

MSC INDUSTRIAL DIRECT CO INC  
Form DEF 14A  
December 03, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

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

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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75 Maxess Road  
Melville, New York 11747

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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To the Shareholders of MSC Industrial Direct Co., Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of MSC Industrial Direct Co., Inc. (the "Company"), a New York corporation, will be held on January 4, 2005 at 9:00 a.m., local time, at the JP Morgan Chase Conference Center, lower level, at 395 North Service Road, Melville, New York 11747, for the following purposes:

1. To elect seven directors of the Company to serve for one-year terms;
2. To consider and act upon a proposal to approve an amendment to the Company's 1995 Restricted Stock Plan;
3. To consider and act upon a proposal to approve an amendment to the Company's Associate Stock Purchase Plan;
4. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent certified public accountants of the Company for the fiscal year 2005;
5. To consider and act upon such other matters as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on November 26, 2004 are entitled to notice of and to vote at the meeting and any adjournments thereof.

All shareholders are cordially invited to attend the meeting. However, to assure your representation at the meeting, you are urged to complete, sign and date the enclosed proxy card as promptly as possible and return it in the postage-paid envelope provided. Any shareholder attending the meeting may vote in person even if he or she has already returned a proxy.

By Order of the Board of  
Directors,

Thomas Eccleston  
Secretary

Melville, New York  
December 3, 2004

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**IMPORTANT:**

**The prompt return of proxies will ensure that your shares will be voted. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed within the United States.**

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75 Maxess Road  
Melville, New York 11747

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**PROXY STATEMENT FOR  
Annual Meeting of Shareholders to  
be held on January 4, 2005**

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This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of MSC Industrial Direct Co., Inc. (the "Company"), a New York corporation, to be used at the Annual Meeting of Shareholders of the Company (the "Meeting") to be held at the JP Morgan Chase Conference Center, lower level, at 395 North Service Road, Melville, New York 11747, on January 4, 2005 at 9:00 a.m., local time, and at any adjournment or postponement thereof. The approximate date on which this proxy statement, the foregoing notice and the enclosed proxy were first mailed or given to shareholders was December 3, 2004.

Shareholders who execute proxies retain the right to revoke them at any time by notice in writing to the Secretary of the Company, by revocation in person at the Meeting or by presenting a later dated proxy. Unless so revoked, shares represented by proxies received by the Company, where the shareholder has specified a choice with respect to the election of directors or the other proposals described in this proxy statement, will be voted in accordance with the specification(s) so made. In the absence of such specification(s), the shares will be voted FOR the election of all seven nominees for the Board of Directors, FOR the proposal to approve an amendment to the Company's 1995 Restricted Stock Plan, FOR the proposal to approve an amendment to the Company's Associate Stock Purchase Plan, and FOR the ratification of the selection by the Board of Directors of Ernst & Young LLP as the Company's independent certified public accountants for the current fiscal year.

The expenses of solicitation of proxies for the Meeting will be paid by the Company. Such solicitation may be made in person or by telephone by officers and associates of the Company. Upon request, the Company will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding material to beneficial owners of shares of the Company's Class A common stock, par value \$.001 per share (the "Class A Common Stock").

**VOTING**

Only holders of record of the Class A Common Stock and the Company's Class B common stock, par value \$.001 per share (the "Class B Common Stock"), at the close of business on November 26, 2004 are entitled to notice of and to vote at the Meeting. On that date, the Company had outstanding 47,673,741 shares of Class A Common Stock and 21,006,394 shares of Class B Common Stock.

Under New York law and the Company's By-Laws, the presence in person or by proxy of the holders of a majority of the shares of the Class A Common Stock and the Class B Common Stock entitled to vote is necessary to constitute a quorum at the Meeting. For these purposes, shares which are present or represented by proxy at the Meeting will be counted regardless of whether the holder of the shares or the proxy fails to vote on a proposal ("abstentions") or whether a broker with authority fails to exercise its authority with respect thereto (a "broker non-vote"). Abstentions and broker non-votes will not be included, however, in the tabulation of votes cast on proposals presented to shareholders. If a broker is not given instructions by the beneficial owner of shares for which the broker holds a proxy, such shares will count for quorum purposes but the broker may not vote such shares with respect to non-routine matters including the proposed amendments to the 1995 Restricted Stock Plan and Associate Stock Purchase Plan. The Company urges all beneficial owners to provide

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instructions to their brokers on how to vote their shares. Failure to provide such instructions will have the same effect as voting against the proposed amendments to the 1995 Restricted Stock Plan and Associate Stock Purchase Plan. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld (*e.g.*, abstentions and broker non-votes) will have no effect, as directors are elected by a plurality of votes cast. On all matters to be voted upon at the Meeting and any adjournment or postponement thereof, the holders of the Class A Common Stock and the Class B Common Stock vote together as a single class, with each record holder of Class A Common Stock entitled to one vote per share of Class A Common Stock and each record holder of Class B Common Stock entitled to 10 votes per share of Class B Common Stock.

The Board of Directors does not intend to bring any matter before the Meeting, except as specifically indicated in the foregoing notice, nor does the Board of Directors know of any matters which anyone else proposes to present for action at the Meeting. If any other matters properly come before the Meeting, however, the persons named in the enclosed proxy, or their duly constituted substitutes acting at the Meeting, will be authorized to vote or otherwise act thereon in accordance with their judgment on such matters.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The information set forth on the following table is furnished as of November 15, 2004 (except as otherwise noted), with respect to any person (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) who is known to the Company to be the beneficial owner of more than 5% of any class of the Company's voting securities. Except as otherwise indicated, the persons listed below have advised the Company that they have sole voting and investment power with respect to the shares listed as owned by them.

	Class A Common Stock(1)		Class B Common Stock		% Ownership of Common Stock(3)	% Voting Power(4)
	Amount & Nature of Beneficial Ownership	Percent of Class	Amount & Nature of Beneficial Ownership	Percent of Class(2)		
FMR Corp.(5)	4,669,400	9.8			6.8	1.8
Capital Research and Management Company(6)	3,059,100	6.4			4.5	1.2
Delaware Management Holdings(7)	2,515,911	5.3			3.7	1.0
Mitchell Jacobson(8)	319,669(10)	*	12,406,848(11)	58.4	18.5	47.8
Marjorie Gershwind(9)	190,680(12)	*	5,019,482(13)	23.6	7.6	19.4
Erik Gershwind(8)	69,700(14)	*	1,591,264(15)	7.5	2.4	6.1
Stacey Bennett(9)			1,421,703(16)	6.7	2.1	5.5
Trust under Trust Agreement Dated January 31, 1994(9)			1,132,800(17)	5.3	1.6	4.4

\*  
Less than 1%

- (1) Does not include shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock. Shares of Class B Common Stock are convertible at any time into shares of Class A Common Stock on a share-for-share basis.
- (2) Percentages total more than 100% because of shared beneficial ownership of certain shares of Class B Common Stock described in footnotes 11, 13 and 15.
- (3) Indicates percentage ownership of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock. See footnote 1.
- (4) Indicates percentage of aggregate number of votes which can be cast. On all matters to be voted upon at the Meeting and any adjournment or postponement thereof, the holders of the Class A Common Stock and the Class B Common Stock vote together as a single class, with each record holder of Class A Common Stock entitled to one vote per share of Class A Common Stock and each record holder of Class B Common Stock entitled to 10 votes per share of Class B Common Stock.
- (5) Information as to shares owned by FMR Corp. is as of October 12, 2004, as set forth in a Schedule 13G filed with the Securities and Exchange Commission. The address of FMR Corp. is 82 Devonshire Street, Boston, MA 02109.
- (6) Information as to shares owned by Capital Research and Management Company is based upon information provided to the Company. The address of Capital Research and Management Company is 333 South Hope Street, 55th Floor, Los Angeles, CA 90071.
- (7) Information as to shares owned by Delaware Management Holdings is as of February 4, 2004, as set forth in an Amendment to Schedule 13G filed with the Securities and Exchange Commission and other information provided to the Company. The address of Delaware Management Holdings is 2005 Market Street, Philadelphia, PA 19103.
- (8) The address of each person is c/o MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747.
- (9)

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The address of each person or entity is c/o Jacobson Family Investments, Inc., Carnegie Hall Tower, 152 West 57th Street, New York, New York 10019.

(10)

Includes (a) 169,669 shares of Class A Common Stock owned directly by Mr. Jacobson and (b) 150,000 shares of Class A Common Stock issuable upon the exercise by Mr. Jacobson of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.

*(Footnotes continued on next page)*

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- (11) Includes (a) 12,081,145 shares of Class B Common Stock owned directly by Mr. Jacobson, (b) 169,561 shares of Class B Common Stock which may be deemed to be beneficially owned by Mr. Jacobson as Settlor of the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust and (c) 156,142 shares of Class B Common Stock owned by Marjorie Diane Gershwind as Settlor of the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust of which trust Mr. Jacobson is the sole trustee and over which shares he may be deemed to have beneficial ownership. Mr. Jacobson disclaims beneficial ownership of all shares of Class B Common Stock owned by the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust and the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust.
- (12) Includes 190,680 shares of Class A Common Stock owned directly by Ms. Gershwind.
- (13) Includes (a) 3,917,094 shares of Class B Common Stock owned directly by Ms. Gershwind, (b) 946,246 shares of Class B Common Stock which may be deemed to be beneficially owned by Ms. Gershwind as Settlor of the Marjorie Diane Gershwind 1994 Qualified Fifteen Year Annuity Interest Trust and (c) 156,142 shares of Class B Common Stock which may be deemed to be beneficially owned by Ms. Gershwind as Settlor of the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust. Ms. Gershwind disclaims beneficial ownership of all shares of Class B Common Stock owned by the Marjorie Diane Gershwind 1994 Qualified Fifteen Year Annuity Interest Trust and the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust.
- (14) Includes 69,700 shares of Class A Common Stock issuable upon the exercise by Mr. Gershwind of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (15) Includes (a) 1,421,703 shares of Class B Common Stock owned directly by Mr. Gershwind and (b) 169,561 shares of Class B Common Stock owned by the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust of which trust Mr. Gershwind is the sole trustee and over which shares he may be deemed to have beneficial ownership. Mr. Gershwind disclaims beneficial ownership of the shares of the Class B Common Stock owned by the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust.
- (16) Includes 1,421,703 shares of Class B Common Stock owned directly by Ms. Bennett.
- (17) Includes 1,132,800 shares of Class B Common Stock owned directly by the Trust under Trust Agreement Dated January 31, 1994.



## Security Ownership of Management

The following table sets forth certain information regarding the Class A Common Stock and Class B Common Stock beneficially owned by each director and nominee for director of the Company, by the Company's Chief Executive Officer, by each of the Company's four most highly compensated executive officers and by all directors, nominees for director and executive officers as a group, at the close of business on November 15, 2004. Except as otherwise indicated, the persons listed below have advised the Company that they have sole voting and investment power with respect to the shares listed as owned by them.

	Class A Common Stock(1)		Class B Common Stock		% Ownership of Common Stock(2)	% Voting Power(3)
	Amount & Nature of Beneficial Ownership	Percent of Class	Amount & Nature of Beneficial Ownership	Percent of Class		
Charles Boehlke	62,280(4)	*			*	*
Roger Fradin	72,000(5)	*			*	*
Mitchell Jacobson	319,669(6)	*	12,406,848(7)	58.4	18.5	47.8
Denis Kelly	57,500(8)	*			*	*
Raymond Langton	36,250(9)	*			*	*
Philip Peller	21,084(10)	*			*	*
David Sandler	138,923(11)	*			*	*
James Schroeder	177,033(12)	*			*	*
Ross Anker	79,478(13)	*			*	*
All directors, nominees for director and executive officers as a group (twelve persons)	1,056,417	2.2	12,406,848	58.4	19.4	48.0

\*

Less than 1%

- (1) Does not include shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock. Shares of Class B Common Stock are convertible at any time into shares of Class A Common Stock on a share-for-share basis.
- (2) Indicates percentage ownership of the aggregate number of outstanding shares of Class A Common Stock and Class B Common Stock. See footnote 1.
- (3) Indicates percentage of aggregate number of votes which can be cast. On all matters to be voted upon at the Meeting and any adjournment or postponement thereof, the holders of the Class A Common Stock and the Class B Common Stock vote together as a single class, with each record holder of Class A Common Stock entitled to one vote per share of Class A Common Stock and each record holder of Class B Common Stock entitled to 10 votes per share of Class B Common Stock.
- (4) Includes 7,280 shares of Class A Common Stock owned directly by Mr. Boehlke and 55,000 shares of Class A Common Stock issuable upon the exercise by Mr. Boehlke of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (5) Includes 42,000 shares of Class A Common Stock jointly owned by Mr. Fradin and his wife and 30,000 shares of Class A Common Stock issuable upon the exercise by Mr. Fradin of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (6) Includes (a) 169,669 shares of Class A Common Stock owned directly by Mr. Jacobson and (b) 150,000 shares of Class A Common Stock issuable upon the exercise by Mr. Jacobson of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (7) Includes (a) 12,081,145 shares of Class B Common Stock owned directly by Mr. Jacobson, (b) 169,561 shares of Class B Common Stock which may be deemed to be beneficially owned by Mr. Jacobson as Settlor of the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust and (c) 156,142 shares of Class B Common Stock owned by Marjorie Diane Gershwind as Settlor of the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust of which trust Mr. Jacobson is the sole trustee and over which shares he may be deemed to have beneficial ownership. Mr. Jacobson disclaims beneficial ownership of all shares of Class B Common Stock owned by the Mitchell Jacobson 1998 Qualified Seven Year Annuity Trust and the Marjorie Diane Gershwind 1998 Qualified Seven Year Annuity Trust.

(Footnotes continued on next page)



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- (8) Includes 20,000 shares of Class A Common Stock owned directly by Mr. Kelly and 37,500 shares of Class A Common Stock issuable upon the exercise by Mr. Kelly of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (9) Includes 1,250 shares of Class A Common Stock owned directly by Mr. Langton and 35,000 shares of Class A Common Stock issuable upon the exercise by Mr. Langton of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (10) Includes 1,700 shares of Class A Common Stock owned directly by Mr. Peller and 19,384 shares of Class A Common Stock issuable upon the exercise by Mr. Peller of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (11) Includes 41,947 shares of Class A Common Stock owned directly by Mr. Sandler, 2,000 shares of Class A Common Stock held in trust by Mr. Sandler for the benefit of his children and 94,976 shares of Class A Common Stock issuable upon the exercise by Mr. Sandler of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (12) Includes 16,211 shares of Class A Common Stock owned directly by Mr. Schroeder and 160,822 shares of Class A Common Stock issuable upon the exercise by Mr. Schroeder of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
- (13) Includes 15,858 shares of Class A Common Stock owned directly by Mr. Anker and 63,620 shares of Class A Common Stock issuable upon the exercise by Mr. Anker of options that are presently exercisable or exercisable within 60 days of the date of this proxy statement.
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**ELECTION OF DIRECTORS**  
**(ITEM 1)**

Seven directors will be elected at the Meeting for a term of one year expiring at the annual meeting of shareholders to be held in 2006 and until their respective successors shall have been elected and shall qualify. Each of the nominees for director was previously elected a director of the Company by the shareholders.

The election of directors requires the affirmative vote of a plurality of the votes cast in person or by proxy at the Meeting. Each proxy received will be cast FOR the election of the nominees named below unless otherwise specified in the proxy.

Each nominee has indicated that he is willing to serve as a director of the Company, if elected, and the Board of Directors of the Company has no reason to believe that any nominee may become unable or unwilling to serve. In the event that a nominee should become unavailable for election for any reason, the shares represented by a properly executed and returned proxy will be voted for any substitute nominee who shall be designated by the current Board of Directors. There are no arrangements or understandings between any director or nominee for director and any other person pursuant to which such person was selected as a director or nominee for director of the Company.

The Company's Nominating and Corporate Governance Committee has reviewed the qualifications and independence of the nominees for director, and, with each member of the Nominating and Corporate Governance Committee abstaining as to himself, has recommended each of the other nominees for election to the Board of Directors.

Name of Nominee	Principal Occupation	Age	Director Since
Mitchell Jacobson	Chairman of the Board of Directors and Chief Executive Officer of the Company	53	October 1995
David Sandler	President and Chief Operating Officer of the Company	47	June 1999
Charles Boehlke	Executive Vice President and Chief Financial Officer of the Company	48	January 2001
Roger Fradin	President and Chief Executive Officer of Automation and Control Solutions of Honeywell	51	July 1998
Denis Kelly	Partner of Scura, Rise & Partners LLC	55	April 1996
Raymond Langton	Co-founder and Chief Executive Officer of SKM Applied Tech Products	60	July 1997
Philip Peller	Business Consultant; Retired Partner of Arthur Andersen LLP	65	April 2000

*Mitchell Jacobson* was appointed Chairman of the Board of Directors of the Company in January 1998. Mr. Jacobson was appointed Chief Executive Officer of the Company upon its formation in October 1995 and also served as President from its formation until November 3, 2003. Mr. Jacobson has also been Chief Executive Officer of Sid Tool Co., Inc., a wholly-owned and the principal operating subsidiary of the Company (the "Operating Subsidiary") since June 1982 and President from June 1982 to November 2003.

*David Sandler* was promoted to Executive Vice President of the Company in June 1999, appointed Chief Operating Officer of the Company in November 2000, and appointed President of the Company in November 2003. From September 1998 to June 1999, he served as Senior Vice President of Administration of the Company. From September 1997 to September 1998, Mr. Sandler was the Senior

Vice President of Information Systems and Human Resources of the Company. From September 1996 to September 1997, Mr. Sandler served as the Vice President of Information Systems and Business Development of the Company. From 1995 to 1996, Mr. Sandler was the Director of Business Development of the Company. From 1993 to 1995, Mr. Sandler was the Director of Product Management and Purchasing of the Operating Subsidiary.

*Charles Boehlke* was appointed Chief Financial Officer and Senior Vice President of the Company in June 2000 and was promoted to Executive Vice President of the Company in January 2003. From April 1996 to April 2000, Mr. Boehlke was the Vice President of Finance for North America operations at Arrow Electronics, Inc. From January 1994 to April 1996, Mr. Boehlke was the Chief Financial Officer of Black & Decker Mexico.

*Roger Fradin* is the President and Chief Executive Officer of Automation and Control Solutions division of Honeywell, as of June 2002. From 2000 until June 2002, Mr. Fradin was President of the Security and Fire Solutions Division at Honeywell, Inc. From 1987 until 2000, Mr. Fradin was the President of the ADEMCO Group.

*Denis Kelly* is a Partner of Scura, Rise & Partners LLC (a private investment banking firm), a position he has held since 2001. From July 1993 until 2001, Mr. Kelly was a Managing Director of Prudential Securities Incorporated. Before July 1993, Mr. Kelly was President of Denbrook Capital Corporation. Mr. Kelly is also a director and member of the audit committee of Kenneth Cole Productions, Inc.

*Raymond Langton* is the Co-founder and Chief Executive Officer of SKM Applied Tech Products, a leveraged buy-out firm. From 1995 to February 1997, Mr. Langton was the President and Chief Executive Officer of Chicago Rawhide Worldwide, a manufacturer of sealing devices and subsidiary of SKF USA Inc. (itself a subsidiary of AB SKF of Sweden, a manufacturer of sealing devices and ball bearings). From 1991 to 1995, Mr. Langton was President and Chief Executive Officer of SKF North America, a manufacturer of ball bearings and subsidiary of SKF USA, Inc. Mr. Langton is also a director of Berwind Corp. and the Superior Group, both of which are privately held companies.

*Philip Peller* is a business consultant. Mr. Peller was a partner of Andersen Worldwide S.C. and Arthur Andersen LLP from 1970 until his retirement in 1999. Mr. Peller served as Managing Partner of Practice Protection and Partner Affairs for Andersen Worldwide S.C. from 1998 to 1999, and as Managing Partner of Practice Protection from 1996 to 1998. Mr. Peller also served as the Managing Director Quality, Risk Management and Professional Competence for Arthur Andersen's global audit practice.

There are no family relationships among any of the directors or executive officers of the Company.

The Board of Directors has determined based on written inquiries that Mr. Fradin, Mr. Kelly, Mr. Langton and Mr. Peller have no relationship with the Company whatsoever other than in their respective capacities as directors and de minimus shareholders and accordingly have no material relationship with the Company that would interfere with the exercise of independent judgment and are otherwise independent under the Rule 10A-3 of the Exchange Act and the New York Stock Exchange listing standards.

#### **Committees, Meetings and Compensation of the Board of Directors**

The Board of Directors held five meetings during the last fiscal year and acted by unanimous written consent on three occasions. Each of the directors attended 75% of the meetings of the Board of Directors and committees of the Board on which they served except for Roger Fradin who attended approximately 71% of the meetings of the Board of Directors and committees.

The non-management directors, Mr. Fradin, Mr. Kelly, Mr. Langton and Mr. Peller, who are independent under the New York Stock Exchange listing standards, meet at regularly scheduled executive sessions without members of management present. The Chairman of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, respectively, rotate serving as the presiding director at the executive sessions of the non-management independent directors. As disclosed on page 47 of the Company's Annual Report on Form 10-K, interested parties may send communications to any of our board committees, any director or the non-management directors as a group by writing to such persons, c/o Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747.

The Company encourages attendance by directors at the Company's Annual Meeting. For the Company's 2004 Annual Meeting held on January 6, 2004, all of the current directors attended the Annual Meeting except for Roger Fradin.

The Board of Directors has a standing Audit Committee currently comprised of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller. Mr. Peller is the chairman of the Audit Committee. The Board of Directors has determined that Mr. Peller qualifies as an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K of the Exchange Act. All members of the Audit Committee have no relationship with the Company whatsoever other than in their respective capacities as directors and de minimus shareholders and accordingly have no material relationship with the Company that would interfere with the exercise of independent judgment and are otherwise independent in accordance with Section 303A.02 of the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Exchange Act. The purpose of the Audit Committee is to (i) assist board oversight of the preparation and integrity of the Company's financial statements, the Company's compliance with its ethics policies and legal and regulatory requirements, the independent auditor's qualifications, performance and independence, and the performance of the Company's internal audit function and independent auditors; and (ii) to prepare an annual audit committee report to be included in the Company's proxy statement. The Audit Committee is directly responsible for the appointment and termination of the Company's independent auditors and for recommending to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission. The Audit Committee adopted a written charter during fiscal 2000 and amended the charter during fiscal 2003. The Audit Committee has the responsibilities and functions mandated by Section 303A.06 of the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Exchange Act, as set forth in its current charter, a copy of which is available at the Company's website. The Audit Committee has the authority to engage independent counsel and other advisors as it determines is necessary to carry out its duties, and the Company must provide appropriate funding for the Audit Committee. The Audit Committee must also undertake an annual performance evaluation of its performance. The Audit Committee met four times in the fiscal year ended August 28, 2004.

The Board of Directors has a standing Compensation Committee currently comprised of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller. All members of the Compensation Committee have no relationship with the Company whatsoever other than in their respective capacities as directors and de minimus shareholders and accordingly have no material relationship with the Company that would interfere with the exercise of independent judgment and are otherwise independent in accordance with Section 303A.02 of the New York Stock Exchange listing standards. Mr. Langton is the chairman of the Compensation Committee. The Compensation Committee is responsible for reviewing and approving corporate goals and objectives relevant to the compensation of the Chief Executive Officer; evaluating the Chief Executive Officer's performance in light of those goals and objectives; determining and approving, either as a committee or together with other independent directors (as directed by the Board of Directors) the Chief Executive Officer's compensation level based on their evaluation of his performance; making recommendations to the

Board of Directors with respect to compensation other than the Chief Executive Officer's compensation, including with respect to incentive compensation plans and equity based plans of the Company; and producing a compensation committee report on executive compensation to be included in the Company's annual proxy statement. The Compensation Committee also administers the Company's 1995 Restricted Stock Plan, 1995 Stock Option Plan (the "1995 Option Plan"), 1998 Stock Option Plan (the "1998 Option Plan"), and 2001 Stock Option Plan (the "2001 Option Plan"). Pursuant to the 1995 Option Plan, the 1998 Option Plan and the 2001 Option Plan, the Compensation Committee has the authority to determine the persons to whom and the times at which options are to be granted, the number of option shares to be granted, the term and the vesting schedule of the options and the exercise price and other terms of options and to designate whether options granted are intended to qualify as incentive stock options or are to be non-qualified stock options. The Compensation Committee must also undertake an annual evaluation of its performance. The Compensation Committee has adopted a written charter, a copy of which is available on the Company's website. The Compensation Committee met three times in the fiscal year ended August 28, 2004.

The Board of Directors has a standing Nominating and Corporate Governance Committee comprised of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller. All members of the Nominating and Corporate Governance Committee have no relationship with the Company whatsoever other than in their respective capacities as directors and de minimus shareholders and accordingly have no material relationship with the Company that would interfere with the exercise of independent judgment and are otherwise independent, in accordance with Section 303A.02 of the New York Stock Exchange listing standards. Mr. Kelly is the chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become members of the Board of Directors of the Company consistent with criteria approved by the Board of Directors; selecting or recommending that the Board of Directors nominees for the Board of Directors; developing and recommending to the Board of Directors corporate governance principles applicable to the Company; and overseeing the evaluation of the Board of Directors and management of the Company. Only those candidates nominated by the Nominating and Corporate Governance Committee will be considered as nominees for the Board of Directors. The Nominating and Corporate Governance Committee must also undertake an annual evaluation of its performance. The Nominating and Corporate Governance Committee has adopted a written charter, a copy of which is available on the Company's website. The Nominating and Corporate Governance Committee met two times in the fiscal year ended August 28, 2004.

The Company's policy is not to pay compensation to directors who are also associates of the Company. The Company grants options to purchase 5,000 shares of Class A Common Stock to non-employee directors upon their election and reelection to the Board of Directors. Directors elected other than at an annual meeting of shareholders receive a pro rata number of options. The Company also pays each non-employee director compensation of \$20,000 per annum and \$1,500 per board meeting attended, and pays an annual fee of \$5,000 to the chairman of each of the Audit, Compensation and Nominating and Corporate Governance committees with respect to their duties in such capacity in addition to the standard non-employee director compensation.

#### **Policy Regarding Shareholder Nominations for Director**

The Corporate Governance and Nominating Committee of the Board of Directors considers director candidates based upon a number of qualifications, including their independence, knowledge, judgment, integrity, character, leadership, skills, education, experience, financial literacy, standing in the community and ability to foster a diversity of backgrounds and views and to complement the Board's existing strengths. There are no specific, minimum or absolute criteria for Board membership. The Corporate Governance and Nominating Committee seeks directors who have demonstrated an ethical and successful career. This may include experience as a senior executive of a publicly traded

corporation, management consultant, investment banker, partner at a law firm or registered public accounting firm, professor at an accredited law or business school, experience in the management or leadership of a substantial private business enterprise, educational, religious or not-for-profit organization, or such other professional experience as the Committee shall determine shall qualify an individual for Board service. The Committee shall make every effort to ensure that the Board and its Committees include at least the required number of independent directors, as that term is defined by applicable standards promulgated by the New York Stock Exchange and/or the SEC. Backgrounds giving rise to actual or perceived conflicts of interest are undesirable. In addition, prior to nominating an existing director for re-election to the Board, the Committee will consider and review such existing director's Board and Committee attendance and performance, independence, experience, skills and the contributions that the existing director brings to the Board.

The Corporate Governance and Nominating Committee has not in the past relied upon third-party search firms to identify director candidates, but may employ such firms if so desired. The Corporate Governance and Nominating Committee generally relies upon, receives and reviews recommendations from a wide variety of contacts, including current executive officers, directors, community leaders, and shareholders as a source for potential director candidates. The Board retains complete independence in making nominations for election as a member of the Board.

The Corporate Governance and Nominating Committee will consider qualified director candidates recommended by shareholders in compliance with the Company's procedures and subject to applicable inquiries. The Corporate Governance and Nominating Committee's evaluation of candidates recommended by shareholders does not differ materially from its evaluation of candidates recommended from other sources. Any shareholder may recommend nominees for director at least 120 calendar days prior to the date on which the Company's proxy statement was released to shareholders in connection with the previous year's annual meeting, by writing to Tom Eccleston, Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, NY 11747 giving the name, company stockholdings and contact information of the person making the nomination, the candidate's name, address and other contact information, any direct or indirect holdings of the Company's securities by the nominee, any information required to be disclosed about directors under applicable securities laws and/or stock exchange requirements, information regarding related party transactions with the Company and/or the shareholder submitting the nomination, and any actual or potential conflicts of interest, the nominee's biographical data, current public and private company affiliations, employment history and qualifications and status as "independent" under applicable securities laws and/or stock exchange requirements. All of these communications will be reviewed by our Secretary and forwarded to Denis Kelly, the Chair of the Corporate Governance and Nominating Committee for further review and consideration in accordance with this policy. Any such shareholder recommendation should be accompanied by a written statement from the candidate of his or her consent to be named as a candidate and, if nominated and elected, to serve as a director.

#### **Shareholder Communications Policy**

Any shareholder or other interested party who desires to communicate with the Company's Chairman of the Board of Directors or any of the other members of the Board of Directors may do so by writing to: Board of Directors, c/o Mitchell Jacobson, Chairman of the Board of Directors, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, NY 11747, or to one of the non-management directors at the address indicated in the Company's annual proxy statement. Communications may be addressed to the Chairman of the Board, an individual director, a Board Committee, the non-management directors or the full Board.



**Executive Officers**

The following individuals are the executive officers of the Company.

<b>Name of Officer</b>	<b>Position</b>	<b>Age</b>	<b>Executive Officer Since</b>
Mitchell Jacobson	Chairman of the Board of Directors and Chief Executive Officer of the Company	53	October 1995
David Sandler	President and Chief Operating Officer of the Company	47	January 1998
Charles Boehlke	Executive Vice President and Chief Financial Officer of the Company	48	June 2000
James Schroeder	Senior Vice President of Logistics of the Company	64	October 1995
Shelley Boxer	Vice President of Finance of the Company	57	October 1995
Thomas Eccleston	Vice President of Plant and Equipment and Secretary	56	October 1995
Thomas Cox	Senior Vice President of Sales	43	June 2000
Ross Anker	Senior Vice President of Product Management and Information Systems	41	September 2001

*James Schroeder*, a director of the Company since inception to January 2004, was appointed Senior Vice President of Logistics of the Company in August 1997. From October 1995 to August 1997, Mr. Schroeder served as Vice President of Logistics of the Company. From 1995 to January 1998, Mr. Schroeder also served as Chief Operating Officer of the Company. Mr. Schroeder has also been Vice President of Logistics of the Operating Subsidiary since 1986.

*Shelley Boxer*, a director of the Company since inception to January 2004, was appointed Vice President of Finance of the Company in June 2000. Mr. Boxer was the Vice President and Chief Financial Officer of the Company from its formation in October 1995 until June 2000. From June 1993 to October 1995, Mr. Boxer also served as Chief Financial Officer of the Operating Subsidiary. Mr. Boxer was the Vice President and Chief Financial Officer of Joyce International, Inc., a distribution and manufacturing company, from 1992 to 1993. From 1987 to 1992, Mr. Boxer was the Executive Vice President and Chief Financial Officer of Kinney Systems, Inc., an automobile parking facility and real estate company.

*Thomas Eccleston* was appointed Vice President of Plant and Equipment and Secretary of the Company upon its formation in October 1995. Mr. Eccleston has also served as the Vice President of Plant and Equipment of the Operating Subsidiary since 1986.

*Thomas Cox* was appointed Senior Vice President of Sales of the Company in April 2000. From September 1999 to April 2000, Mr. Cox was Vice President of Sales for the North Region of the Company. From January 1998 to September 1999, Mr. Cox served as Regional Manager for the Midwest Region of the Company. From September 1997 to January 1998, Mr. Cox served as Director of Business Development for the Company. From 1995 to 1997, Mr. Cox was President of Mailnet Inc., an international delivery company.

*Ross Anker* was appointed Senior Vice President of Product Management and Information Systems in September 2001. From November of 1996 to September 2001, Mr. Anker was Chief Information Officer of the Company. Prior to joining the Company, Mr. Anker was President and founder of a consulting company based in Cleveland, Ohio.

Each executive officer serves until his successor is appointed and qualified or until earlier resignation, death or removal. There are no arrangements or understandings between any executive officer and any other person pursuant to which he was or is to be selected as an officer of the Company. The Company has entered into employment agreements with David Sandler, President and Chief Operating Officer of the Company, Charles Boehlke, Chief Financial Officer and Executive Vice President of the Company, and James Schroeder, Senior Vice President of Logistics of the Company, as described on page 16 of this proxy statement.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely upon a review of the filings furnished to the Company pursuant to Rule 16a-3(e) promulgated under the Exchange Act and written representations from its executive officers, directors and persons who own beneficially more than 10% of either the Class A Common Stock or the Class B Common Stock, all filing requirements of Section 16(a) of the Exchange Act were timely complied with during the fiscal year ended August 28, 2004 except that Shelley Boxer, Thomas Eccleson, David Sandler, Ross Anker, James Schroeder, Charles Boehlke and Thomas Cox each failed to timely file a Statement of Changes in Beneficial Ownership on Form 4 with respect to options granted on October 21, 2003, Denis Kelly, Roger Fradin and Philip Peller each failed to timely file a Statement of Changes in Beneficial Ownership on Form 4 with respect to options granted on January 6, 2004, David Sandler and Thomas Cox each failed to timely file a Statement of Changes in Beneficial Ownership on Form 4 with respect to grants of restricted stock on January 6, 2004, Charles Boehlke and Thomas Cox each failed to timely file a Statement of Changes in Beneficial Ownership on Form 4 with respect to option exercises and sales of Class A Common Stock on July 22, 2004 and Mitchell Jacobson and Marjorie Gershwind each failed to timely file an Annual Statement of Changes in Beneficial Ownership on Form 5 with respect to gifts of the Company's Class A Common Stock on November 7, 2003.

## EXECUTIVE COMPENSATION

The following table sets forth, for the Company's last three fiscal years, the aggregate compensation awarded to, earned by or paid to the Company's Chief Executive Officer, and to each of the Company's other four most highly compensated executive officers who were serving as executive officers at the end of the Company's last fiscal year (collectively, the "Named Executive Officers"), for services rendered in all capacities to the Company and its subsidiaries. All compensation noted below, other than stock options, was paid by the Operating Subsidiary.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards		
		Salary	Bonus(1)	Other Annual Compensation(2)	Restricted Stock Awards(1)(3)	Securities Underlying Options(1)	All Other Compensation
Mitchell Jacobson Chief Executive Officer	2004	\$ 408,400	\$ 550,000			0	\$ 2,331(4)
	2003	408,400	275,000			0	2,103(4)
	2002	408,400	135,000			250,000	267,991(4)
David Sandler President	2004	\$ 453,738	\$ 457,000	\$ 80,598(5)	\$ 367,900	70,000	\$ 4,991(6)
	2003	391,764	225,000	59,229(5)		0	3,691(6)
	2002	370,457	115,830			175,000	3,642(6)
Charles Boehlke Executive Vice President	2004	\$ 332,771	\$ 227,000		\$ 206,024	52,500	\$ 4,980(7)
	2003	302,229	150,000			0	3,670(7)
	2002	278,861	75,600			100,000	3,662(7)
James Schroeder Senior Vice President	2004	\$ 329,072	\$ 125,000		\$ 109,804	23,000	\$ 92,798(8)
	2003	330,501	100,000			0	87,105(8)
	2002	328,270	50,000			50,000	80,297(8)
Ross Anker Senior Vice President of Information Systems	2004	\$ 326,165	\$ 150,000		\$ 121,124	42,000	\$ 2,054(9)
	2003	316,808	140,000			0	1,932(9)
	2002	293,746	75,600			100,000	1,739(9)

No stock appreciation rights or long-term incentive plan payments, as defined in the regulations of the Exchange Act governing the solicitation of proxies, were awarded to, earned by or paid to any of the Named Executive Officers during any of the last three fiscal years.

- (1) Amounts shown are for the year in which bonuses are paid or restricted stock or stock options granted; all such awards relate to prior fiscal year performance.
- (2) Includes perquisites and other annual benefits where such perquisites and benefits exceed the lesser of \$50,000 or 10% of the officer's annual salary and bonus for the year. Of the amounts reported, items that exceeded 25% of the total perquisites and benefits reported for the officer are described below.
- (3) Amounts represent the market value of restricted stock awards on the date of grant. Dividends are paid on restricted shares. At August 28, 2004, David Sandler, James Schroeder, Ross Anker and Charles Boehlke held 13,000, 3,880, 4,280 and 7,280 restricted shares, respectively, with a market value of \$403,260, \$120,358, \$132,766 and \$225,826, respectively.

(4)

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Includes group term life insurance benefits of approximately \$446, \$423 and \$414 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, and split dollar life insurance premium of approximately \$266,006 paid by the Company in fiscal 2002, respectively. Under the terms of such policies, a portion of the premium paid by the Company in fiscal 2002 have been reimbursed. Also includes matching contributions to the Operating Subsidiary's 401(k) Plan of

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approximately \$1,885, \$1,680 and \$1,571 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively.

- (5) Includes housing allowance and rental payments of approximately \$61,889 and \$39,106 on an apartment maintained by the Company for Mr. Sandler's use in fiscal 2004 and fiscal 2003.
- (6) Includes group term life insurance benefits of approximately \$291, \$291 and \$242 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, and matching contributions to the Operating Subsidiary's 401(k) Plan of approximately \$4,700, \$3,400 and \$3,400 by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively.
- (7) Includes group term life insurance benefits of \$280, \$270 and \$270 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively and matching contributions to the Operating Subsidiary's 401(k) Plan of approximately \$4,700, \$3,400 and \$3,392 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively.
- (8) Includes group term life insurance benefits of approximately \$1,234, \$1,142 and \$1,188 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, and matching contributions to the Operating Subsidiary's 401(k) Plan of approximately \$2,615, \$2,436 and \$2,285 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively. Also includes approximately \$88,949, \$83,527 and \$76,824 accrued by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, in respect of annual post-retirement payments to be made to Mr. Schroeder pursuant to the terms and provisions of a written agreement between Mr. Schroeder and the Company which was terminated by the Company on September 1, 1997.
- (9) Includes group term life insurance benefits of \$187, \$174 and \$162 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively, and matching contributions to the Operating Subsidiary's 401(k) Plan of approximately \$1,867, \$1,758 and \$1,577 paid by the Company in fiscal 2004, fiscal 2003 and fiscal 2002, respectively.

The Company currently is evaluating the compensation of its executives in light of the recently-enacted American Jobs Creation Act of 2004 (P.L. 108-357) (the "Jobs Act"), which generally imposes new requirements with respect to deferred compensation arrangements.

### Option Grants in Last Fiscal Year

The following table sets forth information with respect to the grant of stock options under the 2001 Stock Option Plan by the Company during the fiscal year ended August 28, 2004 to the Named Executive Officers listed on the Summary Compensation Table.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted(#)	Percentage of Total Options Granted to Associates in Fiscal Year (%)	Exercise Price (\$/Sh)	Expiration Date	5%(\$)	10%(\$)
Mitchell Jacobson						
Ross Anker	42,000	5.9	\$ 23.41	10/19/13	368,139	932,937
David Sandler	70,000	9.8	\$ 23.41	10/19/13	613,565	1,554,895
James Schroeder	23,000	3.2	\$ 23.41	10/19/13	201,600	510,894
Charles Boehlke	52,500	7.3	\$ 23.41	10/19/13	460,174	1,166,171

**Option Exercises in Last Fiscal Year  
and Fiscal Year-End Option Values**

The following table sets forth information with respect to the exercise of stock options during the fiscal year ending August 28, 2004 and the value at August 28, 2004 of unexercised stock options held by the Named Executive Officers listed on the Summary Compensation Table.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at FYE Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at FYE Exercisable/Unexercisable(1)
Mitchell Jacobson			100,000/150,000	\$1,652,000/\$2,478,000
Ross Anker	212,780	\$ 3,595,117	43,220/142,000	\$633,579/\$2,093,120
David Sandler	365,000	\$ 5,930,868	61,057/265,000	\$868,232/\$4,052,225
James Schroeder	260,490	\$ 4,669,147	250,222/57,896	\$3,008,231/\$841,512
Charles Boehlke	80,500	\$ 1,262,580	74,500/147,500	\$918,771/\$1,869,863

(1) Fair market value of securities underlying the options at fiscal year end minus the exercise price of the options.

**Employment Arrangements and Compensation Plans**

Charles Boehlke is employed as Executive Vice President and Chief Financial Officer of the Company pursuant to an agreement, dated as of June 19, 2000. Mr. Boehlke was promoted to Executive Vice President in January 2003. Mr. Boehlke is required to devote his full working time to the affairs of the Company. Under his agreement, Mr. Boehlke receives an annual base salary (currently set at \$340,000) and is also entitled to participate in employee benefit and other fringe benefit plans made available to the executives of the Company. The agreement provides that if within two years after (i) a sale by the Company of all or substantially all of its assets, (ii) the consolidation of the Company, (iii) the merger of the Company with any entity as a result of which the Company is not the surviving entity as a public company or (iv) the sale of the Company's voting securities to one or more persons (other than Mitchell Jacobson and Marjorie Gershwind) as a result of which any such person shall possess more than 50% of the combined voting power of the Company's then outstanding securities (each such event, a "Change in Control"), there is a change in the circumstances of Mr. Boehlke's employment, such as (i) a material reduction or change in his employment duties or reporting responsibilities, (ii) a reduction in the annual base salary from the annual base salary received prior to a Change in Control or (iii) a material diminution in his status, working conditions or other economic benefits from those in effect immediately prior to a Change in Control (each such event, a "Changed Circumstance"), Mr. Boehlke may terminate his employment with the Company. Upon such termination, or if within two years after a Change in Control the Company terminates Mr. Boehlke's employment other than for cause, the Company will pay Mr. Boehlke an amount equal to his annual base salary at the time of such termination plus the amount of any bonus paid to him in the fiscal year ending immediately prior to such termination. The agreement provides that in the event of the termination of Mr. Boehlke's employment other than for cause, he is entitled to a severance payment in an amount equal only to the highest annual base salary he received at any time during the period of his employment. Mr. Boehlke's agreement provides that no amount shall be paid to him if such payment would restrict the ability of the Company to utilize the "pooling of interests" method of accounting. This method of accounting is no longer permitted under generally accepted accounting principles. In addition, upon the termination of Mr. Boehlke's employment other than for cause, the Company is to retain Mr. Boehlke to provide financial consulting services for a one-year period commencing on the date of such termination, for not more than ten (10) hours in any calendar quarter. For such financial consulting services, the Company is to pay Mr. Boehlke \$2,500 per annum.

In January 1999, the Company entered into written agreements with each of James Schroeder and David Sandler (each, an "Executive"). Each agreement provides that in the event of a Change in Control, the Company shall pay to James Schroeder and David Sandler, \$2,000,000 and \$1,200,000, respectively. Each agreement further provides that if within five years after a Change in Control, there is a Changed Circumstance, the Executive may terminate his employment with the Company. Upon such termination, or if within five years after a Change in Control the Company terminates the Executive's employment other than for cause, the Company will pay the Executive a lump sum equal to the difference between (i) the sum of (a) five times the Executive's annual base salary prior to a change in the circumstances of the Executive's employment or termination other than for cause and (b) five times the largest annual bonus paid to the Executive during the three fiscal years prior to the Executive's termination and (ii) the aggregate of all base salary and bonus amounts paid to the Executive from the Change in Control to the Executive's termination. Each agreement provides that no amount shall be paid to the Executives if such payment would restrict the ability of the Company to utilize the "pooling of interests" method of accounting. This method is no longer permitted under generally accepted accounting principles. The Company has also agreed to indemnify each of Mr. Schroeder and Mr. Sandler on an after tax basis (giving effect to the indemnity payments) for certain taxes that they may become liable for on account of the payments described above.

James Schroeder is employed as Senior Vice President of Logistics of the Company. Mr. Schroeder and the Company are parties to a written agreement which provides for annual benefit payments to Mr. Schroeder for seven years upon his retirement, or his termination by the Company without cause or, in the event of his death, to his designated beneficiary. The benefit is based upon the growth in the Company's earnings before interest and taxes over a certain base amount. The Company may terminate the agreement at any time and elect to prepay Mr. Schroeder any benefits accrued by the Company up to the date of such termination. The Company exercised its right to terminate the agreement with Mr. Schroeder as of September 1, 1997. Under the terms of the agreement, the Company is obligated to accrue to Mr. Schroeder's benefit the total amount that would be due as if September 1, 1997 were Mr. Schroeder's normal retirement date. Accordingly, the total amount due to Mr. Schroeder is approximately \$1,523,601 of which approximately \$88,949 represents interest accrued in fiscal 2004. This amount will accrue interest until Mr. Schroeder's normal retirement date and may be prepaid, at the Company's election, at any time, without penalty.

#### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS**

During fiscal 2004, the Compensation Committee consisted of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller. None of the members of the Compensation Committee was, during such year, an officer of the Company or any of its subsidiaries or had any relationship with the Company other than serving as a director of the Company. In addition, no executive officer of the Company served as a director or a member of the compensation committee of any other entity one of whose executive officers served as a director or on the Compensation Committee of the Company.

#### **REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION**

During fiscal 2004, the Compensation Committee (the "Compensation Committee") was comprised of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller.

The Compensation Committee is responsible for reviewing and recommending to the Board of Directors the overall direction for the executive compensation strategy of the Company and for the ongoing monitoring of the strategy. In addition to the matters described on page 9 of this proxy statement, the Compensation Committee is responsible for recommending and reviewing the compensation of the executive officers, recommending new incentive compensation plans and recommending changes and improvements to existing compensation plans, all subject to approval by the

Board of Directors. The Compensation Committee makes its compensation determinations based upon its own analysis of information it compiles and the business experience of the members. In addition, the views of Mitchell Jacobson, as Chairman of the Board and Chief Executive Officer of the Company, are, and will continue to be, considered by the members of the Compensation Committee in their review of the performance and compensation of individual executives. The Company will engage an outside compensation consultant to assist the Compensation Committee if its members so request. An outside consultant was not used in fiscal 2004.

### **Overall Policy**

The Compensation Committee believes that the Company's executive officers constitute a highly qualified management team and are largely responsible for the Company's success. The Compensation Committee further believes that the stability of the management team is a contributing factor to the Company's success. In order to promote stability, the Company's strategy is to (i) compensate its executive officers principally through a competitive base salary set at a sufficiently high level to retain and motivate these officers, (ii) link a portion of the executive officers' compensation to their performance and the Company's profitability for each fiscal year, and (iii) align the financial interests of the Company's executive officers with those of the Company's shareholders. The compensation objectives of the Compensation Committee and the Board of Directors are designed to provide competitive levels of compensation consistent with the Company's annual and long-term performance goals, recognize individual initiative and achievements and assist the Company in attracting and retaining qualified executives.

The major elements of the executive compensation program are base salary, annual incentive bonuses and long-term incentive compensation in the form of stock options, restricted stock grants and other equity based instruments. Executive officers are also entitled to customary benefits generally available to all associates of the Company, including group medical and life insurance and a 401(k) plan. Overall compensation is intended to be consistent with companies of similar characteristics (size, profitability, geography, business lines, growth, etc.) (the "peer group"). The peer group for purposes of determining compensation of executive officers is not the same group of companies which are included in the industry index which appears on the performance graph contained in this proxy statement. The purpose of the industry index is to compare the performance of the Class A Common Stock to the performance of the stock of companies with similar businesses to the Company. The peer group is used for purposes of compensation matters in order to provide a more accurate measure of the compensation paid to executives of comparable companies. In any particular year, the Company's executives may be paid more or less than the executives of competitors, depending upon the Company's overall financial performance and other factors. For the fiscal year ended August 28, 2004, the Compensation Committee believes that the Company's senior executives were paid competitively as compared to comparable executives in the peer group.

The Compensation Committee periodically evaluates the performance targets and economic components of our compensation programs, emphasizing those short or long term compensation alternatives (cash, options and restricted stock) that best incentivize personnel at different levels of our organization. In fiscal 2005, the Compensation Committee, the Board and senior management intend to conduct a detailed review of the Company's overall compensation objectives and programs, including the amount and form of future equity based compensation, in order to submit any new equity programs to shareholders for approval at the Annual Meeting to be held in 2006.

### **Federal Income Tax Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") limits the amount of compensation a publicly held corporation may deduct as a business expense for Federal income tax purposes. The limit, which applies to a company's chief executive officer and the four other



most highly compensated executive officers, is \$1 million, subject to certain exceptions (including the exclusion from the cap generally of performance-based compensation). The Compensation Committee has determined that compensation payable to the executive officers should generally meet the conditions required for full deductibility under Internal Revenue Code Section 162(m). While the Company does not expect to pay its executive officers compensation in excess of the Section 162(m) deductibility limit, the Compensation Committee also recognizes that in certain instances it may be in the best interest of the Company to provide compensation that is not fully deductible.

#### **Base Salary**

Base salaries for the Company's senior executives are influenced by a variety of objective and subjective factors. Particular consideration is given to a comparison of the salaries at companies in the peer group and the executive's level of responsibility, tenure with the Company, prior year's compensation and effectiveness of management. The Compensation Committee has also relied heavily on the recommendations of Mitchell Jacobson, Chairman of the Board and Chief Executive Officer of the Company, in setting the compensation of the executive officers.

#### **Annual Incentive Bonuses**

Each fiscal year, the Company establishes a bonus pool based on financial and non-financial goals. The award of bonuses are at the Compensation Committee's sole discretion. Factors considered in awarding a bonus are the Company's core execution of key initiative performance goals, and the associate's level of responsibility, exhibited individual initiative, and effectiveness of management.

#### **Long-Term Incentive Compensation**

The Company reinforces the importance of producing satisfactory returns to shareholders over the long term through the operation of the 1995 Option Plan, the 1998 Option Plan, the 2001 Option Plan and the 1995 Restricted Stock Plan. Stock option grants provide executives with the opportunity to acquire an equity interest in the Company and the Restricted Stock grants confer an immediate equity interest in the Company. Both of these types of grants align the executive's interest with that of the shareholders to create shareholder value as reflected in the growth in the price of the Class A Common Stock.

*1995, 1998 and 2001 Option Plans.* The 1995 Option Plan, 1998 Option Plan, and 2001 Option Plan (collectively, the "Option Plans") are administered by the Compensation Committee, which may designate granted options as incentive stock options, non-qualified stock options or a combination thereof. The Compensation Committee has the discretion, subject to certain limitations, to determine the participants under the Option Plans, the time and price at which options will be granted, the period during which options will be exercisable and the number of shares subject to each option. Under the Option Plans, the per share exercise price of any option which is a non-incentive stock option may not be less than 85% of the fair market value of a share of Class A Common Stock on the date of grant (except for non-incentive stock options granted to any person who is or may reasonably be expected to become a "covered employee" under section 162(m)(3) of the Code, in which case the per share exercise price of such options may not be less than 100% of such fair market value). The aggregate fair market value of the shares of Class A Common Stock for which a participant may be granted incentive stock options which are exercisable for the first time in any calendar year may not exceed \$100,000. No participant may be granted options to purchase more than 1,000,000 shares of the Class A Common Stock under the 1995 Option Plan and 400,000 shares of Class A Common Stock under the 1998 Option Plan and 2001 Option Plan. This approach provides an incentive to the executive officers to increase shareholder value over the long term, since the full benefit of the options granted cannot be realized unless stock price appreciation occurs over a number of years.

**Chief Executive Officer's Fiscal 2004 Compensation**

The compensation paid to the Company's Chief Executive Officer, Mitchell Jacobson, in fiscal 2004 consisted of base salary established pursuant to his employment agreement with the Operating Subsidiary, and an annual incentive bonus. Under the terms of his employment agreement which expired in August 2004, Mr. Jacobson received an annual base salary of \$408,400. Mr. Jacobson was paid a \$550,000 bonus in fiscal 2004, based on fiscal 2003 performance. Under his current employment arrangement, Mr. Jacobson's anticipated fiscal 2005 annual base salary and fringe benefits will be on the same basis as in fiscal 2004, and his bonus paid in fiscal 2005 with respect to fiscal 2004 performance has been determined by the Compensation Committee in its discretion consistent with past practice.

COMPENSATION COMMITTEE

Roger Fradin  
Denis Kelly  
Raymond Langton  
Philip Peller

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**REPORT OF AUDIT COMMITTEE**

During fiscal 2004, the Audit Committee (the "Committee") was comprised of Roger Fradin, Denis Kelly, Raymond Langton and Philip Peller. The Committee adopted a written charter during fiscal 2000 and amended the charter during fiscal 2003, a copy of which is available on the Company's website.

The Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Company's Annual Report on Form 10-K with management and discussed the quality and acceptability of the Company's accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the Company's financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality and acceptability of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including the Statement on Auditing Standards No. 61 (Communications with Audit Committees). In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures required by Independence Standards Board Standard No. 1 (Independent Discussions with Audit Committees), which were submitted to the Company, and considered the compatibility of non-audit services with the auditors' independence.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended August 28, 2004 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Roger Fradin  
Denis Kelly  
Raymond Langton  
Philip Peller

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
AMONG MSC INDUSTRIAL DIRECT CO., INC., THE S & P MIDCAP 400 INDEX  
AND THE DOW JONES US INDUSTRIAL SERVICES INDEX

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\*  
\$100 invested on 8/27/99 in stock or on 8/31/99 in index-including reinvestment of dividends.

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Erik Gershwind, the nephew of Mitchell Jacobson, Chairman of the Board and Chief Executive Officer of the Company, and the son of Marjorie Gershwind, Mr. Jacobson's sister, is employed by the Company as the Director of Product Management. Mr. Gershwind is currently compensated at the rate of \$198,800 per annum. Mr. Gershwind is also entitled to participate in all of the employee benefit plans available to all of the Company's associates.

An entity owned and controlled by Mitchell Jacobson, the Chairman of the Board and Chief Executive Officer of the Company, and Marjorie Gershwind, Mr. Jacobson's sister, leases a distribution center, located in Atlanta, Georgia, to the Operating Subsidiary. The square footage of the distribution center is approximately 525,000 square feet. The terms of the lease agreement were independently determined to be at fair market value at the time the lease was entered into. The rent paid by the Operating Subsidiary was approximately \$1,664,000 in fiscal 2004 and is anticipated to be approximately \$1,664,000 in fiscal 2005. The rent to be paid by the Operating Subsidiary under the remaining lease term, which expires or is subject to renewal in fiscal 2023, for the Atlanta, Georgia distribution center is approximately \$32,398,000.

Additionally, three other entities owned or controlled by Mitchell Jacobson and Marjorie Gershwind leased certain branch offices to the Operating Subsidiary during fiscal 2004. The aggregate rent paid by the Operating Subsidiary to lease these branch offices was approximately \$130,000 in fiscal 2004. As of August 28, 2004, the Operating Subsidiary continues to lease one branch office with a square footage of approximately 9,000 square feet from an entity owned or controlled by Mitchell Jacobson and Marjorie Gershwind. The anticipated rent to be paid by the Operating Subsidiary is approximately \$70,000 in fiscal 2005. The aggregate rent to be paid by the Operating Subsidiary under the remaining lease term, which expires in fiscal 2010, is approximately \$389,000. The Company believes that the terms of the foregoing arrangements were at least as favorable to the Company as could have been obtained from unaffiliated third parties at the time that they were entered into.

See "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" for certain relationships and related party transactions involving certain of the Company's directors.

**APPROVAL OF AMENDMENT TO MSC INDUSTRIAL DIRECT CO., INC.  
1995 RESTRICTED STOCK PLAN  
(ITEM 2)**

The Compensation Committee periodically evaluates the performance targets and economic components of our compensation programs, emphasizing those short or long term compensation alternatives (cash, options and restricted stock) that best incentivize personnel at different levels of our organization. In fiscal 2005, the Compensation Committee, the Board and senior management intend to conduct a detailed review of the Company's overall compensation objectives and programs, including the amount and form of future equity based compensation, in order to submit any new equity programs to shareholders for approval at the Annual Meeting to be held in 2006.

The Compensation Committee, in consultation with the Board and senior management, has determined that at this time, the use of some amount of restricted stock awards best suits the Company's short and long term compensation objectives. However, the Company does not have an adequate number of shares available for grant under the 1995 Restricted Plan for its immediate needs. Accordingly, on October 26, 2004, the Board of Directors adopted an amendment to the 1995 Restricted Stock Plan which will become effective, subject to shareholder approval, on January 4, 2005. The amendment raises the authorized but unissued shares of the Class A common stock of the Company reserved for issuance under the Plan from 400,000 to 575,000 and provides that Stock Restrictions on Restricted Shares granted and allocated on or after January 4, 2005 on the sale, assignment or transfer of such shares shall terminate as to one-half of such Restricted Shares on the third anniversary of the allocation date and as to the remaining one-half of such Restricted Shares in two equal annual installments over the ensuing two years. There are presently 34,111 shares available for issuance under the 1995 Restricted Stock Plan. If the amendment, a copy of which is attached hereto as Annex A, is not approved by the shareholders of the Company, the 1995 Restricted Stock Plan will remain as presently in effect.

To effectuate this amendment:

- (i) Section 3 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended and restated in its entirety as follows:

"An aggregate of 575,000 of the authorized but unissued shares of the Class A common stock, \$.001 par value, of the Company (the "Class A Common Stock") are hereby reserved for issuance under the Plan (including the 400,000 shares previously authorized under the Plan whether or not previously issued as of January 4, 2005); *provided, however*, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Class A Common Stock are purchased by the Company and set aside for issuance under the Plan. If any shares of the Class A Common Stock issued under the Plan are reacquired by the Company as provided in Section 9, such shares shall not again be available for the purposes of the Plan."

- (ii) Effective with respect to Restricted Shares granted and allocated on or after January 4, 2005, Paragraph A of Section 9 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended to add the following language at the end thereof:

"Except as otherwise provided in this Section and notwithstanding the foregoing, effective with respect to Restricted Shares granted and allocated on or after January 4, 2005, such Restricted Shares allocated to a Participant may not be sold, assigned, transferred or otherwise disposed of, and may not be pledged or hypothecated. Such Stock Restrictions shall terminate as follows:

- i) as to one-half ( $1/2$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9);

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- ii) as to an additional one-fourth ( $1/4$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement; and
- iii) as to the remaining one-fourth ( $1/4$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement."

Set forth below is a summary of the 1995 Restricted Stock Plan, a copy of which is on file with the Securities and Exchange Commission. All capitalized terms used but not defined herein have the respective meanings ascribed to them in the 1995 Restricted Stock Plan.

There are 400,000 shares reserved under the 1995 Restricted Stock Plan, of which 34,111 shares are presently available for issuance. If the proposed amendment to the 1995 Restricted Stock Plan is approved by the shareholders of the Company, the number of shares of Class A Common Stock reserved under the 1995 Restricted Plan will be 575,000.

The affirmative vote of holders of a majority of the shares of Class A Common Stock and Class B Common Stock present in person or by proxy at the Meeting is required for approval of the amendment to the 1995 Restricted Stock Plan.

The Jobs Act, as enacted October 22, 2004, made substantial changes to the tax treatment of nonqualified deferred compensations plans. It is the Company's understanding that the applicability of the provisions of the Act relating to deferred compensation to plans such as the 1995 Restricted Stock Plan is unclear at this time, however, the Act might change substantially the tax effects of the Restricted Shares under the 1995 Restricted Stock Plan as otherwise described below. It is anticipated that the Internal Revenue Service (the "IRS") will issue initial guidance before the end of 2004 regarding interpretation and application of the deferred compensation provisions of the Act and related transitional rules. The Company and its advisors are in the process of evaluating the new legislation and assessing its impact with respect to tax consequences of allocations under the 1995 Restricted Stock Plan, and may recommend, following the completion of such evaluation, that such plan be further amended or replaced with a different plan.

The Jobs Act is generally applicable to amounts deferred under covered plans after December 31, 2004. In addition, the Jobs Act applies to amounts deferred under such plans prior to January 1, 2005 in the event that the plan under which such amounts were deferred is materially modified after October 3, 2004.

The Company reserves the right to withdraw the proposed amendment to the 1995 Restricted Stock Plan and not submit the amendment for shareholder approval if adoption of the amendment under the IRS guidance to be released later this year, would result in making the Jobs Act applicable to the 1995 Restricted Stock Plan in a manner that would have an adverse tax impact on participants in the 1995 Restricted Stock Plan (where the Jobs Act would otherwise not be so applicable in such manner were it not for adoption of the amendment).

**The Board of Directors recommends a vote FOR the approval of the amendment to the 1995 Restricted Stock Plan. Each proxy received in response to this solicitation will be voted FOR the proposal to approve the amendment to the 1995 Restricted Stock Plan, unless otherwise specified in the proxy.**

### **Nature and Purpose of the 1995 Restricted Stock Plan**

The purpose of the 1995 Restricted Stock Plan is to induce certain employees to remain in the employ of the Company and its present and future subsidiaries, to encourage ownership of shares in

the Company by such employees and to provide additional incentive for such employees to promote the success of the Company's business.

#### **Duration and Modification**

The Board of Directors may, at any time and from time to time, by a resolution and subject to the restrictions provided under the 1995 Restricted Stock Plan, make such modifications of the 1995 Restricted Stock Plan as it shall deem advisable, except that to the extent required by applicable laws or the rules of the New York Stock Exchange or such other exchange on which the Company's securities shall be listed or traded, any such modification or termination shall be subject to the approval of the shareholders of the Company. Further, subject to limited exceptions, no termination or amendment of the 1995 Restricted Stock Plan may, without the consent of the Participant to whom any Restricted Shares shall theretofore have been allocated, adversely affect the rights of such Participant with respect to such Restricted Shares.

#### **Administration**

The 1995 Restricted Stock Plan is administered by a Committee consisting of two or more members of the Board of Directors both or all of whom shall be "disinterested persons" within the meaning of Rule 16(b)-3(c)(i) promulgated under the Securities Exchange Act of 1934. The Compensation Committee currently administers the 1995 Restricted Stock Plan. The members of the Compensation Committee do not receive additional compensation for serving on the Compensation Committee, other than the Chairman of the Compensation Committee who receives an annual fee of \$5,000 for serving as Chairman of the Compensation Committee. In the event that no Committee shall have been appointed, the Board of Directors shall act as the Committee.

The members of the Committee are appointed annually by, and serve at the pleasure of the Board. The present members of Committee are Messrs. Fradin, Kelly, Peller, and Langton. The Committee has discretion to determine the Participants under the 1995 Restricted Stock Plan, and the time and number of Restricted Shares allocated to each Participant. The Committee shall have the authority to interpret the 1995 Restricted Stock Plan and to prescribe, amend and rescind rules and regulations relating to it.

#### **Eligibility and Extent of Participation**

The 1995 Restricted Stock Plan provides for allocations of restricted stock to Participants. Participants must be employees of the Company or a Subsidiary. As of November 15, 2004 approximately 2,969 persons were eligible to receive Restricted Stock pursuant to the 1995 Restricted Stock Plan. In making any determination as to the Participants to whom and the number of allocations of Restricted Shares shall be made, the Committee shall take into account the duties of the respective Participants, their past, present and potential contribution to the success of the Company and its Subsidiaries and any other factors the Committee shall deem relevant in connection with accomplishing the purpose of the 1995 Restricted Stock Plan.

Effective with respect to Restricted Shares granted and allocated on or after January 6, 2004, participants to whom Restricted Shares are allocated shall be granted such Restricted Shares by the Company at and for no purchase price.

#### **Termination of Stock Restrictions**

If the proposed amendment to the 1995 Restricted Stock Plan is approved by the shareholders of the Company, except as otherwise provided in Section 9 of the Plan, effective with respect to Restricted Shares granted and allocated on or after January 4, 2005, such Restricted Shares allocated to a Participant may not be sold, assigned, transferred or otherwise disposed of, and may not be pledged or



hypothecated. Such Stock Restrictions on such Restricted Shares shall terminate as follows (i) as to one-half ( $1/2$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9); (ii) as to an additional one-fourth ( $1/4$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement; and (iii) as to the remaining one-fourth ( $1/4$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement.

Stock Restrictions on Restricted Shares granted on or after January 6, 2004 and prior to January 4, 2005 will, whether or not the proposed amendments are adopted by the shareholders, continue to terminate as follows (i) as to one-half ( $1/2$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9); (ii) as to an additional one-eighth ( $1/8$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement; (iii) as to an additional one-eighth ( $1/8$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement; (iv) as to an additional one-eighth ( $1/8$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the sixth anniversary of the date of his or her Restricted Stock Agreement; and (v) as to the remaining one-eighth ( $1/8$ ) of the Restricted Shares owned by the Participant on the day immediately preceding the seventh anniversary of the date of his or her Restricted Stock Agreement.

Stock Restrictions on Restricted Shares granted prior to January 6, 2004 will, whether or not the proposed amendments are adopted by the shareholders, continue to terminate in equal installments over the five years following the grant; as of November 15, 2004, the Stock Restrictions on all Restricted Shares granted prior to January 6, 2004 had terminated.

Notwithstanding the provisions of Section 9A thereof, in the event that a Change of Control of the Company shall occur, then, the Stock Restrictions with respect to each Restricted Share theretofore allocated to any Participant shall immediately terminate in full. For purposes of the 1995 Restricted Stock Plan a "Change in Control" of the Company shall occur or be deemed to have occurred only if any of the following events occurs: (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportion as the ownership of stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities; (ii) individuals who, as of the Allocation Date of the Restricted Shares, constitute the Board (as of the Allocation Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (x) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the combined voting power of the voting securities of the Company or such

surviving entity outstanding immediately after such merger or consolidation or (y) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or (iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets. In the event that a Change in Control shall occur, then, from and after the time of such event, neither the provisions of Section 9F nor any of the rights of any Participant thereunder shall be modified or amended in any way.

If a Participant to whom Restricted Shares have been allocated leaves the employ of the Company and its Subsidiaries for any reason, other than death or Permanent Disability, his or her Termination Without Cause or his or her retirement from the Company at or after age 65, prior to termination of the Stock Restrictions with respect to any such Restricted Shares as provided in Section 9 of the Plan, he or she shall be obligated to redeliver such Restricted Shares to the Company immediately and the Company shall pay him or her an amount equal to the priced paid by the Participant, if any.

If a Participant's employment or service with the Company and its Subsidiaries shall terminate by reason of his or her death or Permanent Disability, his or her Termination Without Cause or his or her retirement from the Company at or after age 65 prior to the termination of the Stock Restrictions with respect to his or her Restricted Shares, then, such Stock Restrictions shall terminate.

The market value of the Class A Common Stock as reflected in the closing price of a share of the Class A Common Stock on the New York Stock Exchange on November 15, 2004, was \$35.63.

Each Participant receiving Restricted Shares shall (a) agree that such Restricted Shares shall be held subject to the provisions of the 1995 Restricted Stock Plan, (b) represent and warrant to the Company that he or she is acquiring such Restricted Shares for investment in his or her account and will not sell or otherwise dispose of said shares except in compliance with the Securities Act of 1933, (c) agree that the Company may place an appropriate legend on the certificates representing the Restricted Shares and may place a stop transfer order to such Restricted Shares with the Transfer Agent(s) for the Class A Common Stock, and (d) at his or her option (i) be entitled to make an election under section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), to include in gross income in the taxable year in which the Restricted Shares are transferred to him or her, the fair market value of such shares at the date of transfer, notwithstanding that such shares are subject to a substantial risk of forfeiture within the meaning of the Code, or (ii) he or she may elect to include in gross income the fair market value of the Restricted Shares as of the date or date on which such restrictions lapse. The foregoing agreement, representation and warranty shall be contained in an agreement in writing. The Committee shall adopt such rules with respect to the return of executed Restricted Stock Agreements as it deems appropriate and failure by a Participant to comply with such rules shall terminate the allocation of such Restricted Shares.

The number of shares available for grant under the 1995 Restricted Stock Plan and covered by each Restricted Share allocated and granted thereunder will be adjusted in the event of a stock dividend, reorganization, recapitalization, stock split-up, combination of shares, sale of assets, merger or consolidation in which the Company is the surviving corporation or, as may be determined by the Committee, in the event of any other change affecting the number or kind of the Company's outstanding Class A Common Stock.

A Participant may, in the discretion of the Committee and subject to rules adopted by the Committee, elect to satisfy his or her withholding obligation as a result of the release of Stock Restrictions with respect to any Restricted Shares, in whole or in part, by electing (an "Election") to deliver to the Company shares of the Class A Common Stock having a fair market value, determined as of the date that the amount to be withheld is determined, equal to the amount required to be so withheld, provided however, that no Election shall become effective with respect to any Restricted

Shares after the expiration of two years from the Allocation Date. The Participant shall pay the Company in cash for any fractional share that would otherwise be required to be delivered.

Each Election shall be subject to the following restrictions: (i) the Election must be made on or prior to the Tax Date, (ii) the Election shall be irrevocable, (iii) the Election is subject to the approval of the Committee, (iv) if the Participant's transactions in shares of the Class A Common Stock are subject to the provisions of section 16(b) of the Exchange Act, an Election may not be made within six months of the date of the execution and delivery of the Restricted Stock Agreement governing such Restricted Shares, (v) if the Participant's transactions in shares of the Class A Common Stock are subject to the provisions of section 16(b) of the Exchange Act, the Election must be made (A) six months or more prior to the Tax Date or (B) during the period beginning on the third business date following the date of the release of the Company's quarterly or annual statement of sales and earnings and ending on the twelfth business day following such date.

**Benefits Under the 1995 Restricted Stock Plan**

The amount of Restricted Shares received by the indicated persons and groups under the 1995 Restricted Stock Plan since its inception is as follows:

Name	Number of Shares
Mitchell Jacobson	0
Ross Anker	4,280
Shelley Boxer	1,520
Charles Boehlke	7,280
Roger Fradin	0
Denis Kelly	0
Raymond Langton	0
Philip Peller	0
David Sandler	19,316
James Schroeder	3,880
Current Executive Officers as a Group	63,683
Current Directors who are not Executive Officers as a Group	0
All Employees (excluding current Executive Officers)	302,206

**Federal Income Tax Consequences of the Allocation, Vesting, Sale and Forfeiture of Restricted Stock**

The following discussion of the Federal income tax consequences of the issuance, vesting, sale and forfeiture of shares of Restricted Stock under the 1995 Restricted Stock Plan is based on an analysis of the Code, as currently in effect, existing laws, judicial decisions and administrative rulings and regulations, all of which are subject to change. In addition to being subject to the Federal income tax consequences described below, a Participant may also be subject to state and local tax consequences in the jurisdiction in which he or she works and/or resides.

As noted above, the impact of the deferred compensation provisions of the recently enacted Jobs Act is not yet clear, and those provisions and the Internal Revenue Service guidance expected to be issued thereunder may change substantially the tax consequences of the allocations under the 1995 Restricted Stock Plan. The following discussion does not address the potential impact that the Jobs Act could have on the taxation of allocations under the 1995 Restricted Stock Plan.

In general, no income will be recognized by a Participant at the time Restricted Stock is allocated to him or her. Ordinary income will be recognized by a Participant at the time his or her Restricted Stock "vests" (i.e., at the time the Stock Restrictions terminate with respect to such Restricted Stock and the Participant is no longer obligated to redeliver such Restricted Stock to the Company in the

event of his or her termination of employment with the Company and its subsidiaries). The amount of such ordinary income with respect to each share of Restricted Stock will equal the excess, if any, of the fair market value of a share of the Class A Common Stock on the date the Restricted Stock vests, over the price paid by the Participant for the Restricted Stock, if any. This ordinary (compensation) income will also constitute wages subject to withholding by the Company. Any subsequent realized gain or loss will be a capital gain or loss with the Participant's holding period measured from the date the Stock Restrictions terminate and with the Participant's basis in each share being equal to the price paid by the Participant per share of Restricted Stock, if any, plus the amount of ordinary income, if any, recognized with respect to such share of Restricted Stock.

Notwithstanding the foregoing, a Participant may within 30 days after Restricted Stock is allocated to him or her under the 1995 Restricted Stock Plan elect under Section 83(b) of the Code (a "Section 83(b) Election") to include in income as of the date of such allocation the excess, if any, of the fair market value of a share of the Class A Common Stock on the date the Restricted Stock is allocated, over the price paid by the Participant for the Restricted Stock, if any. Such income will be ordinary (compensation) income which will also constitute wages subject to withholding by the Company. If a Participant subsequently vests in Restricted Stock as to which a Section 83(b) Election has been made, such vesting will not result in a taxable event to the Participant. If a Participant makes a Section 83(b) Election, and subsequently is required under the 1995 Restricted Stock Plan to sell Restricted Stock with respect to which a Section 83(b) Election was made to the Company for the price paid by the Participant, if any, the Participant will not be entitled to a deduction with respect thereto and will not have a capital loss as a result thereof. If a Participant vests in Restricted Stock as to which the Participant has made a Section 83(b) Election, any subsequent realized gain or loss will be a capital gain or loss with the Participant's holding period measured from the date of allocation and with the Participant's basis in each share of Restricted Stock being equal to the price paid by the Participant for such share, if any, plus the amount of ordinary income, if any, recognized with respect to such share.

The Company is entitled to a deduction for Federal income tax purposes for its taxable year which ends during the Participant's taxable year in which the Participant is required to recognize ordinary income with respect to the Restricted Stock. Such deduction will be in an amount equal to the amount included in income by the Participant.

**APPROVAL OF THE AMENDMENT TO MSC INDUSTRIAL DIRECT CO., INC.  
ASSOCIATE STOCK PURCHASE PLAN  
(ITEM 3)**

The Compensation Committee periodically evaluates the performance targets and economic components of our compensation programs, emphasizing those short or long term compensation alternatives (cash, options and restricted stock) that best incentivize personnel at different levels of our organization. In fiscal 2005, the Compensation Committee, the Board and senior management intend to conduct a detailed review of the Company's overall compensation objectives and programs, including the amount and form of future equity based compensation, in order to submit any new equity programs to shareholders for approval at the Annual Meeting to be held in 2006.

The Compensation Committee, in consultation with the Board and senior management, has determined that at this time, the ability of associates to purchase some amount of shares of the Company's Class A Common Stock under the Associate Stock Purchase Plan (the "Plan") best suits the Company's short and long term compensation objectives. However, the Company does not have an adequate number of shares available for sale under the Associate Stock Purchase Plan for its immediate needs. Accordingly, on October 26, 2004, the Board of Directors adopted an amendment to the Plan which will become effective, subject to shareholder approval, on January 4, 2005. The amendment raises the authorized but unissued shares of the Class A Common Stock of the Company reserved for sale under the Plan from 500,000 to 800,000. If the amendment, a copy of which is attached hereto as Annex B, is not approved by the shareholders of the Company, the Associate Stock Purchase Plan will remain as presently in effect.

To effectuate this amendment:

Section 12(a) of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended and restated in its entirety as follows:

"a) The maximum number of shares of the Company's Class A Common Stock made available for sale under the Plan is 800,000 and is subject to adjustment upon changes in the capitalization of the Company."

Set forth below is a summary of the Associate Stock Purchase Plan, a copy of which is on file with the Securities and Exchange Commission. All capitalized terms used but not defined herein have the respective meanings ascribed to them in the Plan.

The affirmative vote of holders of a majority of the shares of Class A Common Stock and Class B Common Stock present in person or by proxy at the Meeting is required for approval of the amendment to the Plan.

**The Board of Directors recommends a vote FOR the approval of the amendment to the Plan. Each proxy received in response to this solicitation will be voted FOR the proposal to approve the amendment to the Plan, unless otherwise specified in the proxy.**

**Nature and Purpose of the Plan**

The purpose of the Plan is to provide employees ("associates") of the Company and its subsidiaries with an opportunity to purchase shares of Class A Common Stock through payroll deductions. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Plan are to be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

### **Duration and Modification**

The Plan will terminate not later than October 30, 2008. The Board of Directors may at any time and for any reason terminate or amend the Plan as it may deem advisable. However, the Company must obtain shareholder approval of any amendment to the Plan to the extent that such approval is necessary to comply with Section 423 of the Code.

### **Administration of the Plan**

The Plan is administered by the Board of Directors of the Company.

### **Offering Periods**

Options are granted under the Plan to purchase shares of Class A Common Stock in consecutive three-month offering periods, with a new offering period commencing on each November 1, February 1, May 1 and August 1, unless otherwise determined by the Company.

### **Securities Subject to the Plan; Market Price**

If the proposed amendment to the Plan is approved by the shareholders of the Company, the number of shares of Class A Common Stock reserved for sale under the Plan would increase from 500,000 to 800,000. If the total number of shares which would otherwise be subject to options under the Plan exceeds the number of shares then available under the Plan, the Company is required to make a pro rata allocation of the shares available for option grant in as uniform and equitable a manner as is practicable. In such event, the Company is required to give written notice of such reduction in the number of shares subject to option to each participant affected thereby.

The market value of the Class A Common Stock as reflected in the closing sale price of a share of Class A Common Stock on the New York Stock Exchange on November 15, 2004, was \$35.63.

### **Eligibility**

Each associate of the Company and its participating subsidiaries (as designated by the Board of Directors) who is customarily employed for at least 20 hours per week and for more than five months in a calendar year is eligible to participate under the Plan, provided that the associate has been employed by the Company for at least 31 days on the first day of an offering period and subject to certain limitations imposed by Section 423(b) of the Code. As of November 15, 2004, approximately 2,897 persons were eligible to participate in the Plan.

### **Participation**

An associate may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions on the form provided by the Company and filing it with the payroll office of the Company prior to the first day of the offering period with respect to which it is to be effective.

Payroll deductions will be equal to the percentage of compensation (not to exceed 15%) specified by the participant. Once enrolled, a participant remains enrolled in each subsequent offering period of the Plan at the designated payroll deduction unless the participant withdraws by providing the Company with written notice of withdrawal or files a new subscription agreement prior to the applicable offering date changing the associate's designated payroll deduction.

### **Purchase Price**

The purchase price per share at which shares of Class A Common Stock are sold under the Plan is 85% of the lesser of (i) the Fair Market Value of the Class A Common Stock as of the Offering Date or (ii) Fair Market Value of the Class A Common Stock as of the Exercise Date. The Fair Market Value of the Class A Common Stock on any offering date means: (i) the closing sale price of the Class A Common Stock on the New York Stock Exchange on the business day immediately preceding such date or (ii) if there is no sale of the Class A Common Stock on such Exchange on such business day, the average of the bid and asked prices on such Exchange at the close of the market on such business day.

### **Purchase of Shares**

The maximum number of shares of Class A Common Stock a participant may purchase during each offering period may not exceed 5,000 shares, subject to certain limitations set forth in the Code and availability of shares under the Plan.

Unless a participant withdraws from the Plan during an offering period, his or her option to purchase shares will be exercised automatically at each exercise date (the last business day of the offering period), and the maximum number of full and fractional shares subject to the option will be purchased at the applicable option price with the accumulated payroll deductions in his or her account. The shares purchased will be issued to the participant as promptly as practicable after the exercise date. A participant's option to purchase shares under the Plan may be exercised only by the participant. Notwithstanding anything in the Plan to the contrary, any shares acquired by a participant pursuant to the Plan after the first Offering Date subsequent to January 6, 2004 may not be assigned, transferred, pledged or otherwise disposed of in any way by the participant for a period of forty-five (45) days (or such other longer or shorter time period (including 0 days) as may be established by the Board in its sole discretion) following the date on which the participant acquired such shares as a result of the exercise of such participant's option.

### **Voting Rights**

Participants will not have any interest or voting rights in shares covered by their options until the options have been exercised.

### **Adjustments**

The number of shares of Class A Common Stock available for grant or covered by each option granted under the Plan will be adjusted in the event of a stock dividend, reorganization, recapitalization, stock split-up, combination of shares, sale of assets, merger or consolidation in which the Company is the surviving corporation or, as may be determined by the Compensation Committee, in the event of any other change affecting the number or kind of outstanding shares of Class A Common Stock. In the event of the dissolution or liquidation of the Company, the Board may, in its discretion, accelerate the exercisability of all outstanding awards and/or terminate the same within a reasonable time thereafter.

### **Withdrawal; Termination of Employment**

A participant may withdraw all, but not less than all, the payroll deductions credited to his or her account under the Plan at any time prior to an exercise date by giving written notice to the Company on a form provided for such purpose. If the participant withdraws from the Plan during an offering period, all of the participant's payroll deductions credited to his or her account will be paid to the participant as soon as practicable after receipt of the notice of withdrawal and his or her option for the current offering period will be automatically canceled, and no further payroll deductions for the

purchase of shares will be made during such offering period or subsequent offering periods, except pursuant to a new subscription agreement filed in accordance with the Plan.

Upon the termination of a participant's continuous status as an employee prior to an exercise date of an offering period for any reason, including retirement or death, he or she will be deemed to have elected to withdraw from the Plan, the payroll deductions accumulated in his or her account will be returned to him or her as soon as practicable after such termination or, in the case of death, to the person or persons entitled thereto under the Plan, and his or her option will be automatically canceled.

A participant's withdrawal from the Plan during an offering period will not have any effect upon his or her eligibility to participate in a succeeding offering period or in any similar plan that may hereafter be adopted by the Company. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company is not obligated to segregate such payroll deductions.

### Benefits Under the Plan

The amount of shares of Class A Common Stock purchased under the Plan by the indicated persons and groups since its inception is as follows:

Name	Number of Shares
Mitchell Jacobson	0
Ross Anker	1,177
Shelley Boxer	0
Charles Boehlke	0
Roger Fradin	0
Denis Kelly	0
Raymond Langton	0
Philip Peller	0
David Sandler	0
James Schroeder	331
Current Executive Officers as a Group	1,508
Current Directors who are not Executive Officers as a Group	0
All Employees (excluding current Executive Officers)	413,492

### Federal Income Tax Consequences of Issuance and Exercise of Options

The following discussion of the Federal income tax consequences of the granting and exercise of options under the Plan, and the sale of shares of Class A Common Stock acquired as a result thereof, is based on an analysis of the Code as currently in effect, existing laws, judicial decisions and administrative rulings and regulations, all of which are subject to change. In addition to being subject to the Federal income tax consequences described below, an optionee may also be subject to state and/or local income tax consequences in the jurisdiction in which he or she works and/or resides.

The Plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant at the time of purchase of shares. Upon disposition of the shares, the participant will be subject to tax and the amount of the tax will depend on the length of the holding period. If the shares are disposed of by the participant at least two years after the beginning of an offering period and at least one year from the date the shares are purchased, the lesser of (a) the excess of the fair market value of the shares at the time of such disposition over the purchase price and (b) the excess of the fair market value of the shares on the first day of the offering period over the purchase price will be treated as ordinary income. Any additional gain will be taxed at capital gain rates. If the shares are sold after such time and the sales price is less than the purchase price, the participant recognizes no



ordinary income but instead a capital loss. If the shares are sold or otherwise disposed of before the expiration of such two-year and one-year periods, the excess of the fair market value of the shares on the exercise date over the purchase price will be treated as ordinary income.

The Company is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a disposition of shares within two years from the date of grant or within one year of the date of purchase.

The foregoing is only a summary of the effect of Federal income taxation upon a participant and the Company with respect to shares of Class A Common Stock purchased under the Plan. Reference should be made to the applicable provisions of the Code. In addition, this summary does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

### Equity Compensation Plan Information

Information for our equity compensation plans in effect as of August 28, 2004 is as follows (amounts in thousands, except per share amounts)

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	4,807,000	\$ 15.79	4,152,000
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>4,807,000</b>	<b>\$ 15.79</b>	<b>4,152,000</b>

### RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS (ITEM 4)

The Board of Directors of the Company, on the recommendation of the Audit Committee, has appointed the firm of Ernst & Young LLP to serve as independent auditors of the Company for the fiscal year 2005, subject to ratification of this appointment by the shareholders of the Company. Although shareholder ratification of the Board of Directors' action in this respect is not required, the Board of Directors considers it desirable for shareholders to pass upon the selection of auditors and, if the shareholders disapprove of the selection, intends to reconsider the selection of auditors for the fiscal year 2006, since it would be impractical to replace the Company's auditors so late into the Company's current fiscal year.

Ernst & Young LLP has advised the Company that neither it nor any of its members has any direct or material indirect financial interest in the Company.

### PRINCIPAL ACCOUNTANT FEES AND SERVICES

**Audit Fees.** The aggregate fees billed or to be billed by Ernst & Young LLP for each of the last two fiscal years for professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-Q and services that were provided in connection with statutory and regulatory filings or engagements were \$232,500 for the fiscal year ended August 28, 2004 and \$183,400 for the fiscal year ended August 30, 2003.

**Audit-Related Fees.** The aggregate fees billed or to be billed by Ernst & Young LLP for each of the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements were \$46,100 for the fiscal



year ended August 28, 2004 and \$42,800 for the fiscal year ended August 30, 2003. The nature of the services performed for these fees was services provided in connection with consultations on compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and financial accounting and reporting standards and the audit of the employee benefit plan.

**Tax Fees.** The aggregate fees billed by Ernst & Young LLP in each of the last two fiscal years for professional services rendered for tax compliance, tax advice and tax planning were \$29,000 for the fiscal year ended August 28, 2004 and \$47,100 for the fiscal year ended August 30, 2003. The nature of the services performed for these fees was the assistance in federal and state tax compliance, and tax planning related to capital gains and charitable contributions.

**All Other Fees.** The Company did not make any other payments to Ernst & Young LLP during the last two fiscal years.

#### **Audit Committee Pre-Approval Policy**

The Audit Committee shall pre-approve all audit and non-audit services provided by the independent auditors, Ernst & Young LLP, and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation. The Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee in which case decisions taken are to be presented to the full Audit Committee at its next meeting.

The Audit Committee of the Board of Directors has considered whether, and has determined at this time that, the provision of non-audit services by Ernst & Young LLP is compatible with maintaining auditor independence.

One or more representatives of Ernst & Young LLP will be present at the Annual Meeting of Stockholders, will have an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

**THE BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR THE FISCAL YEAR 2005. PROXIES RECEIVED BY THE BOARD WILL BE SO VOTED UNLESS A CONTRARY CHOICE IS SPECIFIED IN THE PROXY.**

#### **SHAREHOLDER PROPOSALS**

Proposals of shareholders intended to be presented at the annual meeting of shareholders in 2006 must be received by August 8, 2005, in order to be considered for inclusion in the Company's proxy statement and form of proxy relating to that meeting. The proxy or proxies designated by the Company will have discretionary authority to vote on any matter properly presented by a shareholder for consideration at the next Annual Meeting of Shareholders but not submitted for inclusion in the proxy materials for such Meeting unless notice of the matter is received by the Company not later than October 24, 2005 and certain other conditions of the applicable rules of the Securities and Exchange Commission are satisfied. Shareholder proposals should be directed to the Secretary of the Company, at the address of the Company set forth on the first page of this proxy statement.

**ANNUAL REPORT ON FORM 10-K**

**THE COMPANY WILL PROVIDE TO EACH SHAREHOLDER, WITHOUT CHARGE AND UPON WRITTEN REQUEST, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K. ANY SUCH WRITTEN REQUEST SHOULD BE DIRECTED TO THE OFFICE OF THE CHIEF FINANCIAL OFFICER, MSC INDUSTRIAL DIRECT CO., INC., 75 MAXESS ROAD, MELVILLE, NEW YORK 11747.**

Copies of the 2004 Annual Report to Shareholders are being mailed simultaneously with this proxy statement. If you want to save the Company the cost of mailing more than one Annual Report to the same address, the Company will discontinue, at your request to the Secretary of the Company, mailing of the duplicate copy to the account or accounts you select.

By Order of the Board of  
Directors,

Thomas Eccleston  
*Secretary*

Melville, New York  
December 3, 2004

**AMENDMENT NO. 2**  
**TO**  
**MSC INDUSTRIAL DIRECT CO., INC.**  
**1995 RESTRICTED STOCK PLAN**

(i) Section 3 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended and restated in its entirety as follows:

"An aggregate of 575,000 of the authorized but unissued shares of the Class A common stock, \$.001 par value, of the Company (the "Class A Common Stock") are hereby reserved for issuance under the Plan (including the 400,000 shares previously authorized under the Plan whether or not previously issued as of January 4, 2005); *provided, however*, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Class A Common Stock are purchased by the Company and set aside for issuance under the Plan. If any shares of the Class A Common Stock issued under the Plan are reacquired by the Company as provided in Section 9, such shares shall not again be available for the purposes of the Plan."

(ii) Effective with respect to Restricted Shares granted and allocated on or after January 4, 2005, Paragraph A of Section 9 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended to add the following language at the end thereof:

"Except as otherwise provided in this Section and notwithstanding the foregoing, effective with respect to Restricted Shares granted and allocated on or after January 4, 2005, such Restricted Shares allocated to a Participant may not be sold, assigned, transferred or otherwise disposed of, and may not be pledged or hypothecated. Such Stock Restrictions shall terminate as follows:

- i) as to one-half ( $1/2$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9);
- ii) as to an additional one-fourth ( $1/4$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement; and
- iii) as to the remaining one-fourth ( $1/4$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement."

**AMENDMENT NO. 2  
TO  
MSC INDUSTRIAL DIRECT CO., INC.  
ASSOCIATE STOCK PURCHASE PLAN**

Section 12(a) of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended and restated in its entirety as follows:

"a) The maximum number of shares of the Company's Class A Common Stock made available for sale under the Plan is 800,000 and is subject to adjustment upon changes in the capitalization of the Company."

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**ANNUAL MEETING OF SHAREHOLDERS OF  
MSC INDUSTRIAL DIRECT CO., INC.**

**January 4, 2005**

Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.

PLEASE DETACH ALONG PERFORATED LINE AND MAIL IN THE ENVELOPE PROVIDED.

Please mark  
your votes as in  
this example.

				FOR	AGAINST	ABSTAIN
1. To elect seven directors of the Company to serve for one-year terms;		Nominees:	2. To consider and act upon a proposal to approve an amendment to the Company's 1995 Restricted Stock Plan;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
		Mitchell Jacobson	3. To consider and act upon a proposal to approve an amendment to the Company's Associate Stock Purchase Plan;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
		David Sandler				
		Charles Boehlke				
		Roger Fradin				
		Denis Kelly				
	<input type="radio"/>	Raymond Langton	4. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent certified public accountants of the Company for the fiscal year 2005;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	Philip Peller	5. To consider and act upon such other matters as may properly come before meeting or any adjournment thereof.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<b>FOR ALL NOMINEES</b>	<b>WITHHELD FROM ALL NOMINEES</b>				

For all nominees except as written above

If you indicated a change of address or comments on the reverse side, place an X in this box.

Only shareholders of record at the close of business on November 26, 2004 are entitled to notice of and to vote at the meeting and any adjournments thereof.

All shareholders are cordially invited to attend the meeting. However, to assure your representation at the meeting, you are urged to complete, sign and date the enclosed proxy card as promptly as possible and return it in the postage-paid envelope provided. Any shareholder attending the meeting may vote in person even if he or she has already returned a proxy.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**ANNUAL MEETING OF SHAREHOLDERS OF  
MSC INDUSTRIAL DIRECT CO., INC.**

**Tuesday, January 4, 2005, 9:00 am**

**JPMorgan Chase Conference Center**

**(Lower Level)**

**395 North Service Road**

**Melville, NY 11747**

DETACH HERE

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

**ANNUAL MEETING OF SHAREHOLDERS JANUARY 4, 2005**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**P  
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Y**

The undersigned hereby appoints each of Shelley Boxer and Thomas Eccleston as the undersigned's proxy, with full power of substitution, to vote all shares of Class A Common Stock of MSC Industrial Direct Co., Inc. (the "Company") which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of the Company to be held on Tuesday, January 4, 2005 at 9:00 A.M. local time, at the JPMorgan Chase Conference Center, lower level, at 395 North Service Road, Melville, New York 11747, and at any adjournments or postponements thereof and, without limiting the generality of the power hereby conferred, the proxy nominees named above and each of them are specifically directed to vote as indicated below.

**WHERE A CHOICE IS INDICATED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS SPECIFIED. IF NO CHOICE IS INDICATED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL OF THE BOARD OF DIRECTORS' NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2, 3 AND 4.**

**(Continued and to be signed on the reverse side)**

COMMENTS (IF ANY)/CHANGE OF ADDRESS

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(If you have written in the above space, please mark the corresponding box on the reverse side of this card)

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**MSC INDUSTRIAL DIRECT CO., INC.**  
**1995 RESTRICTED STOCK PLAN**  
**(As Adopted Effective as of November 17, 1995)**

1. *Purpose.* The purpose of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan (the "Plan") is to induce certain employees to remain in the employ of MSC Industrial Direct Co., Inc. (the "Company") and its present and future subsidiary corporations ("Subsidiaries"), to encourage ownership of shares in the Company by such employees and to provide additional incentive for such employees to promote the success of the Company's business.

2. *Effective Date of the Plan.* The Plan became effective on November 17, 1995, by action of the Board of Directors (the "Board").

3. *Stock Subject to Plan.* 200,000 of the authorized but unissued shares of the Class A common stock, \$.001 par value, of the Company (the "Class A Common Stock") are hereby reserved for issuance under the Plan; *provided, however*, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Class A Common Stock are purchased by the Company and set aside for issuance under the Plan. If any shares of the Class A Common Stock issued under the Plan are reacquired by the Company as provided in Section 8, such shares shall not again be available for the purposes of the Plan.

4. *Committee.* The Committee shall consist of two or more members of the Board both or all of whom shall be "disinterested persons" within the meaning of Rule 16b-3(c)(i) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The President of the Company shall also be a member of the Committee, *ex-officio*, whether or not he or she is otherwise eligible to be a member of the Committee. The Committee shall be appointed annually by the Board, which may at any time and from time to time remove any members of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. In the event that no Committee shall have been appointed, the Board shall act as the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made at a meeting duly called and held.

5. *Administration.* Subject to the provisions of the Plan, the Committee shall have complete authority in its discretion to select the individuals (the "Participants") to whom Restricted Shares shall be allocated, the number of Restricted Shares to be included in each allocation and the time or times at which Restricted Shares shall be allocated (the date of any such action of the Committee being hereinafter called an "Allocation Date"). The Committee shall also have authority to interpret the Plan and to prescribe, amend and rescind rules and regulations relating to it. Any determination by the Committee in carrying out, administering or construing the Plan shall be final and binding for all purposes and upon all interested persons and their heirs, successors and personal representatives.

6. *Eligibility.* An allocation of Restricted Shares may only be made to persons who are employees of the Company or a Subsidiary.

7. *Factors Considered in Allocating Restricted Shares.* In making any determination as to Participants to whom allocations of Restricted Shares shall be made and as to the number of Restricted Shares to be allocated to any Participant, the Committee shall take into account the duties of the respective Participants, their past, present and potential contribution to the success of the Company and its Subsidiaries and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.

8. *Purchase Price.* Each person who shall be allocated Restricted Shares hereunder shall purchase the same from the Company at and for a purchase price of \$.01 a share. Failure by a Participant to

purchase and pay for all of the Restricted Shares allocated to him or her within thirty days after he or she shall have been given written notice of such allocation shall result in a cancellation of such allocation and he or she shall no longer have the right to purchase the same hereunder.

9. *Restricted Shares.* A. Except as otherwise provided in this Section, the Restricted Shares allocated to a Participant may not be sold, assigned, transferred or otherwise disposed of, and may not be pledged or hypothecated. The Stock Restrictions shall terminate as follows:

- i) as to twenty percent (20%) of the Restricted Shares owned by the Participant on the day immediately preceding the first anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9);
- ii) as to an additional twenty percent (20%) of the Restricted Shares owned by the Participant, on the day immediately preceding the second anniversary of the date of his or her Restricted Stock Agreement;
- iii) as to an additional twenty percent (20%) of the Restricted Shares owned by the Participant, on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement;
- iv) as to an additional twenty percent (20%) of the Restricted Shares owned by the Participant, on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement;
- v) as to the remaining twenty percent (20%) of the Restricted Shares owned by the Participant, on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement.

B. In addition, if the Participant to whom Restricted Shares have been allocated as of any Allocation Date leaves the employ of the Company and its Subsidiaries for any reason (other than death or Permanent Disability, his or her Termination Without Cause or his or her retirement from the Company at or after age 65) prior to the termination of the restriction provided for in the first sentence of paragraph A. of this Section 9 with respect to the Restricted Shares allocated to such Participant as of such Allocation Date, he or she shall be obligated to redeliver such Restricted Shares to the Company immediately and the Company shall pay to him or her, in redemption of such shares, an amount equal to the price paid by the Participant for such Restricted Shares.

C. If a Participant's employment or service with the Company and its Subsidiaries shall terminate by reason of his or her death or Permanent Disability, his or her Termination Without Cause or his or her retirement from the Company at or after age 65 prior to the termination of the restrictions with respect to his or her Restricted Shares, then, the restrictions with respect to such Restricted Shares shall forthwith terminate.

D. Upon issuance of the certificate or certificates for the Restricted Shares in the name of a Participant, the Participant shall thereupon be a stockholder with respect to all the Restricted Shares represented by such certificate or certificates and shall have the rights of a stockholder with respect to such Restricted Shares, including the right to vote such Restricted Shares and to receive all dividends and other distributions paid with respect to such Restricted Shares.

E. Each Participant receiving Restricted Shares shall (a) agree that such Restricted Shares shall be subject to, and shall be held by him or her in accordance with all of the applicable terms and provisions of, the Plan, (b) represent and warrant to the Company that he or she is acquiring such Restricted Shares for investment for his or her own account (unless there is then current a prospectus relating to the Restricted Shares under Section 10(a) of the Securities Act of 1933, as amended) and, in any event, that he or she will not sell or otherwise dispose of said shares except in compliance with the Securities Act of 1933, as amended, (c) agree that the Company may place on the certificates

representing the Restricted Shares or new or additional or different shares or securities distributed with respect to the Restricted Shares such legend or legends as the Company may deem appropriate and that the Company may place a stop transfer order with respect to such Restricted Shares with the Transfer Agent(s) for the Class A Common Stock and (d) at his or her option, (i) be entitled to make the election permitted under section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), to include in gross income in the taxable year in which the Restricted Shares are transferred to him or her, the fair market value of such shares at the time of transfer, notwithstanding that such shares are subject to a substantial risk of forfeiture within the meaning of the Code, or (ii) he or she may elect to include in gross income the fair market value of the Restricted Shares as of the date or date on which such restrictions lapse. The foregoing agreement, representation and warranty shall be contained in an agreement in writing ("Restricted Stock Agreement") which shall be delivered by the Participant to the Company. The Committee shall adopt, from time to time, such rules with respect to the return of executed Restricted Stock Agreements as it deems appropriate and failure by a Participant to comply with such rules shall terminate the allocation of such Restricted Shares to such Participant.

10. *Adjustment of Number of Shares.* A. In the event that a dividend shall be declared upon the Class A Common Stock payable in shares of the Class A Common Stock, the number of shares of the Class A Common Stock then subject to any Restricted Stock Agreement and the number of shares of the Class A Common Stock reserved for issuance in accordance with the provisions of the Plan but not yet issued shall be adjusted by adding to each such share the number of shares which would be distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend. In the event that the outstanding shares of the Class A Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, sale of assets, merger or consolidation in which the Company is the surviving corporation, then, there shall be substituted for each share of the Class A Common Stock then subject to a Restricted Stock Agreement and for each share of the Class A Common Stock reserved for issuance in accordance with the provisions of the Plan but not yet issued, the number and kind of shares of stock or other securities into which each outstanding share of the Class A Common Stock shall be so changed or for which each such share shall be exchanged.

B. In the event that there shall be any change, other than as specified in this Section 10, in the number or kind of outstanding shares of the Class A Common Stock, or of any stock or other securities into which the Class A Common Stock shall have been changed, or for which it shall have been exchanged, then, if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the number or kind of shares then subject to a Restricted Stock Agreement and the number or kind of shares reserved for issuance in accordance with the provisions of the Plan but not yet issued, such adjustment shall be made by the Committee and shall be effective and binding for all purposes of the Plan and of each Restricted Stock Agreement entered into in accordance with the provisions of the Plan.

C. No adjustment or substitution provided for in this Section 10 shall require the Company to deliver a fractional share under the Plan or any Restricted Stock Agreement.

11. *Withholding and Waivers.* A. Each Participant shall make such arrangements with the Company with respect to income tax withholding as the Company shall determine in its sole discretion are appropriate to ensure payment of federal, state or local income taxes due with respect to the issuance and/or ownership of shares of the Class A Common Stock issued hereunder and the release of the Stock Restrictions on Restricted Shares issued hereunder. In the event of the death of a Participant, an additional condition to the Company's obligation to release Restricted Shares to the executors or administrators of such Participant's estate and to release the Stock Restrictions provided hereunder on any Restricted Shares owned by such Participant as provided in Section 9 shall be the delivery to the

Company of such tax waivers, letters testamentary and other documents as the Committee may reasonably determine.

B. A Participant may, in the discretion of the Committee and subject to such rules as the Committee may adopt, elect to satisfy his or her withholding obligation arising as a result of the release of the Stock Restrictions with respect to any Restricted Shares, in whole or in part, by electing (an "Election") to deliver to the Company shares of the Class A Common Stock (other than shares of the Class A Common Stock as to which the Stock Restrictions shall not have theretofore terminated) having a fair market value, determined as of the date that the amount to be withheld is determined (the "Tax Date"), equal to the amount required to be so withheld; *provided, however*, that no Election shall become effective with respect to any Restricted Shares after the expiration of two years from the Allocation Date with respect thereto. Such Participant shall pay the Company in cash for any fractional share that would otherwise be required to be delivered.

C. Each Election shall be subject to the following restrictions:

- (i) The Election must be made on or prior to the Tax Date;
- (ii) The Election shall be irrevocable;
- (iii) The Election is subject to the approval of the Committee;
- (iv) If the Participant's transactions in shares of the Class A Common Stock are subject to the provisions of section 16(b) of the Exchange Act, an Election may not be made within six months of the date of the execution and delivery of the Restricted Stock Agreement governing such Restricted Shares;
- (v) If the Participant's transactions in shares of the Class A Common Stock are subject to the provisions of section 16(b) of the Exchange Act, the Election must be made (A) six months or more prior to the Tax Date or (B) during the period beginning on the third business date following the date of the release of the Company's quarterly or annual statement of sales and earnings and ending on the twelfth business day following such date.

12. *Definitions.* For the purposes hereof:

A. The term "Discharge for Cause" shall mean the termination of a Participant's employment by the Company and its Subsidiaries by reason of (i) the commission by such Participant of any act or omission that would constitute a crime under federal, state or equivalent foreign law, (ii) the commission by such Participant of any act of moral turpitude, (iii) fraud, dishonesty or other acts or omissions that result in a breach of any fiduciary or other material duty to the Company and/or the Subsidiaries or (iv) continued alcohol or other substance abuse that renders such Participant incapable of performing his or her material duties to the satisfaction of the Company and/or the Subsidiaries.

B. The term "Permanent Disability" shall mean a state of physical or mental incapacity of a Participant such that, in the opinion of the Committee, based upon a medical certificate from a physician or physicians satisfactory to the Committee, such Participant, by reason of injury, illness or disease, is unable to fulfill the requirements of his or her position with the Company and the Subsidiaries and such inability will be permanent and continuous during the remainder of his or her life.

C. The term "Stock Restrictions" shall mean the restrictions on the ability of a Participant to transfer Restricted Shares issued to such Participant hereunder referred to in Section 9 and embodied in a Restricted Stock Agreement between the Company and such Participant.

D. The term "Termination Without Cause" shall mean the termination by the Company or a Subsidiary of a Participant's employment with the Company and its Subsidiaries under circumstances which shall not constitute a Discharge for Cause.

13. *Expenses of Administration.* All costs and expenses incurred in the operation and administration of the Plan shall be borne by the Company.

14. *No Employment Right.* Neither the existence of the Plan nor the grant of any Restricted Shares hereunder shall require the Company or any Subsidiary to continue any Participant in the employ of the Company or such Subsidiary.

15. *Amendment of Plan.* The Board may, at any time and from time to time, by a resolution appropriately adopted, make such modifications of the Plan as it shall deem advisable. No amendment of the Plan may, without the consent of the Participants to whom any Restricted Shares shall theretofore have been allocated, adversely affect the rights or obligations of such Participants with respect to such Restricted Shares. The Committee may, in its discretion, cause the restrictions imposed in accordance with the provisions of Section 9 hereof with respect to any Restricted Shares to terminate, in whole or in part, prior to the time when they would otherwise terminate.

16. *Expiration and Termination of the Plan.* The Plan shall terminate on November 16, 2005 or at such earlier time as the Board may determine; *provided, however,* that such termination shall not, without the consent of the Participants to whom any Restricted Shares shall theretofore have been allocated, adversely affect the rights or obligations of such Participants with respect to such Restricted Shares.

17. *Governing Law.* The Plan shall be governed by the laws of the State of New York.

AMENDMENT NO. 1

TO

MSC INDUSTRIAL DIRECT CO., INC.

1995 RESTRICTED STOCK PLAN

(i) Effective with respect to Restricted Shares granted and allocated on or after January 6, 2004, Section 8 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended to add the following language after the first sentence thereof:

"Notwithstanding the foregoing, effective with respect to Restricted Shares granted and allocated on or after January 6, 2004, Participants to whom Restricted Shares are allocated shall be granted such Restricted Shares by the Company at and for no purchase price."

(ii) Effective with respect to Restricted Shares granted and allocated on or after January 6, 2004, Paragraph A of Section 9 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended to add the following language at the end thereof:

"Except as otherwise provided in this Section and notwithstanding the foregoing, effective with respect to Restricted Shares granted and allocated on or after January 6, 2004, such Restricted Shares allocated to a Participant may not be sold, assigned, transferred or otherwise disposed of, and may not be pledged or hypothecated. Such Stock Restrictions shall terminate as follows:

- i) as to one-half ( $1/2$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the third anniversary of the date of his or her Restricted Stock Agreement (as such term is defined in paragraph E. of this Section 9);
- ii) as to an additional one-eighth ( $1/8$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fourth anniversary of the date of his or her Restricted Stock Agreement;
- iii) as to an additional one-eighth ( $1/8$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the fifth anniversary of the date of his or her Restricted Stock Agreement;
- iv) as to an additional one-eighth ( $1/8$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the sixth anniversary of the date of his or her Restricted Stock Agreement;
- vi) as to the remaining one-eighth ( $1/8$ ) of such Restricted Shares owned by the Participant on the day immediately preceding the seventh anniversary of the date of his or her Restricted Stock Agreement."

(iii) Paragraph B of Section 9 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended and restated in its entirety as follows:

"In addition, if the Participant to whom Restricted Shares have been allocated as of any Allocation Date leaves the employ of the Company and its Subsidiaries for any reason (other than death or Permanent Disability, his or her Termination Without Cause or his or her retirement from the Company at or after age 65) prior to the termination of the restriction provided for in paragraph A of this Section 9 with respect to the Restricted Shares allocated to such Participant as of such Allocation Date, he or she shall be obligated to redeliver such Restricted Shares to the Company immediately and the Company shall pay to him or her, in redemption of such shares, an amount equal to the price paid by the Participant for such Restricted Shares."

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(iv) Section 9F is hereby added to the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan to read as follows:

"F. Notwithstanding the provisions of Section 9A, in the event that a Change of Control of the Company shall occur, then, the Stock Restrictions with respect to each Restricted Share theretofore allocated to any Participant shall immediately terminate in full. For purposes hereof a "Change in Control" of the Company shall occur or be deemed to have occurred only if any of the following events occurs: (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportion as the ownership of stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities; (ii) individuals who, as of the Allocation Date of the Restricted Shares, constitute the Board (as of the Allocation Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (x) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (y) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or (iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets. In the event that a Change in Control shall occur, then, from and after the time of such event, neither the provisions of this Section 9F nor any of the rights of any Participant thereunder shall be modified or amended in any way."

(v) Section 15 of the MSC Industrial Direct Co., Inc. 1995 Restricted Stock Plan is hereby amended and restated in its entirety as follows:

*"Amendment of Plan.* The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable; provided, however, that to the extent required by applicable laws or the rules of the New York Stock Exchange or such other exchange on which the Company's securities shall be listed or traded, any such modification or termination shall be subject to the approval of the shareholders of the Company. Except as otherwise provided in Section 10, no termination or amendment of the Plan may, without the consent of the Participant to whom any Restricted Shares shall theretofore have been allocated, adversely affect the rights of such Participant with respect to such Restricted Shares."

**MSC INDUSTRIAL DIRECT CO., INC.  
ASSOCIATE STOCK PURCHASE PLAN**

The following are the provisions of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan (the "Plan").

**1. Purpose.**

The purpose of the Plan is to provide Associates of MSC Industrial Direct Co., Inc. (the "Company") and its Subsidiaries with an opportunity to purchase shares of the Company's Class A Common Stock. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan will be construed so as to extend and limit participation consistent with the requirements of the Code.

**2. Definitions.**

- a) "Associate" shall mean any person, including an officer, who is customarily employed by the Company or one of its Designated Subsidiaries, for at least twenty (20) hours per week and more than five (5) months in a calendar year.
- b) "Board" shall mean the Board of Directors of the Company.
- c) "Class A Common Stock" shall mean the Class A Common Stock, \$.001 par value, of the Company.
- d) "Code" shall mean the Internal Revenue Code of 1986, as amended.
- e) "Company" shall mean MSC Industrial Direct Co., Inc.
- f) "Compensation" shall mean all regular straight time gross earnings and commissions, and shall include payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.
- g) "Continuous Status as an Associate" shall mean the absence of any interruption or termination of service as an Associate. Continuous Status as an Associate shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company or a Subsidiary, provided that such leave is for a period of not more than 90 days or re-employment upon the expiration of such leave is guaranteed by contract or statute.
- h) "Contributions" shall mean all amounts credited to the account of a participant pursuant to the Plan.
- i) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board in its sole discretion as eligible to participate in the Plan.
- j) "Exercise Date" shall mean the last business day of each Offering Period of the Plan.
- k) "Fair Market Value" shall mean as of any Offering Date (i) the closing sale price of the Class A Common Stock on the New York Stock Exchange on the business day immediately preceding such Offering Date or (ii) if there is no sale of the Class A Common Stock on such Exchange on such business day, the average of the bid and asked prices on such Exchange at the close of the market on such business day.
- l) "Offering Date" shall mean the first day of each Offering Period of the Plan.
- m)



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"*Offering Period*" shall mean a period of three (3) months commencing on the following dates of each year except as otherwise determined by the Company:

- i) November 1,
  - ii) February 1,
  - iii) May 1, and
-

iv)  
August 1.

n)  
"Purchase Price" shall mean 85% of the Fair Market Value of the Class A Common Stock as of the Offering Date.

o)  
"Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

**3. Eligibility.**

a)  
Any person who has been an Associate for thirty-one (31) days as of the Offering Date of a given Offering Period shall be eligible to participate in such Offering Period under the Plan, subject to the requirements of Section 5 and the limitations imposed by Section 423(b) of the Code.

b)  
An Associate shall not be granted an option under the Plan, if:

i)  
immediately after the grant, the Associate (or any other person whose stock would be attributed to such Associate pursuant to Section 424(d) of the Code) would own shares and/or hold outstanding options to purchase shares possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of the Company; or

ii)  
the rate of withholding under such option would permit the Associate's rights to purchase shares under all "employee stock purchase plans" (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue (i.e., become exercisable) at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of Fair Market Value of such shares (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

**4. Offering Periods.**

a)  
The Plan shall be implemented by consecutive Offering Periods with a new Offering Period to begin on or about November 1, February 1, May 1 and August 1 of each year (or at such other time or times as may be determined by the Board). The first Offering Period shall begin on November 1, 1998.

b)  
The Board will have the power to change the duration and/or the frequency of an Offering Period with respect to any future offerings without shareholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

**5. Participation.**

a)  
An Associate will become a participant in the Plan when the Associate completes a subscription agreement provided by the Company, determines a percentage, between one percent (1%) and fifteen percent (15%) of such Associate's Compensation, to be withheld as a payroll deduction and paid as his or her Contribution to the Plan, and submits the subscription agreement to the payroll office prior to the applicable Offering Date. Once enrolled, the Associate shall remain enrolled in each subsequent Offering Period of the Plan at the designated payroll deduction unless the Associate withdraws by providing the Company with a written notice of withdrawal or files a new subscription agreement prior to the applicable Offering Date changing the Associate's designated payroll deduction.

b)

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Payroll deductions begin on the first payroll date during the applicable Offering Period and end on the last payroll date on or prior to the Exercise Date of the Offering Period to which

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the subscription agreement is applicable, unless sooner terminated by the participant as provided in Section 10.

### 6. *Method of Payment of Contributions.*

- a) Payroll deductions shall be made on each payroll date during the Offering Period in an amount between one percent (1%) and fifteen percent (15%) (in whole number increments) of a participant's Compensation on each such payroll date.
- b) All payroll deductions made by a participant will be credited to his or her account under the Plan.
- c) A participant may not make any additional payments into the account.
- d) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may change the rate of his or her payroll deduction during an Offering Period by completing and filing with the Company a new authorization for payroll deduction, provided that the Board may, in its discretion, impose reasonable and uniform restrictions on a participant's ability to change the rate of payroll deductions. The change in rate shall be effective no later than fifteen (15) days following the Company's receipt of the new authorization. A participant may decrease or increase the amount of his or her payroll deductions as of the beginning of an Offering Period by completing and filing with the Company, at least fifteen (15) days prior to the beginning of such Offering Period, a new payroll deduction authorization.
- e) Notwithstanding the foregoing, to the extent necessary, but only to such extent, to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a participant's payroll deductions may be automatically decreased to zero percent (0%) at any time during any Offering Period. Payroll deductions shall commence at the rate provided in such participant's subscription agreement at the beginning of the next succeeding Offering Period, unless terminated by the participant as provided in Section 10.

### 7. *Grant of Option.*

- a) An eligible Associate participating in an Offering Period may purchase shares of the Company's Class A Common Stock on the Exercise Date with the Contributions accumulated on or prior to such Exercise Date.
- b) The number of shares to be purchased on the Exercise Date shall be determined by dividing the Purchase Price into the Contributions accumulated in the participant's account as of the Exercise Date.
- c) The maximum number of shares of the Class A Common Stock which may be purchased during each Offering Period by a participant shall not exceed 5,000 shares, and the purchase is subject to the limitations set forth in Section 3(b) and 12.

### 8. *Exercise of Option.*

- a) Unless a participant withdraws from the Plan as provided in Section 10, the Associate's option for the purchase of shares will be exercised automatically on the Exercise Date of each Offering Period.
- b) The maximum number of shares will be determined based on the Purchase Price and the accumulated Contributions in the participant's account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account and applied to

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the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof.

- c) The shares purchased will be issued to the participant as promptly as practicable after the Exercise Date.
- d) The option to purchase shares hereunder is exercisable only by the participant.

### **9. Delivery.**

As promptly as practicable after the Exercise Date of each Offering Period, the Company shall arrange the delivery of shares to each participant by means of direct deposit into the participant's brokerage account.

### **10. Voluntary Withdrawal; Termination of Employment.**

- a) A participant may withdraw all, but not less than all, of the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time prior to an Exercise Date by giving written notice to the Company on a form provided for such purpose. If the participant withdraws from an Offering Period, all of the participant's payroll deductions credited to his or her account will be paid to the participant as promptly as practicable after receipt of the notice of withdrawal, his or her option for such Offering Period will be automatically canceled, and no further payroll deductions for the purchase of shares will be made during such Offering Period or subsequent Offering Periods, except pursuant to a new subscription agreement filed in accordance with Section 5 hereof.
- b) Upon termination of the participant's Continuous Status as an Associate prior to an Exercise Date of an Offering Period for any reason, including retirement or death, the payroll deductions accumulated in his or her account will be returned to him or her as promptly as practicable after such termination or, in the case of death, to the person or persons entitled thereto under Section 14, his or her option will be automatically canceled and he or she will be deemed to have elected to withdraw from the Plan.
- c) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period or in any similar plan that may hereafter be adopted by the Company.

### **11. Interest.**

No interest shall accrue on the Contributions of a participant in the Plan.

### **12. Stock.**

- a) The maximum number of shares of the Company's Class A Common Stock made available for sale under the Plan is 500,000 and is subject to adjustment upon changes in the capitalization of the Company.
- b) If the total number of shares subject to options granted exceeds the number of shares available under the Plan, the Company will make a pro rata allocation of the shares remaining available for option grant in a practical and equitable manner. A written notice will be distributed to each Associate stating the reduction of the number of shares due to the adjustment and the corresponding reduction in the Contribution.
- c) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

- d) Shares to be delivered to a participant under the Plan will be registered in the name of the participant.

**13. Administration.**

The Board, or a committee appointed by the Board, will:

- a) Supervise and administer the Plan and will have full power to adopt, amend and rescind any rules deemed desirable and appropriate and consistent for the administration of the Plan.
- b) Construe and interpret the Plan in its sole and absolute discretion, and make all other determinations necessary or advisable for the administration of the Plan.

**14. Designation of Beneficiary.**

- a) A participant may file a written designation of a beneficiary who is to receive cash, if any, from the participant's account under the Plan in the event of such participant's death.
- b) Designation of a beneficiary may be changed by the participant at any time by written notice.
- c) In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company will deliver the cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), then the Company, in its discretion, may deliver the cash to the spouse or to any one or more dependents or relatives of the participant.

**15. Transferability.**

- a) Neither Contributions credited to a participant's account nor any rights with regard to an option to purchase shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (except as provided in Section 14).
- b) Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

**16. Use of Funds.**

All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

**17. Reports.**

An individual Account Statement will be given to participating Associates promptly following each Exercise Date. The Account Statement will report:

- a) amount of Contributions,
- b) per share Purchase Price,

- c) number of shares purchased, and
- d) remaining cash balance (if any).

**18. *Adjustments Upon Changes in Capitalization; Corporate Transactions.***

- a) In the event that a dividend shall be declared upon the Class A Common Stock payable in shares of Class A Common Stock, the number of shares of Class A Common Stock then subject to any option and the number of shares of Class A Common Stock which may be purchased upon the exercise of options granted under the Plan but not yet covered by an option shall be adjusted by adding to each share the number of shares which would be distributed thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend. In the event that the outstanding shares of Class A Common Stock shall be changed into or exchanged for a different number or kind of share of stock or other securities of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, sale of assets, merger or consolidation in which the Company is the surviving corporation, then, there shall be substituted for each share of Class A Common Stock then subject to any option and for each share of Class A Common Stock which may be purchased upon the exercise of options granted under the Plan but not yet covered by an option, the number and kind of shares of stock or other securities into which each outstanding share of Class A Common Stock shall be so changed or for which each such share shall be exchanged.
- b) In the event that there shall be any change, other than as specified in the first paragraph of Section 18(a) hereof, in the number or kind of outstanding shares of Class A Common Stock, or of any stock or other securities into which the Class A Common Stock shall have been changed, or for which it shall have been exchanged, then, if the Board shall, in its sole discretion, determine that such change equitably requires an adjustment in the number or kind of shares then subject to any option and the number or kind of shares available for issuance in accordance with the provisions of the Plan but not yet covered by an option, such adjustment shall be made by the Board and shall be effective and binding for all purposes of the Plan and of each option.
- c) In the case of any substitution or adjustment in accordance with the provisions of this Section 18, the option price in each option for each share covered thereby prior to such substitution or adjustment shall be the option price for all shares of stock or other securities which shall have been substituted for such share or to which such share shall have been adjusted in accordance with the provisions of this Section 18.
- d) No adjustment or substitution provided for this Section 18 shall require the Company to issue a fractional share under any option.
- e) In the event of dissolution or liquidation of the Company, or a merger, reorganization or consolidation in which the Company is not the surviving corporation, the Board, in its discretion, may accelerate the exercise of each option and/or terminate the same within a reasonable time thereafter.

**19. *Amendment or Termination.***

The Board may at any time terminate or amend the Plan in whole or part. Except as provided in this Section 19, no such termination may affect options to purchase shares previously granted, nor may an amendment make any change in any option which has been granted which adversely affects the rights of any participant. In addition, to the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain shareholder approval in such manner as required.



**20. Notices.**

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

**21. Conditions Upon Issuance of Shares.**

a)

Shares shall not be issued with respect to an option to purchase, unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed.

b)

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

c)

Each participant agrees, by entering the Plan, to promptly give the Company notice of any disposition of shares purchased under the Plan where such disposition occurs within two (2) years after the date of grant of the option pursuant to which such shares were purchased.

**22. Term of Plan; Effective Date.**

The Plan shall become effective November 1, 1998. Continuance of the Plan shall be subject to approval by the shareholders of the Company no later than January 31, 1999. Such shareholder approval shall be obtained in the manner required under the New York Business Corporation Law. The Plan shall continue in effect for a term of ten (10) years unless sooner terminated under Section 19.

**AMENDMENT NO. 1**

**TO**

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

**ASSOCIATE STOCK PURCHASE PLAN**

Section 2(n) of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended and restated in its entirety as follows:

*"Purchase Price"* shall mean 85% of the lesser of (i) Fair Market Value of the Class A Common Stock as of the Offering Date or (ii) Fair Market Value of the Class A Common Stock as of the Exercise Date."

Section 7(b) of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended and restated in its entirety as follows:

"The number of whole and fractional shares to be purchased on the Exercise Date shall be determined by dividing the Purchase Price into the Contributions accumulated in the participant's account as of the Exercise Date."

Section 8(b) of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended and restated in its entirety as follows:

"The maximum number of whole and fractional shares will be determined based on the Purchase Price and the accumulated Contributions in the participant's account."

Section 8 of the MSC Industrial Direct Co., Inc. Associate Stock Purchase Plan is hereby amended by adding the following Section 8(e) at the end thereof:

"Notwithstanding anything in the Plan to the contrary, any shares acquired by a participant hereunder after the first Offering Date subsequent to January 6, 2004 may not be assigned, transferred, pledged or otherwise disposed of in any way by the participant for a period of forty-five (45) days (or such other longer or shorter time period (including 0 days) as may be established by the Board in its sole discretion) following the date on which the participant acquired such shares as a result of the exercise of such participant's option."

QuickLinks

VOTING

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

ELECTION OF DIRECTORS (ITEM 1)

EXECUTIVE COMPENSATION

Summary Compensation Table

Option Grants in Last Fiscal Year

Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

REPORT OF AUDIT COMMITTEE

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\* AMONG MSC INDUSTRIAL DIRECT CO., INC., THE S & P MIDCAP 400 INDEX AND THE DOW JONES US INDUSTRIAL SERVICES INDEX

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

APPROVAL OF AMENDMENT TO MSC INDUSTRIAL DIRECT CO., INC. 1995 RESTRICTED STOCK PLAN (ITEM 2)

APPROVAL OF THE AMENDMENT TO MSC INDUSTRIAL DIRECT CO., INC. ASSOCIATE STOCK PURCHASE PLAN (ITEM 3)

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS (ITEM 4)

SHAREHOLDER PROPOSALS

ANNUAL REPORT ON FORM 10-K

AMENDMENT NO. 2 TO MSC INDUSTRIAL DIRECT CO., INC. 1995 RESTRICTED STOCK PLAN

AMENDMENT NO. 2 TO MSC INDUSTRIAL DIRECT CO., INC. ASSOCIATE STOCK PURCHASE PLAN

MSC INDUSTRIAL DIRECT CO., INC. 1995 RESTRICTED STOCK PLAN (As Adopted Effective as of November 17, 1995)

MSC INDUSTRIAL DIRECT CO., INC. ASSOCIATE STOCK PURCHASE PLAN