG business.

Income from Operations

Income from operations for fiscal 2014 was $383.2 million, a decrease of $2.3 million, or 0.6% as compared to fiscal 2013, and as a percentage of net sales, decreased to 13.7% in fiscal 2014 from 15.7% in fiscal 2013. The decrease in income from operations was primarily attributable to the increases in operating expenses described above. Included in operating expenses for fiscal 2014 were non-recurring integration costs and restructuring charges associated with the CCSG acquisition and costs associated with the establishment of our new co-located headquarters in Davidson, North Carolina. This decrease in income from operations was offset in part by increases in net sales and gross profit described above. Income from operations as a percentage of net sales decreased in fiscal 2014 as compared to fiscal 2013 due to increases in operating expenses as discussed above.

Other Expense

The increase in other expense in fiscal 2014 compared to fiscal 2013 was primarily due to increases in interest expense due to borrowings under our Credit Facility. We incurred interest expense on the outstanding balance of our Credit Facility for the full year during fiscal 2014 compared to only a portion of the year in fiscal 2013.

Provision for Income Taxes

Our fiscal 2014 effective tax rate was 37.8% as compared to 37.9% in fiscal 2013. This fluctuation resulted from changes in the tax laws, income allocation and regulations in the various jurisdictions in which we operate and expiring statutes of limitations.

Net Income

The factors which affected net income for fiscal 2014 as compared to the prior period have been discussed above.

Liquidity and Capital Resources

As of August 29, 2015, we held $38.3 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 August 29, 2015, total borrowings outstanding, representing amounts due under the Credit Facility (discussed below) and all capital leases and financing arrangements, were approximately $428.3 million. At August 30, 2014, total borrowings outstanding, representing amounts due under the Credit Facility and all capital leases and financing arrangements, were approximately $337.1 million.

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

	Fiscal Years Ended		
	August 29, 2015	August 30, 2014	August 31, 2013
	(Amounts in thousands)		
Net cash provided by operating activities	$ 249,791	$ 272,406	$ 325,437
Net cash used in investing activities	$ (51,405)	$ (94,206)	$ (638,021)
Net cash (used in) provided by financing activities	$ (207,045)	$ (187,039)	$ 200,061
Effect of foreign exchange rate changes on cash and cash equivalents	$ (228)	$ 117	$ (54)
Net decrease in cash and cash equivalents	$ (8,887)	$ (8,722)	$ (112,577)

The major component contributing to the source of cash for fiscal 2015 was borrowings of $336.0 million under the revolving loan facility, partially offset by repayments on the Credit Facility of $243.0 million relating to both the revolving credit note and term loan. The major component of the use of cash for fiscal 2015 was cash dividends paid of $284.2 million to shareholders of record, which consisted of the regular quarterly cash dividends of $0.40 per share and a special cash dividend of $3.00 per share approved by our Board of Directors on October 27, 2014. On October 21, 2015, the Board of Directors declared a quarterly cash dividend of $0.43 per share, payable on November 24, 2015 to shareholders of record at the close of business on November 10, 2015. The dividend will result in a payout of approximately $26.5 million, based on the number of shares outstanding at October 15, 2015.

As a distributor, our use of capital is largely for working capital to support our revenue base. Capital commitments for property, plant and equipment generally are limited to 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 as a result of the rate of increases or decreases in sales. In periods when sales are increasing, as in our fiscal year 2015, the expanded working capital needs are funded primarily by cash from operations. In addition to our working capital needs, for fiscal 2015, we paid $284.2 million to shareholders in the form of cash dividends and we repurchased approximately 0.4 million shares of our Class A common stock for approximately $33.4 million.

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.

Operating Activities

Net cash provided by operating activities for the fiscal years ended August 29, 2015 and August 30, 2014 was $249.8 million and $272.4 million, respectively. There are various increases and decreases contributing to this change. An increase in inventories to support increased sales volume contributed to the majority of the decrease in net cash provided by operating activities.

Net cash provided by operating activities for the fiscal years ended August 30, 2014 and August 31, 2013 was $272.4 million and $325.4 million, respectively. There are various increases and decreases contributing to this change. An increase in inventories and accounts receivable related to increased sales contributed to the majority of the decrease in net cash provided by operating activities.

	Fiscal Years Ended		
	August 29, 2015	August 30, 2014	August 31, 2013
	(Dollars in thousands)		
Working Capital	$ 609,739	$ 652,251	$ 679,910
Current Ratio	2.4	3.1	4.2

Working capital was $609.7 million, $652.3 million, and $679.9 million at August 29, 2015, August 30, 2014 and August 31, 2013, respectively. At these dates, the ratio of current assets to current liabilities was 2.4, 3.1, and 4.2, respectively. The decrease in working capital and the current ratio at August 29, 2015 compared to August 30, 2014 is primarily related to the additional borrowings under the revolving loan facility in fiscal 2015, partially offset by the increase in inventories. The decrease in working capital and the current ratio at August 30, 2014 compared to August 31, 2013 is primarily related to the additional borrowings under the Credit Facility in fiscal 2014 and an increase in current maturities of long-term debt.

Investing Activities

Net cash used in investing activities for the fiscal years ended August 29, 2015 and August 30, 2014 was $51.4 million and $94.2 million, respectively. The decrease in net cash used in investing activities resulted primarily from cash used of approximately $25.0 million for investment in available for sale securities during fiscal 2014, relating to the Columbus-Franklin County Finance Authority arrangement to construct our new customer fulfillment center in Columbus, Ohio. In addition, cash used for expenditures for property, plant, and equipment decreased primarily due to the outfit of this new customer fulfillment center, which occurred principally in fiscal 2014.

Net cash used in investing activities for the fiscal years ended August 30, 2014 and August 31, 2013 was $94.2 million and $638.0 million, respectively. The decrease of approximately $543.8 million in net cash used in investing activities resulted primarily from cash used of approximately $548.8 million in the acquisition of CCSG in April 2013.

Financing Activities

Net cash used in financing activities for the fiscal years ended August 29, 2015 and August 30, 2014 was $207.0 million and $187.0 million, respectively. The major components contributing to the use of cash for fiscal 2015 were cash dividends paid of $284.2 million, repayments on the Credit Facility of $243.0 million related to both the revolving loan facility and term loan, and the repurchase of shares of Class A common stock of $33.4 million. This was partially offset by borrowings under the revolving loan facility in the amount of $336.0 million.

Net cash used in financing activities for the fiscal year ended August 30, 2014 was $187.0 million compared to net cash provided by financing activities of $200.1 million for the fiscal year ended August 31, 2013. The major components contributing to the use of cash for fiscal 2014 were the repurchase of shares of Class A common stock of

$191.4 million, cash dividends paid of $82.6 million, and repayments on the Credit Facility of $77.5 million related to both the revolving credit note and term loan. This was partially offset by borrowings under the Credit Facility in the amount of $135.0 million. The major component contributing to the source of cash for fiscal 2013 were borrowings of $370.0 million under the Credit Facility, which was entered into in connection with the acquisition of CCSG, offset by repayments on the revolving credit facility of $120.0 million. The other component contributing to the source of cash for fiscal 2013 were net proceeds received from the exercise of the Company's Class A common stock options in the amount of $21.7 million. Net cash provided by financing activities was partially offset by cash dividends paid of $75.9 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.

The Credit Facility also permits us, at our 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 $200.0 million. Subject to certain limitations, each such incremental term loan facility or revolving commitment increase will be on terms as agreed to by us, the Administrative Agent and the lenders providing such financing.

Borrowings under the Credit Facility bear interest, at our 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 our 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 our consolidated leverage ratio. Based on the interest period we select, interest may be payable every one, two, three or six months. Interest is reset at the end of each interest period. We currently elect to have loans under the Credit Facility bear interest based on LIBOR with one-month interest periods.

We are 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 our consolidated leverage ratio. We are also required to pay quarterly letter of credit usage fees ranging between 1.00% to 1.375% (based on our 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 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. At August 29, 2015, we were in compliance with the operating and financial covenants of the Credit Facility.

During fiscal 2015, we borrowed $336.0 million under the revolving loan facility and repaid $218.0 million of the revolving loan balance and $25.0 million of the term loan. 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. As of August 30, 2014, there were $237.5 million and $70.0 million of borrowings outstanding under the term loan facility and the revolving credit facility, respectively, of which $95.0 million represents current maturities. The Company repaid borrowings of $65.0 million under the revolving loan facility in total in September 2015 and October 2015. The current unused balance of $277.0 million of the revolving loan facility is available for working capital purposes, if necessary.

Infrastructure Investments

In connection with our new customer fulfillment center in Columbus, Ohio, we spent approximately $3.3 million in fiscal 2015 and $49.9 million in fiscal 2014 for the purchase of the land and costs to construct and outfit the facility. We completed construction and began operations on September 30, 2014.

Contractual Obligations

We are affiliated with one real estate entity (the “Affiliate”), which leased our Atlanta Fulfillment Center to us as of August 29, 2015 and August 30, 2014. The Affiliate is owned by our principal shareholders (Mitchell Jacobson, our Chairman, and his sister Marjorie Gershwind Fiverson, and by their family related trusts). Effective November 1, 2010, we relocated from the branch office owned by another affiliated real estate entity and currently lease only our Atlanta Customer Fulfillment Center from the Affiliate. We paid rent under an operating lease to the Affiliate of approximately $2.3 million for each of fiscal years 2015, 2014, and 2013, in connection with our occupancy of our Atlanta Customer Fulfillment Center.

The following table summarizes our contractual obligations at August 29, 2015 (in thousands):

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations with non-Affiliates(1)	$ 41,117	$ 14,330	$ 17,533	$ 6,900	$ 2,354
Operating lease obligations with Affiliates(1)	36,748	2,351	4,725	4,820	24,852
Capital lease obligations and financing obligations with non-Affiliates(2)	30,616	1,165	1,564	27,887	—
Maturities of Credit Facility	400,500	213,000	187,500	—	—
Interest on Credit Facility(3)	5,344	2,618	2,726		
Total contractual obligations	$ 514,325	$ 233,464	$ 214,048	$ 39,607	$ 27,206

(1) Certain of our operations are conducted on leased premises, one of which is leased from the Affiliate, as described above. These leases (most of which require us to provide for the payment of real estate taxes, insurance and other operating costs) 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.

(2) As of August 29, 2015, the Company has entered into various capital leases and financing obligations for certain information technology equipment, which expire on varying dates through 2017. In addition, included in this table is the long-term capital lease with the Columbus-Franklin County Finance Authority entered into in connection with the construction of the Company's customer fulfillment center in Columbus, Ohio.

(3) Assumed interest rate of 1.33% through the maturity date which was the applicable borrowing rate for the Company for any borrowings outstanding under the term loan facility at August 29, 2015.

The Company has recorded a non-current liability of $4.8 million for tax uncertainties and interest for the fiscal year ended August 29, 2015. This amount is excluded from the table above, as the Company cannot make reliable estimates of these cash flows by period. See Note 8 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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. Our significant accounting policies are described in the notes to the consolidated financial statements. The accounting policies described below are impacted by our critical accounting estimates.

Allowance for Doubtful Accounts

We perform periodic credit evaluations of our customers' financial condition and collateral is generally not required. The Company considers several factors to estimate the allowance for uncollectible accounts receivable including the age of the receivables and the historical ratio of actual write-offs to the age of the receivables. The analyses performed also take into consideration economic conditions that may have an impact on a specific industry, group of customers or a specific customer. Based on our analysis of actual historical write-offs of uncollectible accounts receivable, the Company's estimates and assumptions have been materially accurate in regards to the valuation of its allowance for doubtful accounts. For fiscal years 2015, 2014 and 2013, actual results did not vary materially from estimated amounts.

Inventory Valuation Reserve

We establish inventory valuation reserves for shrinkage and slow-moving or obsolete inventory. The analysis includes inventory levels, sales information, inventory count adjustments, and the on-hand quantities relative to the sales history for the product.

Inventories consist of merchandise held for resale and are stated at the lower of weighted average cost or market. We evaluate the recoverability of our slow-moving or obsolete inventories at least quarterly. We estimate the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. Our ability to recover our cost for slow-moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand and relationships with suppliers.

Goodwill and Indefinite-Lived Intangible Assets

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital.

At August 29, 2015, our goodwill totaled $623.6 million and our indefinite-lived intangible assets totaled $15.1 million. The Company annually reviews goodwill at the reporting unit level and intangible assets that have indefinite lives for impairment in its fiscal fourth quarter and when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Goodwill and indefinite-lived intangible assets are tested for impairment by first evaluating qualitative factors to determine whether it is more likely than not that the fair value of goodwill and indefinite-lived intangible assets are less than their carrying values. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. We conducted our qualitative assessment of goodwill and intangibles in the fiscal fourth quarters of 2015 and 2014. The results of the assessments indicated that based on the qualitative assessment of goodwill and intangible assets that have indefinite lives, it was not likely that the fair values are less than the carrying amounts.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The tax balances and income tax expense recognized by the Company are based on management’s interpretations of the tax laws of multiple jurisdictions. Income tax expense reflects the Company’s best estimates and assumptions regarding, among other items, the level of future taxable income, interpretation of tax laws and uncertain tax positions.

Other

Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. Policies such as revenue recognition, depreciation, intangibles, long-lived assets and warranties require judgments on complex matters that are often subject to multiple external sources of authoritative guidance such as the Financial Accounting Standards Board (the “FASB”) and the SEC. Possible changes in estimates or assumptions associated with these policies are not expected to have a material effect on the financial condition or results of operations of the Company. More information on these additional accounting policies can be found in Note 2 to the Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

Simplifying the Measurement of Inventory

In July 2015, the FASB issued Accounting Standards Update (“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 as of the beginning of an interim or annual reporting period. 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 condensed 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risks

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.

Borrowings under the Credit Facility bear interest, at our option, either at (i) the LIBOR rate plus the applicable margin for LIBOR loans ranging from 1.00% to 1.375%, based on our 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 our consolidated leverage ratio. Based on the interest period we select, interest may be payable every one, two, three or six months. Interest is reset at the end of each interest period. We currently elect to have loans under the Credit Facility bear interest based on LIBOR with one-month interest periods. The applicable borrowing rate for us for any borrowings outstanding under the Credit Facility at August 29, 2015 was 1.33%, which represents LIBOR plus 1.125%.

The Credit Facility also requires that we 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 our subsidiaries.

As of August 29, 2015, there were $400.5 million of borrowings outstanding under the term loan facility and the revolving credit facility, of which $213.0 million represents current maturities. At August 29, 2015, we were in compliance with the operating and financial covenants of the Credit Facility.

Borrowings under our Credit Facility are subject to fluctuations in the interest rate, which have a corresponding effect on our interest expense. A 100 basis point increase or decrease in interest rates would impact our interest costs by approximately $4.1 million under our current capital structure. We have monitored and will continue to monitor our exposure to interest rate fluctuations.

In addition, our interest income is most sensitive to changes in the general level of interest rates. In this regard, changes in interest rates affect the interest earned on our cash and cash equivalents.

We do not currently use interest rate derivative instruments to manage exposure to interest rate changes.

Foreign Currency Risks

Approximately 97% of our sales are denominated in U.S. dollars and are primarily from customers in the United States. As a result, currency fluctuations are currently not material to our operating results. To the extent that we engage in more significant international sales in the future, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. We have monitored and will continue to monitor our exposure to currency fluctuations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of MSC Industrial Direct Co., Inc.

We have audited the accompanying consolidated balance sheets of MSC Industrial Direct Co., Inc. and Subsidiaries (the “Company”) as of August 29, 2015 and August 30, 2014, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended August 29, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MSC Industrial Direct Co., Inc. and Subsidiaries at August 29, 2015 and August 30, 2014, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended August 29, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MSC Industrial Direct Co., Inc. and Subsidiaries’ internal control over financial reporting as of August 29, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated October 28, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Jericho, New York
October 28, 2015

37

MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	August 29, 2015	August 30, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 38,267	$ 47,154
Accounts receivable, net of allowance for doubtful accounts of $11,312 and $9,310, respectively	403,468	382,784
Inventories	506,631	449,814
Prepaid expenses and other current assets	39,067	40,410
Deferred income taxes	44,643	41,253
Total current assets	1,032,076	961,415
Property, plant and equipment, net	291,156	294,348
Goodwill	623,626	629,335
Identifiable intangibles, net	119,805	138,314
Other assets	34,543	37,335
Total assets	$ 2,101,206	$ 2,060,747
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Revolving credit note	$ 188,000	$ 70,000
Current maturities of long-term debt	25,515	26,829
Accounts payable	114,328	116,283
Accrued liabilities	94,494	96,052
Total current liabilities	422,337	309,164
Long-term debt, net of current maturities	214,789	240,235
Deferred income taxes and tax uncertainties	131,210	112,785
Total liabilities	768,336	662,184
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; 56,400,070 and 55,980,199 shares issued, respectively	56	56
Class B common stock (ten votes per share); $0.001 par value; 50,000,000 shares authorized; 13,295,747 shares issued and outstanding	13	13

Additional paid-in capital	604,905	573,730
Retained earnings	1,232,381	1,286,068
Accumulated other comprehensive loss	(17,252)	(5,054)
Class A treasury stock, at cost, 8,037,696 and 7,657,386 shares, respectively	(487,233)	(456,250)
Total shareholders’ equity	1,332,870	1,398,563
Total liabilities and shareholders’ equity	$ 2,101,206	$ 2,060,747

See accompanying notes to consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except net income per share data)

	For the Fiscal Years Ended		
	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)	August 31, 2013 (52 weeks)
NET SALES	$ 2,910,379	$ 2,787,122	$ 2,457,649
COST OF GOODS SOLD	1,593,804	1,500,866	1,339,133
Gross profit	1,316,575	1,286,256	1,118,516
OPERATING EXPENSES	937,046	903,072	732,990
Income from operations	379,529	383,184	385,526
OTHER (EXPENSE) INCOME:			
Interest expense	(6,340)	(3,874)	(2,164)
Interest income	771	414	117
Other expense, net	(819)	(199)	(50)
Total other expense	(6,388)	(3,659)	(2,097)
Income before provision for income taxes	373,141	379,525	383,429
Provision for income taxes	141,833	143,458	145,434
Net income	$ 231,308	$ 236,067	$ 237,995
PER SHARE INFORMATION:			
Net income per common share:			
Basic	$ 3.75	$ 3.78	$ 3.77
Diluted	$ 3.74	$ 3.76	$ 3.75
Weighted average shares used in computing net income per common share:			
Basic	61,292	62,026	62,695
Diluted	61,487	62,339	63,011

See accompanying notes to consolidated financial statements.

39

MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the Fiscal Years Ended		
	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)	August 31, 2013 (52 weeks)
Net income, as reported	$ 231,308	$ 236,067	$ 237,995
Foreign currency translation adjustments	(12,198)	(627)	(1,984)
Comprehensive income	$ 219,110	$ 235,440	$ 236,011