



# BUILDING BETTER

2016 ANNUAL REPORT

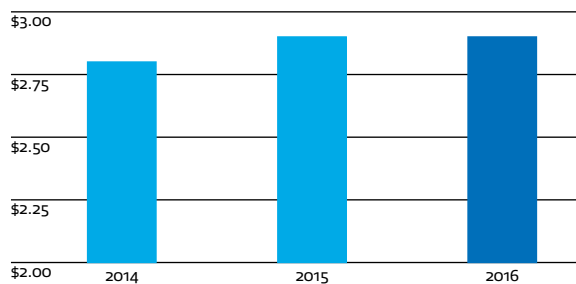
# BUILDING BETTER

With a 75-year history of driving innovation in metalworking and maintenance, repair and operations (MRO) product distribution and services, MSC continues to expand its role well beyond selling industrial supplies.

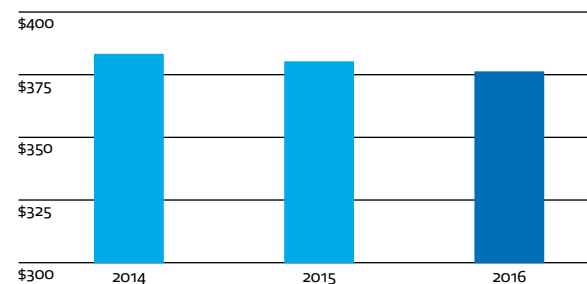
We help our customers drive greater productivity, profitability and growth with more than one million products, inventory management and other supply chain solutions, and deep expertise across industries. Our experienced team of more than 6,000 associates is dedicated to working side by side with our 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.

## Financial Highlights

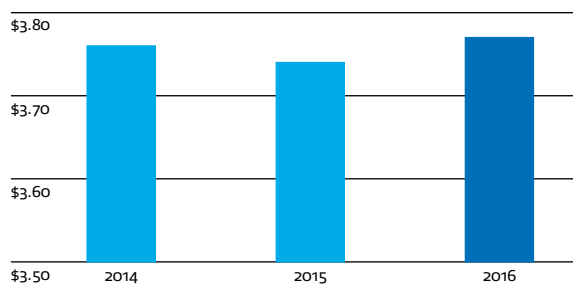
### NET SALES (IN BILLIONS)



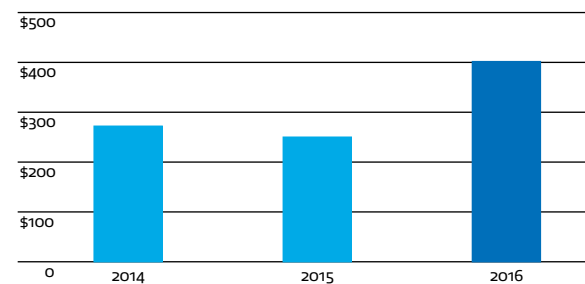
### OPERATING INCOME (IN MILLIONS)



### DILUTED EARNINGS PER SHARE



### CASH FLOW FROM OPERATIONS (IN MILLIONS)



Dear Shareholders,

Since our humble beginning in 1941 when my grandfather Sid Jacobson founded MSC, our focus has been on enabling our customers to drive greater productivity, profitability and growth. Our business has transformed dramatically over the years as we have evolved to address the changing needs of our customers and the markets that we serve. Today, we continue to build on our rich history, affirming our commitment to our customers, suppliers, shareholders, associates and the communities in which we live and work. Our vision, however, remains the same—to drive results for our customers' businesses, from keeping operations running efficiently today to continuously rethinking, retooling and optimizing for a more productive tomorrow.

In fiscal 2016, we continued to execute against our key priorities, delivering a diversified, high-quality range of products, services and solutions to our customers. Our ability to partner with our customers and help them maximize their returns on spend and enhance supply chain efficiencies has become increasingly important and central to our success, particularly given the challenged macroeconomic backdrop of recent years.

Over the past year, we generated results reflective of solid execution and our commitment to operational excellence despite the ongoing headwinds of an extremely difficult demand environment and soft pricing, which have been primarily driven by the ongoing effects of low oil prices and the strong U.S. dollar on the manufacturing economy. Against the backdrop of these challenges, our performance in fiscal 2016 was highlighted by the following developments: First, we continued our share gains, building on our leadership position in metalworking, as well as developing a leadership position in our Class C inventory business. Second, we achieved sustained gross margin stabilization even in the face of a very soft price environment. Third, we realized significant benefits from our productivity initiatives and strong expense controls, leaning out our cost structure and significantly improving the leverage in our business model. Also, we did not take our eye off the future and the exciting growth opportunities that we see ahead. We continued to invest in our growth programs and foster the talent,



Erik Gershwind, President and Chief Executive Officer

resources, portfolio and infrastructure required to address the ever-evolving needs of our customers.

Efficient, rapid distribution of the products that our customers need to keep their businesses running is core to our business, as is delivering expertise in streamlining procurement and optimizing inventory management. We continue to grow into these exciting opportunities, leveraging the market-leading experience of our team to not only meet this need, but also to anticipate emerging demands and shape the trends of tomorrow. We are proud of the success that we have had in enhancing our e-commerce platforms, expanding our vending network, and leveraging new technologies to streamline distribution.

Our customers recognize the advantage of working with an industry leader such as MSC as we enable our customers to drive efficiency and productivity across their businesses. Our solutions approach is core to a value proposition at MSC that smaller competitors simply cannot match. This focus has served us well in strengthening our customer relationships across our history, and is continuing to pay dividends as others turn to us for the same support. In this way, we will propel our performance when industry growth returns.

In addition to investing in our product and service offering to support our customers, we continue working to deliver attractive returns for our shareholders.

Our actions to stabilize gross margins and reduce operating costs enabled us to slightly improve our Operating Margin to 13.1% despite the significant headwind of lower sales. This year marked our thirteenth year of distributing quarterly dividends, with dividend growth every year. In all, we distributed a total of \$106 million in dividends over the full fiscal year 2016 and we repurchased a total of 5.3 million shares primarily through the Dutch tender completed in the third quarter. Between dividends and share buybacks, we returned nearly \$500 million to our shareholders in fiscal 2016 and we remain committed to a balanced capital allocation strategy going forward.

In fiscal 2017, we will remain diligent in managing those levers under our control to drive profitability and promote efficiency and productivity across the business. Even as we confront ongoing softness in pricing and demand against the backdrop of challenged end markets, we are confident in our position and ability to achieve growth when conditions improve.

Looking back on fiscal 2016, we would like to thank our customers for looking to our team at MSC to help drive their growth and our partners for working closely with us to provide the best solutions and products available in the market. We also would like to recognize our associates who have worked tirelessly this year to serve our customers, deliver share gains, and lead our ongoing drive to operational excellence. The changes that our people are making to our business continue to strengthen our position in the markets that we serve. As we look to the future, it is the drive, ingenuity and expertise of our associates that give us great confidence. Finally, we thank our shareholders for supporting our vision for the Company.

Respectfully,



Erik Gershwind  
President and Chief Executive Officer

## BUILDING PRODUCTIVE PARTNERSHIPS

**We're only successful when our key stakeholders win. That's why we're focused on building productive partnerships that lift others to new heights.**

Our associates share their rich expertise and insight not only to keep our customers' manufacturing operations up and running, but to improve their efficiency and performance. Whether it's a small shop that needs smart business solutions to help them compete, a mid-sized business looking to improve productivity, or a large company working to reduce total cost of ownership, we partner to solve their toughest MRO and operational challenges. We also are dedicated to driving the growth and success of our supplier partners, developing and enabling our talented associates so they can realize their full potential, and improving the quality of life for others in the many communities where we operate. As we do these things, we contribute to a successful industrial economy. Sound like we're more than an industrial supply company? We strive to be, but it's more meaningful to hear what some of our stakeholders say about partnering with MSC:



**“MSC helps us win races.”**



**Mark Bringle**  
Director, Technical Sponsorship  
& Marketing  
Joe Gibbs Racing

Joe Gibbs Racing (JGR) is one of the winningest teams in NASCAR with four NASCAR championships over the past two decades. JGR builds its cars from the ground up each week, with 90 percent of the parts manufactured in-house. That’s cutting a lot of metal, so getting the part right every time is critical to winning races. JGR relies on MSC’s metalworking experts to be part of its crew, providing the right products and technical support. MSC also has helped JGR reduce its on-site inventory and costs through customized vending and inventory management solutions.

*“MSC is right here by our side providing product and technical support—and a competitive edge to help us win races.”*

## **Longer-Lasting Tools... and Relationships**



**Chuck Byrnes**  
Vice President, Kennametal Inc. &  
President, Industrial Segment



Providing manufacturing customers with the right industrial supplies and solutions is often about having relationships with top suppliers. As Kennametal’s top metalworking distributor, MSC has worked hand-in-glove with Kennametal to deliver big cost savings to customers for years. In one case, MSC and Kennametal analyzed a customer’s processes and recommended an entirely new tool design customized to the client’s exacting needs. The new design reduced tool wear, improved cutting rates and resulted in tooling savings of more than \$175,000 annually. The MSC-Kennametal team also staged a half-day training seminar to ensure the customer received optimum performance from the new tool design.

*“MSC has taken our relationship from good to great.”*

## The Opportunity to Learn and Grow



Mika Cardwell  
Product Manager  
MSC Industrial Supply Co.



MSC's goal is to attract, develop and retain a talented team of associates inspired by our purpose of providing greater value to our stakeholders. For Mika Cardwell, a nine-year MSC associate, that means honing her interpersonal skills and business expertise so she can improve relationships with the suppliers she partners with to drive success every day. Highly committed to her personal development, Mika takes advantage of the many formal and informal learning opportunities through MSC University and has completed a number of courses. Her personal performance and achievements resulted in her recently being promoted to product manager.

*"At MSC, I have the opportunity to learn, take risks and develop my career."*



## Investing in Our Communities



Theresa A. Regnante  
President & CEO  
United Way of Long Island

Anthony grew up in a single-parent home with three siblings where physical and mental abuse was commonplace. With few positive role models in his life, he went down the wrong path, was arrested and incarcerated. Today, Anthony's life is full of promise. He has a trade and a career as a steelworker after graduating from United Way of Long Island's YouthBuild program. He comes home each day to his wife and family and has set goals to further his education, buy a home and own his own business. Anthony is one of 300 young people, all with similar positive outcomes, who MSC has helped through \$250,000 in contributions to United Way of Long Island. MSC's philosophy of investing in well-run organizations pays long-term dividends in our communities.

*"MSC's support has been critical to transforming the lives of young people and their futures."*



2016 FORM 10-K

**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 **September 3, 2016**

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

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

**75 Maxess Road, Melville, New York**  
(Address of Principal Executive Offices)

**11747**  
(Zip Code)

**(516) 812-2000**

(Registrant's telephone number, including area code)

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  
reporting company)

Smaller reporting company

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

The aggregate market value of Class A common stock held by non-affiliates of the registrant as of February 27, 2016 was approximately \$3,297,929,466. As of October 17, 2016, 44,647,764 shares of Class A common stock and 11,933,233 shares of Class B common stock of the registrant were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant's Proxy Statement for its 2017 annual meeting of shareholders is hereby incorporated by reference into Part III of this Annual Report on Form 10-K.



MSC INDUSTRIAL DIRECT CO., INC.

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## 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,” “anticipate,” “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 North American distributor of metalworking and maintenance, repair and operations (“MRO”) products and services.

With a 75-year history of driving innovation in industrial product distribution, we help solve our manufacturing customers’ metalworking, MRO and operational challenges. Our team of more than 6,000 associates brings deep expertise and insight to not only keep our customers’ manufacturing operations up and running, but also improve their efficiency, productivity and profitability through our technical metalworking expertise and inventory management and other supply chain solutions.

We serve a broad range of customers throughout the United States, Canada and the United Kingdom, from individual machine shops, to Fortune 100 manufacturing companies, to government agencies such as the General Services Administration and the Department of Defense. We operate a sophisticated network of 12 customer fulfillment centers (eight in the United States, three in Canada and one in the United Kingdom) and 85 branch offices (84 in the United States and one in the U.K.) Our primary customer fulfillment centers are located in or near Harrisburg, PA; Atlanta, GA; Elkhart, IN; Reno, NV; and Columbus, OH. In addition, we operate seven smaller customer fulfillment centers in or near Hanover Park, IL; Dallas, TX; Shelbyville, KY (repackaging and replenishment center); Wednesbury, U.K.; Edmonton, Alberta; Beamsville, Canada; and Moncton, Canada.

We offer more than 1 million stock-keeping units (SKUs) through our website, [mscdirect.com](http://mscdirect.com), as well as through our 4,500-plus page master catalog, known throughout the MRO industry as “The Big Book” and a variety of specialty and promotional catalogs, brochures and flyers. We carry many of the products we sell in our inventory, so orders for these in-stock products are processed and fulfilled the day the order is received. We offer next-day delivery nationwide for qualifying orders placed by 8 p.m. Eastern Time (excluding our Class C Solutions Group (“CCSG”) business).

Exclusive of U.K. operations, more than 360,000 active customers purchased at least one item during the past 12 months from MSC. Our customers can choose among many convenient ways to place orders: [mscdirect.com](http://mscdirect.com), eProcurement platforms, call centers or direct communication with our outside sales associates.

We endeavor to save our customers money when they partner with us for their MRO and metalworking product needs. We do this in multiple ways:

- our experienced team of more than 6,000 associates includes customer care team members, metalworking specialists and technical support teams, and sales associates focused on driving our customers’ success by reducing their operational costs;

- our robust systems and transactional data enable us to provide insights to our customers to help them take cost out of their supply chains and operations;
- our extensive product inventory enables customers to deal with fewer suppliers, streamlining their purchasing work and reducing their administrative costs;
- timely shipping enables our customers to reduce their inventory investment and carrying costs;
- we simplify the purchasing process by consolidating multiple purchases into a single order, providing a single invoice for multiple purchases over time, and offering direct shipments to specific departments and people at one or more facilities. This reduces our customers' administrative costs;
- we provide extensive eCommerce capabilities: 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
- with MSC's inventory management solutions, our customers can carry less inventory and still dramatically reduce situations when a critical item is out of stock.

## **Industry Overview**

MSC operates in a large, fragmented industry. National, regional and local distributors, retail outlets, small distributorships, online distributors, direct mail suppliers, large warehouse stores and manufacturers' own sales forces all serve MRO customers.

Nearly every industrial and service business has an ongoing need for MRO supplies. These businesses, with the exception of the largest industrial plants, often do not have the resources to manage and monitor their MRO inventories effectively. They spend more than necessary to purchase and track their supplies, providing an opportunity for MSC to serve as their one-stop MRO product supplier.

Even the larger facilities often store their supplies in multiple locations, so they often carry excess inventories and duplicate purchase orders. In many organizations, multiple people often acquire the same item in small quantities via expensive, one-off purchases, resulting in higher purchasing costs and administrative efforts to keep track of supplies.

With limited capital availability, and limited eCommerce capabilities and operating leverage, smaller suppliers to the industrial market are under increasing pressure to consolidate and/or curtail services and product lines to remain competitive. Their challenge represents MSC's opportunity. Market surveys validate that we continue to capture increased market share by providing lower total purchasing costs, broader product selection and a higher level of service to our customers.

We improve purchasing efficiency and reduce costs for our customers because they can consolidate suppliers, purchase orders and invoices, reduce inventory tracking, stocking decisions, purchases and out-of-stock situations, and adopt sophisticated inventory management solutions, including Vendor Managed Inventory ("VMI"), Customer Managed Inventory ("CMI") and vending solutions.

## **Business Strategy**

MSC's business strategy is based on helping our customers become more productive and profitable by reducing their total cost for obtaining, using and maintaining MRO supplies. Our strategy includes the following key elements:

***Inventory Management Solutions.*** Our approach starts with a thorough customer assessment. Our expert associates develop and recommend solutions that provide exceptional value to the customer. Depending on the customer's size and needs, we customize options to address complexity and processes, as well as specific product, technical issues and cost targets. The options might include eProcurement, CMI, VMI, vending, tool crib control, or part-time or full-time on-site resources. Our world-class sourcing, logistics and business systems provide predictable, reliable and scalable service.

***Broad Selection of Products.*** Customers want a full range of product options, even as they look to reduce the number of suppliers they partner with. We provide "good-better-best" alternatives, comprising a spectrum of brand name,

MSC exclusive brand and generic MRO products. MSC's broad selection of products enables customers to choose the right combination of price and quality on every purchase to meet their needs.

***Same-Day Shipping and Next-Day Delivery.*** We guarantee same-day shipping of our core metalworking and MRO products, enabling customers to reduce supply inventories. We fulfill our same-day shipment guarantee about 99% of the time. We know that our customers value this service, because areas accessible by next-day delivery tend to generate significantly greater sales for MSC than areas where next-day delivery is not available.

***Superior Customer Service.*** Our commitment to customer service starts with our over 6,000 associates who share their deep expertise and knowledge of metalworking and MRO products to help our customers achieve greater success. We invest in sophisticated information systems and provide extensive training for our associates so they can better support our customers. Using our proprietary customer support software, our in-bound sales representatives can inform customers on a real-time basis of product availability; recommend substitute products; verify credit information; receive special, custom or manufacturer direct orders; cross-check inventory items using previously entered customer product codes; and arrange or provide technical assistance. We offer customized billing; customer savings reports; electronic data interchange ordering; eCommerce capabilities; bulk discounts; and stocking of specialty items requested by customers.

***Technical Support.*** We provide technical support and one-on-one service through our field and customer care center representatives. We have a dedicated team of nearly 100 metalworking specialists, who work with customers to improve their manufacturing processes and efficiency, as well as a technical support team that provides assistance to our sales teams and customers via phone and email. Our customers recognize the value of a distributor that can provide technical support to improve their operations and productivity.

***Commitment to Technological Innovation.*** We embrace technological innovations to support our growth, improve customer service and reduce our operating costs. The innovations make our buying practices more effective, improve our automated inventory replenishment and streamline order fulfillment. MSC's proprietary software helps our customers and sales representatives determine the availability of products in stock in real time and evaluate alternative products and pricing. Our website, [mscdirect.com](http://mscdirect.com) ("MSC website") contains a searchable online catalog with electronic ordering capabilities. The MSC website also offers an array of services, workflow management tools and related information. Our information systems help improve turnover and customer service while cutting costs.

We also continually upgrade our distribution methods and systems and provide comprehensive electronic ordering capabilities ("EDI" and "XML") to support our customers' purchase order processing. We continue to invest in our VMI, CMI and vending solutions that streamline customer replenishment and trim our customers' inventories. Our vending solutions include different kinds of machines, such as storage lockers or carousels, which can stand alone or be combined with other machines. MSC vending machines use network or web-based software to enable customers to gain inventory visibility, save time and drive profitability.

***Advanced Technologies and [www.mscdirect.com](http://www.mscdirect.com).*** The MSC website is 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 other enhancements, including work-flow management tools. The user-friendly search engine allows customers to find SKUs by keyword, part description, competitive part number, vendor number or brand. The MSC website is a key component of our strategy to reduce customers' transaction costs and delivery time.

***Competitive Pricing.*** Customers increasingly evaluate their total cost of ownership of industrial supplies and recognize that price is an important aspect of their procurement costs. We make sure our pricing is competitive while reflecting the value that we bring through our comprehensive service.

## **Growth Strategy**

We continue to show share gains as indicated by growth rates from the markets we serve. Our growth strategy includes a number of strategies to continue to gain market share.

***Expanding and enhancing our metalworking capabilities to aggressively penetrate customers in heavy and light manufacturing.*** MSC is a leading distributor of metalworking products in the United States. We have continued to expand our metalworking sales team, increase technical support and enhance supplier relationships. We are developing high-performance metalworking products marketed under MSC exclusive brands, providing high-value product alternatives for our customers. Our metalworking field specialists and centralized technical support team members have diverse backgrounds in machining, programming, management and engineering. They help our customers select the right tool for the job from our deep supplier base.

**Expanding programs for government and national account customers.** Although MSC has been providing MRO and metalworking supplies to the commercial sector for 75 years, we have more recently focused on potential government customers and have a large, growing contract business with numerous federal, state, and local/education agencies. We also are attracting government contractor customers and the U.S. Postal Service. We have developed customized government and national account programs. Even with our recent success, we see plenty of opportunity for additional growth.

We provide customized national account programs for larger customers, often as enterprise-wide engagements. These national account customers value our ability to support their procurement needs electronically to reduce their transactional costs. Our dedicated national account managers and operations experts provide supply chain solutions that reduce these customers' total costs of ownership through increased visibility into their MRO purchases and improved management. We demonstrate these savings through detailed reporting at both the enterprise and site level.

**Increasing the size and improving the productivity of our direct sales force.** We have invested resources to give our sales representatives more time with our customers and provide increased support during the MRO purchasing process. Our field sales and service associate headcount was 2,370 and our in-bound sales representative headcount was 1,079 at September 3, 2016. We believe that our sales force investment has played a critical role in boosting our market share.

**Increasing sales from existing customers and generating new customers with various value-added programs.** Our value-added programs include business needs analysis, inventory management solutions and workflow management tools. Our customers particularly value our industrial vending solutions that can accommodate a range of products from precision cutting tools to MRO supplies.

**Increasing the number of product lines and productive SKUs.** We are increasing the breadth and depth of our product offerings and pruning non-value-added SKUs. In fiscal year 2016, we added approximately 150,000 SKUs, net of SKU removals, to our searchable database on [www.mscdirect.com](http://www.mscdirect.com). This increase brought MSC's total, active, saleable SKU count to approximately 1,500,000 SKUs. We plan to continue adding online SKUs in fiscal 2017.

The most recent MSC catalog issued in October 2016 merchandises approximately 500,000 core metalworking and MRO products, which are included in the SKU totals above. Approximately 18% of these SKUs are MSC exclusive brands. 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 marketing programs.** MSC has built an extensive buyer database, which we use to prospect for new customers. We deliver our master catalogs to the best prospects. We supplement our master catalogs with direct mail, digital and search engine marketing, and email. Our industry-specific expertise allows us to focus our outreach on the most promising growth areas.

**Enhancing eCommerce capabilities.** MSC's website is a proprietary, business-to-business, horizontal marketplace serving the metalworking and MRO market. All qualified orders placed online at [mscdirect.com](http://mscdirect.com) are backed by our same-day shipping guarantee, unless otherwise stated. The MSC website utilizes the same highly trained sales force and support services as MSC's traditional business, so our customers enjoy added convenience without sacrificing customized service. MSC's website is 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 website and solicit customer feedback, making on-going improvements to ensure that the MSC website remains a premier website in our marketplace. In June 2016, *Internet Retailer* magazine recognized MSC as the "B2B eCommerce Player of the Year," citing MSC's online purchasing experience for customers as a factor for the award. *Internet Retailer* also ranked MSC as the 30<sup>th</sup> largest e-retailer based on annual revenue generated from online sales, growth over the previous five years, and key metrics such as customer conversion rates and average order value by category. Our marketing campaigns continue to raise awareness and drive volume to the MSC website. In addition, many large customer accounts transact business with MSC using eProcurement solution providers that sell a suite of eCommerce products. We have associations with many of these providers and continue to evaluate and expand our eProcurement capabilities.

**Improving our excellent customer support service.** MSC consistently receives high customer satisfaction ratings, according to customer surveys. We don't just strive to meet our customers' service needs, we work to anticipate them. This focus on our customers' needs makes us stand apart in the market. We use customer comment cards, surveys and other customer outreach tools, using their feedback to drive the next generation of improvements to the customer experience.

***Selectively pursuing strategic acquisitions.*** We actively pursue strategic acquisitions that expand or complement our business in new and existing markets or further enhance the value and offerings we provide. We completed our acquisition of Barnes Distribution North America, which we now call CCSG, in fiscal year 2013. We believe 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 broad range of MRO products includes 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. Our large and growing number of SKUs makes us an increasingly valuable partner to our customers as they look to trim their supplier base. Our assortment from multiple product suppliers, prices and quality levels enables our customers to select from “good-better-best” options on nearly all their purchases. We stand apart from our competitors by offering name brand, exclusive brand, and generic products; depth in our core product lines; and competitive pricing.

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 2016, fiscal 2015, or fiscal 2014.

## **Customer Fulfillment Centers**

A significant number of our products are carried in stock. Approximately 79% of sales are fulfilled from our 12 customer fulfillment centers and 85 branch offices. Some specialty or custom items and very large orders are shipped directly from the manufacturer. We manage our primary customer fulfillment centers via computer-based SKU tracking systems and radio frequency devices that locate specific stock items to make the selection process more efficient.

## **Sales and Marketing**

We serve individual machine shops, Fortune 100 companies, government agencies and manufacturers of all sizes. We focus on relatively higher-margin, lower-volume products. With the addition of our CCSG business, 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 serve durable and non-durable goods manufacturing (which accounted for a substantial portion of our revenue in fiscal 2016), education, and health care markets, among others. We also have government and national account programs designed to address the needs of these customers.

Federal government customers include large and small military bases, Veterans Affairs hospitals, federal correctional facilities, the U.S. Postal Service and the Department of Defense. We have individual state contracts but also are engaged in several state cooperatives.

Our national account program also includes Fortune 1000 companies, large privately held companies, and international companies doing business in the United States. We have identified hundreds of additional national account prospects and have given our sales team tools to ensure we are targeting prospective customers that best fit the MSC model.

We have implemented advanced analytics and significantly increased 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 continue to play an important role in our efforts, we accelerated a shift to search engine marketing, email marketing and online advertising to address changes in our customers’ buying behavior. We use our own database of over 3 million contacts together with external mailing lists to target 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 approach is based on the ability of the sales representative, armed with our comprehensive databases as a resource, to respond effectively to the customer’s needs. When a customer places a call to MSC, the sales representative on the other end of the line has immediate access to that customer’s company and specific

buyer profile, which includes billing and purchasing track records and plant and industry information. Meanwhile, the sales representative has access to inventory levels on every SKU we carry.

Our in-bound sales representatives at our customer care centers undergo an intensive seven-week training course, followed up by regular on-site training seminars and workshops. They are monitored and evaluated at regular intervals, and they receive technical training from our in-house specialists and product vendors. We maintain a separate technical support group dedicated to answering customer inquiries, assisting them with product operation and finding the most efficient solutions to manufacturing problems.

As of September 3, 2016, we had 2,370 field sales and service associates working throughout North America and the U.K. Our field sales representatives are responsible for increasing sales per customer and servicing existing accounts. They are a touch point with the customer and provide MSC with feedback on the competitive landscape and purchasing trends.

### Branch Offices

We operate 85 branch offices. There are 84 branch offices within the United States located in 39 states, and one location in the U.K. We have experienced higher sales growth and market penetration in areas around our branch offices and believe they play an integral role in obtaining new accounts and penetrating existing ones. During fiscal 2016, we were able to consolidate some branch offices that were relatively close in proximity in order to gain leverage, operational effectiveness and cost savings. There were no new branch openings during fiscal 2016.

### 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. We use specialty and promotional publications to target customers in specific areas, such as metal fabrication, facilities management, safety and janitorial. Specialty and promotional catalogs, targeted to our best prospects, offer a more focused selection of products at a lower catalog production cost and more efficient use of advertising space.

We periodically balance ongoing strategies to improve direct marketing productivity and increase return on advertising dollars spent against programs to increase revenue and lifetime value. As such, our mailing volume will fluctuate from year to year.

	Fiscal Years Ended <sup>(1)</sup>		
	September 3, 2016 (53 weeks)	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)
Number of publication titles	94	98	101
Number of publications mailed	16,851,194	18,265,589	18,152,000

(1) Excludes U.K. operations.

### Customer Service

One of our goals is to make purchasing our products as convenient as possible. Customers submit more than 50% of our orders digitally through our technology platform (website, vending machines, and eProcurement). The remaining orders are placed via telephone, fax and mail. The efficient handling of orders is a critical aspect of our business. Order entry and fulfillment occurs at each of our branches and our main customer care centers, mostly located at our customer fulfillment centers. Customer care phone representatives enter orders into computerized order processing systems. In the event of a local or regional breakdown, a call can usually be re-routed to an alternative location. When an order enters the system, a credit check is performed; if the credit is approved, the order is usually transmitted to the customer fulfillment center closest to the customer. Customers are invoiced for merchandise, shipping and handling promptly after shipment.

### Information Systems

Our information systems enable us to centralize management of key functions, including communication links between customer fulfillment centers, inventory and accounts receivable, purchasing, pricing, sales and distribution, and the

preparation of daily operating control reports. These systems help us ship on a same-day basis, respond quickly to order changes, provide a high level of customer service, and reduce costs. Our eCommerce environment is built upon a combined platform of our own intellectual property, state-of-the-art software from the world's leading internet technology providers and world-class product data. This powerful combination of resources helps us deliver a superior online shopping experience with extremely high levels of reliability.

Most of our information systems operate in real time over a wide area network, letting each customer fulfillment center and branch office share information and monitor daily progress on sales activity, credit approval, inventory levels, stock balancing, vendor returns, order fulfillment and other performance measures. 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 to boost order placement efficiency, reduce order cycle processing time, and increase 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 also maintain a proprietary hardware and software platform to support our VMI program, which allows customers to integrate scanner-accumulated orders directly into our Sales Order Entry system and website. Our CMI program enables customers to simply and effectively replenish inventory by submitting orders directly to our website. Our customized vending systems are used by customers in manufacturing plants across the United States 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 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. In fiscal 2016, we initiated the upgrade of our core financial systems, including the receivables, payables, treasury, fixed assets and general ledger.

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 representatives are equipped with proprietary mobile technology that allows them to tap into MSC's supply chain directly from our customers' manufacturing plants and 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 primarily in the online distribution space that compete with price transparency. 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 based primarily 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 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 September 3, 2016, we employed 6,462 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 [www.sec.gov](http://www.sec.gov).

The Company's Internet address is [www.mscdirect.com](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 continued 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 that compete with price transparency. Increased competition from online retailers (particularly those major internet providers who can offer a wide range of products and rapid delivery), and the adoption by competitors of aggressive pricing strategies and sales methods, could cause us to lose market share or reduce our prices, adversely affecting our sales, margins and profitability.

*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. 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.

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.

The trend of our industry toward consolidation could cause the industry to become more competitive as greater economies of scale are achieved by competitors, or as competitors with new lower cost business models are able to operate with lower prices and gross profit on products. These trends may adversely affect our sales, margins and profitability.

*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 creditworthiness 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 and senior notes 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. In addition, we have outstanding \$175.0 million aggregate principal amount of senior notes. The term loan facility matures on, and the revolving loan facility is available through April 22, 2018. The senior notes mature in July 2023 (\$75.0 million) and July 2026 (\$100.0 million). We are subject to various operating and financial covenants under the credit facility and senior notes 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 and senior notes, 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 manage financial reporting, 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.

*An inability to successfully manage the upgrade of our core financial systems could adversely affect our operations and operating results.*

We are in the process of upgrading our core financial systems. This upgrade will affect many of our existing operating and financial systems. This is an important undertaking both financially and from a management and personnel perspective. Should the upgrade not be implemented successfully and within budget, or if the system does not perform in a satisfactory manner, it could be disruptive and adversely affect our operations and results of operations, including our ability to report accurate and timely financial results.

*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.

*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, intellectual property matters, 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 may encounter difficulties with acquisitions, which could harm our business.*

We have completed several acquisitions of businesses 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.

*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.

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

As of September 3, 2016, our combined goodwill and indefinite-lived intangible assets amounted to \$638.2 million. To the extent we do not generate sufficient cash flows to recover the net amount of any investments in goodwill and other indefinite-lived intangible assets recorded, the investment could be considered impaired and subject to write-off. We expect to record further goodwill and other indefinite-lived intangible assets as a result of future acquisitions we may complete. Future amortization of such assets or impairments, if any, of goodwill or indefinite-lived intangible assets would adversely affect our results of operations in any given period.

*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 2016, fiscal year 2015 and fiscal year 2014, 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 17, 2016, 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 2.5% of the outstanding shares of our Class A common stock, giving them control over approximately 73.4% 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:

<b>Location</b>	<b>Approx. Sq. Ft.</b>	<b>Operational Date</b>	<b>Leased/ Owned</b>
Atlanta, Georgia	721,000	1990	Owned <sup>(1)</sup>
Elkhart, Indiana	545,000	1996	Owned
Harrisburg, Pennsylvania	821,000	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	85,000	2004	Owned
Moncton, Canada	16,000	1981	Owned
Shelbyville, Kentucky <sup>(2)</sup>	110,000	1973	Owned

(1) The Customer Fulfillment Center which had been previously leased from a related party was purchased in August 2016.

(2) Repackaging and replenishment center.

We maintain 84 branch offices within the United States located in 39 states and one branch office located in the U.K. The branches range in size from 1,800 to 25,000 square feet. The leases for these branch offices will expire at various periods between September 2016 and August 2026. The aggregate annual lease payments on these branch offices and the leased customer fulfillment centers in fiscal 2016 were approximately \$12.4 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 August 31, 2014 to September 3, 2016:

Fiscal Year Ended September 3, 2016	Price of Class A Common Stock		Dividend Per Share Common Stock Class A & Class B
	High	Low	
First Quarter – November 28, 2015	\$ 68.18	\$ 58.17	\$ 0.43
Second Quarter – February 27, 2016	70.86	54.19	0.43
Third Quarter – May 28, 2016	78.35	68.34	0.43
Fourth Quarter – September 3, 2016	75.99	67.74	0.43

Fiscal Year Ended August 29, 2015	Price of Class A Common Stock		Dividend Per Share Common Stock Class A & Class B <sup>(1)</sup>
	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

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

In 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 \$1.72 and \$4.60 per share for fiscal 2016 and fiscal 2015, respectively. This policy is reviewed periodically by the Board of Directors.

On October 27, 2016, the Board of Directors declared a quarterly cash dividend of \$0.45 per share, payable on November 29, 2016 to shareholders of record at the close of business on November 15, 2016. The dividend will result in a payout of approximately \$25.5 million, based on the number of shares outstanding at October 17, 2016.

On October 17, 2016, the last reported sales price for MSC's Class A common stock on the NYSE was \$72.72 per share. The approximate number of holders of record of MSC's Class A common stock as of October 17, 2016 was 647. The number of holders of record of MSC's Class B common stock as of October 17, 2016 was 61.

#### 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 September 3, 2016:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(3)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
05/29/16-06/28/16	145	\$ 75.66	—	1,444,034
06/29/16-07/28/16	130	71.88	—	1,444,034
07/29/16-09/03/16	5,008,635	72.50	—	1,444,034
Total	5,008,910	\$ 72.50	—	



- 
- (1) During the three months ended September 3, 2016, 35,582 shares of our Class A 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. In addition, 4,973,328 shares of our Class A common stock purchased pursuant to the tender offer and stock purchase described below also are included in the table.
  - (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 September 3, 2016, the maximum number of shares that may yet be repurchased under the Repurchase Plan was 1,444,034 shares. There is no expiration date for the Repurchase Plan.

In August 2016, the Company completed its "modified Dutch auction" tender offer and purchased 3,821,279 shares of the Company's Class A common stock that were validly tendered and not validly withdrawn at a price of \$72.50 per share. The Company also completed its stock purchase of an aggregate of 1,152,049 shares of its Class A common stock from certain of its Class B shareholders at a purchase price of \$72.50 per share. See Note 9 "Shareholders' Equity" in the Notes to the Consolidated Financial Statements for more information about the tender offer and the stock purchase.

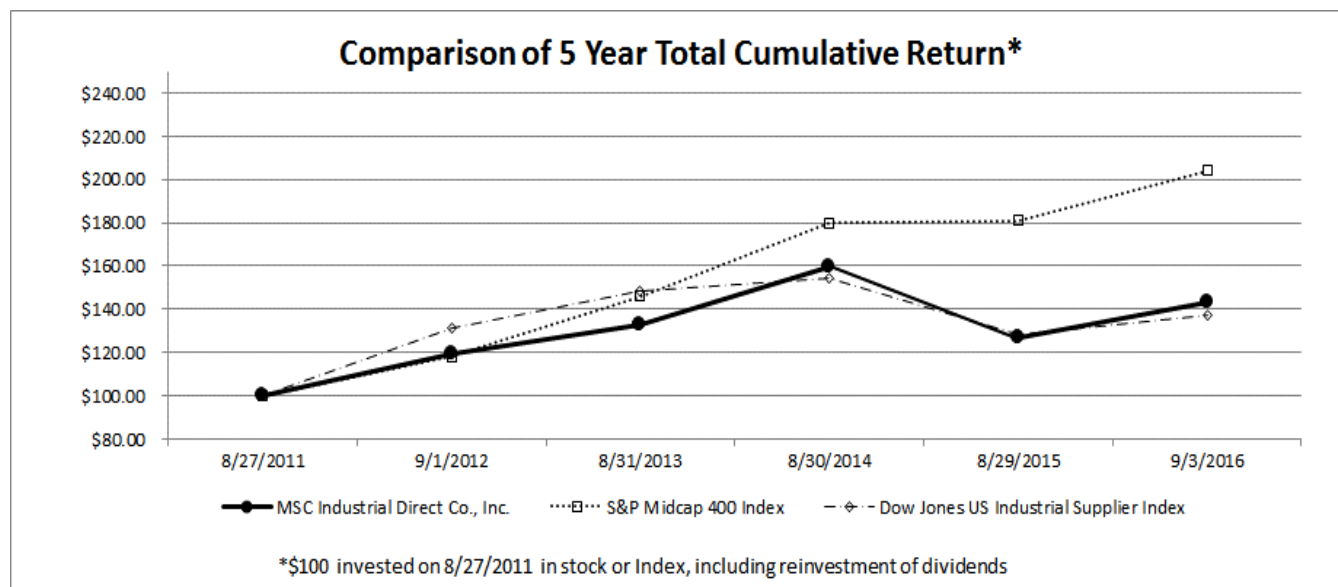
### **Performance Graph**

*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 and the Dow Jones US Industrial Supplier Index.

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 27, 2011 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 27, 2011 through September 3, 2016**



	8/27/2011	9/1/2012	8/31/2013	8/30/2014	8/29/2015	9/3/2016
<b>MSC Industrial Direct Co., Inc.</b>	<b>100.00</b>	<b>119.15</b>	<b>132.79</b>	<b>159.93</b>	<b>126.82</b>	<b>143.06</b>
<b>S&amp;P Midcap 400</b>	<b>100.00</b>	<b>118.05</b>	<b>146.04</b>	<b>179.99</b>	<b>181.19</b>	<b>204.02</b>
<b>Dow Jones US Industrial Supplier</b>	<b>100.00</b>	<b>131.32</b>	<b>148.55</b>	<b>154.22</b>	<b>128.43</b>	<b>137.42</b>

**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 September 3, 2016, August 29, 2015 and August 30, 2014 and the selected consolidated balance sheet data as of September 3, 2016 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 31, 2013 and September 1, 2012, and the selected consolidated balance sheet data as of August 30, 2014, August 31, 2013, and September 1, 2012 are derived from MSC's audited consolidated financial statements not included herein.

	Fiscal Years Ended				
	September 3, 2016 (53 weeks)	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)	August 31, 2013 (52 weeks)	September 1, 2012 (53 weeks)
	(In thousands, except per share data)				
<b>Consolidated Income Statement Data:</b>					
Net sales	\$ 2,863,505	\$ 2,910,379	\$ 2,787,122	\$ 2,457,649	\$ 2,355,918
Gross profit	1,288,858	1,316,575	1,286,256	1,118,516	1,078,203
Operating expenses	912,898	937,046	903,072	732,990	665,987
Income from operations	375,960	379,529	383,184	385,526	412,216
Income taxes	140,515	141,833	143,458	145,434	153,111
Net income	231,216	231,308	236,067	237,995	259,031
Net income per common share:					
Basic	3.78	3.75	3.78	3.77	4.12
Diluted	3.77	3.74	3.76	3.75	4.09
Weighted average common shares outstanding:					
Basic	60,908	61,292	62,026	62,695	62,434
Diluted	61,076	61,487	62,339	63,011	62,803
Cash dividends declared per common share <sup>(3)</sup>	\$ 1.72	\$ 4.60	\$ 1.32	\$ 1.20	\$ 1.00
<b>Consolidated Balance Sheet Data (at period end):</b>					
Working capital <sup>(4)</sup>	\$ 502,889	\$ 610,089	\$ 652,601	\$ 680,292	\$ 749,784
Total assets <sup>(4)</sup>	2,064,951	2,100,186	2,059,377	1,941,232	1,444,172
Short-term debt including capital lease and financing obligations <sup>(4)</sup>	267,050	213,165	96,479	13,802	819
Long-term debt including capital lease obligations, net of current maturities <sup>(4)</sup>	339,772	214,119	239,215	240,177	1,673
Deferred income taxes and tax uncertainties	148,201	131,210	112,785	97,475	85,061
Shareholders' equity	1,098,376	1,332,870	1,398,563	1,390,383	1,187,111
<b>Selected Operating Data:</b> <sup>(1), (2)</sup>					
Active customers <sup>(5), (6)</sup>	366	366	364	322	325
Approximate Number of SKUs	1,150	1,000	850	685	600
Orders shipped <sup>(5)</sup>	6,861	6,626	6,630	5,957	6,150
Number of publications mailed <sup>(5)</sup>	16,851	18,266	18,152	16,308	18,032
Number of publication titles (not in thousands) <sup>(5)</sup>	94	98	101	95	100

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—General."

(2) CCSG data is included in Selected Operating Data beginning in fiscal 2014.

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

(4) Prior periods have been adjusted to reflect the adoption of Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30). See Note 2 to the Consolidated Financial Statements.

(5) Excludes U.K. operations.

(6) Defined as customers that have made at least one purchase in the last twelve months.

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

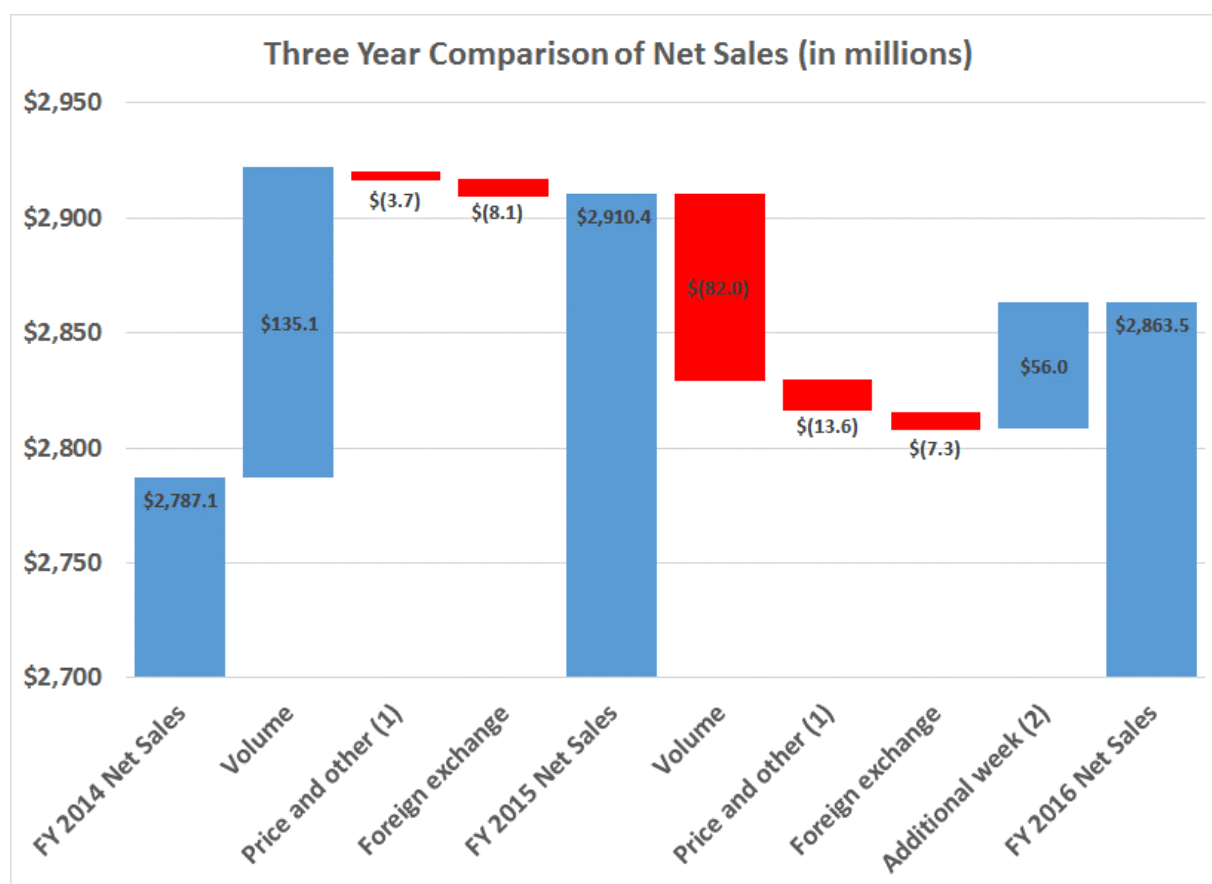
### Overview

MSC Industrial Direct Co., Inc. (together with its subsidiaries, "MSC," the "Company," "we," "our," or "us") is a leading North American distributor of a broad range 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 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 over 6,000 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 1,150,000 stock-keeping units (“SKUs”) through our master catalogs; weekly, monthly and quarterly specialty and promotional catalogs; brochures; and the Internet, including our website, msdirect.com (the “MSC website”). 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 85 branch offices. Many of our products are carried in stock, and orders for these in-stock products are typically fulfilled the day on which the order is received.

Our field sales and service associate headcount was 2,370 at September 3, 2016, compared to 2,377 at August 29, 2015 and 2,301 at August 30, 2014. Beginning in fiscal 2016, we have adjusted this headcount metric in the current and prior years disclosed to include both field sales associates and service personnel. We believe this better reflects our company as a sales and service organization given our increased concentration in inventory management solutions, including Vendor Managed Inventory (“VMI”) systems and vending machine systems. Prior year numbers have been restated to conform to the fiscal 2016 presentation. We will continue to manage our sales and service headcount based on economic conditions and our business plans.

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



- (1) Pricing includes changes in customer and product mix, discounting and other items.  
(2) Fiscal 2016 includes a 53<sup>rd</sup> week during the reporting period.

### Business Environment

We utilize various indices when evaluating the level of our business activity. Approximately 68% of our revenues came from sales in the manufacturing sector (53% heavy manufacturing and 15% light manufacturing) in our fiscal year 2016, including certain national account customers. Through statistical analysis, we have found the strongest correlation between our customers’ activity and the Metalworking Business Index (“MBI”). The MBI measures the economic activity of the metalworking industry, focusing only on durable goods manufacturing. Another index we previously used was

the Institute for Supply Management's Purchasing Manager's Index ("PMI"). However, recent analysis has shown only a small correlation between the PMI and our net sales. For both indices, a value below 50.0 generally indicates contraction and a value above 50.0 generally indicates expansion. The MBI and PMI indices over each of the last three months of our fiscal year and the averages for our fiscal 2016 fourth quarter and full fiscal year 2016 were as follows:

Period	MBI	PMI
June	44.4	53.2
July	45.3	52.6
August	48.7	49.4
Fiscal 2016 Q4 average	46.1	51.7
Fiscal 2016 full year average	45.4	50.2

The MBI has increased steadily throughout our fourth quarter, rising from 44.4 to 48.7. This implies a continued, but slower contraction in the metalworking manufacturing environment. Details released with the September MBI of 48.4 indicate contraction for the eighteenth consecutive month, including contraction in new orders and backlog.

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.

## Results of Operations

### Fiscal Year Ended September 3, 2016 Compared to the Fiscal Year Ended August 29, 2015

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

	Fiscal Years Ended					
	September 3, 2016		August 29, 2015		Change	
	(53 weeks)		(52 weeks)			
	\$	%	\$	%	\$	%
Net sales	\$ 2,863,505	100.0%	\$ 2,910,379	100.0%	\$ (46,874)	(1.6)%
Cost of goods sold	1,574,647	55.0%	1,593,804	54.8%	(19,157)	(1.2)%
Gross profit	1,288,858	45.0%	1,316,575	45.2%	(27,717)	(2.1)%
Operating expenses	912,898	31.9%	937,046	32.2%	(24,148)	(2.6)%
Income from operations	375,960	13.1%	379,529	13.0%	(3,569)	(0.9)%
Total other expense	(4,229)	(0.1)%	(6,388)	(0.2)%	2,159	(33.8)%
Income before provision for income	371,731	13.0%	373,141	12.8%	(1,410)	(0.4)%
Provision for income taxes	140,515	4.9%	141,833	4.9%	(1,318)	(0.9)%
Net income	\$ 231,216	8.1%	\$ 231,308	7.9%	\$ (92)	(0.0)%

#### Net Sales

Net sales decreased 1.6% or approximately \$46.9 million, for the fiscal year ended 2016. We estimate that this decrease in net sales is comprised of: (i) approximately \$82.0 million of lower sales volume; (ii) approximately \$13.6 million from pricing, which includes changes in customer and product mix, discounting and other items; (iii) approximately \$7.3 million from unfavorable foreign currency fluctuations; partially offset by (iv) approximately \$56.0 million in sales attributable to an extra week in fiscal 2016. Of the total decrease in net sales, sales other than to our government and national account programs ("Large Account Customers") decreased by approximately \$72.2 million, partially offset by an increase of sales to our Large Account Customers of approximately \$25.3 million.

The table below shows the change in our fiscal quarterly and annual 2016 average daily sales by total company and by customer type compared to the same periods in the prior fiscal year:

Average Daily Sales Percentage Change

(unaudited)

<u>2016 vs. 2015 Fiscal Period</u>	Thirteen	Thirteen	Thirteen	Fourteen	Fiscal Year	% of Total
	Week Period	Week Period	Week Period	Week Period		
	Ended Fiscal	Ended Fiscal	Ended Fiscal	Ended Fiscal	Ended	Business
	Q1	Q2	Q3	Q4		
Total Company	(3.3)%	(3.2)%	(3.9)%	(3.6)%	(3.5)%	
Manufacturing Customers <sup>(1)</sup>	(4.9)%	(5.6)%	(6.8)%	(6.1)%	(5.8)%	68 %
Non-Manufacturing Customers <sup>(1)</sup>	1.3 %	2.6 %	2.6 %	3.3 %	2.5 %	32 %

(1) Excludes U.K. operations.

Exclusive of customers in the U.K., average order size decreased to approximately \$412 in fiscal 2016 as compared to \$417 in fiscal 2015.

We believe that our ability to transact business with our customers through various electronic portals and directly through the MSC website gives us a competitive advantage over smaller suppliers. Sales made through our eCommerce platforms, including sales made through Electronic Data Interchange (“EDI”) systems, VMI systems, Extensible Markup Language ordering based systems, vending machine systems, hosted systems and other electronic portals, represented 58.2% of consolidated net sales in fiscal 2016, compared to 55.6% of consolidated net sales in fiscal 2015. This increase was primarily associated with the MSC website, EDI, and vending machine systems.

*Gross Profit*

Gross profit margin was 45.0% in fiscal 2016 as compared to 45.2% in fiscal 2015. The decline was primarily a result of changes in pricing and customer mix.

*Operating Expenses*

Operating expenses decreased 2.6% to \$912.9 million in fiscal 2016, as compared to \$937.0 million in fiscal 2015 despite having a 53<sup>rd</sup> week in fiscal 2016. This decrease was primarily the result of cost savings initiatives implemented throughout the full fiscal 2016, including lower payroll costs and discretionary spending. As a result, spending on items such as outside personnel, advertising, professional fees, and travel and entertainment expenses decreased compared to fiscal 2015. While lower volume did contribute a portion of the operating expense reduction, volume related expenses such as freight reduced faster than sales. These decreases were partially offset by increases in medical costs. Also, approximately \$1.1 million of expenses related to non-recurring integration costs and restructuring charges associated with the CCSG acquisition and approximately \$3.4 million of executive separation costs were included in operating expenses for fiscal year 2015.

Operating expenses represented approximately 31.9% of net sales in fiscal 2016, as compared to approximately 32.2% in fiscal 2015, respectively. Excluding the reduction in non-recurring charges discussed above, operating expenses as a percentage of net sales in fiscal 2016 remained below the prior fiscal year level. This is due to the cost savings initiatives mentioned above.

Payroll and payroll related costs represented approximately 55.0% of total operating expenses in fiscal 2016, as compared to approximately 53.3% in fiscal 2015. Included in these costs are salary, incentive compensation, sales commission and fringe benefit costs. An increase in fringe benefit costs was the main driver for the increase in payroll and payroll related costs in fiscal 2016 as compared to fiscal 2015. Effective January 1, 2016, the Company transitioned from a self-insured plan to a fully insured private healthcare exchange. As a result of associates anticipating this transition, the Company experienced increased medical costs towards the end of calendar year 2015. These increases were offset by lower payroll costs, including sales commissions and overtime costs.

Freight expense was approximately \$118.2 million in fiscal 2016, as compared to \$123.9 million in fiscal 2015. The primary driver of this decrease was decreased sales.

### *Income from Operations*

Income from operations decreased 0.9% to \$376.0 million in fiscal 2016, as compared to \$379.5 million in fiscal 2015. This decrease was primarily attributable to a decrease in gross profit, offset in part by a decrease in operating expenses described above. Income from operations as a percentage of net sales increased to 13.1% in fiscal 2016 as compared to 13.0% for the prior fiscal year primarily due to a decrease in operating expenses as discussed above, partially offset by a decrease in gross margin.

### *Other Expense*

The decrease in other expense in fiscal 2016 compared to fiscal 2015 was primarily due to decreases in interest expense resulting from lower Credit Facility balances during the first three quarters of fiscal 2016.

### *Provision for Income Taxes*

Our fiscal 2016 effective tax rate was 37.8% as compared to 38.0% in fiscal 2015. 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 2016 as compared to the prior period have been discussed above.

### **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	
	(52 weeks)		(52 weeks)			
	\$	%	\$	%	\$	%
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	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 Large Account Customers increased by approximately \$108.0 million and there was an increase in our remaining business of approximately \$15.3 million.

The table below shows the change in our fiscal quarterly and annual 2015 average daily sales by total company and by customer type compared to the same periods in the prior fiscal year:

Average Daily Sales Percentage Change

(unaudited)

<u>2015 vs. 2014 Fiscal Period</u>	Thirteen	Thirteen	Thirteen	Thirteen	Fiscal Year	% of Total
	Week Period	Week Period	Week Period	Week Period		
	Ended Fiscal	Ended Fiscal	Ended Fiscal	Ended Fiscal	Ended	Business
	Q1	Q2	Q3	Q4		
Total Company	7.8 %	6.8 %	3.5 %	0.1 %	4.4 %	
Manufacturing Customers <sup>(1)</sup>	4.8 %	4.1 %	1.2 %	(1.8)%	2.0 %	70 %
Non-Manufacturing Customers <sup>(1)</sup>	15.6 %	14.0 %	10.1 %	5.4 %	11.0 %	30 %

(1) Excludes U.K. operations.

Exclusive of customers in the U.K., average order size increased to approximately \$417 in fiscal 2015 as compared to \$409 in fiscal 2014.

Sales made through our eCommerce platforms represented 55.6% of consolidated net sales in fiscal 2015, compared to 48.0% of consolidated net sales in fiscal 2014. This increase was primarily associated with the MSC website, EDI, and vending machine systems.

*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 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. 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. 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 as 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.



Freight expense was approximately \$123.9 million in fiscal 2015, as compared to \$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. The 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 fiscal 2014 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 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.

### **Liquidity and Capital Resources**

	September 3, 2016	August 29, 2015	\$ Change
Total debt	\$ 606,822	\$ 427,284	\$ 179,538
Less: Cash and cash equivalents	(52,890)	(38,267)	(14,623)
Net debt	<u>\$ 553,932</u>	<u>\$ 389,017</u>	<u>\$ 164,915</u>
Equity	<u>\$ 1,098,376</u>	<u>\$ 1,332,870</u>	<u>\$ (234,494)</u>

As of September 3, 2016, we held \$52.9 million in cash, substantially all 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 September 3, 2016, total borrowings outstanding, representing amounts due under the Credit Facility and Private Placement Debt (discussed below), as well as all capital leases and financing arrangements, were approximately \$607.8 million. At August 29, 2015, total borrowings outstanding, representing amounts due under the Credit Facility and all capital leases and financing arrangements, were approximately \$428.3 million.

As a distributor, maintaining adequate working capital to meet our customer needs is paramount. For the fiscal year ended September 3, 2016, working capital management was the main contributor to the increase in the generation of cash flow. Our cash flow from operations is generally utilized to meet capital expenditure commitments for property, plant and equipment which typically consist of information technology assets, warehouse equipment, office furniture and fixtures, building and leasehold improvements, construction and expansion, and vending machines. Therefore, the amount of cash consumed or generated by operations other than from net earnings will primarily be due to changes in working capital mostly due to the rate of increases or decreases in sales.

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

We are continuing to take advantage of our strong balance sheet, which enables us to maintain optimal inventory and service levels to meet customer demands, while many of our smaller competitors in our fragmented industry continue to

have difficulties in offering competitive service levels. We also believe that customers will continue to seek cost reductions and shorter cycle times from their suppliers. Our business model focuses on providing overall procurement cost reduction and just-in-time delivery to meet our customers' needs. We focus on offering inventory, process and procurement solutions that reduce MRO supply chain costs and improve plant floor productivity for our customers. We will seek to continue to drive cost reduction throughout our business through cost saving strategies and increased leverage from our existing infrastructure, and continue to provide additional procurement cost savings solutions to our customers through technology such as our Customer Managed Inventory ("CMI"), VMI, and vending programs.

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

	<b>Fiscal Years Ended</b>		
	<b>September 3, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
	(Amounts in thousands)		
Net cash provided by operating activities	\$ 401,103	\$ 249,791	\$ 272,406
Net cash used in investing activities	\$ (87,930)	\$ (51,405)	\$ (94,206)
Net cash used in financing activities	\$ (298,368)	\$ (207,045)	\$ (187,039)
Effect of foreign exchange rate changes on cash and cash equivalents	\$ (182)	\$ (228)	\$ 117
Net increase (decrease) in cash and cash equivalents	<u>\$ 14,623</u>	<u>\$ (8,887)</u>	<u>\$ (8,722)</u>

#### *Tender Offer and Stock Purchase*

In August 2016, the Company completed its "modified Dutch auction" tender offer and purchased 3.8 million shares of the Company's Class A common stock that were validly tendered and not validly withdrawn at a price of \$72.50 per share. The Company also completed its stock purchase of an aggregate of 1.2 million shares of its Class A common stock certain of its Class B shareholders at a purchase price of \$72.50 per share. See Note 9 "Shareholders' Equity" in the Notes to the Consolidated Financial Statements for more information about the tender offer and the stock purchase.

#### *Operating Activities*

Net cash provided by operating activities for the fiscal years ended September 3, 2016 and August 29, 2015 was \$401.1 million and \$249.8 million, respectively. There are various increases and decreases contributing to this change. Decreases in inventories and accounts receivable as a result of decreased sales volume contributed to the majority of the increase in net cash provided by operating activities.

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.

	<b>Fiscal Years Ended</b>		
	<b>September 3, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
	(Dollars in thousands)		
Working Capital	\$ 502,889	\$ 610,089	\$ 652,601
Current Ratio	2.1	2.4	3.1

The decrease in working capital and the current ratio at September 3, 2016 compared to August 29, 2015 is primarily related to the decreases in inventories, as well as additional borrowings under the revolving loan facility in fiscal 2016. 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.

#### *Investing Activities*

Net cash used in investing activities for the fiscal years ended September 3, 2016 and August 29, 2015 was \$87.9 million and \$51.4 million, respectively. The increase in net cash used in investing activities resulted primarily from cash used of approximately \$33.7 million for the purchase of the Atlanta Customer Fulfillment Center (“Atlanta CFC”) and the real property on which the Atlanta CFC is situated.

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.

#### *Financing Activities*

Net cash used in financing activities for the fiscal years ended September 3, 2016 and August 29, 2015 was \$298.4 million and \$207.0 million, respectively. The major components contributing to the use of cash for fiscal 2016 were repurchases of shares of Class A common stock of \$383.8 million, mostly related to our tender offer and stock purchase referenced above, repayments on the Credit Facility of \$301.0 million related to both the revolving loan facility and term loan facility, and cash dividends paid of \$105.8 million. This was partially offset by borrowings under the revolving loan facility and Private Placement Debt in the amount of \$305.0 million and \$175.0 million, respectively.

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.

#### *Long-term Debt*

##### Credit Facility

In April 2013, in connection with the acquisition of CCSG, we entered into a \$650.0 million credit facility (the “Credit Facility”). See Note 8 “Debt and Capital Lease Obligations” in the Notes to the Consolidated Financial Statements for more information about the Credit Facility.

During fiscal 2016, we borrowed \$305.0 million under the revolving loan facility and repaid \$276.0 million of the revolving loan facility and \$25.0 million of the term loan facility. As of September 3, 2016, there were \$187.5 million and \$217.0 million of borrowings outstanding under the term loan facility and the revolving credit facility, respectively, of which \$267.0 million represents current maturities. As of August 29, 2015, there were \$212.5 million and \$188.0 million of borrowings outstanding under the term loan facility and the revolving credit facility, respectively, of which \$213.0 million represents current maturities.

At September 3, 2016, we were in compliance with the operating and financial covenants of the Credit Facility. The Company repaid borrowings of \$66.0 million under the revolving loan facility and \$12.5 million under the term loan facility in September and October 2016. The current unused balance of \$249.0 million of the revolving loan facility is available for working capital purposes, if necessary.

##### Private Placement Debt

In July 2016, in connection with our tender offer and stock purchase, we completed the issuance and sale of unsecured senior notes. See Note 8 “Debt and Capital Lease Obligations” in the Notes to the Consolidated Financial Statements for more information about this transaction.

## Capital Expenditures

### Infrastructure Investments

In August 2016, we purchased the Atlanta CFC and the real property on which the Atlanta CFC is situated for a purchase price of \$33.7 million. The Atlanta CFC had previously been leased since 1989. See Note 2 “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements for more information about this transaction.

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

### Upgrade of Core Financial Systems

In fiscal 2016, we initiated the upgrade of our core financial systems, including the receivables, payables, treasury, fixed assets and general ledger. Capital expenditures relating to this project were approximately \$6.6 million in fiscal 2016. We expect to incur capital expenditures between \$11.0 million and \$13.0 million in fiscal 2017. We expect to complete this project in Spring 2017.

## Related Party Transactions

### Atlanta CFC Purchase

In August 2016, the Company’s subsidiary, Sid Tool Co., Inc. completed a transaction with Mitchmar Atlanta Properties, Inc. to purchase the Company’s Atlanta Customer Fulfillment Center (“Atlanta CFC”) and the real property on which the Atlanta CFC is situated for a purchase price of \$33.7 million. See Note 2 “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements for more information about this transaction.

### Stock Purchase Agreement

In August 2016, the Company entered into a stock purchase agreement with the holders of the Company’s Class B common stock. See Note 2 “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements for more information about the stock purchase.

## Contractual Obligations

The following table summarizes our contractual obligations at September 3, 2016 (in thousands):

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations <sup>(1)</sup>	\$ 32,031	\$ 12,081	\$ 13,353	\$ 5,168	\$ 1,429
Capital lease obligations and financing obligations, net of interest <sup>(2)</sup>	28,268	471	690	27,107	—
Maturities of long-term debt obligations, net of interest	579,500	267,000	137,500	—	175,000
Estimated interest on debt, capital lease and financing obligations <sup>(3)</sup>	48,210	7,927	11,816	9,992	18,475
Total contractual obligations	\$ 688,009	\$ 287,479	\$ 163,359	\$ 42,267	\$ 194,904

- (1) Certain of our operations are conducted on leased premises. 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 fiscal year 2026. In addition, we are obligated under certain equipment and automobile operating leases, which expire on varying dates through fiscal 2020.
- (2) As of September 3, 2016, the Company has entered into various capital leases and financing obligations for certain information technology equipment, which expire on varying dates through fiscal 2020. 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 1.52% through the maturity date which was the applicable borrowing rate for the Company for any borrowings outstanding under the Credit Facility at September 3, 2016. Fixed interest rates of 2.65% and 2.90% were used through the maturity dates on the Private Placement Debt.

The Company has recorded a non-current liability of \$4.7 million for tax uncertainties and interest for the fiscal year ended September 3, 2016. This amount is excluded from the table above, as the Company cannot make reliable estimates of these cash flows by period. See Note 6 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 2016, 2015 and 2014, 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 September 3, 2016, our goodwill totaled \$624.1 million and our indefinite-lived intangible assets totaled \$14.1 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 the reporting unit 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 2016 and 2015. 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**

Refer to Note 2 to the Consolidated Financial Statements.

### **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"). See Note 8 "Debt and Capital Lease Obligations" in the Notes to the Consolidated Financial Statements for more information about 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 \$2.7 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.

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**

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## **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 September 3, 2016 and August 29, 2015, 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 September 3, 2016. 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 September 3, 2016 and August 29, 2015, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended September 3, 2016, 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 September 3, 2016, 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 November 1, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Jericho, New York  
November 1, 2016



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

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	September 3, 2016	August 29, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 52,890	\$ 38,267
Accounts receivable, net of allowance for doubtful accounts of \$12,353 and \$11,312, respectively	392,463	403,468
Inventories	444,221	506,631
Prepaid expenses and other current assets	45,290	39,067
Deferred income taxes	46,627	44,643
Total current assets	981,491	1,032,076
Property, plant and equipment, net	320,544	291,156
Goodwill	624,081	623,626
Identifiable intangibles, net	105,307	119,805
Other assets	33,528	33,523
Total assets	\$ 2,064,951	\$ 2,100,186
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Revolving credit note	\$ 217,000	\$ 188,000
Current maturities of long-term debt	50,050	25,165
Accounts payable	110,601	114,328
Accrued liabilities	100,951	94,494
Total current liabilities	478,602	421,987
Long-term debt, net of current maturities	339,772	214,119
Deferred income taxes and tax uncertainties	148,201	131,210
Total liabilities	966,575	767,316
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
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; 52,992,682 and 56,400,070 shares issued, respectively	53	56
Class B common stock (ten votes per share); \$0.001 par value; 50,000,000 shares authorized; 11,933,233 and 13,295,747 shares issued and outstanding, respectively	12	13
Additional paid-in capital	584,017	604,905
Retained earnings	1,040,148	1,232,381
Accumulated other comprehensive loss	(19,098)	(17,252)
Class A treasury stock, at cost, 8,344,514 and 8,037,696 shares, respectively	(506,756)	(487,233)
Total shareholders' equity	1,098,376	1,332,870
Total liabilities and shareholders' equity	\$ 2,064,951	\$ 2,100,186

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		
	September 3, 2016 (53 weeks)	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)
NET SALES	\$ 2,863,505	\$ 2,910,379	\$ 2,787,122
COST OF GOODS SOLD	1,574,647	1,593,804	1,500,866
Gross profit	1,288,858	1,316,575	1,286,256
OPERATING EXPENSES	912,898	937,046	903,072
Income from operations	375,960	379,529	383,184
OTHER INCOME (EXPENSE):			
Interest expense	(5,807)	(6,340)	(3,874)
Interest income	654	771	414
Other income (expense), net	924	(819)	(199)
Total other expense	(4,229)	(6,388)	(3,659)
Income before provision for income taxes	371,731	373,141	379,525
Provision for income taxes	140,515	141,833	143,458
Net income	<u>\$ 231,216</u>	<u>\$ 231,308</u>	<u>\$ 236,067</u>
PER SHARE INFORMATION:			
Net income per common share:			
Basic	<u>\$ 3.78</u>	<u>\$ 3.75</u>	<u>\$ 3.78</u>
Diluted	<u>\$ 3.77</u>	<u>\$ 3.74</u>	<u>\$ 3.76</u>
Weighted average shares used in computing net income per common share:			
Basic	<u>60,908</u>	<u>61,292</u>	<u>62,026</u>
Diluted	<u>61,076</u>	<u>61,487</u>	<u>62,339</u>

See accompanying notes to consolidated financial statements.

**MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)

	For the Fiscal Years Ended		
	September 3, 2016 (53 weeks)	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)
Net income, as reported	\$ 231,216	\$ 231,308	\$ 236,067
Foreign currency translation adjustments	(1,846)	(12,198)	(627)
Comprehensive income	<u>\$ 229,370</u>	<u>\$ 219,110</u>	<u>\$ 235,440</u>

See accompanying notes to consolidated financial statements.

MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE FISCAL YEARS ENDED SEPTEMBER 3, 2016 (53 weeks), AUGUST 29, 2015 (52 weeks), AND AUGUST 30, 2014 (52 weeks),  
(In thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Class A Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount at Cost	
BALANCE at August 31, 2013	54,634	\$ 55	14,141	\$ 14	\$ 528,770	\$ 1,132,868	\$ (4,427)	5,341	\$ (266,897)	\$ 1,390,383
Exchange of Class B common stock for Class A common stock	845	1	(845)	(1)	—	—	—	—	—	—
Exercise of common stock options, including income tax benefits of \$5,573	402	—	—	—	26,020	—	—	—	—	26,020
Common stock issued under associate stock purchase plan	—	—	—	—	1,992	—	—	(54)	2,006	3,998
Issuance of restricted common stock, net of cancellations	99	—	—	—	—	—	—	—	—	—
Shares issued from restricted stock units, including dividend equivalent units	—	—	—	—	260	—	—	—	—	260
Stock-based compensation	—	—	—	—	16,688	—	—	—	—	16,688
Purchase of treasury stock	—	—	—	—	—	—	—	2,370	(191,359)	(191,359)
Cash dividends paid on Class A common stock	—	—	—	—	—	(64,393)	—	—	—	(64,393)
Cash dividends paid on Class B common stock	—	—	—	—	—	(18,214)	—	—	—	(18,214)
Dividend equivalent units declared	—	—	—	—	—	(260)	—	—	—	(260)
Foreign currency translation adjustment	—	—	—	—	—	—	(627)	—	—	(627)
Net income	—	—	—	—	—	236,067	—	—	—	236,067
BALANCE at August 30, 2014	55,980	\$ 56	13,296	\$ 13	\$ 573,730	\$ 1,286,068	\$ (5,054)	7,657	\$ (456,250)	\$ 1,398,563
Exercise of common stock options, including income tax benefits of \$3,299	185	—	—	—	14,418	—	—	—	—	14,418
Common stock issued under associate stock purchase plan	—	—	—	—	1,854	—	—	(63)	2,431	4,285
Issuance of restricted common stock, net of cancellations	97	—	—	—	—	—	—	—	—	—
Shares issued from restricted stock units, including dividend equivalent units	138	—	—	—	708	—	—	—	—	708
Stock-based compensation	—	—	—	—	14,195	—	—	—	—	14,195

Purchase of treasury stock	—	—	—	—	—	—	—	444	(33,414)	(33,414)
Cash dividends paid on Class A common stock	—	—	—	—	—	(223,071)	—	—	—	(223,071)
Cash dividends paid on Class B common stock	—	—	—	—	—	(61,160)	—	—	—	(61,160)
Dividend equivalent units declared	—	—	—	—	—	(764)	—	—	—	(764)
Foreign currency translation adjustment	—	—	—	—	—	—	(12,198)	—	—	(12,198)
Net income	—	—	—	—	—	231,308	—	—	—	231,308
BALANCE at August 29, 2015	<u>56,400</u>	<u>\$ 56</u>	<u>13,296</u>	<u>\$ 13</u>	<u>\$ 604,905</u>	<u>\$ 1,232,381</u>	<u>\$ (17,252)</u>	<u>8,038</u>	<u>\$ (487,233)</u>	<u>\$ 1,332,870</u>
Exchange of Class B common stock for Class A common stock	1,363	1	(1,363)	(1)	—	—	—	—	—	—
Exercise of common stock options, including income tax benefits of \$830	144	1	—	—	8,239	—	—	—	—	8,240
Common stock issued under associate stock purchase plan	—	—	—	—	1,649	—	—	(64)	2,435	4,084
Issuance of restricted common stock, net of cancellations	(15)	—	—	—	—	—	—	—	—	—
Shares issued from restricted stock units, including dividend equivalent units	74	—	—	—	147	—	—	—	—	147
Stock-based compensation	—	—	—	—	13,985	—	—	—	—	13,985
Purchase of treasury stock	—	—	—	—	—	—	—	5,344	(384,111)	(384,111)
Retirement of treasury stock	(4,973)	(5)	—	—	(44,908)	(317,240)	—	(4,973)	362,153	—
Cash dividends paid on Class A common stock	—	—	—	—	—	(83,000)	—	—	—	(83,000)
Cash dividends paid on Class B common stock	—	—	—	—	—	(22,778)	—	—	—	(22,778)
Dividend equivalent units declared	—	—	—	—	—	(431)	—	—	—	(431)
Foreign currency translation adjustment	—	—	—	—	—	—	(1,846)	—	—	(1,846)
Net income	—	—	—	—	—	231,216	—	—	—	231,216
BALANCE at September 3, 2016	<u>52,993</u>	<u>\$ 53</u>	<u>11,933</u>	<u>\$ 12</u>	<u>\$ 584,017</u>	<u>\$ 1,040,148</u>	<u>\$ (19,098)</u>	<u>8,345</u>	<u>\$ (506,756)</u>	<u>\$ 1,098,376</u>

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 3, 2016, AUGUST 29, 2015 AND AUGUST 30, 2014  
(In thousands)**

	For the Fiscal Years Ended		
	September 3, 2016 (53 weeks)	August 29, 2015 (52 weeks)	August 30, 2014 (52 weeks)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 231,216	\$ 231,308	\$ 236,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	71,930	69,729	64,946
Stock-based compensation	13,985	14,195	16,688
Loss on disposal of property, plant, and equipment	752	1,453	2,361
Provision for doubtful accounts	6,997	6,665	4,629
Deferred income taxes and tax uncertainties	15,007	15,035	11,829
Excess tax benefits from stock-based compensation	(1,536)	(3,956)	(5,480)
Changes in operating assets and liabilities, net of amounts associated with business acquired:			
Accounts receivable	2,595	(29,347)	(41,460)
Inventories	61,047	(59,008)	(30,342)
Prepaid expenses and other current assets	(6,303)	1,268	(6,319)
Other assets	142	(1,354)	1,857
Accounts payable and accrued liabilities	5,271	3,803	17,630
Total adjustments	169,887	18,483	36,339
Net cash provided by operating activities	401,103	249,791	272,406
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Expenditures for property, plant and equipment	(87,930)	(51,405)	(70,617)
Investment in available for sale securities	—	—	(25,023)
Cash used in business acquisitions, net of cash received	—	—	1,434
Net cash used in investing activities	(87,930)	(51,405)	(94,206)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repurchases of common stock	(383,798)	(33,414)	(191,359)
Payments of regular cash dividends	(105,778)	(98,828)	(82,607)
Payment of special cash dividend	—	(185,403)	—
Payments on capital lease and financing obligations	(1,090)	(2,290)	(1,851)
Excess tax benefits from stock-based compensation	1,536	3,956	5,480
Proceeds from sale of Class A common stock in connection with associate stock purchase plan	4,084	4,285	3,998
Proceeds from exercise of Class A common stock options	7,410	11,119	20,447
Borrowings under financing obligations	453	530	1,353
Borrowings under Credit Facility	305,000	336,000	135,000
Proceeds from Private Placement Loan	175,000	—	—
Private Placement Loan financing costs	(185)	—	—
Payment of notes payable and revolving credit note under the Credit Facility	(301,000)	(243,000)	(77,500)
Net cash used in financing activities	(298,368)	(207,045)	(187,039)
Effect of foreign exchange rate changes on cash and cash equivalents	(182)	(228)	117
Net increase (decrease) in cash and cash equivalents	14,623	(8,887)	(8,722)
CASH AND CASH EQUIVALENTS, beginning of the year	38,267	47,154	55,876
CASH AND CASH EQUIVALENTS, end of the year	\$ 52,890	\$ 38,267	\$ 47,154
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid for income taxes	\$ 127,965	\$ 122,988	\$ 128,558
Cash paid for interest	\$ 4,986	\$ 5,843	\$ 3,087

See accompanying notes to consolidated financial statements.

**MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollar amounts and shares in thousands, except per share data)**

**1. BUSINESS**

MSC Industrial Direct Co., Inc. (together with its subsidiaries, the “Company” or “MSC”) is a distributor of metalworking and maintenance, repair and operations (“MRO”) supplies with co-located headquarters in Melville, New York and Davidson, North Carolina. The Company has an additional office support center in Southfield, Michigan and serves primarily domestic markets through its distribution network of 85 branch offices and 12 customer fulfillment centers.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of MSC and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

*Fiscal Year*

The Company’s fiscal year is on a 52 or 53 week basis, ending on the Saturday closest to August 31<sup>st</sup> of each year. The financial statements for fiscal year 2016 contain activity for 53 weeks while 2015 and 2014 contain activity for 52 weeks. Unless the context requires otherwise, references to years contained herein pertain to the Company’s fiscal year.

*Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used in preparing the accompanying consolidated financial statements.

*Cash and Cash Equivalents*

The Company considers all short-term, highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

*Concentrations of Credit Risk*

The Company’s mix of receivables is diverse, with approximately 366,000 active customer accounts (customers that have made at least one purchase in the last 12 months) at September 3, 2016 (excluding U.K. operations). The Company sells its products primarily to end-users. The Company’s customer base represents many diverse industries primarily concentrated in the United States. The Company performs periodic credit evaluations of its customers’ financial condition and collateral is generally not required. Receivables are generally due within 30 days. The Company evaluates the collectability of accounts receivable based on numerous factors, including past transaction history with customers and their creditworthiness and provides a reserve for accounts that are potentially uncollectible.

The Company’s cash include deposits with commercial banks. The terms of these deposits and investments provide that all monies are available to the Company upon demand. The Company maintains the majority of its cash with high quality financial institutions. Deposits held with banks may exceed insurance limits. While MSC monitors the creditworthiness of these commercial banks and financial institutions, a crisis in the United States financial systems could limit access to funds and/or result in a loss of principal.

### *Allowance for Doubtful Accounts*

The Company establishes reserves for customer accounts that are deemed uncollectible. The method used to estimate the allowances is based on several factors, including the age of the receivables and the historical ratio of actual write-offs to the age of the receivables. These analyses also take into consideration economic conditions that may have an impact on a specific industry, group of customers or a specific customer. While the Company has a broad customer base, representing many diverse industries primarily in all regions of the United States, a general economic downturn could result in higher than expected defaults, and therefore, the need to revise estimates for bad debts.

### *Inventory Valuation*

Inventories consist of merchandise held for resale and are stated at the lower of weighted average cost or market. The Company evaluates the recoverability of our slow-moving or obsolete inventories quarterly. The Company estimates the recoverable cost of such inventory by product type while considering such factors as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. The Company's ability to recover its cost for slow-moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand, and relationships with suppliers. Substantially all of the Company's inventories have demonstrated long shelf lives and are not highly susceptible to obsolescence. In addition, many of the Company's inventories are eligible for return under various supplier rebate programs.

### *Property, Plant and Equipment*

Property, plant and equipment and capitalized computer software are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred; costs of major renewals and improvements are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the asset and accumulated depreciation accounts and the profit or loss on such disposition is reflected in income.

Depreciation and amortization of property, plant and equipment are computed for financial reporting purposes on the straight-line method based on the estimated useful lives of the assets. Leasehold improvements are amortized over either their respective lease terms or their estimated lives, whichever is shorter. Estimated useful lives range from three to forty years for leasehold improvements and buildings and three to twenty years for furniture, fixtures, and equipment.

Capitalized computer software costs are amortized using the straight-line method over the estimated useful life. These costs include purchased software packages, payments to vendors and consultants for the development, implementation or modification of purchased software packages for Company use, and payroll and related costs for employees associated with internal-use software projects. Capitalized computer software costs are included within property, plant and equipment on the Company's consolidated balance sheets.

### *Goodwill and Other Intangible Assets*

The Company's business acquisitions typically result in the recording of goodwill and other intangible assets, which affect the amount of amortization expense and possibly impairment write-downs that the Company may incur in future periods. Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in connection with business acquisitions. Goodwill increased \$455 in fiscal 2016, related to foreign currency translation adjustments. The Company annually reviews goodwill and intangible assets that have indefinite lives for impairment in its fiscal fourth quarter and when events or changes in circumstances indicate the carrying values 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 the reporting unit and indefinite-lived intangible assets are less than their carrying value. 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. Based on the qualitative assessment of goodwill performed by the Company in its respective fiscal fourth quarters, there was no indicator of impairment of goodwill for fiscal years 2016, 2015 and 2014. Based on the qualitative assessment of intangible assets that have indefinite lives performed by the Company in its fiscal fourth quarters of 2016 and 2015 and the quantitative assessment performed by the Company in its fiscal fourth quarter of 2014, there were no indicators of impairment of intangible assets that have indefinite lives.



The components of the Company's other intangible assets for the fiscal years ended September 3, 2016 and August 29, 2015 are as follows:

	Weighted Average Useful Life (in years)	For the Fiscal Years Ended			
		September 3, 2016		August 29, 2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Relationships	5 - 18	\$ 175,160	\$ (85,316)	\$ 175,160	\$ (73,508)
Contract Rights	10	23,100	(23,100)	23,100	(21,368)
Trademark	1 - 5	3,613	(2,282)	2,900	(1,609)
Trademarks	Indefinite	14,132	—	15,130	—
<b>Total</b>		<b>\$ 216,005</b>	<b>\$ (110,698)</b>	<b>\$ 216,290</b>	<b>\$ (96,485)</b>

For fiscal years 2016 and 2015 the Company recorded approximately \$112 and \$212 of intangible assets, respectively, consisting of the registration and application of new trademarks. During fiscal 2016, approximately \$397 in gross intangible assets, and any related accumulated amortization, were written off related to trademarks that are no longer being utilized. The Company's amortizable intangible assets are recorded on a straight-line basis, including customer relationships, as it approximates customer attrition patterns and best estimates the use pattern of the asset. Amortization expense of the Company's intangible assets was \$14,478, \$16,580, and \$16,851 during fiscal years 2016, 2015, and 2014, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Fiscal Year	
2017	\$8,006
2018	7,804
2019	7,338
2020	6,485
2021	5,799

#### *Impairment of Long-Lived Assets*

The Company periodically evaluates the net realizable value of long-lived assets, including definite lived intangible assets and property and equipment, relying on a number of factors, including operating results, business plans, economic projections, and anticipated future cash flows. Impairment is assessed by evaluating the estimated undiscounted cash flows over the asset's remaining life. If estimated cash flows are insufficient to recover the investment, an impairment loss is recognized. No impairment loss was required to be recorded by the Company during fiscal years 2016, 2015 and 2014.

#### *Deferred Catalog Costs*

The costs of producing and distributing the Company's principal catalogs are deferred (\$5,174 and \$4,948 at September 3, 2016 and August 29, 2015, respectively) and included in other assets in the Company's consolidated balance sheets. These costs are charged to expense over the period that the catalogs remain the most current source of sales, which is typically one year or less from the date the catalogs are mailed. The costs associated with brochures and catalog supplements are charged to expense as distributed. The total amount of advertising costs, net of co-operative advertising income from vendor sponsored programs, included in operating expenses in the consolidated statements of income, was approximately \$19,242, \$24,101 and \$20,799 during the fiscal years 2016, 2015, and 2014, respectively.

#### *Revenue Recognition*

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. In most cases, these conditions are met when the product is shipped to the customer or services have been rendered. The Company reports its sales net of the amount of actual sales returns and the amount of reserves established for anticipated sales returns based upon historical return rates. Sales tax collected from customers is excluded from net sales in the accompanying consolidated statements of income.

### *Vendor Consideration*

The Company records cash consideration received for advertising costs incurred to sell the vendor's products as a reduction of the Company's advertising costs and is reflected in operating expenses in the consolidated statements of income. In addition, the Company receives volume rebates from certain vendors based on contractual arrangements with such vendors. Rebates received from these vendors are recognized as a reduction to the cost of goods sold in the consolidated statements of income when the inventory is sold.

### *Product Warranties*

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

### *Shipping and Handling Costs*

The Company includes shipping and handling fees billed to customers in net sales and shipping and handling costs associated with outbound freight in operating expenses in the accompanying consolidated statements of income. The shipping and handling costs in operating expenses were approximately \$118,174, \$123,900, and \$119,796 during fiscal years 2016, 2015, and 2014, respectively.

### *Stock-Based Compensation*

In accordance with Accounting Standards Codification ("ASC") Topic 718, "Compensation — Stock Compensation" ("ASC 718"), the Company estimates the fair value of share-based payment awards on the date of grant. The value of awards that are ultimately expected to vest is recognized as an expense over the requisite service periods. The fair value of our restricted stock awards and units is based on the closing market price of our common stock on the date of grant. We estimated the fair value of stock options granted using a Black-Scholes option-pricing model. This model requires us to make estimates and assumptions with respect to the expected term of the option, the expected volatility of the price of our common stock and the expected forfeiture rate. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

The expected term is based on the historical exercise behavior of grantees, as well as the contractual life of the option grants. The expected volatility factor is based on the volatility of the Company's common stock for a period equal to the expected term of the stock option. In addition, forfeitures of share-based awards are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option and restricted stock award and unit forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

### *Treasury Stock*

The Company accounts for treasury stock under the cost method, using the first-in, first-out flow assumption, and is included in "Class A treasury stock, at cost" on the accompanying consolidated balance sheets. When the Company reissues treasury stock, the gains are recorded in additional paid-in capital ("APIC"), while the losses are recorded to APIC to the extent that the previous net gains on the reissuance of treasury stock are available to offset the losses. If the loss is larger than the previous gains available, then the loss is recorded to retained earnings. When treasury stock is retired, the par value of the repurchased shares is deducted from common stock and the excess repurchase price over par is deducted by allocation to both APIC and retained earnings. The amount allocated to APIC is calculated as the original cost of APIC per share outstanding using the first-in, first-out flow assumption and is applied to the number of shares repurchased. Any remaining amount is allocated to retained earnings.

## *Related Party Transactions*

### Atlanta CFC Purchase

In August 2016, the Company's subsidiary, Sid Tool Co., Inc. ("Sid Tool") completed a transaction with Mitchmar Atlanta Properties, Inc. ("Mitchmar") to purchase our Atlanta CFC and the real property on which the Atlanta CFC is situated for a purchase price of \$33,650. Sid Tool had leased the Atlanta CFC from Mitchmar since 1989. Mitchmar is owned by Mitchell Jacobson, the Company's Chairman, and his sister, Marjorie Gershwind Fiverson, and two family related trusts, and the beneficiaries of one of such trusts include the children of Erik Gershwind, the Company's Chief Executive Officer. The purchase price was determined by an independent appraisal process, as provided in the lease agreement for the Atlanta facility.

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

We paid rent under an operating lease to Mitchmar of approximately \$2,110, \$2,318 and \$2,297, respectively, for fiscal years 2016, 2015 and 2014 in connection with our occupancy of our Atlanta CFC.

### Stock Purchase Agreement

In July 2016, the Company entered into an agreement (the "Stock Purchase Agreement") with Mitchell Jacobson, the Company's Chairman, his sister, Marjorie Gershwind Fiverson, Erik Gershwind, the Company's President and Chief Executive Officer, and two other beneficial owners (collectively, the "Sellers") of the Company's Class B common stock. Pursuant to the Stock Purchase Agreement, each Seller agreed to sell or cause to be sold by trusts or other entities on whose behalf such Seller acted, and the Company agreed to purchase, an aggregate number of shares of Class A common stock, at the price per share to be paid by the Company in the Company's "modified Dutch auction" tender offer commenced on July 7, 2016, such that the Sellers' aggregate percentage ownership and voting power in the Company would remain substantially the same as prior to the tender offer. The Sellers also agreed not to participate in the tender offer. The Stock Purchase Agreement was approved by the Nominating and Corporate Governance Committee of the Company's Board of Directors, as well as by the disinterested members of the Company's Board of Directors. On August 19, 2016, pursuant to the Stock Purchase Agreement, the Company purchased an aggregate of 1,152 shares of its Class A common stock from the Sellers and/or such trusts or other entities at a purchase price of \$72.50 per share, for an aggregate purchase price of approximately \$83,524. The purchase price per share paid to the sellers pursuant to the Stock Purchase Agreement was equal to the purchase price per share paid to shareholders whose shares were purchased in the Company's tender offer.

### *Fair Value of Financial Instruments*

The carrying values of the Company's financial instruments, including cash, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. In addition, based on borrowing rates currently available to the Company for borrowings with similar terms, the carrying values of the Company's capital lease obligations also approximate fair value. The fair value of the Company's taxable bonds are estimated based on observable inputs in non-active markets. Under this method, the Company's fair value of the taxable bonds was not significantly different than the carrying value at September 3, 2016 and August 29, 2015. The fair values of the Company's long-term debt, including current maturities are estimated based on quoted market prices for the same or similar issues or on current rates offered to the Company for debt of the same remaining maturities. Under this method, the Company's fair value of any long-term obligations was not significantly different than the carrying values at September 3, 2016 and August 29, 2015.

### *Foreign Currency*

The local currency is the functional currency for all of MSC's operations outside the United States. Assets and liabilities of these operations are translated to U.S. dollars at the exchange rate in effect at the end of each period. Income statement accounts are translated at the average exchange rate prevailing during the period. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of other comprehensive income within shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

### *Income Taxes*

The Company has established deferred income tax assets and liabilities for temporary differences between the financial reporting bases and the income tax bases of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled pursuant to the provisions of ASC Topic 740, "Income Taxes" ("ASC 740"), which prescribes a comprehensive model for the financial statement recognition, measurement, classification, and disclosure of uncertain tax positions. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amounts of unrecognized tax benefits, exclusive of interest and penalties that would affect the effective tax rate were \$4,432 and \$4,693 as of September 3, 2016 and August 29, 2015, respectively.

### *Comprehensive Income*

Comprehensive income consists of consolidated net income and foreign currency translation adjustments. Foreign currency translation adjustments included in comprehensive income were not tax effected as investments in international affiliates are deemed to be permanent.

### *Geographic Regions*

The Company's sales and assets are predominantly generated from United States locations. Sales and assets related to the United Kingdom (the "U.K.") and Canada branches are not significant to the Company's total operations. For fiscal 2016, U.K. and Canadian operations represented approximately 3% of the Company's consolidated net sales.

### *Segment Reporting*

The Company utilizes the management approach for segment disclosure, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our reportable segments. The Company's results of operations are reviewed by the Chief Executive Officer on a consolidated basis and the Company operates in only one segment. Substantially all of the Company's revenues and long-lived assets are in the United States. We do not disclose revenue information by product category as it is impracticable to do so as a result of our numerous product offerings and the way our business is managed.

### *Recently Adopted Accounting Pronouncements*

#### Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. The FASB allowed early adoption of this standard, and therefore, the Company adopted ASU 2015-03 during the fourth quarter of fiscal 2016. As a result of adopting this standard on a retrospective basis, \$1,020 of debt issuance costs that were previously presented in long-term other assets as of August 29, 2015 are now included within current maturities of long-term debt and long-term debt, net of current maturities.

### *Accounting Pronouncements Not Yet Adopted*

#### Share-based Payments

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted. The new standard is effective for the Company for its fiscal 2018 first quarter. The Company is currently evaluating the impact the adoption of the pronouncement may have on its financial position, results of operations or cash flows.

### Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. ASU 2016-02 requires reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. ASU 2016-02 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. The new standard is effective for the Company for its fiscal 2020 first quarter. The guidance will be applied on a modified retrospective basis beginning with the earliest period presented. The Company is currently evaluating this standard to determine the impact of adoption on its consolidated financial statements.

### Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax liabilities and assets as non-current within a classified balance sheet. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted. The new standard is effective for the Company for its fiscal 2018 first quarter. The Company does not expect adoption of ASU 2015-17 to have a material impact on its financial position, results of operations or cash flows.

### Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The new standard is effective for the Company for its fiscal 2018 first quarter. 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.

### Revenue from Contracts with Customers

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

### *Reclassifications*

Certain prior year amounts have been reclassified to conform to the fiscal 2016 presentation. These reclassifications did not have a material impact on the presentation of the consolidated financial statements. See "Recently Adopted Accounting Pronouncements" above regarding the impact of our adoption of ASU 2015-03 upon the classification of debt issuance costs in our consolidated balance sheets.

## **3. FAIR VALUE**

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

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

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

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

As of September 3, 2016 and August 29, 2015, the Company did not have any cash equivalents.

In connection with the construction of the Company’s customer fulfillment center in Columbus, Ohio, the Company entered into an arrangement during fiscal 2013 with the Columbus-Franklin County Finance Authority (“Finance Authority”) which provides savings on state and local sales taxes imposed on construction materials to entities that finance the transactions through them. Under this arrangement, the Finance Authority issued taxable bonds to finance the structure and site improvements of the Company’s customer fulfillment center. The bonds (\$27,022 at both September 3, 2016 and August 29, 2015) are classified as available for sale securities in accordance with ASC Topic 320. The securities are recorded at fair value in Other Assets in the Consolidated Balance Sheet. The fair values of these securities are based on observable inputs in non-active markets, which are therefore classified as Level 2 in the hierarchy. The Company did not record any gains or losses on these securities during fiscal year 2016. The outstanding principal amount of each bond bears interest at the rate of 2.4% per year. Interest is payable on a semiannual basis in arrears on each interest payment date.

In addition, based on borrowing rates currently available to the Company for borrowings with similar terms, the carrying values of the Company’s capital lease obligations also approximate fair value. The fair value of the Company’s long-term debt, including current maturities, is estimated based on quoted market prices for the same or similar issues or on current rates offered to the Company for debt of the same remaining maturities. The carrying amount of the Company’s debt at September 3, 2016, approximates its fair value.

The Company’s financial instruments, other than those presented in the disclosure above, include cash, receivables, accounts payable, and accrued liabilities. Management believes the carrying amount of the aforementioned financial instruments is a reasonable estimate of fair value as of September 3, 2016 and August 29, 2015 due to the short-term maturity of these items.

During the fiscal years ended September 3, 2016 and August 29, 2015, the Company had no measurements of non-financial assets or liabilities at fair value on a non-recurring basis subsequent to their initial recognition.

#### 4. NET INCOME PER SHARE

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

The following table sets forth the computation of basic and diluted net income per common share under the two-class method for the fiscal years ended September 3, 2016, August 29, 2015 and August 30, 2014, respectively:

	<b>For the Fiscal Years Ended</b>		
	<b>September 3, 2016 (53 weeks)</b>	<b>August 29, 2015 (52 weeks)</b>	<b>August 30, 2014 (52 weeks)</b>
Net income as reported	\$ 231,216	\$ 231,308	\$ 236,067
Less: Distributed net income available to participating securities	(308)	(1,350)	(481)
Less: Undistributed net income available to participating securities	(601)	—	(1,146)
<b>Numerator for basic net income per share:</b>			
Undistributed and distributed net income available to common shareholders	\$ 230,307	\$ 229,958	\$ 234,440
Add: Undistributed net income allocated to participating securities	601	—	1,146
Less: Undistributed net income reallocated to participating securities	(600)	—	(1,140)

Numerator for diluted net income per share:

Undistributed and distributed net income available to common shareholders	\$ 230,308	\$ 229,958	\$ 234,446
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Denominator:

Weighted average shares outstanding for basic net income per share	60,908	61,292	62,026
Effect of dilutive securities	168	195	313
Weighted average shares outstanding for diluted net income per share	61,076	61,487	62,339

Net income per share Two-class method:

Basic	\$ 3.78	\$ 3.75	\$ 3.78
Diluted	\$ 3.77	\$ 3.74	\$ 3.76

Antidilutive stock options of 843 and 678 were not included in the computation of diluted earnings per share for the fiscal years ended September 3, 2016 and August 29, 2015. There were no antidilutive stock options included in the computation of diluted earnings per share for the fiscal year ended August 30, 2014.

## 5. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and the estimated useful lives used in the computation of depreciation and amortization:

	Number of Years	September 3, 2016	August 29, 2015
Land	—	\$ 27,205	\$ 20,783
Building and improvements	3 - 40	178,828	150,870
Leasehold improvements	The lesser of lease term or 31.5	2,551	4,384
Furniture, fixtures and equipment	3 - 20	172,347	165,589
Computer systems, equipment and software	3 - 5	317,096	289,873
		698,027	631,499
Less: accumulated depreciation and amortization		377,483	340,343
Total		\$ 320,544	\$ 291,156

The amount of capitalized interest, net of accumulated amortization, included in property, plant and equipment was \$796 and \$847 at September 3, 2016 and August 29, 2015, respectively.

Depreciation expense was \$57,052, \$52,799 and \$47,729 for the fiscal years ended September 3, 2016, August 29, 2015, and August 30, 2014, respectively.

## 6. INCOME TAXES

The provision for income taxes is comprised of the following:

	For the Fiscal Years Ended		
	September 3, 2016	August 29, 2015	August 30, 2014
Current:			
Federal	\$ 109,699	\$ 109,575	\$ 115,186
State and local	15,621	17,339	16,528
	125,320	126,914	131,714
Deferred:			
Federal	13,993	13,987	10,369
State and local	1,202	932	1,375
	15,195	14,919	11,744
Total	\$ 140,515	\$ 141,833	\$ 143,458

Significant components of deferred tax assets and liabilities are as follows:

	September 3, 2016	August 29, 2015
Deferred tax liabilities:		
Depreciation	\$ (53,580)	\$ (51,204)
Deferred catalog costs	(1,347)	(1,155)
Goodwill	(88,607)	(73,996)
	<u>(143,534)</u>	<u>(126,355)</u>
Deferred tax assets:		
Accounts receivable	4,089	3,807
Inventory	9,995	9,036
Deferred compensation	1,710	2,409
Stock based compensation	9,813	9,831
Intangible amortization	11,933	11,788
Other	9,087	7,772
	<u>46,627</u>	<u>44,643</u>
Net Deferred Tax Liabilities	<u>\$ (96,907)</u>	<u>\$ (81,712)</u>

Reconciliation of the statutory Federal income tax rate to the Company's effective tax rate is as follows:

	For the Fiscal Years Ended		
	September 3, 2016	August 29, 2015	August 30, 2014
U.S. Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of Federal benefit	3.0	3.1	3.1
Other, net	(0.2)	(0.1)	(0.3)
Effective income tax rate	<u>37.8 %</u>	<u>38.0 %</u>	<u>37.8 %</u>

The aggregate changes in the balance of gross unrecognized tax benefits during fiscal 2016 and 2015 were as follows:

	September 3, 2016	August 29, 2015
Beginning Balance	\$ 10,333	\$ 9,350
Additions for tax positions relating to current year	2,745	2,617
Additions for tax positions relating to prior years	—	104
Settlements	(174)	(41)
Lapse of statute of limitations	(2,294)	(1,697)
Ending Balance	<u>\$ 10,610</u>	<u>\$ 10,333</u>

Included in the balance of unrecognized tax benefits at September 3, 2016 is \$1,039 related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits comprised primarily of items related to expiring statutes of limitations in state jurisdictions.

The Company recognizes interest expense and penalties in the provision for income taxes. The fiscal years 2016, 2015 and 2014 provisions include interest and penalties of \$6, \$19 and \$0, respectively. The Company has accrued \$235 and \$163 for interest and penalties as of September 3, 2016 and August 29, 2015, respectively.

With limited exceptions, the Company is no longer subject to Federal income tax examinations through fiscal 2013 and state income tax examinations through fiscal 2012.



## 7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 3, 2016	August 29, 2015
Accrued payroll and fringe	\$ 31,416	\$ 25,597
Accrued bonus	12,728	12,820
Accrued sales, property and income taxes	13,541	12,259
Accrued sales rebates and returns	14,206	13,394
Accrued other	29,060	30,424
Total accrued liabilities	<u>\$ 100,951</u>	<u>\$ 94,494</u>

## 8. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt at September 3, 2016 and August 29, 2015 consisted of the following:

	September 3, 2016	August 29, 2015
Credit Facility:		
Revolver	\$ 217,000	\$ 188,000
Term loan	187,500	212,500
Private Placement Debt:		
Senior notes, series A	75,000	-
Senior notes, series B	100,000	-
Capital lease and financing obligations	28,268	27,804
Less: unamortized debt issuance costs	(946)	(1,020)
Total debt	\$ 606,822	\$ 427,284
Less: current maturities of long-term debt <sup>(1)</sup>	(267,050)	(213,165)
Long-term debt	<u>\$ 339,772</u>	<u>\$ 214,119</u>

(1) Net of unamortized debt issuance costs expected to be amortized in the next twelve months.

### *Credit Facility*

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

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

Borrowings under the Credit Facility bear interest, at the Company's option, either at (i) the LIBOR (London Interbank Offered Rate) rate plus the applicable margin for LIBOR loans ranging from 1.00% to 1.375%, based on the Company's consolidated leverage ratio; or (ii) the greatest of (a) the Administrative Agent's prime rate in effect on such day, (b) the federal funds effective rate in effect on such day, plus 0.50% and (c) the LIBOR rate that would be calculated as of such day in respect of a proposed LIBOR loan with a one-month interest period, plus 1.00%, plus, in the case of each of clauses (a) through (c), an applicable margin ranging from 0.00% to 0.375%, based on the Company's consolidated leverage ratio. The Company is required to pay a quarterly undrawn fee ranging from 0.10% to 0.20% per annum on the unutilized portion of the Credit Facility based on the Company's consolidated leverage ratio. The Company is also required to pay quarterly letter of credit usage fees ranging between 1.00% to 1.375% (based on the Company's consolidated leverage ratio) on the amount of the daily average outstanding letters of credit, and a quarterly fronting fee of 0.125% per annum on the

undrawn and unexpired amount of each letter of credit. The applicable borrowing rate for the Company for any borrowings outstanding under the Credit Facility at September 3, 2016 was 1.52%, which represented LIBOR plus 1.00%. Based on the interest period the Company selects, interest may be payable every one, two, three or six months. Interest is reset at the end of each interest period. The Company currently elects to have loans under the Credit Facility bear interest based on LIBOR with one-month interest periods.

The Credit Facility contains several restrictive covenants including the requirement that the Company maintain a maximum consolidated leverage ratio of total indebtedness to EBITDA of no more than 3.00 to 1.00, and a minimum consolidated interest coverage ratio of EBITDA to total interest expense of at least 3.00 to 1.00, during the term of the Credit Facility. Borrowings under the Credit Facility are guaranteed by certain of the Company’s subsidiaries.

During fiscal 2016, the Company borrowed \$305,000 under the revolving loan facility and repaid \$276,000 and \$25,000 of the revolving loan facility and term loan facility, respectively. During fiscal 2015, the Company borrowed \$336,000 under the revolving loan facility and repaid \$218,000 and \$25,000 of the revolving loan facility and term loan facility, respectively.

At September 3, 2016 and August 29, 2015, the Company was in compliance with the operating and financial covenants of the Credit Facility.

*Private Placement Debt*

In July 2016, in connection with the Company’s “modified Dutch auction” tender offer, the Company completed the issuance and sale of the following unsecured senior notes (collectively “Private Placement Debt”):

- \$75,000 aggregate principal amount of 2.65% Senior Notes, Series A, due July 28, 2023 (“Senior notes, series A”); and
- \$100,000 aggregate principal amount of 2.90% Senior Notes, Series B, due July 28, 2026 (“Senior notes, series B”)

The Private Placement Debt is due, in full, on the stated maturity dates. Interest is payable semi-annually at the fixed stated interest rates. The Private Placement Debt 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 Private Placement Debt. At September 3, 2016, the Company was in compliance with the operating and financial covenants of the Private Placement Debt.

Maturities of debt, excluding capital lease and financing obligations, as of September 3, 2016 are as follows:

Fiscal Year	Maturities of Debt
2017	\$ 267,000
2018	137,500
2019	—
2020	—
2021	—
Thereafter	175,000
<b>Total</b>	<b>\$ 579,500</b>

### *Capital Lease and Financing Obligations*

In connection with the construction of the Company's customer fulfillment center in Columbus, Ohio, the Finance Authority holds the title to the building and entered into a long-term lease with the Company. The lease has a 20-year term with a prepayment option without penalty between 7 and 20 years. At the end of the lease term, the building's title is transferred to the Company for a nominal amount when the principal of and interest on the bonds have been fully paid. The lease has been classified as a capital lease in accordance with ASC Topic 840. At September 3, 2016 and August 29, 2015, the capital lease obligation was approximately \$27,022. Under this arrangement, the Finance Authority has issued taxable bonds to finance the structure and site improvements of the Company's customer fulfillment center in the amount of \$27,022 outstanding at both September 3, 2016 and August 29, 2015.

From time to time, the Company enters into capital leases and financing arrangements to purchase certain equipment. The equipment acquired from these vendors is paid over a specified period of time based on the terms agreed upon. During the fiscal year ended September 3, 2016, the Company entered into a capital lease and various financing obligations for certain information technology equipment totaling \$1,321 and \$453, respectively. During the fiscal year ended August 29, 2015, the Company entered into various capital leases and financing obligations for certain information technology equipment totaling \$530.

The gross amount of property and equipment acquired under these capital leases and financing agreements at September 3, 2016 and August 29, 2015 was approximately \$30,298 and \$32,535, respectively. Related accumulated amortization totaled \$2,878 and \$4,815 as of September 3, 2016 and August 29, 2015, respectively. Amortization expense of property and equipment acquired under these capital leases and financing arrangements was approximately \$2,073 for the fiscal year ended 2016.

At September 3, 2016, approximate future minimum payments under capital leases and financing arrangements are as follows:

<b>Fiscal Year</b>	<b>Payments under capital leases and financing arrangements</b>
2017	\$ 1,120
2018	993
2019	993
2020	27,324
Total minimum lease payments	\$ 30,430
Less: amount representing interest	2,162
Present value of minimum lease payments	\$ 28,268
Less: current portion	471
Long-term capital leases and financing arrangements	\$ 27,797

## **9. SHAREHOLDERS' EQUITY**

### *Treasury Stock Purchases*

In July 2016, the Company commenced a tender offer to purchase for cash up to \$300,000 in value of shares of its Class A common stock through a "modified Dutch auction" tender offer at a price per share of not less than \$66.00 and not greater than \$72.50 (the "Tender Offer"). In addition, the Company entered into a stock purchase agreement with the holders of the Company's Class B common stock (the "Class B Holders") to purchase (the "Stock Purchase") from the Class B Holders a pro rata number of shares at the price per share to be paid by the Company in the Tender Offer, such that the Class B Holders' percentage ownership and voting power in the Company would remain substantially the same as prior to the Tender Offer. The Class B Holders also agreed not to participate in the Tender Offer.

In August 2016, the Company completed the Tender Offer and purchased 3,821 shares of the Company's Class A common stock that were validly tendered and not validly withdrawn at a price of \$72.50 per share. The Company also completed the Stock Purchase of an aggregate of 1,152 shares of its Class A common stock from the Class B Holders at a

purchase price of \$72.50 per share. In total, as a result of the Tender Offer and Stock Purchase, the Company purchased 4,973 shares at a price of \$72.50 per share for an aggregate cost of \$360,566, excluding fees and expenses. The Company incurred costs of \$1,587 in connection with the Tender Offer and Stock Purchase resulting in a total cost of \$362,153, or \$72.82 per share for the shares repurchased, which were recorded to treasury stock. The Company retired all 4,973 shares purchased as a result of the Tender Offer and Stock Purchase.

During fiscal 1999, the Board of Directors established the MSC Stock Repurchase Plan (the “Repurchase Plan”). In 2011, the Board of Directors reaffirmed and replenished the Repurchase Plan so that the total number of shares of Class A common stock authorized for future repurchase was 5,000 shares. As of September 3, 2016, the maximum number of shares that may yet be repurchased under the Repurchase Plan was 1,444 shares. The Repurchase Plan allows the Company to repurchase shares at any time and in any increments it deems appropriate in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During fiscal 2016 and 2015, the Company repurchased 5,344 shares and 444 shares, respectively, of its Class A common stock for \$384,111 and \$33,414, respectively. 72 and 112 of these shares were repurchased by the Company to satisfy the Company’s associates’ tax withholding liability associated with its share-based compensation program during fiscal 2016 and 2015, respectively. Shares of the Company’s common stock purchased pursuant to the Tender Offer and the Stock Purchase, as well as shares purchased to satisfy the Company’s associates’ tax withholding liability associated with its share-based compensation program did not reduce the number of shares that may be repurchased under the Repurchase Plan.

The Company reissued 64 and 63 shares of treasury stock during fiscal 2016 and 2015, respectively, to fund the Associate Stock Purchase Plan (See Note 10).

#### *Common Stock*

Each holder of the Company’s Class A common stock is entitled to one vote for each share held of record on the applicable record date on all matters presented to a vote of shareholders, including the election of directors. The holders of Class B common stock are entitled to ten votes per share on the applicable record date and are entitled to vote, together with the holders of the Class A common stock, on all matters which are subject to shareholder approval. Holders of Class A common stock and Class B common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any stock or other securities and there are no redemption or sinking fund provisions with respect to such stock.

The holders of the Company’s Class B common stock have the right to convert their shares of Class B common stock into shares of Class A common stock at their election and on a one-to-one basis, and all shares of Class B common stock convert into shares of Class A common stock on a one to-one basis upon the sale or transfer of such shares of Class B common stock to any person who is not a member of the Jacobson or Gershwind families or any trust not established principally for members of the Jacobson or Gershwind families or to any person who is not an executor, administrator or personal representative of an estate of a member of the Jacobson or Gershwind families.

#### *Preferred Stock*

The Company has authorized 5,000 shares of preferred stock. The Company’s Board of Directors has the authority to issue the shares of preferred stock. Shares of preferred stock may have priority over the Company’s Class A common stock and Class B common stock with respect to dividend or liquidation rights, or both. As of September 3, 2016, there were no shares of preferred stock issued or outstanding.

#### *Cash Dividend*

In 2003, the Board of Directors instituted a policy of regular quarterly cash dividends to shareholders. This policy is reviewed regularly by the Board of Directors.

On October 27, 2016, the Board of Directors declared a quarterly cash dividend of \$0.45 per share, payable on November 29, 2016 to shareholders of record at the close of business on November 15, 2016. The dividend will result in a payout of approximately \$25,461 based on the number of shares outstanding at October 17, 2016.

## 10. ASSOCIATE BENEFIT PLANS

The Company accounts for all share-based payments in accordance with ASC 718. Stock-based compensation expense included in operating expenses for the fiscal years ended September 3, 2016, August 29, 2015 and August 30, 2014 was as follows:

	For the Fiscal Years Ended		
	September 3, 2016	August 29, 2015	August 30, 2014
Stock options	\$ 4,382	\$ 4,614	\$ 5,324
Restricted share awards	6,112	8,139	8,898
Restricted stock units	3,205	1,105	2,167
Associate Stock Purchase Plan	286	337	299
Total	13,985	14,195	16,688
Deferred income tax benefit	(5,206)	(5,266)	(6,227)
Stock-based compensation expense, net	<u>\$ 8,779</u>	<u>\$ 8,929</u>	<u>\$ 10,461</u>

### Stock Compensation Plans

#### *2015 Omnibus Incentive Plan*

At the Company's annual meeting of shareholders held on January 15, 2015, the shareholders approved the MSC Industrial Direct Co., Inc. 2015 Omnibus Incentive Plan ("2015 Omnibus Plan"). The 2015 Omnibus Plan replaced the Company's 2005 Omnibus Incentive Plan (the "Prior Plan") and beginning January 15, 2015, all awards are granted under the 2015 Omnibus Plan. Awards under the 2015 Omnibus Plan may be made in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, other share-based awards, and performance cash, performance shares or performance units. All outstanding awards under the Prior Plan will continue to be governed by the terms of the Prior Plan. Upon approval of the 2015 Omnibus Plan, the maximum aggregate number of shares of common stock authorized to be issued under the 2015 Omnibus Plan was 5,217 shares, of which 4,911 authorized shares of common stock were remaining as of September 3, 2016.

#### *Stock Options*

A summary of the status of the Company's stock options at September 3, 2016 and changes during the fiscal year then ended is presented in the table and narrative below:

	2016	
	Shares	Weighted-Average Exercise Price
Outstanding - beginning of year	1,274	\$ 73.10
Granted	586	58.90
Exercised	(144)	51.47
Canceled/Forfeited	(71)	74.68
Outstanding - end of year	<u>1,645</u>	<u>\$ 69.86</u>
Exercisable - end of year	<u>626</u>	<u>\$ 71.78</u>

The total intrinsic value of options exercised during the fiscal years ended September 3, 2016, August 29, 2015 and August 30, 2014 was \$3,129, \$3,390, and \$13,988, respectively. The unrecognized share-based compensation cost related to stock option expense at September 3, 2016 was \$7,088 and will be recognized over a weighted average of 2.4 years.

Stock option awards outstanding under the Company's incentive plans have been granted at exercise prices that are equal to the market value of its common stock on the date of grant. Such options generally vest over a period four years and expire at seven years after the grant date. The Company recognizes compensation expense ratably over the vesting period, net of estimated forfeitures. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions as follows:

*Expected Term* — The estimate of expected term is based on the historical exercise behavior of grantees, as well as the contractual life of the option grants.

*Expected Volatility* — The expected volatility factor is based on the volatility of the Company's common stock for a period equal to the expected term of the stock option.

*Risk-free Interest Rate* — The risk-free interest rate is determined using the implied yield for a traded zero-coupon U.S. Treasury bond with a term equal to the expected term of the stock option.

*Expected Dividend Yield* — The expected dividend yield is based on the Company's historical practice of paying quarterly dividends on its common stock.

The Company's weighted-average assumptions used to estimate the fair value of stock options granted during the fiscal years ended September 3, 2016, August 29, 2015 and August 30, 2014 were as follows:

	2016	2015	2014
Expected life (in years)	3.9	3.9	3.9
Risk-free interest rate	1.09 %	1.09 %	0.93 %
Expected volatility	21.8 %	24.5 %	26.6 %
Expected dividend yield	2.40 %	1.70 %	1.70 %
Weighted-Average Grant-Date Fair Value	\$ 8.03	\$ 14.06	\$ 14.98

The following table summarizes information about stock options outstanding and exercisable at September 3, 2016:

Range of Exercise Prices	Number of Options Outstanding at September 3, 2016	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price		Number of Options Exercisable at September 3, 2016	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price		Intrinsic Value
				Intrinsic Value				Intrinsic Value	
\$ 54.52 – \$ 58.90	643	5.5	\$ 58.38	\$ 10,166	77	1.1	\$ 54.52	\$ 1,515	
58.91 – 69.46	364	2.7	68.26	2,153	309	2.6	68.04	1,892	
69.47 – 81.76	288	4.1	81.61	3	148	4.1	81.55	2	
81.77 – 83.03	350	5.1	83.02	—	92	5.1	83.02	—	
	1,645	4.6	\$ 69.86	\$ 12,322	626	3.2	\$ 71.78	\$ 3,409	

#### *Restricted Stock Awards*

A summary of the non-vested restricted share awards ("RSA") granted under the Company's incentive plans for the fiscal year ended September 3, 2016 is as follows:

	2016	
	Shares	Weighted-Average Grant-Date Fair Value
Non-vested restricted share awards at the beginning of the year	391	\$ 75.39
Granted	1	62.31
Vested	(111)	67.34

Canceled/Forfeited	(16)	78.55
Non-vested restricted share awards at the end of the year	265	\$ 78.58

The fair value of each RSA is the closing stock price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. Upon vesting, a portion of the RSA may be withheld to satisfy the minimum statutory withholding taxes. The remaining RSAs will be settled in shares of the Company's Class A common stock after the vesting period.

The fair value of shares vested during the fiscal years ended September 3, 2016, August 29, 2015 and August 30, 2014 was \$7,518, \$8,107 and \$14,214, respectively.

The unrecognized compensation cost related to the non-vested RSAs at September 3, 2016 is \$9,284 and will be recognized over a weighted-average period of 2.2 years.

#### *Restricted Stock Units*

A summary of the Company's non-vested restricted stock unit ("RSU") award activity for the fiscal year ended September 3, 2016 is as follows:

	2016	
	Shares	Weighted-Average Grant-Date Fair Value
Non-vested restricted stock unit awards at the beginning of the year	62	\$ 55.09
Granted	207	58.83
Vested	(63)	54.69
Canceled/Forfeited	(8)	58.81
Non-vested restricted stock unit awards at the end of the year	198	\$ 58.98

The fair value of each RSU is the closing stock price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. Upon vesting, a portion of the RSU award may be withheld to satisfy the minimum statutory withholding taxes. The remaining RSUs will be settled in shares of the Company's Class A common stock after the vesting period. These awards accrue dividend equivalents on outstanding units (in the form of additional stock units) based on dividends declared on the Company's Class A common stock and these additional RSUs are subject to the same vesting periods as the RSUs in the underlying award. The dividend equivalents are not included in the RSU table above.

The unrecognized compensation cost related to the RSUs at September 3, 2016 was \$8,448 and is expected to be recognized over a period of 3.9 years.

#### *Associate Stock Purchase Plan*

The Company has established a qualified Associate Stock Purchase Plan, the terms of which allow for eligible associates (as defined in the Associate Stock Purchase Plan) to participate in the purchase of up to a maximum of 5 shares of the Company's Class A common stock at a price equal to 90% of the closing price at the end of each stock purchase period. On January 7, 2009, the shareholders of the Company approved an increase to the authorized but unissued shares of the Class A common stock of the Company reserved for sale under the Associate Stock Purchase Plan from 800 to 1,150 shares. On January 15, 2015, the shareholders of the Company approved an increase to the authorized but unissued shares of the Class A common stock of the Company reserved for sale under the Associate Stock Purchase Plan from 1,150 to 1,500 shares. As of September 3, 2016, approximately 239 shares remain reserved for issuance under this plan. Associates purchased approximately 64 and 63 shares of common stock during fiscal 2016 and 2015 at an average per share price of \$61.87 and \$66.96, respectively.

### *Savings Plan*

The Company maintains a defined contribution plan with both a profit sharing feature and a 401(k) feature which covers all associates who have completed at least one month of service with the Company. For fiscal years 2016, 2015, and 2014, the Company contributed \$6,594, \$6,665 and \$6,174, respectively, to the plan. The Company contributions are discretionary.

## **11. COMMITMENTS AND CONTINGENCIES**

### *Leases*

Certain of the operations of the Company are conducted on leased premises. The leases (most of which require the Company to provide for the payment of real estate taxes, insurance and other operating costs) are for varying periods, the longest extending to the fiscal year 2026. Some of the leased premises contain multiple renewal provisions, exercisable at the Company's option, as well as escalation clauses. In addition, the Company is obligated under certain equipment and automobile operating leases, which expire on varying dates through fiscal 2020. At September 3, 2016, approximate minimum annual rentals on all such leases are as follows:

<b>Fiscal Year</b>		<b>Total Rental Payments</b>
2017	\$	12,081
2018		7,456
2019		5,897
2020		3,308
2021		1,860
Thereafter		1,429
<b>Total</b>	<b>\$</b>	<b>32,031</b>

Total rental expense (exclusive of real estate taxes, insurance and other operating costs) for all operating leases for fiscal years 2016, 2015 and 2014 was approximately \$13,428, \$14,504 and \$16,329, respectively, including approximately \$1,044, \$2,401 and \$2,297, respectively, paid to a related party. As a result of the purchase of our Atlanta CFC, which was previously leased with a related party, rental expense was partially offset by the release of a deferred rent liability during fiscal 2016. See Note 2 "Summary of Significant Accounting Policies" for more information about this transaction.

## **12. 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.



### 13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following table sets forth unaudited financial data for each of the Company's last eight fiscal quarters.

	Fiscal Year Ended September 3, 2016				Fiscal Year Ended August 29, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Unaudited)								
<b>Consolidated Income Statement Data:</b>								
Net sales	\$ 706,819	\$ 684,117	\$ 727,495	\$ 745,074	\$ 731,091	\$ 706,400	\$ 745,483	\$ 727,405
Gross profit	318,972	308,791	327,028	334,067	330,149	320,874	338,417	327,135
Income from operations	90,388	80,542	105,784	99,246	93,971	85,874	104,244	95,440
Net income	55,029	49,525	64,816	61,846	57,417	51,527	63,342	59,022
Net income per share:								
Basic	0.89	0.81	1.06	1.03	0.92	0.84	1.03	0.96
Diluted	0.89	0.80	1.05	1.02	0.91	0.83	1.03	0.96

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 3, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 3, 2016, such disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Management's Annual Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 3, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013 Framework)*.

Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of September 3, 2016.

#### *Attestation Report of the Independent Registered Public Accounting Firm*

The effectiveness of the Company's internal control over financial reporting as of September 3, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears in this Item under the heading "Report of Independent Registered Public Accounting Firm."

### *Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 3, 2016 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. In fiscal 2016, the Company initiated the upgrade of its core financial systems including the receivables, payables, treasury, fixed assets and general ledger and expects to complete these implementations in fiscal 2017. Changes in the Company's key business applications and financial processes as a result of the continuing implementation of its core financial systems and other business systems are being evaluated by management. The Company is designing processes and internal controls to address changes in the Company's internal control over financial reporting as a result of the core financial systems implementation. This ongoing implementation presents risks to maintain adequate internal controls over financial reporting.

## **Report of Independent Registered Public Accounting Firm**

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

We have audited MSC Industrial Direct Co., Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of September 3, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 3, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of September 3, 2016 and August 29, 2015 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 September 3, 2016 of the Company and our report dated November 1, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Jericho, New York  
November 1, 2016

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III.**

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

Information called for by Item 10 is set forth under the headings “Election of Directors” and “Corporate Governance” in the Company’s Proxy Statement for the annual meeting of shareholders to be held in January 2017, or the 2016 Proxy Statement, which is incorporated herein by this reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

Information called for by Item 11 is set forth under the headings “Executive Compensation”, “Corporate Governance—Compensation Committee.” “Compensation Committee Report” and “Director Compensation” in the 2016 Proxy Statement, which is incorporated herein by this reference.

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

Information called for by Item 12 is set forth under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the 2016 Proxy Statement, which is incorporated herein by this reference.

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

Information called for by Item 13 is set forth under the heading “Certain Relationships and Related Person Transactions” and “Corporate Governance” in the 2016 Proxy Statement, which is incorporated herein by this reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Information called for by Item 14 is set forth under the heading “Ratification of Appointment of Independent Registered Public Accounting Firm” in the 2016 Proxy Statement, which is incorporated herein by this reference.

**PART IV.**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a)(1) Index to Financial Statements

Financial statements filed as a part of this report are listed on the “Index to Consolidated Financial Statements” at page 30 herein.

(a)(2) Financial Statement Schedules

For the three fiscal years ended September 3, 2016.

	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts	S-1

All other schedules have been omitted because the information is not applicable or is presented in the Consolidated Financial Statements or Notes thereto.

(a)(3) Exhibits

Exhibits are filed with this report or incorporated by reference to the Exhibit Index immediately preceding the exhibits attached to this Annual Report on Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MSC INDUSTRIAL DIRECT CO., INC.

By: /s/ ERIK GERSHWIND  
Erik Gershwind  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Dated: November 1, 2016

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MITCHELL JACOBSON</u> Mitchell Jacobson	Chairman of the Board of Directors	November 1, 2016
<u>/s/ ERIK GERSHWIND</u> Erik Gershwind	President and Chief Executive Officer and Director (Principal Executive Officer)	November 1, 2016
<u>/s/ RUSTOM JILLA</u> Rustom Jilla	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 1, 2016
<u>/s/ JONATHAN BYRNES</u> Jonathan Byrnes	Director	November 1, 2016
<u>/s/ ROGER FRADIN</u> Roger Fradin	Director	November 1, 2016
<u>/s/ LOUISE GOESER</u> Louise Goeser	Director	November 1, 2016
<u>/s/ MICHAEL KAUFMANN</u> Michael Kaufmann	Director	November 1, 2016
<u>/s/ DENIS KELLY</u> Denis Kelly	Director	November 1, 2016
<u>/s/ STEVEN PALADINO</u> Steven Paladino	Director	November 1, 2016
<u>/s/ PHILIP PELLER</u> Philip Peller	Director	November 1, 2016

**MSC INDUSTRIAL DIRECT CO., INC. AND SUBSIDIARIES**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**  
(In thousands)

**Description**

<b><u>Description</u></b>	<b>Balance at Beginning of Year</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions<sup>(2)</sup></b>	<b>Balance at End of Year</b>
<b>Deducted from asset accounts:</b>					
For the fiscal year ended August 30, 2014					
Allowance for doubtful accounts <sup>(1)</sup>	\$ 7,523	\$ 4,629	\$ —	\$ 2,842	\$ 9,310
<b>Deducted from asset accounts:</b>					
For the fiscal year ended August 29, 2015					
Allowance for doubtful accounts <sup>(1)</sup>	\$ 9,310	\$ 6,665	\$ —	\$ 4,663	\$ 11,312
<b>Deducted from asset accounts:</b>					
For the fiscal year ended September 3, 2016					
Allowance for doubtful accounts <sup>(1)</sup>	\$ 11,312	\$ 6,997	\$ —	\$ 5,956	\$ 12,353

(1) Included in accounts receivable.

(2) Comprised of uncollected accounts charged against the allowance.



## EXHIBIT INDEX

Exhibit No.	Description
2.01	Stock Purchase Agreement by and among JLK Direct Distribution, Inc., Kennametal Inc., MSC Industrial Direct Co., Inc. and MSC Acquisition Corp. VI dated as of March 15, 2006 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 16, 2006) (SEC File No. 001-14130).
2.02	Asset Purchase Agreement, dated February 22, 2013, between MSC Industrial Direct Co., Inc. and Barnes Group Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 26, 2013) (SEC File No. 001-14130).
3.01	Certificate of Incorporation of the Registrant.*
3.02	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on October 26, 2012) (SEC File No. 001-14130).
4.01	Specimen Class A Common Stock Certificate.*
4.02	Note Purchase Agreement, dated July 28, 2016, by and among MSC Industrial Direct Co., Inc. and the purchasers named therein (incorporated by reference to Exhibit (b)(2) to the Registrant's Schedule TO-I/A filed with the SEC on July 28, 2016) (SEC File No. 005-44935).
4.03	Form of Form of 2.65% Senior Note, Series A, due July 28, 2023 (included in Exhibit 4.02).
4.04	Form of Form of 2.90% Senior Note, Series B, due July 28, 2026 (included in Exhibit 4.02).
10.01	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Erik Gershwind (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 3, 2014) (SEC File No. 001-14130).†
10.02	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Douglas Jones (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on December 3, 2014) (SEC File No. 001-14130).†
10.03	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Steve Armstrong (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 9, 2015) (SEC File No. 001-14130).†
10.04	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Charles Bonomo (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 9, 2015) (SEC File No. 001-14130).†
10.05	Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Kari Heerdts (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 9, 2015) (SEC File No. 001-14130).†
10.06	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Christopher Davanzo (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 9, 2015) (SEC File No. 001-14130).†
10.07	Change in Control Agreement, dated September 24, 2015 between MSC Industrial Direct Co., Inc. and Rustom Jilla (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 24, 2015) (SEC File No. 001-14130).†
10.08	Amended and Restated Change in Control Agreement, dated December 3, 2014 between MSC Industrial Direct Co., Inc. and Gregory Polli (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 6, 2016) (SEC File No. 001-14130).†
10.09	Change in Control Agreement, dated March 31, 2016 between MSC Industrial Direct Co., Inc. and Steven Baruch (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 6, 2016) (SEC File No. 001-14130).†
10.10	Change in Control Agreement, dated March 31, 2016 between MSC Industrial Direct Co., Inc. and David Wright (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 6, 2016) (SEC File No. 001-14130).†
10.11	Agreement of Lease, dated as of July 13, 1989, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).
10.12	First Amendment to Lease, dated as of August 10, 1996, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).

Exhibit No.	Description
10.13	Second Amendment to Lease, dated as of May 7, 2003, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).
10.14	Third Amendment to Lease Agreement, dated as of November 11, 2003, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).
10.15	Fourth Amendment of Lease Agreement, dated as of March 17, 2007, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).
10.16	Fifth Amendment of Lease Agreement, dated as of March 25, 2008, by and between Mitchmar Atlanta Properties, Inc. and Sid Tool Co., Inc. (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the SEC on April 7, 2008) (SEC File No. 001-14130).
10.17	MSC Industrial Direct Co., Inc. Amended and Restated Associate Stock Purchase Plan (incorporated by reference to Exhibit 4.04 to the Registrant's Registration Statement on Form S-8 (333-201523) filed with the SEC on January 15, 2015).†
10.18	Executive Incentive Compensation Recoupment Policy (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on January 7, 2010) (SEC File No. 001-14130).†
10.19	Restricted Stock Unit Agreement awarded to David Sandler, dated October 19, 2010 (incorporated by reference to Exhibit 10.01 to the Registrant's Current Report on Form 8-K filed with the SEC on October 21, 2010) (SEC File No. 001-14130).†
10.20	Second Amended and Restated Agreement dated October 19, 2010 between the Registrant and David Sandler (incorporated by reference to Exhibit 10.02 to the Registrant's Current Report on Form 8-K filed with the SEC on October 21, 2010) (SEC File No. 001-14130).†
10.21	Summary of Non-Executive Directors' Compensation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on January 7, 2016) (SEC File No. 001-14130).†
10.22	MSC Industrial Direct Co., Inc. 2005 Omnibus Incentive Plan, as amended through November 13, 2014 (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q filed with the SEC on January 8, 2015) (SEC File No. 001-14130).†
10.23	MSC Industrial Direct Co., Inc. 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.01 to the Registrant's Registration Statement on Form S-8 (333-201522) filed with the SEC on January 15, 2015).†
10.24	Form of Non-Qualified Stock Option Agreement under the MSC Industrial Direct Co., Inc. 2005 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 7, 2011) (SEC File No. 001-14130).†
10.25	Form of Restricted Stock Award under the MSC Industrial Direct Co., Inc. 2005 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 7, 2011) (SEC File No. 001-14130).†
10.26	Form of Non-Qualified Stock Option Agreement under the MSC Industrial Direct Co., Inc. 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on January 7, 2016) (SEC File No. 001-14130).†
10.27	Form of Restricted Stock Unit Agreement under the MSC Industrial Direct Co., Inc. 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on January 7, 2016) (SEC File No. 001-14130).†
10.28	MSC Industrial Direct Relocation Policy (incorporated by reference to Exhibit 10.02 to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2011) (SEC File No. 001-14130).†
10.29	Relocation Reimbursement Agreement & Policy Acknowledgment (incorporated by reference to Exhibit 10.03 to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2011) (SEC File No. 001-14130).†
10.30	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 25, 2016).†

Exhibit No.	Description
10.31	Credit Agreement, dated as of April 22, 2013, by and among MSC Industrial Direct Co., Inc., the several banks and other financial institutions or entities from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 23, 2013) (SEC File No. 001-14130).
10.32	Stock Purchase Agreement, dated July 5, 2016, between MSC Industrial Direct Co., Inc. and the persons listed on Schedule I thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 6, 2016) (SEC File No. 001-14130).
10.33	Agreement for Purchase and Sale of Real Property, dated as of July 1, 2016, by and between Sid Tool Co., Inc., and Mitchmar Atlanta Properties, Inc. (incorporated by reference to Exhibit (d)(2) to the Registrant's Schedule TO-I filed with the SEC on July 7, 2016) (SEC File No. 005-44935).
21.01	List of Subsidiaries.**
23.01	Consent of Ernst & Young LLP.**
31.1	Chief Executive Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**

\* Filed as an Exhibit to the Registrant's Registration Statement on Form S-1, Registration Statement No. 33-98832, as amended.

\*\* Filed herewith.

\*\*\* Furnished herewith.

† Management contract, compensatory plan or arrangement.

**EXHIBIT 21.01****SUBSIDIARIES OF MSC INDUSTRIAL DIRECT CO., INC.**

<b><u>CORPORATION</u></b>	<b><u>STATE OF INCORPORATION</u></b>
Sid Tool Co., Inc.	New York
Primeline International, Inc.	New York
MSC Services Corp.	New York
Swiss Precision Instruments Inc.	California
Enco Manufacturing Company, Inc.	New York
J&L America, Inc.	Michigan
MSC Acquisition Corp VI	New York
MSC Contract Management, Inc.	New York
MSC Foreign Properties Corporation	Delaware
American Specialty Grinding Co., Inc.	Massachusetts
MSC Acquisition Corp VII	New York
Mission Real Estate Acquisition Company	Delaware
MSC Industrial Supply ULC	Canada
MSC Acquisition Corp III	New York

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-48901), pertaining to the MSC Industrial Direct 401(k) Plan;
- (2) Registration Statement (Form S-8 No. 333-70293), pertaining to the Associate Stock Purchase Plan;
- (3) Registration Statement (Form S-8 No. 333-130899 and Form S-8 No. 333-164362), pertaining to the 2005 Omnibus Incentive Plan;
- (4) Registration Statement (Form S-8 No. 333-156850 and Form S-8 No. 333-201523), pertaining to the MSC Industrial Direct Co., Inc. Amended and Restated Associate Stock Purchase Plan; and
- (5) Registration Statement (Form S-8 No. 333-201522), pertaining to the 2015 Omnibus Incentive Plan

of our reports dated November 1, 2016, with respect to the consolidated financial statements and schedule of MSC Industrial Direct Co., Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of MSC Industrial Direct Co., Inc. and Subsidiaries, included in this Annual Report (Form 10-K) of MSC Industrial Direct Co., Inc. for the year ended September 3, 2016.

/s/ Ernst & Young LLP

Jericho, New York  
November 1, 2016

## CERTIFICATIONS

I, Erik Gershwind, certify that:

1. I have reviewed this Annual Report on Form 10-K of MSC Industrial Direct Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

\_\_\_\_\_  
/s/ ERIK GERSHWIND  
Erik Gershwind  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

CERTIFICATIONS

I, Rustom Jilla, certify that:

1. I have reviewed this Annual Report on Form 10-K of MSC Industrial Direct Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2016

/s/ RUSTOM JILLA

Rustom Jilla

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

**CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of MSC Industrial Direct Co., Inc. (the “Company”) for the fiscal year ended September 3, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Erik Gershwind, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

          /s/ ERIK GERSHWIND          

Erik Gershwind

*President and Chief Executive Officer*  
*(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to MSC Industrial Direct Co., Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.



**CERTIFICATION PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of MSC Industrial Direct Co., Inc. (the "Company") for the fiscal year ended September 3, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rustom Jilla, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2016

/s/ RUSTOM JILLA

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Rustom Jilla  
*Chief Financial Officer*  
*(Principal Financial Officer)*

A signed original of this written statement required by Section 906 has been provided to MSC Industrial Direct Co., Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

# CORPORATE INFORMATION

## Board of Directors

Jonathan Byrnes	<i>Senior Lecturer</i>	Massachusetts Institute of Technology
Roger Fradin	<i>Vice Chairman</i>	Honeywell International Inc.
Erik Gershwind	<i>President and Chief Executive Officer</i>	MSC Industrial Supply Co.
Louise Goeser	<i>President and Chief Executive Officer</i>	Grupo Siemens S.A. de C.V. (Siemens Mesoamerica)
Mitchell Jacobson	<i>Non-Executive Chairman of the Board</i>	MSC Industrial Supply Co.
Michael Kaufmann	<i>Chief Financial Officer</i>	Cardinal Health, Inc.
Denis Kelly	<i>Managing Partner</i>	Scura Paley LLC
Steven Paladino	<i>Executive Vice President and Chief Financial Officer</i>	Henry Schein, Inc.
Philip Peller	<i>Independent Director</i>	Retired Partner, Arthur Andersen LLP

## Executive Officers

Erik Gershwind	<i>President and Chief Executive Officer</i>
Rustom Jilla	<i>Executive Vice President and Chief Financial Officer</i>
Douglas Jones	<i>Executive Vice President and Chief Supply Chain Officer</i>
Steve Armstrong	<i>Senior Vice President, General Counsel and Corporate Secretary</i>
Steven Baruch	<i>Senior Vice President and Chief Strategy &amp; Marketing Officer</i>
Charles Bonomo	<i>Senior Vice President and Chief Information Officer</i>
Christopher Davanzo	<i>Senior Vice President, Finance and Corporate Controller</i>
Kari Heerd	<i>Senior Vice President and Chief People Officer</i>
Gregory Polli	<i>Senior Vice President, Product Management</i>
David Wright	<i>Senior Vice President, Sales</i>

## Corporate Information

### ANNUAL MEETING

The 2017 Annual Meeting of Shareholders will be held at:  
Hilton Long Island/Huntington  
598 Broad Hollow Road  
Melville, New York 11747  
on Thursday, January 26, 2017 at 9 a.m.

### COMPANY HEADQUARTERS

MSC Industrial Supply Co.  
75 Maxess Road  
Melville, New York 11747  
  
MSC Industrial Supply Co.  
525 Harbour Place Drive  
Davidson, North Carolina 28036

### WEBSITE

[www.mscdirect.com](http://www.mscdirect.com)

### INVESTOR RELATIONS CONTACT

John Chironna  
MSC Industrial Supply Co.  
(704) 987-5231  
Copies of our Annual Report on Form 10-K for the fiscal year ended September 3, 2016 are available without charge, upon request.

### INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM  
Ernst & Young LLP  
Jericho, New York

### LEGAL COUNSEL

Curtis, Mallet-Prevost, Colt & Mosle LLP  
New York, New York

### REGISTRAR AND TRANSFER AGENT

Computershare Trust Company, N.A.  
c/o Computershare Investor Services  
P.O. Box 30202  
College Station, Texas 77842-9909

### COMMON STOCK LISTED

MSC Industrial Supply Co.'s Class A common stock is traded on the New York Stock Exchange under the symbol "MSM."

### DIVIDEND POLICY

The Company has instituted a policy of regular quarterly cash dividends to shareholders. Currently, the quarterly dividend rate is \$0.45 per share, or \$1.80 per share annually.



**MSC INDUSTRIAL SUPPLY CO.**

75 Maxess Road  
Melville, New York 11747  
516.812.2000

[www.mscdirect.com](http://www.mscdirect.com)

NYSE listed: MSM