

MSC INDUSTRIAL DIRECT CO INC
Form 11-K
June 29, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 11-K

**FOR ANNUAL
REPORTS OF EMPLOYEE STOCK
REPURCHASE SAVINGS AND SIMILAR PLANS
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One):

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number 1-14130

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

MSC Industrial Direct 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

MSC Industrial Direct Co., Inc.

75 Maxess Road, Melville, New York 11747

PLAN NUMBER: 003
EIN: 13-5526506

MSC INDUSTRIAL DIRECT 401(K) PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

DECEMBER 31, 2005 AND 2004 AND YEAR ENDED DECEMBER 31, 2005

WITH REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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MSC INDUSTRIAL DIRECT 401(K) PLAN

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DECEMBER 31, 2005 AND 2004 AND YEAR ENDED DECEMBER 31, 2005

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All other schedules are omitted as they are not applicable or are not required based on the disclosure requirements of the Employee Retirement Income Security Act of 1974, as amended, and applicable regulations issued by the Department of Labor.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Plan Administrator and Trustee of the
MSC Industrial Direct 401(K) Plan

We have audited the accompanying statements of net assets available for benefits of the MSC Industrial Direct 401(K) Plan (the Plan) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets held at end of year as of December 31, 2005, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. This supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/S/ ERNST & YOUNG LLP

Melville, New York
May 12, 2006

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MSC INDUSTRIAL DIRECT 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2005	2004
Assets		
Investments with custodian, at fair value	\$ 77,824,175	\$ 66,737,270
Receivables:		
Employer contribution, net of forfeitures	64,327	52,902
Participant contributions	223,779	184,323
Participant loans	2,643,979	2,347,854
Total receivables	2,932,085	2,585,079
Net assets available for benefits	\$ 80,756,260	\$ 69,322,349

See accompanying notes.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2005**

Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	\$ 3,608,132
Dividend, interest and loan income	2,365,328
	5,973,460
Contributions:	
Participants	7,985,786
Employer, net of forfeitures	1,682,641
	9,668,427
Total additions	15,641,887
Deductions from net assets attributed to:	
Benefits paid to participants	4,191,578
Withdrawals, administration fees and other	16,398
Total deductions	4,207,976
Net increase	11,433,911
Net assets available for benefits:	
Beginning of year	69,322,349
End of year	\$ 80,756,260

See accompanying notes.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

1. DESCRIPTION OF PLAN

The following description of the MSC Industrial Direct 401(K) Plan, as amended (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan, covering all Employees (as defined in the Plan) of participating employers (other than Employees who are non resident aliens with no earned income from a participating employer which constitutes income from services within the United States and Employees covered by a collective bargaining agreement) who meet certain age and service requirements of the Plan. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). MSC Industrial Direct Co. Inc. (the Company) is responsible for the administration of the Plan. T.Rowe Price Trust Company is the Plan Trustee (TRP) and T.Rowe Price Retirement Plan Services, Inc., is the record keeper for the Plan.

Eligibility

An Employee is eligible for participation in the Plan on the first day of the month after completing one full calendar month of service, and must be at least eighteen years of age.

Contributions and Vesting

Participants may elect to contribute between 1% and 40% of their annual compensation, as defined in the Plan. The maximum annual contribution a participant could make into the Plan, as established by the Internal Revenue Code (the Code), was \$14,000 (\$18,000 for participants eligible to make catch-up contributions) during 2005. Participants may also contribute amounts representing distributions from other qualifying plans. Participants are immediately vested in their pre-tax and rollover contributions.

The Employer (as defined in the Plan) may make a discretionary matching contribution based on the participant's pre-tax contributions. The Employer may also make a discretionary profit sharing contribution to eligible participants to be allocated in the same ratio as each eligible participant's compensation bears to the total of such compensation of all eligible participants. In general, participants must have completed 1,000 hours of service and be employed on the last day of the Plan year to be eligible to share in the allocation of any profit sharing employer contributions. Participants vest in Employer contributions as follows:

Completed Years of Service	Vested Percentage	
less than 2		0%
2 but less than 3	20	%
3 but less than 4	40	%
4 but less than 5	60	%
5 but less than 6	80	%
6 or more	100	%

In 2005, the Employer's discretionary matching contributions were \$1,885,095. This included the payment of the December 31, 2005 contribution receivable and the application of forfeitures accumulated in 2005 and previous Plan years of \$202,454. There were no discretionary

profit sharing contributions in 2005.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

Participant Accounts

Individual accounts are maintained for each participant. Each participant's account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) Plan earnings, and is charged with allocations of Plan losses and, if not paid by the Employer, administrative expenses. Allocations are based on participant earnings or account balances, as defined.

Forfeitures

Forfeited balances of terminated participants' non-vested employer contributions are used to reduce future employer discretionary matching contributions. Forfeitures accumulated during 2005 were \$99,587, with a forfeiture balance of \$13,990 as of December 31, 2005.

Participant Loans

The Plan has a loan provision, which allows participants to borrow from the Plan. The minimum loan is \$1,000, and the maximum loan is generally 50% of a participant's total vested account balance, not to exceed \$50,000. The interest rate is established by the prime rate plus one percent. Interest rates on outstanding loans as of December 31, 2005 ranged from 5.00% to 10.50%. Interest paid by a participant on an outstanding loan is paid directly into the participant's account. Principal and interest is paid ratably through payroll deductions. The repayment period cannot exceed five years unless the loan is used to acquire a participant's principal residence, in which case the repayment period cannot exceed ten years. A participant can have a maximum of two loans outstanding from the Plan at any given time.

In-Service Withdrawals

The Plan permits a participant to withdraw participant pre-tax, vested discretionary matching and vested discretionary profit sharing contributions to the extent necessary to satisfy the participant's hardship (as defined in the Plan). In addition, the Plan permits participants who have attained age 59-1/2 to make in-service withdrawals from the Plan.

Payment of Benefits

On termination of service due to death, disability, retirement or for any other reason, a participant may elect to receive either a lump-sum distribution equal to the value of the participant's vested interest in his or her account or installments over a fixed period, if the participant's vested balance exceeds \$5,000. If a participant's vested account balance is less than or equal to \$5,000, the participant's vested account balance will be paid in a lump-sum distribution. Effective March 28, 2005, if the amount of such mandatory distribution is more than \$1,000 and the participant does not elect to have such distribution directly rolled over into an IRA or other eligible retirement plan or paid directly to him or her, such amount will be directly rolled over into an IRA established by the Plan administrator in the participant's name.

Plan Expenses

Expenses for record keeping, investment and other costs are generally paid by the Plan. Accounting fees are generally paid by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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The accounting records and financial statements of the Plan are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States and are based upon data provided by the record keeper

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

and/or custodian, adjusted for accruals for contributions receivable and excess contribution payments due to participants based on the results of ERISA limit testing.

Investments

The Plan's investments are stated at fair value, which equals the quoted market prices on the last business day of the Plan year. The shares of registered Investment Companies are valued at quoted market prices, which represent the net asset values of shares held by the Plan at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rates, and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

3. INVESTMENTS

The Plan's investments are held by the Trustee of the Plan and are managed by T.Rowe Price Investment Services, Inc. The fair value of individual investments that represent 5% or more of the Plan's net assets at December 31, 2005 and 2004 are as follows:

	December 31, 2005	December 31, 2004
PIMCO Total Return Fund	\$ 4,402,975	\$ 4,202,376
TRP Balanced Fund	4,174,600	3,556,827
TRP Equity Income Fund	5,108,582	4,979,441
TRP Equity Index Trust	6,657,413	6,240,181
TRP Global Stock Fund	6,389,053	4,833,521
TRP Growth Stock Fund	8,720,172	8,515,318
TRP Stable Value Fund	12,170,227	11,618,331
TRP Personal Strategy Growth Fund	6,476,724	5,412,174

During the Plan years ended December 31, 2005 and 2004, net appreciation in fair value of investments was as follows:

	December 31, 2005	December 31, 2004
Mutual Funds	\$ 2,784,441	\$ 4,316,144
MSC Industrial Direct Co. Inc. Class A Common Stock	488,192	484,483
Common Trusts	305,390	568,669
Other	30,109	8,153
Total	\$ 3,608,132	\$ 5,377,449

4. INVESTMENT OPTIONS

Participants may allocate their contributions into the Plan among the following 20 options:

1) MSC Industrial Direct Co., Inc. Class A Common Stock The Plan Trustee will be permitted to acquire, with amounts directed by participants to be invested in the MSC Industrial Direct Co., Inc. Stock Fund, shares of Class A Common Stock (Common Stock) directly from the Company.

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The Plan Trustee may acquire (sell) shares of Common Stock by purchasing (selling) such shares on the principal national securities exchange on which shares of Common Stock are traded on that date, and the cost of such shares will be the weighted average purchase price (weighted average sale price) paid by the Plan Trustee during a day. The price includes commissions incurred in the purchase or sale. Alternatively, the Plan Trustee may acquire shares of Common Stock directly from the Company. If acquired directly from the Company, the cost of the shares of Common Stock will be the average of the high and low of the Common Stock as traded on the principal national securities exchange on which such shares are traded on the date issued by the Company.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

The Plan Trustee may acquire shares of Common Stock in a single purchase or over time, as they determine in their sole discretion.

If circumstances so require, the Plan Trustee may suspend the purchase and sale of shares of Common Stock. Such suspension will last until the Plan Trustee determines that the circumstances causing the suspension have ceased to exist.

The value of the MSC Industrial Direct Co., Inc. Stock Fund is subject to fluctuation in the market price of the shares of Common Stock. There is no guarantee of investment performance. Likewise, there is no guarantee that the Company will pay dividends in the future. The fair market value of the shares of Common Stock will be equal to the closing price of the Common Stock as reported on the principal national securities exchange on which such shares are traded on the date of valuation.

- 2) **TRP Personal Strategy Growth** Seeks capital appreciation, income is a secondary concern. The fund typically invests approximately 80% of assets in stocks and 20% in bonds and money market instruments. However, allocations can vary by up to ten percentage points from these guidelines. While the advisor maintains a well-diversified portfolio, it may at a particular time shade stock selection toward markets or market sectors that appear to offer attractive value and appreciation potential.
- 3) **TRP Personal Strategy Balanced** Seeks capital appreciation and income. The fund typically invests approximately 60% of assets in stocks, 30% in bonds, and 10% in money market instruments. However, allocations can vary by up to ten percentage points from these guidelines. While the advisor maintains a well-diversified portfolio, it may at a particular time shade stock selection toward markets or market sectors that appear to offer attractive value and appreciation potential.
- 4) **TRP Personal Strategy Income** Seeks capital appreciation, income is a secondary concern. The fund typically invests approximately 40% of assets in stocks, 40% in bonds, and 20% in money market instruments. However, allocations can vary by up to ten percentage points from these guidelines. While the advisor maintains a well-diversified portfolio, it may at a particular time shade stock selection toward markets or market sectors that appear to offer attractive value and appreciation potential.
- 5) **PIMCO Total Return Fund** Seeks total return consistent with preservation of capital. The fund normally invests at least 65% of assets in debt securities, including U.S. government securities, corporate bonds, and mortgage-related securities. It may invest up to 30% of assets in securities denominated in foreign currencies. The fund may invest up to 10% of assets in high yield securities rated B or higher. The portfolio duration generally ranges from three to six years.
- 6) **TRP Balanced Fund** Seeks capital growth, current income, and preservation of capital. The fund normally invests approximately 60% of assets in U.S. and foreign stocks and 40% of assets in fixed income securities. It normally invests at least 25% of assets in senior fixed income securities. Asset allocations may vary based on expected economic conditions.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

- 7) **TRP Equity-Income Fund** Seeks dividend income and potential for capital appreciation. The fund invests at least 80% of assets in common stocks, with 65% of assets in the common stocks of well-established companies paying above-average dividends.
- 8) **TRP Equity Index Trust** Seeks long-term capital appreciation by investing primarily in common stocks. Specifically, the Trust seeks to replicate the total return performance of the U.S. equity market as represented by the Standard & Poor's Stock Index.
- 9) **TRP Growth Stock Fund** Seeks long-term growth of capital and income is secondary. The fund normally invests at least 80% of assets in dividend-paying common stock of well-established growth companies. The fund may also invest in foreign securities.
- 10) **TRP Global Stock Fund** Seeks long-term capital growth. The fund normally invests at least 80% of assets in U.S. and foreign stocks. It may invest in developed, newly industrialized, and emerging markets. The fund normally maintains investments in at least five countries, one of which will be the United States.
- 11) **TRP International Stock Fund** Seeks long-term growth of capital. The fund normally invests at least 80% of assets in stocks of established non-U.S. issuers. It may invest the balance of assets in preferred stocks, warrants, convertibles, and/or debt securities. The fund typically maintains investments in at least three foreign countries, and it may invest in both industrialized and developing countries.
- 12) **TRP Media and Telecommunications Fund** Seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies engaged in any facet of media and telecommunications, including publishing, movies, cable TV, telephones, cellular services, technology and equipment. Generally, the fund invests in companies in the large-to-mid capitalization range. It can purchase foreign stocks, futures, and options, if such purchases are in keeping with the fund's objectives.
- 13) **TRP Small-Cap Stock Fund** Seeks long-term growth of capital. The fund normally invests at least 80% of total assets in equity securities of small companies. It may also invest in foreign equities, futures, and options.
- 14) **TRP Stable Value Common Trust Fund** Seeks to provide maximum current income while maintaining stability of principal. The trust will invest primarily in Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), and Synthetic Investment Contracts (SICs) that meet quality and credit standards. The trust seeks to reduce risk through diversification of issuer and maturity and through credit analysis. The trust will generally limit its total investment in GIC's and BIC's of any one issuer to 10% of the trust's total value at the time of purchase. In no event will the trust's exposure to any single issuer of investment contracts, including SIC's, exceed 20% of the trust's total value at the time of purchase.

15) Janus Growth and Income Fund Seeks long-term growth of capital and current income. The fund normally invests up to 75% of assets in equity securities with growth potential, and at least 25% of assets in securities with income potential. It may invest up to 35% of assets in high-yield bonds. The fund may also invest up to 15% of assets in illiquid investments and without limit in foreign equity and debt securities.

16) TRP New Horizons Fund Seeks capital appreciation. Current income is not a factor. The fund will invest primarily in a diverse group of small, emerging-growth companies, preferably early in the corporate life cycle. It may also invest in companies that offer the possibility of accelerated earnings growth due to rejuvenated management, new products, or structural changes in the economy. The fund will not necessarily sell a position in a company that has grown beyond the developing stage if the company still fits the advisor's other investment criteria.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

17) TRP Mid-Cap Value Fund Seeks long-term capital appreciation. The fund normally invests at least 80% of assets in companies whose market capitalization falls within the range of the companies in the S&P MidCap 400 or the Russell Midcap Value indexes. It will not necessarily sell or cease to purchase stock of a company it already owns just because the company's market capitalization moves outside this range.

18) TRP Value Fund Seeks long-term capital appreciation and income is secondary. The fund normally invests at least 65% of assets in common stocks the portfolio manager regards as undervalued. Management primarily focuses on large-company stocks, but the fund may also invest in mid-cap and small-cap companies. It can also purchase foreign stocks, futures, and options, if such purchases are in keeping with the fund's objectives.

19) TRP Mid-Cap Growth Fund Seeks long-term capital appreciation. The fund invests at least 80% of the assets in mid-cap common stocks with above-average growth potential. The advisor seeks companies that offer proven products or services, have an above-average historical record of earnings growth, have the potential for sustaining growth, operate in industries experiencing increasing demand, or are reasonably valued. The fund can purchase foreign stocks, futures and options, if such purchases are in keeping with the fund's objectives.

20) Tradelink Investments An optional brokerage account that offers participants the ability to diversify investments through the purchase of individual stocks, bonds, and other securities plus thousands of mutual funds from many well-known fund families.

5. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service dated March 8, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code). Therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

6. RELATED PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by TRP. TRP is the trustee as defined by the Plan and, therefore, these transactions qualify as permitted party-in-interest transactions. Accounting fees, which are not material, are paid by the Company.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 (continued)**

7. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan, subject to the provisions of ERISA. In the event of the Plan termination, participants will become 100% vested in their accounts.

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MSC INDUSTRIAL DIRECT 401(K) PLAN

FORM 5500 SCHEDULE H LINE 4i: SCHEDULE OF ASSETS HELD AT END OF YEAR

AS OF DECEMBER 31, 2005

Identity of Issuer	Description	Cost	Current Value
MSC Industrial Direct Co., Inc. *	MSC Industrial Direct Co. Inc. Class A Common Stock	\$ 1,902,983	\$ 3,097,261
PIMCO	PIMCO Total Return Fund	4,447,605	4,402,975
T. Rowe Price *	TRP Balanced Fund	3,792,391	4,174,600
T. Rowe Price *	TRP Equity Income Fund	4,766,476	5,108,582
T. Rowe Price *	TRP Equity Index Trust	5,665,196	6,657,413
T. Rowe Price *	TRP Global Stock Fund	4,672,063	6,389,053
T. Rowe Price *	TRP Growth Stock Fund	7,264,025	8,720,172
T. Rowe Price *	TRP International Stock Fund	1,300,028	1,628,734
T. Rowe Price *	TRP New Horizons Fund	616,037	653,823
T. Rowe Price *	TRP Media & Telecommunications	2,043,833	3,057,358
T. Rowe Price *	TRP Small Cap Stock Fund	2,474,278	2,895,518
T. Rowe Price *	TRP Stable Value Fund	12,170,227	12,170,227
Janus	Janus Growth and Income Fund	1,092,707	1,286,188
T. Rowe Price *	TRP Mid Cap Value Fund	2,846,919	3,228,321
T. Rowe Price *	TRP Value Fund	812,783	911,817
T. Rowe Price *	TRP Mid Cap Growth Fund	1,866,986	2,152,065
T. Rowe Price *	TRP Personal Strategy Balanced	2,666,857	3,019,290
T. Rowe Price *	TRP Personal Strategy Growth Fund	5,323,482	6,476,724
T. Rowe Price *	TRP Personal Strategy Income Fund	1,331,955	1,428,978
Brokerage Accounts	Tradelink Investments	361,648	361,648
T. Rowe Price *	Cash	3,428	3,428
Participant Loans	986 Loans to participants with interest rates ranging from 5.00% - 10.50%		2,643,979
			\$ 80,468,154

* Indicates party-in-interest to the Plan.

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

MSC INDUSTRIAL DIRECT 401(K) PLAN

Date: June 29, 2006

/s/ Barbara Schwartz
Barbara Schwartz
Plan Administrator

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