

MSC INDUSTRIAL DIRECT CO INC
Form DEF 14A
December 04, 2008

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

SCHEDULE 14A
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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- Definitive Proxy Statement
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MSC INDUSTRIAL DIRECT CO., INC.

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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(3) Filing Party:

(4) Date Filed:

75 Maxess Road
Melville, New York 11747

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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., a New York corporation, will be held on January 7, 2009 at 9:00 a.m., local time, at the JPMorgan Chase Conference Center, lower level, at 395 North Service Road, Melville, New York 11747, for the following purposes:

1. To elect seven directors to serve for one-year terms;
2. To amend our Associate Stock Purchase Plan to (i) increase the number of shares available for sale thereunder by 350,000 shares of our Class A common stock, (ii) extend the term of the plan by an additional ten years, through October 31, 2018 and (iii) make certain other changes;
3. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2009; and
4. To consider and act upon such other matters as may properly come before the annual meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on November 19, 2008 are entitled to vote at the annual meeting and any adjournments or postponements thereof.

All shareholders are cordially invited to attend the annual meeting. However, to assure your representation at the annual 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 annual meeting may vote in person even if he or she has already returned a proxy.

By Order of the Board of Directors,

Steve Armstrong
Vice President, General Counsel and
Corporate Secretary

Melville, New York
December 4, 2008

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.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
SHAREHOLDERS MEETING TO BE HELD ON JANUARY 7, 2009.**

Our Proxy Statement and Annual Report are available online at:

<http://ww3.ics.adp.com/streetlink/msm>

75 Maxess Road
Melville, New York 11747

PROXY STATEMENT

FOR
Annual Meeting of Shareholders
to be held on January 7, 2009

INFORMATION ABOUT THE MEETING

We are furnishing this proxy statement to you in connection with the solicitation of proxies by our Board of Directors, which we refer to as the Board, to be used at our 2009 annual meeting of shareholders, or at any adjournments or postponements thereof. This proxy statement describes the matters to be presented at the meeting and related information that will help you vote at the meeting. References in this proxy statement to "the company," "we," "us," "our" and similar terms mean MSC Industrial Direct Co., Inc.

The notice of annual meeting, this proxy statement and the proxy card were first mailed on or about December 4, 2008 to our shareholders of record as of November 19, 2008.

The mailing address of our principal executive office is 75 Maxess Road, Melville, New York 11747.

When and where is the annual meeting?

The annual meeting will be held at the JPMorgan Chase Conference Center, lower level, at 395 North Service Road, Melville, New York 11747, on January 7, 2009 at 9:00 a.m., local time.

What am I voting on?

You are voting on the following proposals:

to elect seven directors to serve for one-year terms;

to amend our Associate Stock Purchase Plan to (i) increase the number of shares available for sale thereunder by 350,000 shares of our Class A common stock, (ii) extend the term of the plan by an additional ten years, through October 31, 2018 and (iii) make certain other changes;

to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2009; and

to consider and act upon such other matters as may properly come before the annual meeting or any adjournments or postponements thereof.

What are the voting recommendations of the Board of Directors?

Our Board recommends that you vote "FOR" each of the director nominees, "FOR" the proposal to amend our Associate Stock Purchase Plan and "FOR" ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2009.

Who is entitled to vote?

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Only shareholders of record of our Class A common stock and our Class B common stock at the close of business on November 19, 2008, the record date, are eligible to vote at the annual meeting. On

that date, we had outstanding 43,883,539 shares of Class A common stock and 18,389,874 shares of Class B common stock.

What is a shareholder of record?

You are a shareholder of record if you are registered as a shareholder with our transfer agent, Computershare Shareholder Services.

What is a beneficial shareholder?

You are a beneficial shareholder if a brokerage firm, bank, trustee or other agent holds your shares in their name for your benefit.

What is a quorum?

A quorum is the minimum number of shares required to hold a shareholders meeting. Under New York law and our By-Laws, the presence in person or by proxy of the holders of a majority of the total shares of our Class A common stock and our Class B common stock which are entitled to vote is necessary to constitute a quorum at the annual meeting.

How many votes are needed for the proposals to pass?

The election of directors requires the affirmative vote of a plurality of the votes cast in person or by proxy at the annual meeting. All other proposals require the affirmative vote of a majority of the votes cast on those proposals at the annual meeting. Abstentions and broker non-votes are not counted for any purpose in determining whether a matter has been approved, but are considered present and entitled to vote for purposes of determining a quorum.

On all matters to be voted upon at the annual meeting and any adjournments or postponements thereof, the record holders of the Class A common stock and the Class B common stock vote together as a single class, with each holder of Class A common stock entitled to one vote per share of Class A common stock and each holder of Class B common stock entitled to ten votes per share of Class B common stock.

What is a broker non-vote?

If you hold shares beneficially in street name and do not provide your broker, bank or other agent with voting instructions, your shares may constitute "broker non-votes." Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and the beneficial owner does not provide instructions. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. However, if you are a beneficial owner whose shares are held in the name of a broker, and you do not provide your broker with voting instructions, the broker has the authority to vote your shares for or against certain "routine" matters. Routine matters include all of the proposals to be voted on at the annual meeting, other than the proposal to amend our Associate Stock Purchase Plan.

How do I vote?

If you are a shareholder of record, you may vote by signing, dating and mailing your proxy card. If you are a beneficial shareholder, you must follow the voting procedures provided by your broker, bank, trustee or other nominee included with your proxy materials.

If you are a record holder and you sign your proxy card without giving specific instructions, your shares will be voted in accordance with the recommendations of our Board ("FOR" all seven of our nominees to the Board, "FOR" the proposal to amend our Associate Stock Purchase Plan, and "FOR" ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm).

If your shares are held in the MSC Industrial Direct Co., Inc. 401(k) Plan, the enclosed proxy will serve as a voting instruction card for the trustee of our 401(k) Plan, T. Rowe Price Trust Company, who will vote all shares of Class A common stock of the company allocated to your 401(k) account in accordance with your instructions. If the voting instruction card is returned without choices marked, and if not otherwise directed, the shares in your 401(k) account that are represented by the voting instruction card will not be voted.

What will happen if another matter properly comes before the annual meeting?

Our Board does not intend to bring any matter before the annual meeting except as specifically indicated in the foregoing notice, nor does our Board know of any matters that anyone else proposes to present for action at the annual meeting. However, if any other matters are properly presented at the meeting for a vote, the enclosed proxy confers discretionary authority to the individuals named as proxies to vote the shares represented by proxy, as to those matters.

If I plan to attend the annual meeting, should I still vote by proxy?

All shareholders are cordially invited to attend the annual meeting. However, to assure your representation at the annual 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 annual meeting may vote in person even if he or she has already returned a proxy.

If you send in your proxy card and also attend the meeting, you do not need to vote again at the meeting unless you want to change your vote. Written ballots will be available at the meeting for shareholders of record. Beneficial shareholders who wish to vote in person must request a proxy from their broker or other nominee and bring that proxy to the annual meeting.

Who pays the cost for the solicitation of proxies?

We will pay the expenses of solicitation of proxies for the annual meeting. Such solicitation may be made in person or by telephone by officers and employees of the company. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding material to the beneficial owners of shares of our Class A common stock.

How do I change my vote?

Shareholders of record may revoke their proxies by giving written notice of revocation to our Corporate Secretary before the annual meeting, by delivering later-dated proxies, or by voting in person at the meeting. Beneficial shareholders may change their vote by following the instructions of their broker, bank, trustee or other nominee.

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**ELECTION OF DIRECTORS
(PROPOSAL 1)**

Seven directors will be elected at our 2009 annual meeting of shareholders for a term of one year expiring at the 2010 annual meeting, and will serve until their respective successors shall have been elected, or until their earlier resignation or removal. Each of the nominees for director was previously elected a director of the company by our shareholders, other than Ms. Louise Goeser, who has been nominated by our Board for election at the annual meeting. In addition, Mr. Charles Boehlke, our Executive Vice President and Chief Financial Officer, previously served as a director of the company from January 2001 to December 2007 and is not currently serving as a director.

Each nominee has indicated that he or she is willing to serve as a member of our Board, if elected, and our Board 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. 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.

Our 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 our Board.

Nominees for Director

Name of Nominee	Principal Occupation	Age	Director Since
Charles Boehlke	Executive Vice President and Chief Financial Officer of the company	52	n/a
Roger Fradin	President and Chief Executive Officer of Automation and Control Solutions Division of Honeywell International Inc.	55	July 1998
Louise Goeser	Corporate Director	55	n/a
Denis Kelly	Managing Partner of Scura, Rise & Partners LLC	59	April 1996
Mitchell Jacobson	Chairman of the Board of Directors of the company	57	October 1995
Philip Peller	Business Consultant; Retired Partner of Arthur Andersen LLP	69	April 2000
David Sandler	President and Chief Executive Officer of the company	51	June 1999

Charles Boehlke has served as our Executive Vice President and Chief Financial Officer since January 2003. Prior to being appointed as our Executive Vice President, Mr. Boehlke was appointed our Senior Vice President and Chief Financial Officer in June 2000. From April 1996 to April 2000, he was the Vice President of Finance for North American operations at Arrow Electronics, Inc. From January 1994 to April 1996, Mr. Boehlke served as the Chief Financial Officer of Black & Decker Mexico. He held several other finance positions of increasing responsibility at Black & Decker between 1980 and 1994. Mr. Boehlke previously served on our Board from January 2001 to December 2007.

Roger Fradin has served as the President and Chief Executive Officer of the Automation and Control Solutions Division of Honeywell International Inc. since June 2002. Previously, from 2000 until June 2002, he was President of the Security and Fire Solutions Division of Honeywell International Inc. From 1987 until 2000, Mr. Fradin served as the President of the ADEMCO Group.

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Louise Goeser served as President and Chief Executive Officer of Ford of Mexico from January 2005 to November 2008. Prior to this position, she served as Vice President, Global Quality for Ford Motor Company, a position she had held since 1999. Prior to 1999, she served as Vice President for Quality at Whirlpool Corporation, and served in various leadership positions with Westinghouse Electric Corporation. Ms. Goeser is also a director and a member of the Compensation, Governance and Nominating Committee of PPL Corporation. Ms. Goeser has been nominated by our Board for election at the annual meeting and has not previously served on our Board.

Denis Kelly is a Managing Partner of Scura, Rise & Partners LLC, a private investment banking firm. From 1993 to 2000, he was a Managing Director of Prudential Securities Inc. Previously, he served as the President of Denbrook Capital Corporation, a merchant banking firm, from 1991 to 1993. From 1980 to 1991, Mr. Kelly held various positions at Merrill Lynch, including Managing Director of Mergers and Acquisitions and Managing Director of Merchant Banking. Mr. Kelly began his investment banking career at Lehman Brothers in 1974. Mr. Kelly is also a director and a member of the Audit Committee of Kenneth Cole Productions, Inc., a director of Plymouth Financial Company, Inc. and Chairman of the Board of Directors of Ashburn Hill Corporation.

Mitchell Jacobson was appointed our President and Chief Executive Officer in October 1995 and held both positions until November 2003. He continued as our Chief Executive Officer until November 2005. Mr. Jacobson was appointed our Chairman of the Board of Directors in January 1998. Previously, Mr. Jacobson was President and Chief Executive Officer of Sid Tool Co., Inc., our predecessor company and current wholly-owned and principal operating subsidiary, which we refer to as Sid Tool, from June 1982 to November 2005.

Philip Peller is an independent business consultant. He was a partner of Andersen Worldwide S.C. and Arthur Andersen LLP from 1970 until his retirement in 1999. He 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. He also served as the Managing Director of Quality, Risk Management and Professional Competence for Arthur Andersen's global audit practice. In addition, Mr. Peller is a director and Chairman of the Audit Committee of Kenneth Cole Productions, Inc. Mr. Peller has served as our Lead Director since December 2007.

David Sandler was appointed our President and Chief Executive Officer in November 2005. Mr. Sandler was our President and Chief Operating Officer from November 2003 to November 2005. Previously, from November 2000 to November 2003, he served as our Executive Vice President and Chief Operating Officer. In June 1999, he was also appointed as a member of our Board. From May 1999 to November 2000, he was Executive Vice President of the company. From 1998 to 1999, Mr. Sandler served as our Senior Vice President, Administration. From 1989 to 1998, he held various positions of increasing responsibility for several departments throughout the company, including Information Systems, Product Management, Purchasing, Corporate Development, Human Resources and Finance. In the spring of 1989, Mr. Sandler joined the company as a result of our acquisition of Dancorp Inc., a New England-based industrial supply distributor, where he served as President and Chief Executive Officer from 1976 to 1989.

In December 2005, Erik Gershwind was appointed as our Senior Vice President of Product Management and Marketing. Mr. Gershwind is the nephew of Mr. Jacobson, the Chairman of our Board, and the son of Marjorie Gershwind, Mr. Jacobson's sister. There are no other family relationships among any of our directors or executive officers.

**The Board recommends a vote "FOR"
the re-election of each of Messrs. Jacobson, Sandler, Fradin, Kelly and Peller and
for the election of Ms. Goeser and Mr. Boehlke.**

**Proxies received in response to this solicitation
will be so voted unless otherwise specified in the proxy.**

CORPORATE GOVERNANCE

Director Independence

Pursuant to New York Stock Exchange listing standards, a majority of the members of our Board must be independent. The Board must determine that each independent director has no material relationship with the company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The Board follows the criteria set forth in Section 303A of the New York Stock Exchange listing standards to determine director independence. Our independence criteria are also set forth in Section I of our Corporate Governance Guidelines, a copy of which is available on the Corporate Governance webpage of our website at www.mscdirect.com. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

The Board undertakes a review of director independence on an annual basis, and as events arise which may affect director independence. Based upon this review, the Board determined that Messrs. Fradin, Kelly and Peller are independent in accordance with Section 303A.02 of the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, as well as under our Corporate Governance Guidelines.

In addition, the Board has determined that Ms. Goeser has no material relationship with the company that would interfere with the exercise of her independent judgment and is otherwise independent in accordance with the New York Stock Exchange Listing Standards and Rule 10A-3 promulgated under the Exchange Act, as well as under our Corporate Governance Guidelines. In evaluating the independence of Ms. Goeser, the Board considered that, until November 1, 2008, Ms. Goeser was the President and Chief Executive Officer of Ford of Mexico, an affiliate of Ford Motor Company. Ford Motor Company and various of its affiliates are customers of the company. In addition, the Board considered that Ms. Goeser is a director of PPL Corporation, which is also one of our customers. Sales to such companies were made in the ordinary course of business and amounted to significantly less than 1% of our gross revenues during our most recent fiscal year.

From on or about February 1, 2007 to December 7, 2007, Mr. Raymond Langton, then a member of our Board and each of our Board's committees, had ceased to be independent as a result of Mr. Langton's becoming an employee of a private investment company indirectly owned by Mitchell Jacobson, our Chairman of the Board, and members of his family. Because Mr. Langton had ceased to be independent, only three of the seven members of our Board, and only three of the four members of each committee of our Board, were independent. Mr. Langton resigned on December 7, 2007 from our Board and each committee of our Board.

Committees and Meetings of the Board

Our Board held five meetings during the last fiscal year. Each of the directors attended at least 75% of the aggregate number of meetings of our Board and of the committees of our Board on which he served.

The non-management directors, Messrs. Fradin, Kelly and Peller, who are independent directors under the New York Stock Exchange listing standards, meet at regularly scheduled executive sessions without members of management present. The independent directors have rotated serving as the presiding director at the executive sessions of the independent directors.

We encourage attendance by the directors at our annual meeting of shareholders. All of our current directors attended the annual meeting held on February 7, 2008, either in person or by telephone.

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The standing committees of our Board are the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The table below provides the current membership for each of these committees. In addition, the Board has appointed Ms. Goeser to serve as a member of each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee, subject to and effective upon her election to our Board at the annual meeting.

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Roger Fradin	X	X	X
Denis Kelly	X	X*	X*
Mitchell Jacobson			
Philip Peller	X*	X	X
David Sandler			

*

Committee Chair

Audit Committee

The Audit Committee is currently comprised of Messrs. Fradin, Kelly and Peller, each of whom the Board has determined to be independent under both the rules of the SEC and the listing standards of the New York Stock Exchange and to meet the financial literacy requirements of the New York Stock Exchange. Mr. Peller is the Chairman of the Audit Committee. In addition, the Board has determined that Mr. Peller qualifies as an "audit committee financial expert" within the meaning of the rules of the Securities and Exchange Commission, which we refer to herein as the SEC.

The purpose of the Audit Committee is:

to assist Board oversight of the preparation and integrity of our financial statements, our compliance with our ethics policies and legal and regulatory requirements, the independent registered public accounting firm's qualifications, performance and independence, and the performance of our internal audit function; and

to prepare an annual Audit Committee report to be included in our annual proxy statement.

The Audit Committee is directly responsible for appointing and terminating our independent registered public accounting firm and for recommending to our Board that the audited financial statements be included in our Annual Report on Form 10-K for filing with the SEC. See the section entitled "**Audit Committee Report**" beginning on page 22 of this proxy statement for additional information. The Audit Committee must also undertake an annual evaluation of its performance.

The Audit Committee has the responsibilities and functions mandated by Sections 303A.06 and 303A.07 of the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Exchange Act, as set forth in the Audit Committee's current charter, a copy of which is available on the Corporate Governance page of our website at www.mscdirect.com, and a printed copy of which is available to any shareholder requesting a copy by writing to: Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747. The Audit Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties. We are obligated to provide appropriate funding for the Audit Committee for these purposes. The Audit Committee met five times during the fiscal year ended August 30, 2008.

We do not have a standing policy on the maximum number of audit committees of other publicly owned companies on which the members of our Audit Committee may serve. However, if a member of our Audit Committee simultaneously serves on the audit committee of more than two other publicly-owned companies, our Board must determine whether such simultaneous service would impair the

ability of such member to effectively serve on our Audit Committee. Any such determination will be disclosed in our annual proxy statement.

Compensation Committee

Responsibilities and Meetings

Our Board has a standing Compensation Committee currently comprised of Messrs. Fradin, Kelly and Peller, each of whom is an independent director. Mr. Kelly 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 our Chief Executive Officer;

evaluating our Chief Executive Officer's performance in light of those goals and objectives;

determining and approving our Chief Executive Officer's compensation level based on their evaluation of his performance;

setting the compensation levels of all of our executive officers (other than our Chief Executive Officer), including with respect to incentive compensation plans and equity-based plans of the company; and

preparing a Compensation Committee report on executive compensation to be included in our annual proxy statement.

The Compensation Committee also administers our equity incentive plans and must undertake an annual evaluation of its performance.

The Compensation Committee has adopted a written charter, a copy of which is available on the Corporate Governance page of our website at www.mscdirect.com, and a printed copy of which is available to any shareholder requesting a copy by writing to: Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747. The Compensation Committee met six times during the fiscal year ended August 30, 2008.

Delegation of Authority

The Compensation Committee does not delegate its responsibilities to any other directors or members of management. Under our 2005 Omnibus Equity Plan, the Compensation Committee is permitted to delegate its authority under such plan. However, as a matter of policy, the Compensation Committee authorizes all grants of equity awards under the 2005 Omnibus Equity Plan.

Compensation Processes and Procedures

The Compensation Committee makes all compensation decisions for our executive officers. The views and recommendations of Mitchell Jacobson, our Chairman of the Board, and David Sandler, our Chief Executive Officer, are, and will continue to be, considered by the members of the Compensation Committee in its review of the performance and compensation of individual executives. Mr. Jacobson also provides input on Mr. Sandler's compensation. Our Senior Vice President of Human Resources, Ms. Eileen McGuire, assists the Chairman of the Compensation Committee in developing the agenda for committee meetings and works with the Compensation Committee in developing agenda materials for the committee's review, including coordinating and presenting management's proposals and recommendations to the Compensation Committee with respect to executive compensation and to our Nominating and Corporate Governance Committee with respect to director compensation. Both Ms. McGuire and Mr. Sandler regularly attend Compensation Committee meetings, excluding portions

of meetings where their own compensation is discussed. The Compensation Committee considers, but is not bound by, management's proposals and recommendations with respect to executive compensation.

Beginning in fiscal year 2005, the Compensation Committee engaged Towers Perrin, a compensation consulting firm, to assist the committee on compensation matters, market practices and our compensation strategies and goals. Towers Perrin provides research, market data and survey information and makes recommendations to the Compensation Committee regarding our executive compensation programs and to the Nominating and Corporate Governance Committee regarding our non-employee director compensation programs. Towers Perrin advises the Compensation Committee on the competitiveness of our compensation arrangements and provides input, analysis and recommendations for the compensation paid to our named executive officers, other executives and non-management directors. Towers Perrin provides data and analysis with respect to public companies having similar characteristics (including size, profitability, geography, business lines and growth rates) to those of the company. The Compensation Committee considers, but is not bound by, the consultant's proposals and recommendations with respect to executive compensation.

Nominating and Corporate Governance Committee

Our Board has a standing Nominating and Corporate Governance Committee comprised of Messrs. Fradin, Kelly and Peller, each of whom is an independent director. 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 our Board consistent with criteria approved by our Board;

recommending to our Board nominees for membership on our Board;

developing and recommending to our Board corporate governance principles applicable to the company;

reviewing and approving any related party transaction proposed to be entered into and if appropriate, ratifying any such transaction previously commenced and ongoing;

setting or recommending to our Board the compensation of the non-employee directors; and

overseeing the evaluation of our Board and our management.

Only those candidates nominated by the Nominating and Corporate Governance Committee will be considered as nominees for our Board. The Nominating and Corporate Governance Committee must 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 Corporate Governance page of our website at www.mscdirect.com, and a printed copy of which is available to any shareholder requesting a copy by writing to: Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747. The Nominating and Corporate Governance Committee met five times in the fiscal year ended August 30, 2008.

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines, which are available on the Corporate Governance page of our website at www.mscdirect.com. A printed copy is available to any shareholder requesting a copy by writing to: Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747.

Code of Ethics and Code of Business Conduct

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer and senior financial officers and a Code of Business Conduct that applies to all of our directors, officers and employees. The Code of Ethics and the Code of Business Conduct are available on the Corporate Governance page of our website at www.mscdirect.com, and printed copies are available to any shareholder requesting a copy by writing to: Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, New York 11747. We intend to disclose on our website, in accordance with all applicable laws and regulations, amendments to, or waivers from, our Code of Ethics and our Code of Business Conduct.

Policy Regarding Shareholder Nominations for Director

The Nominating and Corporate Governance Committee of our Board believes that the best director candidates will be those who have a number of qualifications, including independence, knowledge, judgment, integrity, character, leadership, skills, education, experience, financial literacy, standing in the community and an ability to foster a diversity of backgrounds and views and to complement our Board's existing strengths. There are no specific, minimum or absolute criteria for Board membership. The Nominating and Corporate Governance Committee also believes it is important that directors have demonstrated an ethical and successful career. Such a career may include:

experience as a senior executive of a publicly traded corporation, a management consultant, an investment banker, a partner at a law firm or registered public accounting firm or a 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 Nominating and Corporate Governance Committee determines qualifies an individual for Board service.

At all times, the Nominating and Corporate Governance Committee will make every effort to ensure that our 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 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 our Board, the Nominating and Corporate Governance Committee will consider and review such existing director's attendance and performance, independence, experience, skills and the contributions that the existing director brings to our Board.

The Nominating and Corporate Governance Committee may employ third-party search firms to identify director candidates if so desired. The Nominating and Corporate Governance Committee will review and consider recommendations from a wide variety of contacts, including current executive officers, directors, community leaders and shareholders, as a source for potential director candidates.

There is one nominee for election to our Board this year who has not previously been elected by the shareholders to serve as a director and is not currently serving as a director. This nominee, Ms. Goeser, has been nominated by our Board after the recommendation of her candidacy by our Nominating and Corporate Governance Committee. In 2008, the Nominating and Corporate Governance Committee retained Heidrick & Struggles, a third party search firm, to identify qualified candidates for membership on our Board. Ms. Goeser was identified as a potential nominee by such third party search firm. In connection with our Board's nomination of Mr. Goeser, our Board has nominated Mr. Charles Boehlke, our Executive Vice President and Chief Financial Officer, to serve as a director of the company. Mr. Boehlke previously served as a director from January 2001 to December 2007, when he voluntarily resigned to ensure that our Board had a majority of independent directors.

The Nominating and Corporate Governance Committee will consider qualified director candidates recommended by shareholders in compliance with our procedures and subject to applicable inquiries; we did not receive any such recommendations this year. The Nominating and Corporate Governance Committee does not have different standards for evaluating nominees depending on whether they are proposed by our directors or by our shareholders. Any shareholder may recommend a nominee for director at least 120 calendar days prior to the one year anniversary of the date on which our proxy statement was released to shareholders in connection with the previous year's annual meeting, by writing to Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, NY 11747, giving the name, company shareholdings 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; 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 stock exchange requirements. All of these communications will be reviewed by our Corporate Secretary and forwarded to Mr. Kelly, the Chairman of the Nominating and Corporate Governance 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 our Chairman of the Board, Lead Director or any of the other members of our Board may do so by writing to: Board, c/o Philip Peller, Lead Director of the Board, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, NY 11747. Communications may be addressed to the Chairman of the Board, the Lead Director, an individual director, a Board committee, the non-management directors or the full Board.

Legal Proceedings

On November 15, 2007, a purported shareholder derivative action, captioned *Plymouth County Retirement Association v. Schroeder et. al.*, was filed in the United States District Court for the Eastern District of New York, on our behalf, against the company as nominal defendant, our Board of Directors and certain of our current and former directors and officers. The plaintiff derivatively claims violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, as well as breach of fiduciary duties, waste of corporate assets and unjust enrichment in connection with certain stock options granted from 1997 to 2001. The plaintiff seeks unspecified damages, disgorgement of stock options and any proceeds received from the exercise of misdated stock options, an accounting of stock option grants and costs, including attorneys' fees and expenses. On February 1, 2008, we and the individually named defendants filed motions to dismiss the litigation. By memorandum and order dated September 5, 2008, the court granted in part and denied in part those motions. By agreement of the parties, proceedings in the litigation are currently stayed. Based on the allegations in the complaint, we believe the plaintiff's claims are without merit.

Executive Officers

The following individuals are the executive officers of the Company as of December 4, 2008:

Name of Officer	Position	Age	Executive Officer Since
Mitchell Jacobson	Chairman of the Board	57	October 1995
David Sandler	President and Chief Executive Officer	51	January 1998
Charles Boehlke	Executive Vice President and Chief Financial Officer	52	June 2000
Steve Armstrong	Vice President, General Counsel and Corporate Secretary	50	October 2008
Charles Bonomo	Vice President and Chief Information Officer	43	July 2007
Shelley Boxer	Vice President, Finance and Accounting	61	October 1995
Thomas Cox	Executive Vice President, Sales	47	June 2000
Erik Gershwind	Senior Vice President, Product Management and Marketing	37	December 2005
Douglas Jones	Senior Vice President, Supply Chain Management	44	December 2005
Eileen McGuire	Senior Vice President, Human Resources	43	December 2005

See the section entitled "*Election of Directors (Proposal 1)*" beginning on page 6 of this proxy statement for the biographical data for Messrs. Jacobson, Sandler and Boehlke.

Steve Armstrong was appointed our Vice President, General Counsel and Corporate Secretary in October 2008. From 2006 to 2008, he was a legal consultant based in New York, New York performing services for Thomson Reuters and NBC Universal. Mr. Armstrong was the Executive Vice President and General Counsel of the Home Shopping Network in Tampa, Florida from 2002 to 2006. From 2000 to 2002, he was the Senior Vice President and General Counsel of Agilera, Inc., a technology company in Denver, Colorado. Prior to 2000, Mr. Armstrong was the Vice President, General Counsel & Secretary of Samsonite Corporation and a partner in the law firms, Paul Hastings and Baker and Hostetler.

Charles Bonomo was appointed our Vice President and Chief Information Officer in July of 2007. From 1999 through 2007 he served as Vice President at Arrow Electronics, Inc., including in the position of Vice President of Infrastructure and Operations from January 2006 to July 2007, and as Vice President and Chief Architect from July 2003 through January 2006. Previously, he was the Director of Clinical Technology at Mount Sinai Medical Center from 1996 to 1998, rising to Vice President and Chief Information Officer of NYU Health System in 1998. Prior to 1996, he held various positions of increasing responsibility at J.P. Morgan in the United States and Europe and at Grumman Aerospace Corp., where he designed and tested software for the F14 Tomcat aircraft.

Shelley Boxer was appointed our Vice President, Finance and Accounting in 2000. Previously, Mr. Boxer was our Vice President and Chief Financial Officer from 1995 until June 2000. From June 1993 to October 1995, he served as Chief Financial Officer of Sid Tool. From 1992 to 1993, Mr. Boxer was the Vice President and Chief Financial Officer of Joyce International, Inc., a distribution and manufacturing company. From 1987 to 1992, he was the Executive Vice President and Chief Financial Officer of Kinney Systems, an automobile parking facility and real estate company.

Thomas Cox was appointed our Executive Vice President, Sales in December 2005. Previously, he served as our Senior Vice President from April 2000 to November 2005 and as our Vice President of

the North Region from October 1999 to March 2000. Mr. Cox joined the company in September 1997 as a director in the sales organization. Prior to joining the company, he spent ten years, beginning in 1985, in the United States and Europe with TNT Express Worldwide, an international transportation company. Mr. Cox was responsible for Worldwide Sales and Marketing based in Europe for several years, and he also held the position of President of the Americas. After leaving TNT Express Worldwide, he served as President of his own transportation business, MailNet, with offices in the United States and overseas.

Erik Gershwind was appointed our Senior Vice President, Product Management and Marketing in December 2005. Previously, Mr. Gershwind was our Vice President of Product Management from April 2005. From August 2004 to April 2005, Mr. Gershwind served as Vice President of MRO and Inventory Management. Mr. Gershwind has held various positions of increasing responsibility in product, E-Commerce and marketing. Mr. Gershwind joined the company in 1995 as manager of our acquisition integration initiative. He is the nephew of Mitchell Jacobson, our Chairman of the Board, and the son of Marjorie Gershwind, Mr. Jacobson's sister.

Douglas Jones was appointed our Senior Vice President, Supply Chain Management in April 2008. Previously, he was our Senior Vice President of Logistics from December 2005. Mr. Jones joined the company in July 2001, as Vice President of Fulfillment. Prior to joining the company, he served as Vice President, Distribution Operations for the Central Region of the United States, at Fisher Scientific from 1998 to 2001. Prior to his role at Fisher Scientific, Mr. Jones was part of the Management Team at McMaster-Carr Supply Company, based in Chicago. During his ten-plus-year tenure with McMaster-Carr, Mr. Jones held various managerial positions of increasing responsibility in Fulfillment, Finance, Purchasing and Inventory Management.

Eileen McGuire was appointed our Senior Vice President, Human Resources in December 2005. Previously, in June 1999, she was promoted to Vice President of Human Resources and, in May 1996, was appointed director of Human Resources. Ms. McGuire joined our predecessor company, Sid Tool, in 1983, and during her tenure, she has had many cross-functional roles throughout the company, including in Distribution, Operational Accounting, Inside Sales, Field and Branch Operations, Call Center Management and Corporate Training.

There are no arrangements or understandings between any executive officer and any other person pursuant to which the executive officer was, or is to be, selected as an officer of the company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who own beneficially more than 10% of our Class A common stock to file initial reports of ownership and reports of changes in ownership with the SEC. Based solely on our review of the copies of such forms furnished to us and written representations from our executive officers, directors and such beneficial owners, we believe that all filing requirements of Section 16(a) of the Exchange Act were timely complied with during the fiscal year ended August 30, 2008.

APPROVAL OF AMENDMENTS TO OUR ASSOCIATE STOCK PURCHASE PLAN (PROPOSAL 2)

Our Board has adopted, subject to shareholder approval, amendments to our Associate Stock Purchase Plan, which we refer to below as the Stock Purchase Plan. We are asking our shareholders to approve a proposal to amend the Stock Purchase Plan to (i) increase the number of shares available for sale thereunder by 350,000 shares of our Class A common stock to an aggregate of 1,150,000 shares of our Class A common stock, (ii) extend the term of the plan by an additional ten years, through October 31, 2018 and (iii) make certain other changes to the plan. The following summary of certain

features of the Stock Purchase Plan is qualified in its entirety by reference to the full text of the Stock Purchase Plan, as amended and restated, which is attached to this proxy statement as *Annex A*.

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of our Class A common stock and Class B common stock present in person or by proxy at the annual meeting is required for adoption of this proposal.

**The Board recommends a vote "FOR"
the proposal to amend our Stock Purchase Plan.**

**Proxies received in response to this solicitation
will be so voted unless otherwise specified in the proxy.**

Reasons for Amendments

The Compensation Committee, in consultation with our Board and senior management, has determined that the ability of our employees to purchase shares of our Class A common stock under the Stock Purchase Plan helps achieve our short and long-term compensation objectives. However, as of November 24, 2008, only 89,262 shares of our Class A common stock were available for future sale under the Stock Purchase Plan. In addition, the Stock Purchase Plan was set to expire in accordance with its terms on October 31, 2008. Accordingly, on October 16, 2008, our Board adopted amendments to the Stock Purchase Plan which will be effective, subject to shareholder approval, as of November 1, 2008. The amendments (i) raise the authorized but unissued shares of the Class A common stock of the company reserved for sale under the Stock Purchase Plan from 800,000 to 1,150,000 shares, (ii) renew and extend the term of the Stock Purchase Plan for an additional ten years, through October 31, 2018 and (iii) makes certain other changes to the plan. The other changes to the plan include providing our Board with the flexibility to change the discount under the plan, from time to time, subject to the discount limitations established under Section 423 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Among other administrative and clarifying changes, the amendments clarify that the plan is governed under New York law and that participation in the plan does not constitute a guarantee of employment. The amendments also limit the liability of the plan administrator to acts that constitute willful misconduct.

In addition to the extension of the plan's term, the purposes of the amendments are to better facilitate plan administration and to ensure that we will have a sufficient reserve of our Class A common stock available under the Stock Purchase Plan to provide eligible employees with the opportunity to purchase shares of our Class A common stock through payroll deductions. Unless our shareholders approve this amendment to the Stock Purchase Plan, we will not be able to continue to use the plan as an incentive to attract, retain and motivate our employees.

Purpose of the Stock Purchase Plan

The purpose of the Stock Purchase Plan is to provide our employees with an opportunity to purchase shares of our Class A common stock through payroll deductions. We intend that the Stock Purchase Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Stock Purchase 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.

Plan History

Our Board adopted the Stock Purchase Plan on May 4, 1998 and our shareholders approved the plan at the 1999 annual meeting of shareholders. The initial share reserve of the Stock Purchase Plan was 500,000 shares of our Class A common stock, which was increased by our shareholders on January 4, 2005, by 300,000 shares, to a total of 800,000 shares of our Class A common stock.

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In addition, on October 29, 2003, our Board adopted amendments to the Stock Purchase Plan, approved by our shareholders on January 6, 2004, to:

modify the price at which shares of our Class A common stock could be purchased under the plan;

permit the purchase of fractional shares under the plan; and

prevent a participant from disposing of shares purchased under the plan for a period of 45 days following purchase.

The Board, on February 1, 2007, further modified the price at which shares of our Class A common stock could be purchased under the plan to be 90% of the fair market value of the stock as of the date of purchase.

Administration

The Stock Purchase Plan is administered by the Compensation Committee of our Board.

Eligibility and Extent of Participation

Each of our employees 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 in the Stock Purchase Plan, commencing on the first day of the month following the completion of both the month in which he or she was hired and the next full calendar month. Participation in the Stock Purchase Plan is further subject to certain limitations imposed by Section 423(b) of the Code. As of November 24, 2008, approximately eight executives and 4,038 other employees were eligible to participate in the Stock Purchase Plan.

An employee may become a participant in the Stock Purchase Plan by completing a subscription agreement authorizing payroll deductions on the form provided by us and filing it with the human resources department 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 Stock Purchase Plan at the designated payroll deduction unless the participant withdraws by providing us with written notice of withdrawal or files a new subscription agreement prior to the applicable offering date changing the employee's designated payroll deduction.

Purchase of Shares

The maximum number of shares of our 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 the availability of shares under the Stock Purchase Plan.

Unless a participant withdraws from the Stock Purchase 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 purchase price with the accumulated payroll deductions in his or her account. A participant's option to purchase shares under the Stock Purchase Plan may be exercised only by the participant.

Offering Periods

Options are granted under the Stock Purchase Plan to purchase shares of our 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 our Board.

Purchase Price

The purchase price per share at which shares of our Class A common stock are sold under the Plan is 90% of the fair market value of our Class A common stock as of the date options are exercised in each period to purchase shares of the company. We are proposing our Board be provided with the flexibility to change the discount under the plan, from time to time, subject to the discount limitations established under Section 423 of the Code.

Valuation

The fair market value of our Class A common stock on any relevant date under our Stock Purchase Plan is the closing sale price of a share of our Class A common stock on the New York Stock Exchange on such date. If there is no sale of our Class A common stock on the New York Stock Exchange on such date, the fair market value of the stock will be the average of the bid and asked prices on the exchange on such date. If our Class A common stock is no longer traded on the New York Stock Exchange, the fair market value will be determined by the plan administrator in its reasonable discretion. As of November 24, 2008, the closing price of our Class A common stock on the New York Stock Exchange was \$30.42.

Transferability

Neither contributions credited to an employee's account under the Stock Purchase Plan nor any option to purchase shares pursuant to the plan may be assigned in any way, except that contributions credited to his or her account may be transferred to a designated beneficiary upon such employee's death.

Any shares acquired by a participant pursuant to the plan may not be assigned, transferred, pledged or otherwise disposed of in any way by the participant for a period of 45 days (or such other longer or shorter time period as may be established by our 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.

Adjustments

The number of shares of our Class A common stock available for issuance or covered by each option granted under the Stock Purchase 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 our Class A common stock. In the event of the dissolution or liquidation of the company, or a merger, reorganization or consolidation in which the company is not the surviving corporation, our 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, of the payroll deductions credited to his or her account under the Stock Purchase Plan at any time prior to an exercise date by giving written

notice to us on a form provided for such purpose. If the participant withdraws from the Stock Purchase 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 Stock Purchase 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 Stock Purchase 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 his or her designated beneficiary, and his or her option to purchase shares will be automatically canceled.

All payroll deductions received or held by us under the Stock Purchase Plan may be used by us for any corporate purpose, and we are not obligated to segregate such payroll deductions.

Duration and Modification

The Stock Purchase Plan was set to expire on October 31, 2008 in accordance with its terms. However, on October 16, 2008, our Board approved an amendment to the Stock Purchase Plan, subject to shareholder approval, to extend the term of the plan by an additional ten years, through October 31, 2018. If our shareholders do not approve the amendment to the Stock Purchase Plan, the plan will no longer be available for use by the company. If our shareholders approve the amendment to the Stock Purchase Plan, our Board may at any time and for any reason terminate or amend the plan as it may deem advisable. However, we must obtain shareholder approval of any amendment to the Stock Purchase Plan to the extent that such approval is necessary to comply with Section 423 of the Code or any other applicable rules and regulations.

Federal Income Tax Consequences

The following is a general summary as of the date of this proxy statement of the United States federal income tax consequences to the company and the employees participating in the Stock Purchase Plan. Federal tax laws may change and the federal, state and local tax consequences for any participating employee will depend upon his or her individual circumstances. Each participating employee has been and is encouraged to seek the advice of a qualified tax adviser regarding the tax consequences of participation in the Stock Purchase Plan. The following discussion relates only to the federal income tax consequences of plan participation. It does not, for example, describe state or local income tax consequences in the United States, employment tax or social insurance consequences, nor any income or other tax consequences for participants who are subject to tax in countries other than the United States.

The Stock Purchase 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. Participant contributions to the Stock Purchase Plan are deducted from compensation that otherwise would constitute taxable wages to the participant and for which we are generally entitled to a tax deduction.

Generally, no income will be taxable to a participant when an option is exercised and the shares are purchased. Upon disposition of the shares, the participant will be subject to tax and the amount of the tax will depend on the length of time the participant held the shares. If the participant sells or disposes of the shares no earlier than two years after the beginning of an offering period and one year from the date the shares are purchased, a "qualifying disposition," then in the year of the qualifying disposition, the participant (or the participant's estate in the event of death) must recognize ordinary

compensation income equal to the lesser of (a) the excess of the fair market value of the shares on the date the shares were purchased over the purchase price and (b) the excess of the amount realized upon disposition of the shares over the purchase price. Any additional gain or loss recognized on the disposition of the shares will be long-term capital gain or loss.

If the participant sells or disposes of the shares before the end of the above-described holding period, a "disqualifying disposition," then in the year of the disqualifying disposition, the participant must recognize as ordinary compensation income an amount equal to the excess of the fair market value of the shares on the date the shares were purchased over the purchase price. Any additional gain or loss recognized on the disposition of the shares will be short or long-term capital gain or loss to the participant, depending upon the length of time that the participant holds the stock after the date the shares were purchased.

In general, we are entitled to take a deduction for federal income tax purposes for any amount that the employee realizes as ordinary compensation income.

New Plan Benefits Under the Stock Purchase Plan

No options have been granted, and no shares have been issued, on the basis of the 350,000 share increase that we are requesting in this proposal. The total number of shares to be received by or allocated to eligible employees under the Stock Purchase Plan cannot be determined at this time because the amount of contributions set aside to purchase shares of our Class A common stock under the plan is within the discretion of each plan participant and the amount of shares which will be purchased is dependent on the fair market value of our Class A common stock on various future dates. Non-employee directors are not eligible to participate in the Stock Purchase Plan.

EQUITY COMPENSATION PLAN INFORMATION

Information for our equity compensation plans in effect as of August 30, 2008 is as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
Equity Compensation Plans (excluding Stock Purchase Plan)	2,644,000	\$ 30.56	1,665,000(1)
Stock Purchase Plan			109,000
Equity compensation plans not approved by security holders			
Total	2,644,000	\$ 30.56	1,774,000

(1) Represents shares available for future issuance under our 2005 Omnibus Equity Plan. Such shares may become subject to stock option grants or stock appreciation rights or may be issued directly as stock awards with such terms and conditions, performance requirements, restrictions, forfeiture provisions, contingencies and other limitations as determined by the plan administrator.

**RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(PROPOSAL 3)**

Our Audit Committee has appointed the firm of Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal year 2009. Although shareholder ratification of the Audit Committee's action in this respect is not required, our Board considers it desirable for shareholders to pass upon the selection of the independent registered public accounting firm. If the shareholders disapprove of the selection, our Audit Committee intends to reconsider the selection of Ernst & Young LLP as our independent registered public accounting firm.

Ernst & Young LLP has advised us that neither it nor any of its members has any direct or material indirect financial interest in the company. We expect that a representative from Ernst & Young LLP will be present at the annual meeting. This representative will have the opportunity to make a statement if he or she so desires and is expected to be available to respond to appropriate questions.

Principal Accountant Fees and Services

For the fiscal years ended August 30, 2008 and September 1, 2007, Ernst & Young LLP billed us the following fees for their services. All audit and permissible non-audit services reflected in the fees below were pre-approved by the Audit Committee in accordance with established procedures.

	Fiscal Year	
	2008	2007
Audit fees (1)	\$ 782,776	\$ 822,000
Audit-related fees (2)	\$ 42,103	\$ 45,260
Tax fees (3)	\$ 15,410	\$ 17,020
All other fees		
Total	\$ 840,289	\$ 884,280

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- (1) Reflects audit fees for professional services rendered by Ernst & Young LLP for the audit of our annual financial statements, audit of management's assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting and related opinions, review of financial statements included in our quarterly reports on Form 10-Q and services that were provided in connection with statutory and regulatory filings or engagements.
- (2) Reflects audit-related fees for assurance and related services by Ernst & Young LLP that were reasonably related to the performance of the audit or review of our financial statements. The nature of the services performed for these fees was advice on compliance with financial accounting and reporting standards, the audit of the employee benefit plan and consultations on compliance with Section 404 of the Sarbanes-Oxley Act of 2002.
- (3) Reflects tax fees for professional services rendered by Ernst & Young LLP for tax compliance, tax advice and tax planning. The nature of the services performed for these fees was for assistance in federal and state tax compliance, and tax planning related to capital gains.

Audit Committee Pre-Approval Policy

The Audit Committee shall pre-approve all audit and non-audit services provided by our independent registered public accounting firm and shall not engage the independent registered public accounting firm to perform any 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 has considered whether, and has determined that, the provision of non-audit services by Ernst & Young LLP is compatible with maintaining auditor independence.

The Board recommends a vote "FOR" the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2009.

Proxies received by the Board will be so voted unless a contrary choice is specified in the proxy.

AUDIT COMMITTEE REPORT

The information contained under this "Audit Committee Report" shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any filings under the Securities Act of 1933, as amended, which we refer to as the Securities Act, or under the Exchange Act, except to the extent that we specifically incorporate this information by reference into any such filing.

The Audit Committee oversees the company's financial accounting and reporting processes and systems of internal controls on behalf of our Board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The Audit Committee also evaluates the performance and independence of our independent registered public accounting firm. The Audit Committee operates under a written charter, a copy of which is available on the Corporate Governance page of our website at www.mscdirect.com. Under the written charter, the Audit Committee must consist of at least three directors, all of whom must be "independent" as defined by the Exchange Act and the rules of the SEC and the requirements of the New York Stock Exchange listing standards. The current members of the committee are Messrs. Fradin, Kelly and Peller, each of whom is an independent director.

Our financial and senior management supervise our systems of internal controls and the financial reporting process. Our independent registered public accounting firm performs an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and expresses opinions on these consolidated financial statements. In addition, our independent registered public accounting firm expresses its own opinion on the effectiveness of our internal control over financial reporting. The Audit Committee monitors these processes.

The Audit Committee has reviewed and discussed with both the management of the company and our independent registered public accounting firm our audited consolidated financial statements for the fiscal year ended August 30, 2008, as well as management's assessment and our independent registered public accounting firm's evaluation of the effectiveness of our internal controls over financial reporting. Our management represented to the Audit Committee that our audited consolidated financial statements were prepared in accordance with the accounting principles generally accepted in the United States of America.

The Audit Committee discussed with our internal auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and the independent registered public accounting firm to discuss the results of

their audits, their evaluations of our internal controls, including internal control over financial reporting, and the overall quality of our financial reporting.

The Audit Committee also discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statement on Auditing Standards No. 90 (Audit Committee Communications). The Audit Committee has also received from our independent registered public accounting firm the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm the independence of that firm. The Audit Committee has also considered whether the provision of non-audit services by our independent registered public accounting firm is compatible with maintaining the independence of the auditors. The Audit Committee's policy is to approve all audit and permissible non-audit services provided by our independent registered public accounting firm. All audit and permissible non-audit services performed by our independent registered public accounting firm during fiscal year 2008 and fiscal year 2007 were pre-approved by the Audit Committee in accordance with established procedures.

Based on the reviews and discussions referred to above, the Audit Committee recommended to our Board (and our Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended August 30, 2008, which was filed with the SEC on October 28, 2008.

Submitted by the Audit Committee of the Board,

Philip Peller (Chairman)
Roger Fradin
Denis Kelly

COMPENSATION COMMITTEE REPORT

The information contained under this "Compensation Committee Report" shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any filings under the Securities Act, or under the Exchange Act, or be subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate this information by reference into any such filing.

The Compensation Committee of our Board has reviewed and discussed with management the Compensation Discussion and Analysis that follows. Based on this review and discussion, the Committee recommended to our Board that the Compensation Discussion and Analysis be included in this proxy statement.

Submitted by the Compensation Committee of the Board,

Denis Kelly (Chairman)
Roger Fradin
Philip Peller

COMPENSATION DISCUSSION AND ANALYSIS

In this section, we discuss the material elements of our compensation programs and policies, including the objectives of our compensation programs and the reasons why we pay each element of our executives' compensation. Following this discussion, you will find a series of tables containing more specific details about the compensation earned by or awarded to the following individuals, whom we refer to as the named executive officers or NEOs. This discussion focuses on compensation and practices relating to the named executive officers for our 2008 fiscal year:

Name	Position
David Sandler	President and Chief Executive Officer
Charles Boehlke	Executive Vice President and Chief Financial Officer
Mitchell Jacobson	Chairman of the Board
Thomas Cox	Executive Vice President, Sales
Eileen McGuire	Senior Vice President, Human Resources

Compensation Committee

The Compensation Committee of our Board (referred to in this discussion as the Committee) is directly responsible for determining, in consultation with our Board, the goals and objectives of our executive compensation programs and for the ongoing review and evaluation of our compensation programs to determine whether our compensation programs are achieving their intended objectives. In consultation with our Board, the Committee has primary responsibility for overseeing and approving all compensation matters relating to, and setting the compensation levels of, the named executive officers and all of our other executive officers and senior officers. The Committee also administers our equity compensation plans. Members of management and independent consultants provide input and recommendations to the Committee, but decisions are ultimately made by the Committee.

How Compensation Decisions Are Made

In August of each year, the Committee receives a formal presentation from its outside compensation consultants, which reports to the Committee on the competitiveness of the company's compensation programs, as well as its alignment with the company's compensation objectives. Based on the benchmarking data prepared by the Committee's outside compensation consultants and the consultants' evaluation of the company's compensation programs, the Human Resources department of the company, with input from our Chief Executive Officer and Chief Financial Officer, prepares recommendations for our annual cash bonus program for the upcoming fiscal year and equity award grants to be made in respect of performance for the prior fiscal year. The Committee generally meets in September to review and consider the preliminary recommendations prepared by the Human Resources Department and makes its final compensation decisions at its October meeting when the company's fiscal year financial results are being considered by our Board. At its October meeting, the Committee also reviews achievement of the prior fiscal year's annual cash bonus program and approves the annual bonus payouts. Base salary adjustments are made for our executive officers and other senior officers at the time of their individual performance reviews. Depending on company or individual circumstances, the Committee also may make other compensation decisions during the year. Due to the current uncertainty in the economy and its effect on the company's business, the Committee did not adopt the annual bonus program for fiscal year 2009 at its October 2008 meeting and will consider at a future time the appropriate structure for the bonus program in fiscal year 2009 in light of the current economic conditions.

Compensation Philosophy and Objectives

We believe that the quality, skills and dedication of our executive officers are critical factors affecting the company's performance and shareholder value. Our key compensation goals are to:

recruit, retain and motivate highly talented executives;

align our executives' interests with those of our shareholders; and

provide performance-based compensation that appropriately rewards our executives.

Accordingly, in determining the amount and mix of compensation, the Committee seeks both to provide a competitive compensation package and to structure annual and long-term incentive programs that reward achievement of performance goals that directly correlate to the enhancement of sustained, long-term shareholder value, as well as to promote executive retention. To accomplish these objectives, the Committee has structured our compensation programs to include the following key features:

annual incentive cash bonuses are substantially "at risk" with 75% of the target bonuses earned only if the company achieves pre-established earnings per share targets;

annual incentive cash bonuses of up to 150% of target bonus amounts may be earned if the company achieves earnings per share in excess of target, with maximum payouts realized only when the company achieves earnings per share significantly higher than target;

up to 25% of an executive's target bonus is subject to the Committee's discretionary evaluation of qualitative factors, including individual performance and achievement of company strategic initiatives, which serves to focus management on long-term initiatives; and

long-term equity awards are made in the form of stock options and restricted shares, with extended vesting schedules in order to promote retention and to motivate our executives to create sustained, long-term shareholder value.

The Committee does not maintain policies for allocating among current and long-term compensation or among cash and non-cash compensation. Instead, the Committee maintains flexibility and adjusts different elements of compensation based upon its evaluation of the company's key compensation goals set forth above. However, as a general matter, the Committee seeks to utilize equity-based awards to motivate executives to enhance long-term shareholder value and manages the dilutive effects of equity compensation through the company's share repurchase program.

While compensation levels may differ among NEOs based on competitive factors and the role, responsibilities and performance of each specific NEO, there are no material differences in the compensation philosophies, objectives or policies for our NEOs. However, as executives assume more responsibility, a greater percentage of their total target cash compensation is allocated to annual incentive bonus compensation, and a greater percentage of their total direct compensation is allocated to equity compensation. We do not have a policy regarding internal pay equity.

Our Chairman, Mitchell Jacobson, previously served as our chief executive officer from October 1995 to November 2005, when he was succeeded by David Sandler. Mr. Jacobson's compensation is principally comprised of his base salary, and he does not participate in the annual cash incentive bonus program or annual equity grants. See "*Compensation of Our Chairman*." Accordingly, the discussion in this Compensation Discussion and Analysis generally does not apply to Mr. Jacobson's compensation.

Our executive officers generally do not have employment agreements, other than Mr. Boehlke (as described below), and serve at the will of our Board. Similarly, we generally do not enter into severance agreements with, nor do we have established severance arrangements for, our executive officers as part of the terms of their employment, other than in the case of Mr. Boehlke. This enables our Board to remove an executive officer, if necessary, prior to retirement or resignation whenever it is

in our best interests. When an executive officer retires, resigns or is terminated, our Board exercises its business judgment in approving an appropriate separation or severance arrangement in light of all relevant circumstances, including the individual's term of employment, past accomplishments and reasons for separation from the company. Mr. Boehlke's employment agreement sets forth his duties and responsibilities, the general terms of his annual compensation (which remains subject to the discretion of our Board), and his entitlement to paid vacation leave and to participate in such benefits as are generally made available to our other executive officers. Nothing in Mr. Boehlke's employment agreement obligates the company to employ Mr. Boehlke, and his employment may be terminated by the company at any time; provided that, Mr. Boehlke's employment agreement provides for the payment of certain severance benefits upon his termination by the company other than for cause. Compensation that may become payable following a change in control of the company, is discussed below under "***Change of Control Arrangements.***"

We do not provide our executives with pension or supplemental retirement plans, nor have we entered into any deferred compensation arrangements with our executives. Accordingly, we believe that our compensation programs are clear and understandable, both for our executives and our shareholders.

Compensation Consultants

The Committee has the authority to retain and terminate any third-party compensation consultant and to obtain advice and assistance from internal and external legal, accounting and other advisors. Beginning in fiscal 2005, the Committee engaged Towers Perrin, a compensation consulting firm, to assist the Committee on compensation matters, market practices and our compensation strategies and goals. Towers Perrin provides research, market data and survey information and makes recommendations to the Committee regarding our executive and outside director compensation programs. Towers Perrin advises the Committee on the competitiveness of our compensation arrangements and provides input, analysis and recommendations for the compensation paid to the named executive officers, other executive officers and senior officers, and outside directors. Towers Perrin provides data and analysis with respect to public companies having similar characteristics (including annual revenues, market capitalization, and industry codes) to those of the company. These companies comprise the peer groups described below under "***Competitive Positioning,***" against which the company benchmarks, or compares certain aspects of compensation in order to validate its decisions and outcomes.

Competitive Positioning

In determining the amounts of base salary, incentive cash bonus opportunities and stock-based compensation for the named executive officers (other than the Chairman), and other executive officers and senior officers, the Committee reviewed and benchmarked the compensation levels of the named executive officers and other executive officers and senior officers against comparable positions in the Towers Perrin Executive Compensation Databank for the Manufacturing/ Distribution Peer Group. The Committee, with input from the company's Human Resources department, worked with Towers Perrin to select comparable companies from the Towers Perrin databank survey based on annual revenues, market capitalization, geographic presence and comparability of business. Based on this process, Towers Perrin prepared competitive compensation peer group data for 23 comparable public companies as part of its report to the Committee in August 2007 and for 25 comparable public companies as part of its report to the Committee in August 2008. The companies included in the 2007 and 2008 peer groups were substantially the same for both years and also were substantially the same as the peer group used in fiscal year 2006.

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The peer companies used in Towers Perrin's August 2007 analysis were as follows:

Avery Dennison Corporation	Barnes Group Inc.
The Black & Decker Corporation	Brady Corporation
Dentsply International Inc.	Donaldson Company, Inc.
Fleetwood Enterprises, Inc.	GATX Corporation
Harsco Corporation	Herman Miller, Inc.
HNI Corporation	Jarden Corporation
Kaman Industrial Technologies Corporation	Lawson Products, Inc.
Milacron Inc.	Mine Safety Appliances Company
OMNOVA Solutions Inc.	Schweitzer-Mauduit International, Inc.
Steelcase Inc.	Sybron Dental Specialties, Inc.
Thomas & Betts Corporation	The Toro Company

WESCO International, Inc.

The peer companies used in Towers Perrin's August 2008 analysis were as follows:

Avery Dennison Corporation	The Black & Decker Corporation
Brady Corporation	CA, Inc.
Clarcor Inc.	Dentsply International Inc.
Donaldson Company, Inc.	Fleetwood Enterprises, Inc.
GATX Corporation	Harsco Corporation
Henry Schein, Inc.	Herman Miller, Inc.
HNI Corporation	IDEX Corporation
Jarden Corporation	Kaman Industrial Technologies Corporation
Mine Safety Appliances Company	OMNOVA Solutions Inc.
Schweitzer-Mauduit International, Inc.	Steelcase Inc.
Tennant Company	Thomas & Betts Corporation
The Toro Company	Valmont Industries, Inc.

W.W. Grainger, Inc.

The Committee used the 2007 data prepared by Towers Perrin for the following purposes:

to benchmark base salary adjustments for fiscal year 2008;

to determine threshold, target and maximum award opportunities under our annual cash incentive bonus program for fiscal year 2008; and

to determine equity awards granted in October 2007 in respect of fiscal year 2007 performance.

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The Committee used the 2008 data prepared by Towers Perrin for the following purposes:

to determine equity awards granted in October 2008 in respect of fiscal year 2008 performance; and

as part of the Committee's evaluation of whether the operation of the company's overall compensation programs achieved their desired objectives based upon actual fiscal year 2008 compensation. In this regard, the Committee evaluates fiscal year 2008 total direct compensation as the sum of (i) base salary; (ii) the annual cash incentive bonus paid in respect of fiscal year 2008 performance, and (iii) the October 2008 equity awards granted in respect of fiscal year 2008 performance.

The Committee generally targets annual base salary at the median or 50th percentile of the peer companies. Total cash compensation (the sum of base salary and target annual bonus) and total direct compensation (the sum of total cash compensation and long-term equity compensation) generally are targeted between the 50th and 75th percentiles of the peer companies. Maximum total cash compensation (the sum of base salary and maximum annual bonus) and maximum total direct compensation (the sum of maximum total cash compensation and long-term equity compensation) generally are targeted to approximate the 75th percentile of peer companies. The Committee believes that this competitive positioning is consistent with the goals of the company's compensation programs, by linking pay to performance and providing top tier compensation only when the company achieves superior performance.

As secondary comparative compensation data for our Chief Executive Officer and Chief Financial Officer, the Committee reviewed the compensation levels of companies in two additional peer groups, one comprised of five public companies whose business in the industrial distribution sector is more directly comparable to our business; and the other comprised of five public companies whose headquarters are located on Long Island, New York. For both of these peer groups, Towers Perrin compiled data derived from the most recent proxy statements of the peer companies. Towers Perrin compiled comparative compensation data for base salary, total cash compensation and total direct compensation. The Committee does not benchmark compensation against these peer groups and uses this data only for reference purposes and as additional validation of the primary peer group data used for benchmarking. In reviewing the data, the Committee noted that target total direct compensation for our Chief Executive Officer and Chief Financial Officer approximated the 75th percentile for the industrial distribution peer group and the 50th percentile for the geographic peer group. The companies in these two peer groups were unchanged from 2007 to 2008.

The industrial distribution peer group is comprised of the following companies.

Airgas, Inc.	Applied Industrial Technologies, Inc.
Fastenal Company	WESCO International, Inc.
W.W. Grainger Inc.	

The geographic peer group is comprised of the following companies.

Arrow Electronics, Inc.	Cablevision Systems Corporation
CA, Inc.	Henry Schein, Inc.
Pall Corporation	

Role of Executive Officers in Compensation Decisions

As part of its process, the Committee meets with our Chief Executive Officer and our Chairman to obtain recommendations with respect to the structure of our compensation programs and compensation decisions, including the performance of individual executives. The Committee obtains our Chairman's input on the compensation of our Chief Executive Officer and our Chief Executive Officer provides the Committee with input on the compensation of the other named executive officers (other than the Chairman) and other executive officers and senior officers. Our Senior Vice President, Human Resources collects and analyzes relevant data, including comparative compensation data prepared by Towers Perrin, which is used by the Committee to make compensation decisions.

Fiscal Year 2008 Executive Compensation

Summary of Fiscal Year 2008 Compensation Decisions

For fiscal year 2008, the company achieved adjusted diluted earnings per share of \$3.03, which represented year over year growth of 17.9%, but less than the earnings per share level of \$3.08 (representing a year over year growth rate of 19.8%) required for target payout of the annual cash incentive bonus. As a result, annual incentive bonuses were 87.9% of target for the named executive officers, which includes the full discretionary component of 25% of target payout. Base salaries were adjusted consistent with the Committee's objective to target base salary at the median level of our peer companies. Equity awards granted in October 2008 were lower in value from equity awards granted in October 2007, based on overall company and individual performance of the named executive officers, and to produce total direct compensation trending toward the 50th percentile of our peer companies, as compared to total direct compensation for fiscal year 2007 which approximated the 75th percentile of our peer companies. As a result, total direct compensation for our Chief Executive Officer was 19.7% lower than his total direct compensation for fiscal year 2007, and total direct compensation for the other named executive officers (other than our Chairman) were lower than fiscal year 2007 total direct compensation by a range of between 14.3% and 16.3%. The Committee determined that the company and management had performed well, particularly given trends in the macroeconomic environment that had affected the company's business in the second half of fiscal 2008, and that management had executed well on strategic business initiatives to position the company for growth while managing risk. Based on company and individual performance, the Committee believes that compensation levels for fiscal year 2008 were appropriate and consistent with the philosophy and objectives of the company's compensation programs.

Compensation of our Chairman

Mitchell Jacobson has served as our Chairman since January 1998 and previously served as our President from October 1995 through November 2003, when David Sandler was promoted to that position, and as our Chief Executive Officer from October 1995 through November 2005, when he was succeeded by Mr. Sandler.

Mr. Jacobson's compensation for fiscal year 2008 consisted principally of his base salary of \$975,000. Mr. Jacobson does not participate in our annual cash incentive program, nor does he receive long-term equity compensation. The Committee has determined that Mr. Jacobson's base salary and benefits properly compensate Mr. Jacobson for his ongoing leadership and vision and his years of experience serving the company. Given Mr. Jacobson's substantial equity ownership, the Committee does not believe it is appropriate for Mr. Jacobson's compensation package to include performance-based compensation elements. Mr. Jacobson's compensation is not benchmarked against our peer companies because his position is unique to our company, and the Committee therefore evaluates his compensation based on the considerations discussed above. The Committee reviews Mr. Jacobson's

compensation on an annual basis. Mr. Jacobson's base salary of \$975,000 in fiscal year 2008 was unchanged from his base salary in fiscal year 2007.

Elements of Compensation

We allocate compensation among the following components for our named executive officers (other than our Chairman):

base salary;

annual incentive cash bonuses;

stock-based compensation in the form of stock options and restricted shares; and

other benefits

Base Salary

Base salaries for our executive officers are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions, as well as salaries paid to the executives' peers within the company. Base salaries are typically adjusted each year in connection with the executives' performance evaluations to take into account competitive market data, individual performance and promotions or changed responsibilities. The Committee seeks to target base salary levels at the median or 50th percentile of our peer companies. However, in individual cases, base salary levels may differ based upon the executive's experience, individual performance and other considerations. During fiscal year 2008, Mr. Sandler's annual base salary was increased from \$675,000 to \$740,000 (or 9.6%). Mr. Sandler's base salary was adjusted in recognition of Mr. Sandler's outstanding leadership of the company and its record results in fiscal year 2007. Based upon the Committee's compensation philosophy to place a greater percentage of our more senior executives' compensation "at risk," the Committee kept Mr. Sandler's base salary below the median level of our peer companies. Base salary levels for the other named executive officers (other than Mr. Jacobson) increased as follows: Mr. Boehlke 3.5%; Mr. Cox 3.5%; and Ms. McGuire 5.8%.

Annual Incentive Bonus Program

Our annual incentive cash bonus program has two components: a performance component based on achievement of earnings per share levels, and a discretionary component based on the Committee's qualitative evaluation of individual performance and management achievement of strategic business initiatives. Key elements of the program are as follows:

achievement of threshold, target and maximum bonus awards for the performance component is based on achievement of diluted earnings per share levels;

threshold, target and maximum bonus award levels are set at dollar amounts based on competitive benchmarking;

up to 25% of an executive's target bonus is subject to the Committee's discretionary evaluation of qualitative factors, including individual performance and achievement of strategic business initiatives;

maximum bonus payout is 150% of target;

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for the performance component, the threshold EPS level is set at 90% of target EPS with incremental dollar payouts for each penny of additional EPS between threshold and target EPS levels;