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INDUSTRIAL DISTRIBUTION GROUP INC

Form 10-Q

August 14, 2001

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

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 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 July 31, 2001 -----
Common Stock, \$.01 par value	8,685,669

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INDUSTRIAL DISTRIBUTION GROUP, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

JUNE 30,
2001

(Unaudited)

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ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 656	\$ 3,
Accounts Receivable, net	67,753	64,
Inventory, net	67,459	68,
Deferred Tax Assets	6,544	7,
Prepaid and Other Current Assets	11,368	9,
	-----	-----
TOTAL CURRENT ASSETS	153,780	154,
Property and Equipment, net	14,453	15,
Intangible Assets, net	51,489	52,
Other Assets	2,430	1,
	-----	-----
TOTAL ASSETS	\$ 222,152	\$ 223,
	=====	=====

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current Maturities of Long-Term Debt	\$ 743	\$
Book Overdraft	5,459	8,
Accounts Payable	44,087	38,
Accrued Compensation	2,275	2,
Current Portion of Management Liability Insurance	3,718	3,
Other Accrued Liabilities	6,278	6,
	-----	-----
TOTAL CURRENT LIABILITIES	62,560	60,
Long-Term Debt	51,763	52,
Other Long-Term Liabilities	6,764	9,
	-----	-----
TOTAL LIABILITIES	121,087	121,

STOCKHOLDERS' EQUITY:

Common Stock, par value \$.01 per share, 50,000,000 shares authorized; 8,649,440 shares issued and 8,642,667 shares outstanding in 2001; 8,493,360 shares issued and 8,486,587 shares outstanding in 2000	87	
Additional Paid-In Capital	97,562	97,
Retained Earnings	3,506	4,
Treasury Stock	(90)	
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	101,065	102,
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 222,152	\$ 223,
	=====	=====

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 MONTHS ENDED	
	JUNE 30,	
	2001	(re se
	-----	-----
NET SALES	\$ 131,364	\$
COST OF SALES	101,821	
	-----	-----
Gross profit	29,543	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	29,341	
	-----	-----
Income from operations	202	
INTEREST EXPENSE	1,166	
OTHER (INCOME) EXPENSE, NET	(56)	
	-----	-----
(LOSS) INCOME BEFORE INCOME TAXES	(908)	
(BENEFIT) PROVISION FOR INCOME TAXES	(183)	
	-----	-----
NET (LOSS) INCOME	\$ (725)	\$
	=====	=====
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	\$ (.08)	\$
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic and Diluted)	8,618,776	8
	=====	=====

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

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CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	-----	-----
NET SALES	\$ 267,533	\$ 267,533
COST OF SALES	207,549	207,549
	-----	-----
Gross profit	59,984	59,984
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	59,129	59,129
	-----	-----
Income from operations	855	855
INTEREST EXPENSE	2,524	2,524
OTHER INCOME, NET	51	51
	-----	-----
(LOSS) INCOME BEFORE INCOME TAXES	(1,618)	(1,618)
(BENEFIT) PROVISION FOR INCOME TAXES	(297)	(297)
	-----	-----
NET (LOSS) INCOME	\$ (1,321)	\$ (1,321)
	=====	=====
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE	\$ (.15)	\$ (.15)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING (Basic and Diluted)	8,589,069	8,589,069
	=====	=====

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

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

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	SIX MONTHS ENDED JUNE 30,	(re see
	2001	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (1,321)	\$ -----
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,472	
Deferred taxes	1,056	
Gain on disposal of equipment	(13)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,048)	
Inventories, net	1,059	
Prepaid assets and other assets	(1,642)	
Accounts payable	5,551	
Accrued compensation	(81)	
Other accrued liabilities	(734)	
Total adjustments	4,620	
Net cash provided by operating activities	3,299	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment, net	(622)	
Proceeds from the sale of property and equipment	10	
Deposits	(435)	
Payment to dissenting shareholder	0	
Cash surrender value of life insurance	0	
Proceeds from sale of investments	0	
Net cash used in investing activities	(1,047)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	208	
Net (repayments) borrowings on credit facilities and other lines	(429)	
Long-term debt repayments	(370)	
Change in book overdraft	(2,771)	
Proceeds from management liability insurance, net of fees	0	
Premium payments on management liability insurance	(1,859)	
Deferred loan costs and other	(65)	
Net cash (used in) provided by financing activities	(5,286)	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,034)	
CASH AND CASH EQUIVALENTS, beginning of period	\$ 3,690	\$ =====
CASH AND CASH EQUIVALENTS, end of period	\$ 656	\$ =====
Supplemental Cash Flow Information:		
Cash Paid for Interest	\$ 2,057	\$

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Cash Paid for Income Taxes	\$ 593	\$
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The accompanying notes are an integral part of these consolidated financial statements.

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INDUSTRIAL DISTRIBUTION GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001

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.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The quarterly and year-to-date results for the period ended June 30, 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.

The 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.

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In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. During 2002, the Company will apply the non-amortization provisions and perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has not yet determined what the effect the statement will have on the earnings and financial position of the Company.

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 6.3% at June 30, 2001.

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The amounts outstanding under the current facility at June 30, 2001 and December 31, 2000 were \$49,000,000 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 June 30, 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 June 30, 2001 and December 31, 2000.

4. CAPITAL STOCK

During the second quarter of 2001, the Company issued 58,687 shares of its common stock through its employee stock purchase plan.

During the second quarter of 2001, the Company issued 25,000 shares of its common stock to an executive pursuant to a restricted stock agreement.

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 June 30, 2001 and 2000 to the weighted average common shares outstanding for purposes of calculating diluted EPS. During the three months ended June 30, 2001 and 2000, options where the exercise price exceeded the average market price of the common shares totaled 1,035,085 and 1,306,627, respectively.

5. COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims and legal actions which arise in the

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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 JUNE 30, 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):

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	THREE MONTHS ENDED JUNE 30		
	2001		2000
Net Sales	\$ 131,364	100.0%	\$ 139,615
Cost of Sales	101,821	77.5	107,983
Gross Profit	29,543	22.5	31,632

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Selling, General and Administrative	29,341 -----	22.3 -----	29,263 -----
Operating Income	\$ 202 =====	0.2% =====	\$ 2,369 =====

Net sales decreased \$8.3 million or 5.9% from \$139.6 million for the three months ended June 30, 2000 to \$131.4 million for the three months ended June 30, 2001. The sales decrease is due to production curtailments, layoffs, and plant closures at customer sites across the Company's broad customer base that are occurring as customers adapt to the continuing softness in the economy.

Cost of sales decreased \$6.2 million or 5.7% from \$108.0 million for the three months ended June 30, 2000 to \$101.8 million for the three months ended June 30, 2001. As a percentage of net sales, cost of sales increased from 77.3% in 2000 to 77.5% in 2001. The increase in cost of sales as a percentage of sales is attributable to a change in total company sales mix, competitive pricing pressures, and lower vendor rebates due to lower purchasing volume.

Selling, general, and administrative expenses increased \$0.1 million or 0.3% from \$29.3 million for the three months ended June 30, 2000 to \$29.3 million for the three months ended June 30, 2001. As a percentage of net sales, selling, general and administrative expenses increased from 21.0% to 22.3%. The increase in selling general and administrative expenses is a result of severance costs of \$0.4 million associated with work force reductions initiated to streamline operations. As of June 30, 2001, the Company's total headcount was reduced by 5.8% as compared to June 30, 2000. Excluding these severance costs, selling, general, and administrative expenses were \$28.9 million or 22.0% of sales for the second quarter of 2001. The decrease in selling, general, and administrative expense excluding severance costs is due to the impact of the Company's headcount and cost reduction initiatives undertaken during the second quarter of 2001.

Operating income decreased \$2.2 million or 91.5% from \$2.4 million for the three months ended June 30, 2000 to \$0.2 million for the three months ended June 30, 2001. As a percentage of net sales, operating income decreased from 1.7% in 2000 to 0.2% in 2001.

SIX MONTHS ENDED JUNE 30, 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):

	SIX MONTHS ENDED JUNE 30		
	2001		2000
Net Sales	\$ 267,533	100.0%	\$ 280,464
Cost of Sales	207,549	77.6	217,251
	-----	-----	-----
Gross Profit	59,984	22.4	63,213
Selling, General and Administrative	59,129	22.1	59,059

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	-----	-----	-----
Operating Income	\$ 855	0.3%	\$ 4,154
	=====	=====	=====

Net sales decreased \$12.9 million or 4.6% from \$280.5 million for the six months ended June 30, 2000 to \$267.5 million for the six months ended June 30, 2001. The sales decrease is due to production curtailments, layoffs, and plant closures at customer sites across the Company's broad customer base that are occurring as customers adapt to the continuing softness in the economy.

Cost of sales decreased \$9.7 million or 4.5% from \$217.3 million for the six months ended June 30, 2000 to \$207.5 million for the six months ended June 30, 2001. As a percentage of net sales, cost of sales increased from 77.5% in 2000 to 77.6% in 2001. The increase in cost of sales as a percentage of sales is attributable to a change in total company sales mix, competitive pricing pressures, and lower vendor rebates due to lower purchasing volume.

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Selling, general, and administrative expenses remained stable at \$59.1 million for the six months ended June 30, 2000 and June 30, 2001. As a percentage of net sales, selling, general and administrative expenses increased from 21.0% to 22.1%. The increase in selling general and administrative expenses is a result of severance costs of \$0.5 million associated with work force reductions initiated to streamline operations. As of June 30, 2001, the Company's total headcount was reduced by 5.8% as compared to June 30, 2000. Excluding these severance costs, selling, general, and administrative expenses were \$58.6 million or 21.9% of sales for the six months ended June 30, 2001. The increase in selling, general, and administrative expense excluding severance costs as a percentage of sales is due to the reduction in sales volume from prior year.

Operating income decreased \$3.3 million or 79.4% from \$4.2 million for the six months ended June 30, 2000 to \$0.9 million for the six months ended June 30, 2001. As a percentage of net sales, operating income decreased from 1.5% in 2000 to 0.3% in 2001.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company had \$0.7 million in cash, an additional \$90.6 million of working capital, and \$48.4 million of borrowing capacity under the master agreement of its \$100 million revolving credit facility; however, the current asset base gives the Company a borrowing capacity of \$19.0 million. The Company's liquidity position continues to be sufficient to enable the Company to fund its current operations and to fund anticipated internal expansion.

Net cash provided by operating activities for the six months ended June 30, 2001 and 2000 was \$3.3 million and \$0.5 million, respectively. The change was principally due to improved management of accounts payable and inventory offset by a reduction in accrued liabilities.

Net cash used in investing activities for the six months ended June 30, 2001 and 2000 was \$1.0 million and \$4.6 million, respectively. In 2001, the Company reduced property and equipment expenditures by approximately \$2.8 million as compared to 2000. In June 2000 the Company sold one of its buildings in a transaction accounted for as a sale-leaseback. Proceeds from the sale are

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included in investing activities for the six months ended June 30, 2000. Also, in 2000 the Company made a \$10.75 million payment to a dissenting shareholder as disclosed in the Company's Annual Report (Note 10 to the Consolidated Financial Statements) on Form 10-K for the year ended December 31, 2000.

Net cash (used in) provided by financing activities for the six months ended June 30, 2001 and 2000 was (\$5.3 million) and \$3.9 million, respectively. In 2000, the Company used proceeds from the sale of property and equipment to pay down its revolving credit facility and other long-term debt by \$3.5 million. Payments made against the credit facility and other debt instruments totaled \$0.8 million in 2001. In 2000, the Company arranged through one of its insurance carriers to purchase management liability insurance to cover the \$10.75 million payment made to the dissenting shareholder. Proceeds received from this policy, net of fees, were \$10.75 million in 2000. Total premiums payments made on the management liability insurance policy were \$1.9 million and \$0.9 million in 2001 and 2000, respectively.

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

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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 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders on May 16, 2001, at which three items were brought to a vote. First, the election of eight nominees for directors was voted on. All eight nominees were elected, with the following vote totals:

NOMINEE	VOTES FOR	VOTES WITHHELD
David K. Barth	6,447,902	1,286,256
William J. Burkland	6,512,330	1,221,828
William A. Fenoglio	6,696,080	1,038,078
Patrick S. O'Keefe	6,117,215	1,616,943
William T. Parr	6,696,080	1,038,078

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George L. Sachs, Jr.	6,431,766	1,302,392
Richard M. Seigel	6,696,080	1,038,078
Andrew B. Shearer	6,507,766	1,226,392

Second, it was approved, through a vote of the stockholders, that the Company's Amended and Restated Employee Stock Purchase Plan (the "Plan") be amended to increase the shares of Common Stock authorized for issuance under the Plan from 500,000 to 1,000,000 shares. The number of shares cast for this amendment was 5,231,214, with 610,449 votes against, 12,797 votes abstained, and 1,879,698 unvoted shares.

Lastly, the stockholders voted upon an amendment to the Company's Certificate of Incorporation and Bylaws dividing the Board of Directors into three classes, which serve staggered three-year terms. The stockholders approved the amendment to the Company's Bylaws which required a majority of the shares represented and voted, while the amendment to the Company's Certificate of Incorporation, which required a majority of all outstanding shares of the Company, was not approved. The number of shares cast for these amendments were 3,154,043, with 2,657,905 votes against, 42,512 votes abstained and 1,879,698 unvoted shares. As a result of the amendment to the Bylaws, the nominees were elected to three classes of directors, with the following terms: Mr. Barth and Mr. Sachs were elected to terms which expire in 2002; Mr. Burkland, Mr. Fenoglio, and Mr. Parr were elected to terms which expire in 2003; and Mr. O'Keefe, Mr. Shearer, and Mr. Seigel were elected to terms which expire in 2004.

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: August 14, 2001

By: /s/ Jack P. Healey

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