INDUSTRIAL DISTRIBUTION GROUP INC
Form 10-Q
May 14, 2001

1

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ TO ____________________

COMMISSION FILE NUMBER 001-13195

INDUSTRIAL DISTRIBUTION GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-2299339
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

950 East Paces Ferry Road, Suite 1575 Atlanta, Georgia 30326
Address of principal executive offices and zip code)

(404) 949-2100
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at April 30, 2001
Common Stock, $.01 par value	8,616,815

2

INDUSTRIAL DISTRIBUTION GROUP, INC.

INDEX

PART I. Financial Information

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	MARCH 31, 2001 (Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$ 599
Accounts Receivable, net	69,484
Inventory, net	68,282
Deferred Tax Assets	7,344
Prepaid and Other Current Assets	10,811
TOTAL CURRENT ASSETS	156,520
Property and Equipment, net	14,941
Intangible Assets, net	51,843
Other Assets	2,220
TOTAL ASSETS	$ 225,524
LIABILITIES & STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current Maturities of Long-term Debt	$ 751
Book Overdraft	6,607
Accounts Payable	45,172

Accrued Compensation	1,914
Current Portion of Management Liability Insurance	3,718
Other Accrued Liabilities	6,916
TOTAL CURRENT LIABILITIES	65,078
Long-Term Debt	51,128
Other Long-Term Liabilities	7,691
TOTAL LIABILITIES	123,897
STOCKHOLDERS' EQUITY:	
Common Stock, par value $.01 per share, 50,000,000 shares authorized; 8,565,805 shares issued and 8,559,032 shares outstanding in 2001; 8,493,360 shares issued and 8,486,587 shares outstanding in 2000	86
Additional Paid-In Capital	97,400
Retained Earnings	4,231
Treasury Stock	(90)
Total Stockholders' Equity	101,627
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 225,524

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	THREE MONTH MARCH
	2001
NET SALES	$ 136,169
COST OF SALES	105,728
Gross profit	30,441
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	29,788
Income from operations	653
INTEREST EXPENSE	1,358
OTHER EXPENSE (INCOME)	5
(LOSS) INCOME BEFORE INCOME TAXES	(710)

(BENEFIT) PROVISION FOR INCOME TAXES	(114)
NET (LOSS) INCOME	$ (596)
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	$ (.07)
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic and Diluted)	8,559,032

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL DISTRIBUTION GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months En March 31, 2001	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (596)	$
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,231	
Deferred taxes	249	
Gain on disposal of equipment	(4)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,779)	
Inventories, net	236	
Prepaid assets and other assets	(926)	
Accounts payable	6,636	
Accrued compensation	(505)	
Other accrued liabilities	(103)	
Total adjustments	2,035	
Net cash provided by (used in) operating activities..........	1,439	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment, net	(302)	
Proceeds from the sale of property and equipment	12	
Deposits	(213)	
Cash surrender value of life insurance	0	
Proceeds from sale of investments	0	

Net cash used in investing activities	(503)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common stock	108
Net (repayments) borrowings on credit facilities and other lines	(1,229)
Long-term debt repayments	(288)
Change in book overdraft	(1,623)
Premium payments on management liability insurance	(930)
Deferred loan costs and other	(65)
Net cash (used in) provided by financing activities	(4,027)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,091)
CASH AND CASH EQUIVALENTS, beginning of period	3,690
CASH AND CASH EQUIVALENTS, end of period	$ 599
Supplemental Cash Flow Information:	
Cash Paid for Interest	$ 1,038
Cash Paid for Income Taxes	$ 442

The accompanying notes are an integral part of these consolidated financial statements.

INDUSTRIAL DISTRIBUTION GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - MARCH 31, 2001 (Unaudited)

Industrial Distribution Group, Inc. ("IDG" or the "Company"), a Delaware corporation, was formed on February 12, 1997 to create a nationwide supplier of cost-effective, flexible procurement solutions for manufacturers and other users of maintenance, repair, operating, and production ("MROP") products. The Company conducts business in 35 states and two foreign countries, providing product expertise in the procurement and application of MROP products to a wide range of industries.

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature.

The quarterly results for the period ended March 31, 2000 were restated as discussed in note 13 of the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 001-13195.

These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended December 31, 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138, which addresses the accounting for derivative instruments. SFAS No. 133 is effective for financial statements for the Company's fiscal quarters beginning on January 1, 2001. The Company's adoption of SFAS No. 133 has not had a significant effect on the Company's financial position or results of operations.

3. CREDIT FACILITY

In December 2000, the Company entered into a $100,000,000 revolving credit facility with a five financial institution syndicate. The facility expires on March 31, 2004 and has a first security interest in the assets of the business units. The agreement provides that the facility may be used for operations and acquisitions, and provides $5,000,000 for swinglines and $10,000,000 for letters of credit. Amounts outstanding under the credit facility bear interest at either the lead bank's corporate rate or LIBOR, as selected by the Company from time to time, plus applicable margins. This rate was 7.8% at March 31, 2001.

The amounts outstanding under the current facility at March 31, 2001 and under the previous facility at December 31, 2000 were $48,200,000 and $49,429,000, respectively, which have been classified as long-term liabilities. Additionally, the Company had outstanding letters of credit for $2,604,000 at March 31, 2001. The revolving credit facility contains various covenants pertaining to the maintenance of certain financial ratios. These covenants include requirements for interest coverage, net worth, and capital expenditures, among other restrictions. The covenants also prohibit the payment of cash dividends. The Company was in compliance with these covenants as of March 31, 2001 and December 31, 2000.

6

7

4. CAPITAL STOCK

Effective January 1, 2001, the Company issued 72,445 shares of its common stock through its employee stock purchase plan.

Options are to be included in the computation of diluted earnings per share ("EPS") where the options' exercise price is less than the average market price of the common shares during the period. There was no dilutive effect of the options outstanding during the three months ended March 31, 2001 and 2000 to the weighted average common shares outstanding for purposes of calculating diluted EPS. During the three months ended March 31, 2001 and 2000, options where the exercise price exceeded the average market price of the common shares totaled 1,102,219 and 1,306,627, respectively.

5. COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims and legal actions which arise in the ordinary course of business. The Company believes that the ultimate resolution of such matters will not have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based upon the historical financial results of the Company. Results of operations from acquisitions made using the purchase method of accounting have also been included from their date of acquisition.

In this discussion, most percentages and dollar amounts have been rounded to aid presentation; as a result, all such figures are approximations. References to such approximations have generally been omitted.

This discussion may contain certain forward-looking statements concerning the Company's operations, performance, and financial condition, including, in particular, the likelihood of the Company's success in developing and expanding its business. These statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ include, but are not limited to, the availability of attractive acquisition opportunities, the successful integration and profitable management of acquired businesses, improvement of operating efficiencies, the availability of working capital and financing for future acquisitions, the Company's ability to grow internally through expansion of services and customer bases, its ability to reduce overhead, seasonality, the continuation of key supplier relationships, the ability of the Company to compete successfully in the highly competitive and diverse MROP market, the Company's ability to maintain key personnel, the availability of key personnel for employment by the Company, and other factors discussed in more detail under "Item 1-Business" of the Company's Annual Report on Form 10-K for fiscal 2000.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

The following table sets forth certain historical financial data for IDG and shows such data as a percentage of net sales for the periods indicated (dollars in thousands):

	THREE MONTHS ENDED MARCH 31			
	2001		2000	
Net Sales	$136,169	100.0%	$140,849	100.0%
Cost of Sales	105,728	77.6	109,268	77.6
Gross Profit	30,441	22.4	31,581	22.4
Selling, General and Administrative	29,788	21.9	29,796	21.1
Operating Income	$ 653	0.5%	$ 1,785	1.3%

7

8

Net sales decreased $4.7 million or 3.3 % from $140.8 million for the three months ended March 31, 2000 to $136.2 million for the three months ended March 31, 2001. The sales decrease is attributable to higher interest rates and energy costs as well as the generally slower economy, with our manufacturing customers in the automobile, trucking, manufactured housing, and aluminum industries hit especially hard.

Cost of sales decreased $3.5 million or 3.2 % from $109.3 million for the three months ended March 31, 2000 to $105.7 million for the three months ended March 31, 2001. As a percentage of net sales, cost of sales remained the same at 77.6% in 2000 and 2001.

Selling, general, and administrative expenses were $29.8 million for each of the three months ended March 31, 2000 and 2001, or 21.1% and 21.9% of revenues for the periods, respectively. This percentage increase resulted from the same dollar base of selling, general, and administrative expenses for both quarters being spread over lower sales volume in 2001.

Operating income decreased $1.1 million from $1.8 million for the three months ended March 31, 2000 to $.7 million for the three months ended March 31, 2001. As a percentage of net sales, operating income decreased from 1.3% in 2000 to 0.5% in 2001 due to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company had $.6 million in cash, an additional $90.8 million of working capital, and $49.2 million of borrowing capacity under its $100 million revolving credit facility. The Company's liquidity position continues to be sufficient to enable the Company to fund its current operations and to fund anticipated internal expansion and acquisitions for the next year.

Net cash provided by (used in) operating activities for the three months ended March 31, 2001 and 2000 was $1.4 million and ($1.6 million), respectively. The change was principally due to improved management of accounts payable.

Net cash used in investing activities for the three months ended March 31, 2001 and 2000 was $.5 and $.4 million, respectively. The difference is mainly due to the proceeds on the sale of investments, which the company benefited from in 2000. In 2001, the cash was used for property and equipment additions and deposits, whereas in 2000, the cash was used primarily for property and equipment additions (net of proceeds from the sale of property and equipment).

Net cash (used in) provided by financing activities for the three months ended March 31, 2001 and 2000 was ($4.0 million) and $3.1 million, respectively. In 2000, borrowings on the credit facility were used to fund working capital needs, whereas, in 2001 improved working capital management has enabled the Company to pay down its credit facility. Additionally in 2001, the Company made premiums payments on the management liability insurance policy, which was entered into in the second quarter of 2000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in the disclosure concerning this item made in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various claims and legal actions, which arise in the ordinary course of business. The Company believes that the ultimate resolution of such matters will not have a material adverse effect on the Company's financial position or results of operations. There has been no significant change in the disclosure concerning this item made in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits filed as part of this Form 10-Q:

None

b) Reports on Form 8-K filed during the quarter to which this Form 10-Q relates:

None

SIGNATURES

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

INDUSTRIAL DISTRIBUTION GROUP, INC.
(Registrant)

Date: May 14, 2001

By: /s/ Jack Healey

Jack P. Healey
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Accounting and Financial Officer)