

INDUSTRIAL DISTRIBUTION GROUP INC

Form 10-K

March 03, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission File No. 001-13195

INDUSTRIAL DISTRIBUTION GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or other jurisdiction
of incorporation or organization)

58-2299339

(I.R.S. Employer
Identification No.)

950 East Paces Ferry Road, Suite 1575, Atlanta, Georgia 30326

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (404) 949-2100

Securities Registered Pursuant to Section 12(b) of The Act:

Title of Each Class

Name of Each Exchange on Which Registered

None

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Yes No

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates (which for purposes hereof are all holders other than executive officers and directors) of the Registrant as of June 30, 2005 was \$76,212,388 (based on 8,064,803 shares held by non-affiliates at \$9.45 per share, the last sales price on the NASDAQ on June 30, 2005).

The number of shares outstanding of the registrant's common stock as of February 15, 2006 was 9,386,881.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the 2006 Annual Meeting of Stockholders to be held April 28, 2006 are incorporated by reference, to the extent indicated under Items 10, 11, 12, 13, and 14, into Part III of this Form 10-K.

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PART I

Item 1. *Business.*

Background and General

Industrial Distribution Group, Inc. (IDG) was formed in 1997 through the combination of several, previously independent industrial distribution companies. We are a nationwide supplier of maintenance, repair, operating, and production (MROP) products and services to manufacturers and other industrial users, and through our Flexible Procurement Solutions (FPS) program, we provide an array of value-added business process outsourcing services and other arrangements. Our FPS services include storeroom management (commonly referred to as integrated supply) and other offerings that emphasize and utilize our specialized expertise in product applications and production process improvements. In providing FPS services and direct sales of MROP products (which we refer to as General MROP sales), we distribute a full line of MROP products, specializing in cutting tools, abrasives, hand and power tools, maintenance equipment, coolants, lubricants, adhesives, and safety products. In addition, we can supply at a competitive price virtually any other MROP product that a customer may require.

Our FPS customers, which account for 56% of our business, range from mid-market (i.e., between \$50,000 and \$500,000 in potential annual revenues) to large market (i.e., greater than \$500,000 in potential annual revenues) accounts. We believe that, as we widen our FPS services and product selection, we will continue to position IDG to proactively address the increasing demands of customers for ways to reduce their overall MROP costs and enhance their operating efficiencies. In many of our FPS arrangements, we seek to answer these demands by guaranteeing a minimum annual reduction in our customer s total MROP procurement costs through our Documented Cost Savings Program. We are able to guarantee such cost reductions by leveraging our expertise and our ability to analyze a customer s acquisition, possession, and application processes for MROP products to design and implement a customized program that improves and streamlines those processes. The specific programs we design may include improving the customer s production and procurement processes, standardizing the products they use, reducing the number of suppliers from which they purchase products, or developing storeroom management arrangements that outsource to us some or all of their MROP procurement and management functions. Our General MROP customers tend to be less than \$500,000 in potential annual revenue and purchase our products through a variety of methods, including direct sales, e-commerce and call centers staffed by trained inside sales personnel. These customers buy our products for their availability and price and for our specialized product application expertise in addition to our relationships with some of the strongest suppliers in the industry.

Our operations are organized into four regional divisions headed by Regional Presidents who report directly to our Chief Executive Officer. While each Regional President is responsible for the operations of our FPS locations in the particular region, we also have a Vice President of Flexible Procurement Solutions who reports directly to the Chief Executive Officer and has overall responsibility for our FPS sales and implementation of new sites. We currently have sales coverage in 43 of the top 75 manufacturing markets in the United States as well as in certain markets in Mexico and China. We have approximately 16,000 active customers (which means customers that purchased at least one item in the last 12 months), which include a diverse group of large and mid-sized national and international corporations, including Borg-Warner Inc., ArvinMeritor Inc., PPG Industries, General Electric Company, Duracell, Honeywell International Inc., Black & Decker Corp., and Pentair Inc., as well as many local and regional businesses. Based on 2005 sales of \$538.8 million, we believe IDG is among the top 15 MROP providers and the top five operators of storeroom management sites in the nation.

During 2006, we will convert all of our businesses to one computer operating system which will take us from three disparate back-office computer platforms to one of three pre-existing platforms. Once this system is successfully implemented, all technology services provided to, and computer interaction with, our customers will be done using one common operating platform. We are currently working towards a seamless integration of the new operating system, which we will unfold in two phases phase one is anticipated to be completed by the second quarter of 2006, and phase two is anticipated to be completed by the end of the third quarter of 2006. We believe that centralizing our operating system will improve both our internal and external operating efficiency. Internally, we will be able to streamline our back-office structure, thereby lowering operating and transactional costs and improving our productivity. Externally, we intend to leverage the resources of the entire organization to provide consistent service to

every customer, for example, giving each FPS customer one point of contact for the Company, not

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one contact in each region. To prepare for this implementation, we have already realigned the organization to operate with one process manager for each of our major sales and operational functions including marketing, customer service, material handling, purchasing, human resources, accounting, warehousing and logistics. Currently, these functions are primarily handled on a region by region basis, with each region's process leader reporting to the Regional President. As we move forward executives will be appointed with company-wide authority for each process.

Industry Overview and Trends

Manufacturers, processors, and other producers of industrial, commercial, or consumer products have a continual need for a broad range of MROP products. We estimate that the size of the market for industrial MROP products in which we participate is approximately \$70 billion annually. However, the entire U.S. MROP market is estimated to be in excess of \$175 billion annually. This broader market includes electrical, PVF (pipes, valves, and fittings), power transmission, and other product categories in which we participate to a lesser extent than the industrial MROP product market.

Manufacturers and other users of MROP products continue to seek ways to enhance efficiencies and reduce MROP process and procurement costs in order to compete more effectively in the global economy. As a result, the industrial supply industry continues to experience consolidation, as customers focus on the convenience, cost savings, and economies of scale associated with a reduced number of suppliers who are capable of providing superior service and product selection.

In today's marketplace, business-to-business solutions provide customers with the option to outsource the commodity management aspects of MROP. As manufacturers have focused on their core manufacturing or other production competencies, they have increasingly outsourced their MROP procurement, management, and application processes in search of more comprehensive MROP solutions that include technology solutions that we provide. Our business-to-business solutions include Internet-based platforms used to create procurement solution strategies allowing us continued opportunities for growth. The 2006 operating system consolidation will allow us to provide further e-commerce options to our customers. These enhanced capabilities will occur in 2007.

We believe that we have the size, scale of operations, technology, and skilled personnel resources necessary to benefit from these industry trends and compete effectively in the MROP supply industry. Furthermore, the development of our ability to offer a wider variety of e-commerce solutions to our customers will enable us to compete more effectively in the future and provide us with additional revenue opportunities.

Flexible Procurement Solutions (FPS)

Services Program and Approach

FPS is a broad program of value-added, business process outsourcing services that we offer to customers and reflects our principal approach to addressing the MROP needs of our customers. We approach our customers and their needs proactively, not simply to sell MROP products, but to help design an overall MROP strategy that improves our customers' supply chain and asset management and increases their operational efficiencies. We offer our customers our expertise in process improvement, inventory management, product application, productivity improvements, cost savings, software solutions, and logistics. Through FPS, we can provide any or all of these areas of expertise, depending on the size and the specific needs of the customer. As a result of our FPS services, we believe that our customers can increase their profits and their return on assets.

We believe that the ability and flexibility to provide the ideal combination of MROP services required by each customer is the key to capturing market share for our business. The prerequisites for doing so will continue to evolve, and we will remain vigilant in assessing the needs of and developing solutions for our existing and prospective new customers. At December 31, 2005, we had arrangements in place to provide FPS services to approximately 251 customers covering 341 sites, including 103 storeroom management sites covering 55 customers.

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Spectrum of Service Offerings

The spectrum of services we offer in designing and implementing Flexible Procurement Solutions for customers is broad and encompasses all phases of a customer's MROP cycle—that is, the acquisition, possession, and application of MROP products. Our extensive process knowledge and the product expertise of our associates are key elements that allow us to present cost saving solutions to our customers in all of these phases. For example, our comprehensive product line supports our commitment to acquire and deliver the most appropriate product to our customers. In addition to maintaining approximately 265,000 stock-keeping units (SKUs), as well as special items in stock for regular customers, we can provide virtually any MROP item a customer may require. Our proprietary stand-alone software programs provide a sophisticated system for our customers to accurately track their possession and use of these products. Moreover, our industry-specific experience and extensive product knowledge enable us to assist in the application of MROP products by evaluating manufacturing processes and the MROP products they use. Our understanding of the most appropriate product for specific customer applications helps us to identify the MROP product best suited for a customer's specific need, or we may suggest process re-engineering in order to lower the customer's total MROP costs.

The proper management of the acquisition, possession and application functions is important to customers because they must balance the need for immediate access to inventory with the cost of carrying the inventory. Many MROP products—such as machine tool inserts, drill bits, abrasives, saw blades, and gloves—are consumed in production processes and are essential to maintain at the point of production to avoid unnecessary downtime. Other MROP products—such as power tools, scales, hoists, and lathes—have relatively longer operational lives and are therefore purchased less frequently, but still must be available on time in order to achieve production efficiencies. The management of all phases of our customers' MROP cycle is a fundamental part of our FPS services for our customers.

In addition to identifying and supplying the particular products a customer requires (in the proper quantities and at the proper times), our specialized services may include any one or more of the following to assist the customer in the acquisition, possession and application phases of the MROP cycle:

providing consolidated billing for MROP products and producing computerized management reports to customers regarding purchases and inventory levels;

installing computer software and hardware to implement an electronic data interchange system to enable the customer to order products electronically and in some cases automatically;

providing storeroom design and reorganization services to reduce inefficiencies, redundancies, obsolescence, and shrinkage;

bar coding products in a customer's tool crib to control inventory and track consumption by product, employee, and/or cost center; and

providing the management and procurement of entire commodity groups utilizing our proprietary software to enable commodity rationalization, supplier surveys, supplier requests for quotes, quotation analysis, supplier selection, and contract awards.

Storeroom Management Arrangements

Our business process outsourcing model for storeroom management (commonly referred to in our industry as integrated supply) is the most complete offering of services in our FPS program. In a storeroom management arrangement, we essentially form a strategic alliance with the customer to procure, manage, and apply MROP products at the customer's site and, in some cases, to share the benefits of the cost reductions achieved. In addition to all or most of the other FPS services we provide, our storeroom management relationships—which are not standardized, but vary from customer to customer based on each customer's needs—usually include:

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licensing to the customer our proprietary software that helps provide our customers with business intelligence to manage the acquisition, receipt, issuance, and application of MROP products and other key commodity supplies;

gaining access to plant floors to re-engineer procurement and production processes and standardize MROP products;

coordinating the purchase of multiple MROP product lines;

providing consolidated invoices and customized management reports via a direct network link to customers; and

managing and staffing tool cribs.

In addition, in a storeroom management relationship, we, rather than the customer, may own the inventory in the tool crib.

In such a relationship, we target negotiated levels of annual reduction in the customer's total MROP costs in relation to its production levels commonly referred to as cost savings. Our customers agree on the savings criteria and measurements at the beginning of the relationship, and our service performance is measured to these pre-determined expectations. We show our customers how we achieve savings for them through our Documented Cost Savings Program. Where we save additional costs for a customer above the negotiated levels in certain arrangements, the customer may share the additional savings with us. We pursue cost reductions in storeroom management relationships through our focused and ongoing analysis and re-engineering of a customer's production processes to reduce the variety and number of MROP products that the customer uses. We often achieve additional cost savings and improved cash flows for our customer through the reduction of tool crib staffing expenses, the reduction in shrinkage and obsolete stock due to better inventory controls, and the elimination of certain inventory holding costs.

We believe that, for appropriate customers, a storeroom management arrangement also has other benefits. For example, through the use of our proprietary Storeroom Management System, key products are readily available to our customers, which reduces their production downtime. We can also provide more useful information than our customers had previously collected about their inventory needs and consumption by cost center.

General MROP Sales

Program and Approach

Our General MROP sales program enables us to add value to the acquisition and application of MROP products to our customers whose scale of operations and business needs may not warrant an integrated solution, or who otherwise do not perceive sufficient benefits from utilizing our other FPS business process outsourcing services. Even where they do not desire one of our more comprehensive FPS service offerings, manufacturers are nonetheless continuously seeking ways to improve their processes and reduce their costs. In pursuit of such improvements, the speed and feed of products on a production line is crucial to manufacturers. A small modification in product selection can have a profound impact on the speed of a manufacturing process. As a result, a high level of knowledge about product application as well as selection is important to successful General MROP sales. Our associates are trained specifically to assist customers in making intelligent cost-saving purchases, with the goal of lowering the customer's total MROP procurement costs. Our highly-skilled customer service representatives are dedicated to answering specific customer inquiries, assisting customers with the operation of products, and finding low cost solutions to manufacturing problems. We believe these factors significantly enhance our volume of repeat business, and they are an integral part of our overall customer costs reduction program and total procurement solutions.

Our General MROP sales approach includes sourcing custom products for our customers in addition to providing those customers with a broad range of industrial MROP products at competitive prices. Once we move to one

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operating system, we will be able to leverage more effectively our resources nationwide to provide customers the products they require with reduced lead times.

Quality Control Standards

We utilize our Business Management System (BMS), a process report business model to ensure that all of our associates receive ongoing business, product and life skills training. As part of our commitment to providing solutions-oriented customer service, we emphasize quality assurance in all phases of our operations. This quality assurance is measured and managed using our internal metrics. These key process indicators are reviewed by our management on a monthly basis to help ensure our quality. Our sales and service personnel receive ongoing periodic training in our services solutions, our products, total quality management and other team management skills to assure quality performance. As a result, our significant operating locations are ISO 9001 compliant.

Products

We believe that the fundamental requirement of our distribution business is getting customers the MROP products they need, when they need them. In order to do so, we offer a full line of industrial MROP products, with approximately 265,000 SKUs in stock. In addition, we often maintain supplies of special items for regular customers, and we are able to supply virtually any special order MROP item at a competitive price. In order to achieve cost savings for us and for our customers, we periodically review our special order activities to identify items ordered with sufficient frequency to warrant inclusion in our stock.

Our principal product categories include cutting tools, abrasives, hand and power tools, maintenance equipment, coolants, lubricants, adhesives, and safety products. We are able to offer significant depth and breadth in our core product lines throughout our nationwide operations. Our offering of specific products from multiple manufacturers, at different prices and quality levels, permits us to offer the product that provides the best value for the customer. We also have available to our customers certain product specialists that assist with the application of a product to a particular manufacturing process.

On an individual location basis, our products may be ordered electronically, by telephone, or by facsimile, and in some cases automatically through pre-approved order quantities. We seek at all times to provide our customers with the most convenient method of selecting and ordering products, which in the future may include paper and electronic catalogs and other electronic commerce. To facilitate on time delivery of our products, we store our stock MROP products primarily in distribution centers and smaller warehouses at various locations across the United States and Shanghai, China.

We currently obtain products from more than 37,000 vendors. During 2005, no vendor provided as much as 7% of the products we sold. We believe we are not materially dependent on any one vendor or small group of vendors.

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The following table sets forth illustrative examples of the myriad products we supply, organized by principal categories of MROP products, and also shows our sales of such products as a percentage of our aggregate product revenue for 2005:

Product Category	Typical Products	% of Aggregate Revenue
Cutting Tools	Drills, Taps, Carbide Tools, End Mills	22.9%
Abrasives	Grinding Wheels, Sanding Belts, Discs, Sheets or Rolls	12.4%
Maintenance Equipment and Supplies	Hydraulic Tools, Paint, Lubrication Equipment	9.1%
Power Tools	Air and Electric Drills, Air Compressors, Impact Wrenches, Screwdrivers	8.1%
Hand Tools	Wrenches, Socket Sets, Screw Drivers, Hammers	7.8%
Coolants, Lubricants, and Adhesives	Metal Cutting Coolants, Aerosols, Industrial Adhesives	7.8%
Safety Products	Gloves, Signs, Absorbents, Glasses	5.9%
Machine Tools and Accessories	Milling Machines, Work Holding Vises, Tool Holders	3.6%
Material Handling Equipment	Hoists, Slings, Chain, Shelving, Casters	3.0%
Tapes	Masking, Filament and Duct Tape	2.3%
Machinery	Metal Removal Equipment, Metal Forming Equipment	1.9%
Fluid Power	Hydraulic and Pneumatic Valves, Cylinders	1.4%
Fasteners	Socket Screws, Hex Screws, Anchors	1.6%
Electrical	Fuses, Electrical Switches, Controls	1.5%
Saw Blades	Band, Hack, Hole, Jig Saw Blades	1.5%
Contractor Supplies	Power-Actuated Tools, Ladders, Shovels	1.2%
Tool & Die Supplies	Ground Stock, Drill Rod, Die Sets	0.9%
Brushes	Wire Wheel, Floor Brooms	0.9%
Quality Control Products	Electronic Calipers, Micrometers	0.9%
Welding Equipment and Supplies	Welders, Weld Rod	0.9%
Power Transmission Equipment	Belts, Drives, Bearings, Gears, Pulleys	0.8%
Industrial Hose	Air Hose, Water Hose	0.7%
Industrial Pipes, Valves, Fittings and Metal Goods	Pipes, Valves, Fittings, Angle Iron, Conduit	0.6%
OEM Assembly Parts	Gaskets, Springs, Assembly Plates	0.3%
Other Products		2.0%
Total		100.0%

Customers

Our active customers (which means each customer that purchased at least one item in the last 12 months) number approximately 16,000 and, include a broad range of industrial, commercial, and institutional users of MROP products, from small local machine shops to regional, national, and multi-national corporations such as Borg-Warner Inc., ArvinMeritor Inc., PPG Industries, General Electric Company, Duracell, Honeywell International Inc., Black & Decker Corp., and Pentair Inc. For 2005, we sold products to over 1,000 customers who purchased at least \$50,000 of products, and no single customer accounted for more than 5% of our net sales.

We will continue to serve a large number and wide variety of customers. Our principal customers (in terms of the amount of services and products acquired from or through us) will likely continue to be divisions of large international

and national corporations, and we will focus on expanding our business with such customers through our national accounts strategy, which includes expanding upon existing relationships with individual plants to develop multi-location customer arrangements. We also place special emphasis, through our FPS program, on marketing and selling our services and products to middle-market industrial consumers. We believe these manufacturers may benefit from many of our value-added service offerings.

By placing additional emphasis on national accounts, we are able to diversify into new customer segments, strengthen our MROP product lines and acquire the scale that helps us achieve our purchasing goals. We continually re-evaluate our strategy, target markets, and our selling techniques and give our sales team tools to ensure we are targeting and implementing programs to the customers that best fit our diversification and profitability goals.

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Sales and Marketing

We have approximately 338 personnel dedicated to sales and marketing efforts across our various international, national, regional, and local markets. We have approximately 168 outside sales representatives and product and solution specialists and 170 inside sales/customer service representatives (which includes 19 regional FPS sales experts). Our outside sales representatives call on designated customers and are responsible for providing technical support to those customers. Our outside sales representatives utilize our product and solution specialists as needs arise at specific customers to assist with the application processes with respect to certain products. Our inside sales/customer service representatives are responsible for certain types of direct customer service and order entry, but primarily focus on supporting the outside sales representatives with respect to each of their customers.

Our outside sales representatives and product and solution specialists play an integral part in our marketing strategy for FPS services by focusing on the broader spectrum of MROP services and then developing and marketing customized value-added solutions to new and existing customers. These solutions go beyond the sale of our products and help to improve our customers' production processes and, as a result, reduce their total procurement costs. They support our 19 regional FPS sales experts who focus solely on this aspect of our business.

In late 2005, as part of a broader organizational realignment, we created the position of Vice President of Flexible Procurement Solutions to be responsible for the management of our FPS sales and operations on a company-wide basis. We made this change both to enhance our sales and marketing and to improve overall FPS operations, in several respects, starting with ensuring our ability to provide our national customers with consistent service regardless of where the relationship originated geographically. By centralizing the management of our FPS sales and FPS operations, we believe we will be able to better manage our commitment to our customers and deliver consistent, high quality solutions. We also believe it will enable us to leverage our ability to generate cost savings for our customers. Moreover, it will facilitate our deployment of personnel and other resources across the Company to assist with implementation as well as marketing activities, which we believe will enable us to move more quickly to negotiate and implement arrangements for new sites and reduce inefficient or underutilization of such resources.

Our General MROP selling strategy will focus on customers and prospects whose needs indicate that they would benefit significantly from a value-added approach to the traditional MROP distribution sales process. While we will continue to cross-promote FPS solutions to appropriate customers or prospects who may currently not recognize the potential value of such solutions, we are committed to improving our capabilities in our General MROP offering. Our genesis is in our unique product knowledge and applications expertise, which add value for the traditional MROP customer, and we believe that a sustained focus on providing such value in General MROP sales is integral to our long-term success. Accordingly, we have identified new avenues in which to sell our products.

Our Business Management System (BMS) dictates that, in order to be successful, we must have the right people and the right processes. Training and development is an integral component of BMS, and is tailored for each position. Sales training is designed to provide both product and solutions expertise, allowing the sales person to demonstrate our value by matching the correct IDG offering to the individual customer's needs. Training is also standardized, providing IDG customers nationwide with the same demonstrated value. For example, like a fast food franchise, we believe all the fries should taste the same throughout the company. We believe we can achieve that goal through ongoing sales force development.

Management Information Systems

Currently, we operate on three nationally recognized distribution systems through which we manage key functions on a regional basis. As part of our comprehensive IT strategy that includes ongoing strategic initiatives focused on centralization, e-commerce capabilities, and FPS operations integration, we are in the process of consolidating onto Infor SX Enterprise, one of our existing operating platforms. Currently 40% of our revenue is processed on Infor SX Enterprise. We anticipate that the first of the two implementation phases, which represents 25% of our operations, will be complete by the end of the second quarter of 2006, and that the second phase, encompassing the remaining 35% of revenue, will be complete by the end of the third quarter of 2006.

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The centralization onto the Infor SX Enterprise computer platform is an important element of our internal business operations effectiveness and efficiency program. We anticipate that our consolidated information technology solution will help us fulfill our customers' requests on a timely basis and at consistently high service levels, and enable us to better manage inventory requirements company-wide in order to fulfill orders more effectively. In addition, we also intend to consolidate our processes, such as purchasing and accounting functions company-wide, which we believe will create significant efficiencies both internally and externally. Until implementation of the new IT solution is complete, key functions will remain within each regional division.

At our customer locations, we utilize computerized management and information systems, including our proprietary distributor based software programs Storeroom Management System, InnoSource®, and Innoanalysis System for customer product procurement and management. These systems assist us in our business-to-business product offerings, and are important elements of our overall ability to meet customers' requirements for increasing levels of individualized MROP procurement solutions, as well as to achieve our desired level of internal operating efficiencies. These proprietary programs, which will be integrated with our new Infor SX Enterprise platform, will continue to operate uninterrupted during our back-office system conversion.

Competition

The industrial MROP products industry is highly competitive and features numerous distribution channels, including: international, national, regional, and local distributors; internet suppliers; large catalog warehouses; and manufacturers' own sales forces. In general, we experience different competition in our General MROP and our FPS sales processes.

Our General MROP sales force competes against many small enterprises who sell to such customers in a limited geographic area. In addition, however, they compete against several large MROP distributors that have significantly greater resources than we do, particularly focused on e-commerce solutions for small to mid-sized customers. Certain of our competitors sell identical products for both lower and higher prices than we offer. In our General MROP business, customer purchasing decisions are primarily based on one or more of the following criteria: price, product selection, product availability, level of service and convenience. We believe we compete effectively on all such criteria.

Our FPS sales force competes primarily against mid-sized to large MROP distributors who have the size and scale of operations to provide customers with a broad product line and service to multiple locations. Accordingly, several of these competitors also have greater resources than we do. In our FPS business, customer purchasing decisions are primarily based on one or more of the following criteria: price, ability to source product, service level, ability to provide documented cost savings, and inventory management capabilities. We believe we compete effectively on all such criteria.

During the past year, we have seen the entry into our business of some traditional large retail distributors, including The Home Depot. Competition in the MROP supplies industry may increase in other ways as well. For example, other distributors are consolidating to achieve economies of scale and increase efficiencies, which may strengthen their competitive position relative to us. We believe these trends will continue into the near future and could further enhance competition.

Personnel

We had approximately 1,300 full-time associates as of December 31, 2005. Of these, 350 associates are employed off-site at our customers' storeroom management facilities as part of FPS relationships. Eight of our associates are employed pursuant to collective bargaining agreements with local unions affiliated with the International Brotherhood of Teamsters and the International Brotherhood of Electrical Workers. We believe that we enjoy good relations with these associates, and we have not experienced work stoppages. We believe our business relationships are good with all of our associates.

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We have implemented both a comprehensive training process and a more formalized communications plan in support of the continued centralization of our operations. Effective training and timely communication are key to realizing our vision of streamlining the manner in which we deliver products, services and solutions to our customers.

Executive Officers

Certain information regarding our executive officers is set forth below. Officers serve at the pleasure of the Board of Directors to hold office until the earlier of their resignation or removal. There are no family relationships among the directors and executive officers of the Company, nor are there any arrangements or understandings between any of the executive officers and any other person pursuant to which they were selected as an executive officer.

Name	Age	Position
Charles A. Lingenfelter	55	President and Chief Executive Officer
Jack P. Healey	46	Executive Vice President, Chief Financial Officer, and Secretary
Thomas W. Aldridge, Jr.	58	Senior Vice President
Michael W. Brice	41	Senior Vice President and Chief Information Officer
John R. Kramer	42	Regional President
Robert E. Vanderhoff	50	Regional President

Mr. Lingenfelter became our President and Chief Executive Officer in November 2005. Prior to that time, he was the Regional President of our Southern region (from January 2002). Prior to 2002, Mr. Lingenfelter served as President of our IDG-Charlotte business unit (from January 2001) and as President of The Distribution Group, Inc. (from 1997), one of the companies that combined to form us in 1997 and with whom he had been an executive since 1988. Prior to 1988, Mr. Lingenfelter was employed in several capacities with Ingersoll-Rand Company, including as Vice President of Sales and Marketing for its Tools Group. Mr. Lingenfelter received his undergraduate degree in Mechanical Engineering from Indiana Institute of Technology.

Mr. Healey joined us in June 1997 as Vice President and Chief Financial Officer. Mr. Healey was named Executive Vice President in February 2006. Prior to that Mr. Healey served as Vice President and Senior Vice President. Prior to 1997, Mr. Healey was the partner in charge of assurance services for a regional accounting firm and member of the SEC practice section of the AICPA, during which time he served as the auditor for one of our founding companies. Mr. Healey is a certified public accountant and a certified fraud examiner. He received his undergraduate degree in Accounting from Syracuse University.

Mr. Aldridge joined us in August 1998 as Senior Vice President of Procurement. Prior to that time, Mr. Aldridge served (from 1991) as Senior Vice President, Vendor Relations, of Affiliated Distributors, a purchasing organization for industrial distributors. From 1987 to 1990, Mr. Aldridge served as Vice President of Sales for Bauer Corporation, a manufacturer of industrial ladders and personal access equipment. Mr. Aldridge received his undergraduate degree in Psychology from the University of Georgia.

Mr. Brice joined us in January 2005 as Senior Vice President and Chief Information Officer. Prior to that time, Mr. Brice served (from 2001) as Partner of Unisys, a worldwide information technology services and solutions company. From 2000 to 2001, Mr. Brice served as Vice President of Collaborex, a business-to-business consulting company. Prior to that time, Mr. Brice was a Principal at Booz-Allen & Hamilton, a strategy and technology consulting firm. Mr. Brice received his undergraduate degree in Computer Science from Clemson University.

Mr. Kramer joined us as a Regional President in November 2002. From 1988 to 2002, Mr. Kramer was employed in several capacities with General Electric Company, most recently as U.S. Business Sales Leader for GE Polymershapes. Mr. Kramer received his undergraduate degree in Business Administration and Spanish from St. John's University.

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Mr. Vanderhoff joined us as a Regional President in February 2004. From 2000 to 2003, Mr. Vanderhoff served in management positions with Coleman Cable, Inc., most recently as Corporate Senior Vice-President. From 1990 to 2000, Mr. Vanderhoff was employed in several capacities with Wesco Distribution including as Vice President of Manufactured Structures. Mr. Vanderhoff received his undergraduate degree in Behavioral Sciences from Messiah College.

Available Information

We make available free of charge on or through our internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our internet address is www.idglink.com.

Item 1A. Risk Factors.

Certain Factors Affecting Forward Looking Statements

From time to time, information provided by us or statements made by our directors, officers or employees may constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. Any statements made in this Annual Report on Form 10-K, including any statements incorporated by reference, that are not statements of historical fact are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, intends, potential, continue, or the negative of such terms or other comparable terminology. Forward-looking statements include our expectations with respect to growth of sales, the effect of economic conditions, the impact of operational improvements or cost reduction initiatives, operating margins and overall profitability.

These forward-looking statements and other forward-looking statements made by us or our representatives are based on a number of assumptions and involve a number of risks and uncertainties, and, accordingly, actual results could differ materially. Factors that may cause such differences include, but are not limited to, the following:

Our industry is very competitive, both as to the number and strength of the different companies with which we compete and the business terms offered to potential customers, and we cannot assure you that we will be able to compete successfully against all or most of them.

The industrial MROP supplies industry is highly competitive and features numerous distribution channels, including: international, national, regional, and local distributors; internet suppliers; large catalog warehouses; and manufacturers own sales forces. Our General MROP sales force competes against many small enterprises who sell to a limited geographic area. In addition, however, they compete against several large MROP distributors that have significantly greater resources than we do, particularly focused on e-commerce solutions for small to mid-sized customers. Our FPS sales force competes primarily against mid-sized to large MROP distributors who have the size and scale of operations to provide customers with a broad product line and service to multiple locations. Accordingly, several of these competitors also have greater resources than we do.

Competition with all of these distributors has increased as customers increasingly seek low-cost alternatives to traditional methods of purchasing and sources of supply by, among other things, reducing the number of their MROP suppliers. Some of our competitors presently sell some of the same products we sell at lower prices than we offer. Moreover, in our FPS sales, we compete on the basis of our ability to design and implement Flexible Procurement Solutions that will enable our customers to achieve productivity improvements and reduce costs overall, rather than seeking simply to offer the lowest price for any particular MROP item. We cannot assure you that we will be able to compete successfully.

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Competition in the MROP supplies industry may increase in other ways as well. For example, other distributors are consolidating to achieve economies of scale and increase efficiencies, which may strengthen their competitive position relative to us. In addition, new competitors, of which we are not currently aware, may emerge, further increasing competition.

Storeroom management customers are large in size and generate average annual revenue of approximately \$2.0 million. If we are not able to renew contracts at profitable levels, we may not be able to replace the business lost.

In most cases, our FPS solutions generate significant savings for our customers during the first few years of the contract. However, there also comes a point when we have brought the customer to maximum efficiency, and our customers requested lower product pricing. In most cases we were not willing to sacrifice our margins of profitability. As a result many customers did not renew contracts and hired the competition or brought the outsourced function of inventory management back in house. We will be challenged by this situation, however, we believe that we are able to compete effectively because of our ability to address the MROP needs of our customers by providing value-added services and solutions that enable them to improve productivity and reduce costs.

The delivery of our services requires highly skilled and specialized employees who are not easy to locate or replace, and we could be adversely affected by the loss or unavailability of such persons.

The timely provision of our high-quality services requires an adequate supply of skilled sales and customer service personnel, including the specialists whose expertise is an essential element of both our customer-oriented FPS program and our General MROP business. Accordingly, our ability to implement solutions for our customers depends to a significant degree on our ability to employ and train the skilled personnel necessary to meet our marketing and servicing requirements. From time to time, we have experienced difficulty in attracting or retaining sufficient numbers of qualified personnel. If this occurs, our operating costs may be adversely affected by turnover in such positions. We cannot be assured that we will be able to maintain an adequately skilled sales and customer service force or that our labor expenses will not increase as a result of a shortage in the supply of such skilled personnel.

We rely heavily on our senior management and the expertise of management personnel, and we could be adversely affected by the loss or unavailability of such persons.

Our operations will depend for the foreseeable future on the efforts of our executive officers, regional presidents, and our other senior management. Our business and prospects could be adversely affected if these persons, in significant numbers, do not perform their key roles as expected or leave the company, and we are unable to attract and retain qualified replacements.

We are in the process of converting to a centralized back-office computer operating system. In the interim, we will continue to rely upon our three current management information systems for our internal management information and related functions. Our operations could be adversely effected if we were to experience significant errors, delays or unforeseen expenses during the implementation.

We are currently in the implementation phases of a centralized operating system, which is scheduled to be complete by the end of the third quarter of 2006. Until implementation is complete however, we will continue to utilize and depend upon the information and operating systems of our three regional platforms for many functions, including procurement of products, financial reporting and analysis, and inventory control, among others. We will not be able to achieve the benefit of the consolidation of back-office functions and other planned operational efficiencies until we have fully implemented our centralized data management system. We may experience delays, disruptions, and unanticipated expenses during the implementation, which could have a material adverse effect on our operations or may prolong our usage of the currently disparate operating systems.

In addition, our proprietary FPS software programs are not fully integrated with any of our regional platforms, and we will not begin integrating these into our centralized operating system until after we have completed our

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system consolidation. We will not be able to achieve the full benefit of the platform consolidation until we have effectively integrated our proprietary FPS software programs into that operating system.

If we experience system failures, the products and services we provide to our customers could be delayed or interrupted, which could harm our business and reputation and result in the loss of customers.

Our ability to provide reliable service largely depends on the efficient and uninterrupted operations of our computer network systems and data centers. As part of the operating system consolidation, we are creating a back up facility with full capabilities at another location. However, until that facility is running, our systems and operations could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, unauthorized entry, and computer viruses. We cannot be certain that our measures to avoid or provide back-up support will be successful. Further, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur. Any significant uninsured interruptions could have a material adverse effect on our business, financial condition, and results of operations.

Our ability to sell our services and products in the quantity we desire depends heavily upon the operations levels of our customers and the economic factors that affect them.

Some of the primary markets for the products and services we sell are subject to cyclical fluctuations that generally affect demand for industrial and consumer durable goods that the users of MROP supplies produce. Consequently, the demand for our services and products has been and will continue to be influenced by most of the same regional, national, or even international economic factors that affect the demand for and production of such goods. When our customers or prospective customers reduce their production levels in response to lower demand for their products, they have less need for MROP supplies and may delay or slow (or even cancel) orders for MROP products or services. In addition, because some of our customers are increasingly moving portions of their operations overseas in order to reduce manufacturing costs, our ability to continue to service those customers at acceptable profitability levels may be impaired.

Our dependence upon outside suppliers and manufacturers of MROP products makes us subject to price increases and delays in receiving such products due to market demand, material shortages, and other factors.

We generally do not maintain supply agreements with third parties for MROP products, but instead purchase the products we sell pursuant to purchase orders in the ordinary course of business. We are and will continue to be subject to price increases charged by our supply sources and to failures or delays by them in delivering the quantities of products we require. There can be no assurance that we will be able to pass any price increase on to our customers, and a price increase in excess of the amount we can pass on to our customers could adversely affect our profit margin. During this past year, we encountered difficulties updating our pricing, which caused our gross margins to decline until we could fix those problems. A failure or delay in our supply of products could adversely affect our sales and our ability to meet our delivery schedules to customers. Although we believe that our existing suppliers will continue to meet our requirements, at prices that are acceptable, and that alternative sources of supply would be available, events beyond our control could have an adverse effect on the cost or availability of the products we sell.

We rely on a variety of informal or short-term distribution rights granted by our suppliers to offer their product lines to our customers, and we could be adversely affected if those rights were discontinued on short notice.

For a substantial portion of our business, we depend on the collection of varied distribution arrangements with suppliers for certain product lines that have been established by our regional divisions in their respective geographic markets. A significant percentage of these current distribution arrangements are oral, and many of them can be terminated by the supplier immediately or upon short notice. The termination or limitation by any key supplier of its relationship with us could have a material adverse effect on our results of operations and financial condition.

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If we were to experience serious personnel dislocation or low morale issues as a result of our ongoing efficiency improvement strategies, our performance could be adversely affected over the short-term until we address any such issues.

As we implement current initiatives and develop additional plans to derive efficiencies and improve services as part of our ongoing strategy to enhance our operating results which will include continuing to centralize certain operational and administrative functions we may experience near-term personnel dislocation and morale issues. Our associates are an integral part of our ability to deliver the high quality services our customers expect, and of our ability to implement successfully our systems of internal controls and procedures to manage our business and report operating results. If we were to experience (and not be able to address satisfactorily) any serious personnel dislocation or low morale issues, such a situation could be disruptive over the short-term and our performance could be adversely affected until we address any such issues.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

Our corporate offices are subject to a lease and are located in approximately 9,500 square feet of office space at 950 East Paces Ferry Road, Suite 1575, Atlanta, Georgia. This lease, which we entered into in December 1998, was amended in February 2004, extending the expiration date of the lease to August 31, 2009.

In addition, we own four and lease 31 operating properties in the United States for our warehouse, sales, and administrative offices. We also lease two properties in a foreign country. Certain property locations contain multiple operations such as a warehouse and a sales office. The facilities range in size from less than 1,000 square feet to over 120,000 square feet. Leases for the facilities expire at various periods between 2006 and 2020. The aggregate annual lease payments for real properties in 2005 was approximately \$4.1 million.

We believe that our facilities are adequate for our current needs and do not anticipate inordinate difficulty in replacing such facilities or opening additional facilities, if needed.

Item 3. *Legal Proceedings.*

We are, from time to time, a party to litigation arising in the normal course of business. We do not believe that any of these actions, individually or in the aggregate, will have a material adverse effect on our financial position, liquidity, or results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of security holders of the company during the fourth quarter of the fiscal year covered by this report.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Price of Registrant's Common Equity and Related Stockholder Matters**

Our common stock trades on the NASDAQ under the symbol IDGR. The following table sets forth for the periods indicated the high and low closing market prices of the common stock on the NASDAQ.

	Price Range	
	High	Low
2004		
First Quarter	\$ 8.39	\$5.37
Second Quarter	\$ 8.55	\$6.95
Third Quarter	\$ 9.72	\$7.75
Fourth Quarter	\$ 9.80	\$8.30
2005		
First Quarter	\$ 9.23	\$7.18
Second Quarter	\$ 9.46	\$8.17
Third Quarter	\$10.62	\$9.00
Fourth Quarter	\$ 9.26	\$6.58
2006		
First Quarter (through February 15)	\$ 8.00	\$7.60

As of February 15, 2006, there were 133 holders of record of our common stock. Investors who beneficially own shares of our common stock held in street name by brokerage firms or similar holders are not included in this number. Accordingly, based upon the quantities of periodic reports requested by such brokerage firms in the past, we believe that the actual number of individual beneficial owners of our common stock exceeds 2,554.

Item 12 of Part III contains information concerning securities authorized for issuance under our equity compensation plans.

Dividends

We have not paid dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the growth, development, and expansion of our business and, accordingly, do not currently intend to declare or pay any dividends on our common stock for the foreseeable future. The declaration, payment, and amount of future dividends, if any, will be subject to the discretion of our Board of Directors and will depend upon our future earnings, results of operations, financial condition, and capital requirements, among other factors. Under Delaware law, we are prohibited from paying any dividends unless we have capital surplus or net profits available for this purpose. In addition, our credit agreement prohibits the payment of dividends.

Table of Contents**Purchases of Equity Securities by the Issuer**

The following table sets forth information about our purchases of our common stock during the full year (as well as during the quarter) ended December 31, 2005. All such purchases were made pursuant to our repurchase program publicly announced on February 23, 2005, under which our Board of Directors has approved up to \$5.0 million of repurchases.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
02/23/05 02/28/05				\$ 5,000,000
03/01/05 03/31/05	13,300	\$ 8.88	13,300	\$ 4,881,896
First Quarter Total	13,300	\$ 8.88	13,300	\$ 4,881,896
04/01/05 04/30/05				\$ 4,881,896
05/01/05 05/31/05	41,000	\$ 8.28	41,000	\$ 4,542,416
06/01/05 06/30/05				\$ 4,542,416
Second Quarter Total	41,000	\$ 8.28	41,000	\$ 4,542,416
07/01/05 07/31/05				\$ 4,542,416
08/01/05 08/31/05	1,000	\$ 9.29	1,000	\$ 4,533,126
09/01/05 09/31/05	46,100	\$ 9.36	46,100	\$ 4,101,630
Third Quarter Total	47,100	\$ 9.36	47,100	\$ 4,101,630
10/01/05 10/31/05				\$ 4,101,630
11/01/05 11/30/05				\$ 4,101,630
12/01/05 12/31/05	33,681	\$ 7.53	33,681	\$ 3,848,012
Fourth Quarter Total	33,681	\$ 7.53	33,681	\$ 3,848,012
2005 Total	135,081	\$ 8.53	135,081	\$ 3,848,012

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Our selected financial data set forth below have been derived from our audited consolidated financial statements and should be read in conjunction with such financial statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this Report and our financial statements and supplementary data included elsewhere in this Report.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share data)				
Statements of Income Data:					
Net sales	\$ 538,847	\$ 529,175	\$ 483,442	\$ 492,450	\$ 514,385
Gross profit	117,571	115,712	107,893	109,406	114,521
Selling, general, and administrative expenses	107,033	105,599	101,518	&	