

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

DIXON TICONDEROGA CO  
Form 10-K  
January 15, 2002

SECURITIES AND EXCHANGE COMMISSION Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 ( d )

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2001      Commission file number 1-8689  
-----

DIXON TICONDEROGA COMPANY

-----  
(Exact name of Company as specified in its charter)

Form 10-K

X      Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange  
---      Act of 1934 (Fee Required) for the fiscal year ended September 30, 2001.

---      Transition Report Pursuant to Section 13 or 15 (d) of the Securities  
Exchange Act of 1934 (No Fee Required) for the transaction period from  
\_\_\_\_\_ to \_\_\_\_\_ .

Delaware

23-0973760

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification Number)

195 International Parkway, Heathrow, FL

32746

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code      (407) 829-9000  
-----

Title of each class

Name of each exchange on which registered

Common Stock, \$1.00 par value  
-----

American Stock Exchange  
-----

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 company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

Based on the closing sales price on December 3, 2001, the aggregate market value of the voting stock held by non-affiliates of the Company was \$3,806,686.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of December 3, 2001: 3,177,462 shares of common stock, \$1.00 Par Value.

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 Form 10-K or any amendment to this Form 10-K. [ ]

# Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Documents Incorporated by Reference: Proxy statement to security holders incorporated into Part III for the fiscal year ended September 30, 2001.

## PART I

### ITEM 1. BUSINESS

#### RECENT EVENTS AND STRATEGIES

In fiscal 2001, Dixon Ticonderoga Company (hereinafter the "Company") refocused its efforts on its core Consumer Group while continuing its aggressive restructuring and cost reduction efforts begun in 1999. As a result, the Company had significantly improved operating performance, reporting pro forma net income from continuing operations in 2001 of \$1.2 million or \$0.38 per share (exclusive of the net effects of restructuring and related costs) as compared with pro forma net income from continuing operations of \$271,000 or \$0.08 per share in the prior year. Operating income (exclusive of restructuring and related costs) grew \$2.2 million or 55% in fiscal 2001. Including the effects of restructuring and related costs and results from discontinued operations, net loss in 2001 was (\$480,000) or (\$0.15) per share, as compared with (\$798,000) or (\$0.25) per share in the prior year.

The Company successfully completed its Mexico consolidation into a new 300,000 square foot modern facility as well as further personnel reductions in manufacturing, sales, marketing and corporate activities. In addition, the Company continued its working capital reduction program begun in 2000, emphasizing enhanced inventory control, improved accounts payable management and strict Mexico accounts receivable collection efforts. These initiatives contributed to net cash provided by operating activities of over \$4 million in the past two years, as compared with net cash used by operating activities of approximately \$16 million in the two years ended 1999.

In 2001, the Company also increased its production of wood slats for pencil manufacturing at its wholly-owned China subsidiary, Beijing Dixon Ticonderoga Stationery Company, Ltd. The subsidiary also expanded its sourcing and distribution activities, providing certain new and innovative products for international sale by the Company.

To further focus its efforts, the Company formalized its decision to offer for sale its New Castle Refractories division, the last business of its Industrial Group, on September 17, 2001. The Company had disposed of its Graphite and Lubricants division in 1999. These operations have been reported as discontinued operations and the Company's Consumer Group is now its single business segment.

The Company is also continuing to negotiate with its lenders to restructure its various debt agreements as it continues its efforts (with the assistance of its outside advisors) to pursue an infusion of some form of new equity capital or a secondary financing source.

Further information regarding these matters is included elsewhere in this Annual Report on Form 10-K.

#### COMPANY ORGANIZATION

Dixon Ticonderoga Company  
(Parent)



## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

distribution by the U.S. Consumer group.

Grupo Dixon, S.A. de C.V., a majority-owned subsidiary (97%), is engaged, through its subsidiaries, in the manufacture and sale in Mexico of black and color writing and drawing pencils, correction materials, lumber crayons and allied products. Grupo Dixon also manufactures and sells in Mexico, under its Vinci(R) brand, certain products of the type manufactured at the Sandusky facility, as well as marker products and modeling clay.

Dixon Europe, Limited, a wholly-owned subsidiary of the Company, is engaged in the distribution of many Dixon consumer products in the United Kingdom and other European countries.

Beijing Dixon Ticonderoga Stationery Company, Ltd., a wholly-owned subsidiary of the Company, is engaged in the manufacture of wood slats for pencil manufacturing and the sourcing and distribution of certain consumer products for international sale by the Company.

The Company's international operations are subject to certain risks inherent in carrying on business abroad, including the risk of currency fluctuations, currency remittance restrictions and unfavorable political conditions. It is the Company's opinion that there are presently no material political risks involved in doing business in the foreign countries (i.e. Mexico, Canada and Europe) in which its operations are being conducted.

3

### INDUSTRIAL GROUP (DISCONTINUED OPERATIONS)

-----

On September 17, 2001, the Company formalized its decision to offer for sale its New Castle Refractories division, the last business of its Industrial Group. This division, with plants located in Ohio, Pennsylvania and West Virginia, manufactures various types of non-graphitic refractory kiln furniture used by the ceramic and glass industries; firebrick, silicon-carbide brick, various types and designs of non-graphitic refractory special shapes for ferrous and nonferrous metal industries; refractory shapes for furnace linings and industrial furnace construction; various grades of insulating firebrick and graphite stopper heads.

Prior to the sale of the Company's Graphite and Lubricants division in March 1999, the Industrial Group also manufactured and sold processed natural and synthetic bulk graphite, graphite oil, solvent and water-based lubricants and colloidal graphitic suspensions.

### DISTRIBUTION

-----

Consumer products manufactured in the Company's U.S. facilities are distributed nationally through wholesale, commercial and retail stationers, school supply houses, industrial supply houses, blueprint and reproduction supply firms, art material distributors and retailers. In an effort to enhance service levels (especially with large retail customers), the Company leases a central distribution center in Macon, Georgia. The consumer products manufactured at the Canadian and Mexican plants are distributed nationally in these countries through wholesalers, distributors, school supply houses and retailers. The Mexico subsidiary has recently moved its distribution operations to a new facility in Mexico City.

### RAW MATERIALS

-----

Wood slats for pencil manufacturing can be considered a strategic raw material for the Company's business and are purchased from various suppliers in the U.S., Indonesia and China (including the Company's wholly-owned China

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

subsidiary). There were no significant raw material shortages of any consequence during 2001 nor are any expected in the near future.

### TRADEMARKS, PATENTS AND COPYRIGHTS

-----

The Company owns a large number of trademarks, patents and copyrights related to products manufactured and marketed by it, which have been secured over many years. These have been of value in the growth of the business and should continue to be of value in the future. However, in the opinion of the Company, its business generally is not dependent upon the protection of any patent or patent application or the expiration of any patent.

### SEASONAL ASPECTS OF THE BUSINESS

-----

Greater portions (approximately 60% in 2001) of the Company's sales occur in the third and fourth fiscal quarters of the year due to shipments of school orders to its distribution network. This practice, which is standard for this industry, usually causes the Company to incur additional bank borrowings during the period between shipment and payment.

### COMPETITION

-----

The Company is engaged in a highly competitive business with a number of competitors, some of whom are larger and have greater resources than the Company. Important to the Company's market position are the quality and performance of its products, its marketing and distribution systems and the reputation developed over the many years that the Company has been in business.

4

### RESEARCH AND DEVELOPMENT

-----

The Company employs approximately 16 full-time professional employees in the area of quality control and product development. The Company has established a centralized research and development laboratory in its Sandusky, Ohio facility. For accounting purposes, research and development expenses in any year presented in the accompanying Consolidated Financial Statements represent less than 1% of revenues.

### EMPLOYEES

-----

The total number of persons employed by the Company was approximately 1,479 of which 512 were employed in the United States.

### ITEM 2. PROPERTIES

-----

The properties of the Company, set forth in the following table are owned and are collateralized or pledged under the Company's loan agreement with a consortium of lenders (First Union Capital Corporation as agent), and its Heathrow, Florida, property, is subject to a separate mortgage agreement. See Notes 3 and 4 to Consolidated Financial Statements. Most of the buildings are of steel frame and masonry or concrete construction.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

LOCATION	SQUARE FEET OF FLOOR SPACE
Heathrow, Florida (Corporate Headquarters)	33,000
Sandusky, Ohio (Consumer)	276,000
Versailles, Missouri (Consumer)	120,000
New Castle, Pennsylvania (Refractories division/discontinued operations)	131,000
Newell, West Virginia (Refractories division/discontinued operations)	45,000
Massillon, Ohio (Refractories division/discontinued operations)	113,000
Acton Vale, Quebec, Canada (Dixon Ticonderoga Inc.) (Consumer)	32,000
Beijing, China (Beijing Dixon Ticonderoga Stationery Company, Ltd.) (Consumer)	25,000

The Company leases approximately 100,000 square feet in Macon, Georgia for its U.S. Consumer central distribution center. The Company's Mexico subsidiary leases a 300,000 square-foot facility near Mexico City, used for distribution and certain manufacturing operations, as well as its corporate headquarters. The Company's Canada subsidiary leases 12,000 square feet in Newmarket, Ontario used for distribution and office space.

ITEM 3. LEGAL PROCEEDINGS

In March 1986, The Dixon Venture ("Venture") (an unrelated company) filed a civil action in the New Jersey Superior Court seeking recovery of damages and costs allegedly incurred by Venture in connection with the clean-up of industrial property acquired from the Company in Jersey City, New Jersey in February, 1984. Venture's claims were brought pursuant to the New Jersey Environmental Clean-up Responsibility Act ("ECRA"), an environmental remedial statute dealing with the transfer of industrial property.

On April 24, 1996, a decision was rendered by the Superior Court of New Jersey in Hudson County finding the Company responsible for \$1.94 million in certain environmental clean-up costs relating to this matter. In January 1998, the Company paid \$3.6 million to satisfy this claim in full, including all accrued interest. The Company continued to pursue other responsible parties for indemnification and/or contribution to the payment of this claim (including its insurance carriers) and in fiscal 2000 the Company reached settlements with its various insurers for reimbursement of legal costs in the amount of \$653,000. In 2001, a pending malpractice suit against its former attorneys was settled and the Company received \$575,000. Also see Note 13 to Consolidated Financial Statements.

Additionally, in May 2000 a news article alleged that the talc in all domestic brands of crayons, including the Company's, contained trace amounts of a fiber resembling asbestos. In response to these allegations, all domestic crayon manufacturers, including the Company, the talc supplier and the United States Consumer Product Safety Commission (CPSC) engaged in independent laboratory testing for asbestos fibers in crayons. All test results reflected the unequivocal absence of asbestos in domestically made crayons, including the test results from the Government's own OSHA laboratory. In any event, all domestic crayon manufacturers, including the Company, voluntarily agreed to reformulate their crayons and discontinue the use of talc to eradicate any persistent public concerns regarding crayon safety. The Company released a reformulated crayon in 2001.

Each of the domestic crayon manufacturers, including the Company, and the CPSC released press statements verifying the safety and non-toxicity of crayons

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

both on store and consumer shelves. Nevertheless, the Company became aware of seven legal actions threatened against itself and other domestic crayon manufacturers as a result of the erroneous report. Of the seven threatened legal actions, six were filed against the Company and four were dismissed. The two remaining legal actions involve a class action suit and a misleading advertising claim. The Company settled these two legal actions for an immaterial net cost.

The Company believes that there are no pending actions which will have a material adverse effect on the Company's financial condition or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

-----

None.

6

## PART II

-----

### ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK

-----

#### AND RELATED SECURITY HOLDER MATTERS

-----

Dixon Ticonderoga Company common stock is traded on the American Stock Exchange under the symbol "DXT". The following table sets forth the low and high per share prices as per the American Stock Exchange closing prices for the applicable quarter.

QUARTER ENDING	FISCAL 2001		FISCAL 2000	
	LOW	HIGH	LOW	HIGH
December 31	\$2.13	\$5.00	\$5.88	\$10.00
March 31	2.75	5.50	3.88	7.13
June 30	3.35	4.50	2.88	4.19
September 30	2.15	4.10	2.75	5.44

Since fiscal 1990, the Board of Directors has suspended payment of dividends. The Board will continue to review the Company's future performance and determine the dividend policy on a quarter-to-quarter basis. The Company's debt agreements restrict the amount of dividends, which can be paid in the future. (See Note 4 to Consolidated Financial Statements).

The number of record holders of the Company's common stock at December 3, 2001 was 419.

7

### ITEM 6. SELECTED FINANCIAL DATA

-----

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
FOR THE FIVE YEARS ENDED SEPTEMBER 30, 2001  
(in thousands, except per share amounts)

	2001	2000	1999	1998	1997
REVENUES	\$ 90,492	\$ 91,691	\$ 97,372	\$ 99,874	\$ 89,416
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ 620	\$ (733)	\$ 399	\$ 2,279	\$ 2,509
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,100)	(65)	6,283	857	1,092
NET INCOME (LOSS)	\$ (480)	\$ (798)	\$ 6,682	\$ 3,136	\$ 3,601
EARNINGS (LOSS) PER COMMON SHARE (BASIC): CONTINUING OPERATIONS	\$ .20	\$ (.23)	\$ .12	\$ .67	\$ .75
DISCONTINUED OPERATIONS	(.35)	(.02)	1.83	.26	.33
NET INCOME (LOSS)	\$ (.15)	\$ (.25)	\$ 1.95	\$ .93	\$ 1.08
EARNINGS (LOSS) PER COMMON SHARE (DILUTED): CONTINUING OPERATIONS	\$ .20	\$ (.23)	\$ .11	\$ .62	\$ .73
DISCONTINUED OPERATIONS	(.35)	(.02)	1.76	.23	.32
NET INCOME (LOSS)	\$ (.15)	\$ (.25)	\$ 1.87	\$ .85	\$ 1.05
TOTAL ASSETS	\$ 86,412	\$ 86,718	\$ 92,888	\$ 92,630	\$ 84,161
LONG-TERM DEBT	\$ 2,018 <sup>2</sup>	\$ 30,210	\$ 39,400 <sup>1</sup>	\$ 21,927	\$ 23,556
DIVIDENDS PER COMMON SHARE	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup>The increase in long-term debt in 1999 is attributable to the refinancing of the Company's previous revolving credit agreement under a five-year facility. (See Note 4 to Consolidated Financial Statements.)

<sup>2</sup>The reduction in long-term debt is due to reclassification of the Company's senior credit facility and subordinated notes to current maturities of long-term debt. (See Notes 4 and 15 to Consolidated Financial Statements.)



## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

#### AND RESULTS OF OPERATIONS

##### SUMMARY OF RESULTS OF OPERATIONS

###### Discontinued operations:

In order to focus on its core Consumer Group businesses, on September 17, 2001 the Company formalized its decision to offer for sale its New Castle Refractories division, the last business of its Industrial Group. The Company had disposed of its Graphite and Lubricants division in 1999. These businesses had revenues of \$9,529,000, \$11,188,000 and \$17,317,000 in 2001, 2000 and 1999, respectively. Income (loss) from discontinued operations was (\$56,000), (\$65,000) and \$6,280,000 in 2001, 2000 and 1999, respectively, (including pre-tax gains on sales of assets of \$1,202,000 in 2001 and \$9,636,000 in 1999, and income tax benefit (expense) of \$29,000, \$23,000 and (\$3,987,000) in 2001, 2000 and 1999, respectively). Interest expense of \$427,000, \$597,000 and \$603,000 has been allocated to discontinued operations in 2001, 2000 and 1999, respectively.

The Company reported an anticipated loss on disposal of \$1,570,000 (or \$1,044,000 after tax benefit) including provisions for a loss on the sale of the New Castle Refractories division of \$468,000, for the wind-up of that division's pension plans of \$432,000 and for operating losses through the expected date of disposal of \$670,000. For financial reporting purposes, the Company is accounting for the disposition of its Industrial Segment as a discontinued operation and, accordingly, its statements of operations present the results of the discontinued Industrial Segment separately from the results of continuing operations. Since a discussion of the results of the Industrial Segment is not meaningful to an understanding of the continuing Consumer business, all discussions comparing the results of operations refer to the continuing operations of the Consumer Group. (For further information regarding discontinued operations, see Note 12 to Consolidated Financial Statements.)

###### 2001 vs. 2000:

Income before taxes, minority interest and discontinued operations increased \$2,125,000. Charges for the Company-wide restructuring and consolidation plan decreased \$640,000. Restructuring costs in 2001 included \$418,000 in U.S. costs associated with a prior phase of restructuring, as well as \$450,000 in Mexico for the consolidation of operations into a new facility. Operating profits increased primarily due to lower selling, distribution and administrative expenses. General corporate expenses also decreased due to continued aggressive cost reduction efforts. Interest expense increased \$716,000, mainly due to higher borrowings in Mexico to finance the consolidation of manufacturing facilities. Income taxes also increased due to pretax income in 2001, as compared to losses in the prior year.

###### 2000 vs. 1999:

Income before taxes, minority interest and discontinued operations decreased \$2,568,000 in 2000. The Company recorded pre-tax provisions of \$1,508,000 and \$1,917,000 in 2000 and 1999, respectively, for restructuring and related costs for a Company-wide cost reduction program and plant consolidation. Restructuring costs in 2000 included \$1,040,000 for employee severance and related costs and \$468,000 for the sale or abandonment of Mexico properties. In

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

fiscal 2000, approximately \$367,000 was charged to the 2000 severance cost accrual and \$156,000 against the accrual for property abandonment. In addition, \$1,704,000 was charged against the remaining 1999 accrual. (See Note 10 to Consolidated Financial Statements.) U.S. Consumer operating profits decreased primarily due to lower revenue and higher manufacturing inefficiencies due to strict inventory reduction efforts and consolidation activities. Foreign Consumer operating profits reflected a decrease in Mexico due to start-up inefficiencies relating to the transfer of certain U.S. production and lower margins due to competitive pricing pressures. Interest expense decreased \$496,000 primarily due to lower foreign borrowings and interest rates. Income taxes decreased due to the decrease in pre-tax income.

9

### REVENUES

Overall 2001 revenues decreased \$1,199,000 from the prior year. The changes are as follows:

	Decrease (in thousands)	% Increase (Decrease)		
		Total	Volume	Price / Mix
U.S.	\$ (273)	-	1	(1)
Foreign	(926)	(3)	(13)	10

U.S. revenue decreased primarily in the mass market retail channels where competitive pressures from large suppliers and importers are the greatest. The decrease in these channels was principally offset by increases in the traditional educational channel. Foreign revenue decreased primarily due to lower demand from large retail customers, partially offset by Mexico price increases.

While the Company has operations in Canada, Mexico and the U.K., historically only the operating results in Mexico have been materially impacted by currency fluctuations. There has been a significant devaluation of the Mexican peso at least once in each of the last three decades, the last one being in August of 1998. In the short term after such devaluations, consumer confidence has been shaken, leading to an immediate reduction in revenues in the months following the devaluation. Then, after the immediate shock, and as the peso stabilizes, revenues tend to grow. Selling prices tend to rise over the long term to offset any inflationary increases in costs. The peso, as well as any currency value, depends on many factors including international trade, investor confidence and government policy, to name a few. These factors are impossible for the Company to predict, and thus, an estimate of potential effect on results of operations for the future cannot be made. This currency risk in Mexico is presently managed through occasional foreign currency hedges, local currency financing and by export sales to the U.S. denominated in U.S. dollars.

Overall 2000 revenues decreased \$5,681,000 from the prior year. The changes are as follows:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price / Mix
U.S.	\$ (8,724)	(13)	(12)	(1)
Foreign	3,043	10	12	(2)

U.S. revenue decreased principally in the mass retail and wholesale club markets reflecting the effects of reduced customer inventory levels and increased competition from imports. Foreign revenue increased primarily in the Mexico and Canada mass markets reflecting additional product distribution in

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

these channels.

### OPERATING INCOME

-----

Operating income in 2001 increased \$2,841,000 over the prior year. U.S. operating income increased \$1,812,000 (excluding restructuring charges) primarily due to lower selling, distribution and administrative costs. Foreign operating income decreased \$340,000, primarily in Canada, due to lower revenues. General corporate expenses (excluding restructuring costs) decreased an additional \$730,000 due to lower salaries, fringes and related costs reflecting continued aggressive cost reduction efforts. These decreases in selling, distribution, administrative and general corporate expenses contributed to significantly lower consolidated selling and administrative costs (30.4% of sales as compared to 32.9% in the prior year). Restructuring and related costs decreased \$640,000 in 2001 as the Company finalized its efforts under the second phase of its restructuring program.

Operating income in 2000 decreased \$3,064,000 from 1999. U.S. operating income decreased \$650,000 due principally to the decrease in revenues and higher manufacturing inefficiencies. Foreign operating income decreased \$2,260,000 primarily due to competitive pricing pressures and start-up costs resulting from production moving from the U.S. to Mexico. The higher manufacturing costs in the

10

U.S. and Mexico substantially contributed to the relative increase in total cost of goods sold in 2000 (62.6% of sales as compared with 60.3% in 1999). General corporate expenses increased \$150,000 primarily due to higher restructuring and related personnel costs. Due to the lower revenues, selling and administrative costs increased as a percentage of sales (32.9% in 2000 compared to 31.9% in 1999). However, consolidated selling and administrative expenses decreased \$884,000 in 2000, reflecting ongoing cost reduction efforts.

### MINORITY INTEREST

-----

Minority interest represents 3% of the net income of the consolidated subsidiary, Grupo Dixon, S.A. de C.V., since September, 1999 and 20.2% prior thereto (\$31,267, \$23,938 and \$402,135 in fiscal 2001, 2000 and 1999, respectively), equivalent to the extent of the investment of the minority shareholders. (See Note 8 to Consolidated Financial Statements.)

### CURRENT ECONOMIC ENVIRONMENT AND EVENTS

-----

Although not directly impacted by recent events in the U.S. and abroad, softening economic conditions could affect the retail mass or other markets served by the Company's Consumer Group and thus could lead to reduced overall revenues. In addition, certain expenses (such as insurance costs) could be significantly higher in the coming years than in 2001 due to recent events.

### LIQUIDITY AND CAPITAL RESOURCES

-----

The Company generated approximately \$1.4 million in cash flows from operating activities in 2001. The Company's strict inventory control and reduction efforts in the U.S. led to an increase in cash flows related to

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

inventories of approximately \$500,000, continuing a correction begun in 2000 after a \$7.3 million decrease in cash flows attributable to the build-up of inventories in 1999. In addition, further improvement in accounts payable management in the U.S. and Mexico and strong accounts receivable collections in Mexico helped to partially offset the effects of higher U.S. accounts receivable in 2001. Overall, in 2001 and 2000, the Company generated approximately \$4.1 million in cash flows from operating activities, as compared with net cash used of \$10.4 million in 1999.

The Company's 2001 investing activities included approximately \$2.2 million in net purchases of property and equipment, compared to \$1.4 million in the prior year. This reflects a higher level of purchases as compared with recent years, due to the Company's expansion of its Mexico manufacturing and consolidation into its newly leased 300,000 square-foot facility. In 2001, these expenditures were partially offset by approximately \$1.3 million in net proceeds on the sale of an idled Mexico plant and other assets. A note receivable of \$3.25 million from the sale of a division was collected in 2000 and is reflected as proceeds from investing activities. Generally, all major capital projects are discretionary in nature and thus no material purchase commitments exist. Capital expenditures are usually funded from operations and existing financing or new leasing arrangements.

The Company's primary financing arrangements are with a consortium of lenders, providing a total of up to \$42.5 million in financing through September 2004. The financing agreements, as amended, include a revolving line of credit facility in the amount of \$35 million, which bears interest at either the prime rate plus 0.75%, or the prevailing LIBOR rate plus 2.25%, through September 2004. The agreements also provide for the payment of various bank fees approximating \$20,000 per month. Borrowings under the revolving credit facility are based upon eligible accounts receivable and inventories of the Company's U.S. and Canada operations, subject to reserves for anticipated subordinated debt payments and certain other items, as defined. The Company has executed an interest rate swap agreement that effectively fixed the rate of interest on \$8 million of these borrowings at 8.98% through August 2005. The loan and security agreements also include a term loan in the initial amount of \$7.5 million. The term loan is payable in monthly installments of \$125,000, plus interest, through

11

September 2004. The loan bears interest based upon the same prevailing rate described above in connection with the revolving credit facility. The Company entered into the aforementioned interest rate swap agreements to balance and manage overall interest rate exposure and minimize overall cost of borrowings.

These financing arrangements are collateralized by the tangible and intangible assets of the U.S. and Canada operations (including accounts receivable, inventories, property, plant and equipment, patents and trademarks) and a pledge of the capital stock of the Company's subsidiaries. The loan and security agreement contains provisions pertaining to the maintenance of certain financial ratios and annual capital expenditure levels, as well as restrictions as to payment of cash dividends. On September 15, 2001, a waiver of compliance with one provision of the Company's primary lending agreement expired and shortly thereafter its senior lenders prohibited the payment of \$5.5 million in principal due to senior subordinated noteholders on September 26, 2001. The payment due date was later extended by the noteholders until November 14, 2001 and the aforementioned waiver from the Company's senior lenders was also extended through that date. These extensions expired on November 15, 2001. The senior lenders again blocked any payment to the subordinated noteholders and the Company has continued to negotiate with its various lenders since then. As of September 30, 2001, the Company was not in compliance with two financial covenants under its senior debt agreements and one financial covenant under its subordinated note agreement. The Company has received an additional extension and waiver of certain existing defaults under its senior debt agreements through May 3, 2002 to allow the Company more time to address its debt issues to the

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

mutual satisfaction of all parties involved. The Company has asked both its senior and subordinated lenders to amend various provisions of their debt agreements until at least October 2002 to allow time for the Company to pursue a longer-term solution. As of September 30, 2001, the Company had approximately \$23 million of unused lines of credit available under the revolving credit facility. In addition, the Company's Mexico subsidiary has \$16 million in bank lines of credit (\$9 million unused as of September 30, 2001) expiring at various dates which bear interest at a rate based upon either a floating U.S. bank rate or the rate of certain Mexican government securities. The Company relies heavily on the availability of the lines of credit in the U.S. and Mexico for liquidity in its operations.

The Company also has outstanding \$16.5 million of 12% Senior Subordinated Notes valued at their face amount, due 2003. The subordinated note agreement provides for a total interest rate of 13.5% through June 2002 and 12.25% through maturity in 2003. Due to the Company's noncompliance under its primary lending arrangements discussed above, it was prohibited from making a scheduled subordinated note payment of \$5.5 million due in September 2001. The note agreement provides for an additional interest charge of 2% on this amount until payment is made. The note agreement, as amended, contains provisions that limit dividends and other payments, and requires the maintenance of certain financial covenants and ratios, one of which the Company did not comply with as of September 30, 2001.

The Company believes that amounts available under its lines of credit under its senior debt and under lines of credit available to its Mexican subsidiary, if funded, are sufficient to fulfill all current and anticipated operating requirements of its business. The senior lenders have consistently supported the Company and they, as well as the Company's foreign lenders, have continued funding under their agreements throughout the ongoing negotiations. However, the Company does not believe it will have excess cash flow to retire the total \$16.5 million in subordinated notes by their due date in 2003. The Company has asked the subordinated noteholders and they have expressed a willingness to consider restructuring their scheduled principal payments to allow the Company sufficient time to retire the notes through the infusion of some form of new equity capital, new secondary financing and/or the sale of assets. However, the Company cannot assure that its efforts will be successful, that the subordinated noteholders will amend their scheduled payments and/or that it will maintain and/or secure new sources of capital. In addition, the Company's Mexico subsidiary cannot assure that its lines of credit will continue to be available after their respective expiration dates, or that replacement lines of credit will be secured.

Due to the defaults described above, the subordinated and senior debts have been classified as current maturities of long-term debt in the accompanying 2001 consolidated balance sheet. Moreover, in light of the current circumstances regarding the Company's various debt arrangements, the report of the Company's independent accountants includes an explanatory paragraph as to substantial doubt about the Company's ability to continue as a going concern.

12

In March 1999, the Company's Board of Directors approved a Stock Repurchase Program authorizing the acquisition of up to \$3 million in Dixon Ticonderoga Company stock. Under this program, which has been concluded, the Company repurchased 337,000 shares at a cost of \$2.8 million (\$2 million in fiscal 2000). These repurchases were financed through the aforementioned and previous U.S. revolving line of credit facilities.

Refer to Notes 3, 4 and 15 to Consolidated Financial Statements for further description of the aforementioned financing arrangements.

The Company has retained Wachovia Securities (formerly First Union Securities) and certain other outside consultants to advise and assist it in evaluating certain strategic alternatives, including capital restructuring, mergers and acquisitions, and/or other measures designed to resolve the

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Company's issues with its lenders while maximizing shareholder value.

### RECENT ACCOUNTING PRONOUNCEMENTS

-----

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141 "Business Combinations" and Statement No. 142 "Goodwill and Other Intangible Assets". Statement No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Statement No. 142 requires the use of a nonamortization approach to account for purchased goodwill and indefinite lived intangibles. Under a nonamortization approach, goodwill and indefinite lived intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and indefinite lived intangibles is more than its fair value. The provisions of Statement No. 141 are effective currently. The provisions of Statement No. 142 will be effective for the Company in fiscal 2003. Management does not expect these standards, when implemented, to have a material effect on its future results of operations or financial position.

In June 2001, the FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations". The statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement is effective for the Company in fiscal 2003. The Company does not expect the adoption of Statement No. 143 to have a material impact on the Company's future results of operations or financial position.

In August 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The statement is effective for the Company in fiscal 2003. The Company does not expect the adoption of Statement No. 144 to have a material impact on the Company's future results of operations or financial position.

13

### FORWARD-LOOKING STATEMENTS

-----

The statements in this Annual Report on Form 10-K that are not purely historical are "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934, including statements about the Company's expectations, beliefs, intentions or strategies regarding the future. Forward-looking statements include statements regarding, among other things, the effects of the devaluation of the Mexican peso; the sufficiency and continued availability of the Company's lines of credit and its ability to meet its current and anticipated obligations; management's inventory reduction plan and expectation for savings from the restructuring and cost-reduction program; the Company's ability to increase sales in its core businesses; and its expectations with regards to legal proceedings. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that could cause the actual results to differ

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

materially from those expressed or implied by such forward-looking statements. Such risks include (but are not limited to) the risk that the Company's lenders will not continue to fund the Company in the future as they have in the past when defaults have occurred; the inability of the Company to successfully negotiate a restructuring of its subordinated debt and the exercise by its lenders of various remedies available to them in the event of continued defaults; the cancellation of the lines of credit available to the Company's Mexico subsidiary; the inability to maintain and/or secure new sources of capital; manufacturing inefficiencies as a result of the inventory reduction plan; difficulties encountered with the consolidation and cost-reduction program; increased competition; U.S. and foreign economic factors; foreign currency exchange risk and interest rate fluctuation risk, among others.

14

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-----

As discussed elsewhere, the Company is exposed to the following principal market risks (i.e. risks of loss arising from adverse changes in market rates): foreign exchange rates and interest rates on debt.

The Company's exposure to foreign currency exchange rate risk in its international operations is principally limited to Mexico and, to a lesser degree, Canada. Approximately 37% of the Company's fiscal 2001 net revenues were derived in Mexico and Canada, combined (exclusive of intercompany activities). Foreign exchange transaction gains and losses arise from monetary assets and liabilities denominated in currencies other than the business unit's functional local currency. It is estimated that a 10% change in both the Mexican peso and Canadian dollar exchange rates would impact reported operating profit by approximately \$500,000. This quantitative measure has inherent limitations because it does not take into account the changes in customer purchasing patterns or any adjustment to the Company's financing or operating strategies in response to such a change in rates. Moreover, this measure does not take into account the possibility that these currency rates can move in opposite directions, such that gains from one may offset losses from another.

In addition, the Company's cash flows and earnings are subject to changes in interest rates. As of September 30, 2001, approximately 46% of total short and long-term debt is fixed, at rates between 8% and 13.5%. The balance of the Company debt is variable, principally based upon the prevailing U.S. bank prime rate or LIBOR rate. An interest rate swap, which expires in 2005, fixes the rate of interest on \$8 million of this debt at 8.98%. A change in the average prevailing interest rates of the remaining debt of 1% would have an estimated impact of \$200,000 upon the Company's pre-tax results of operations and cash flows. This quantitative measure does not take into account the possibility that the prevailing rates (U.S. bank prime and LIBOR) can move in opposite directions and that the Company has, in most cases, the option to elect either as the determining interest rate factor.

15

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

-----

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

PAGE

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

-----

Report of Independent Certified Public Accountants	17
Consolidated Balance Sheets as of September 30, 2001 and 2000	18-19
Consolidated Statements of Operations For the Years Ended September 30, 2001, 2000 and 1999	20
Consolidated Statements of Comprehensive Income (Loss) For the Years Ended September 30, 2001, 2000 and 1999	21
Consolidated Statements of Shareholders' Equity For the Years Ended September 30, 2001, 2000 and 1999	22
Consolidated Statements of Cash Flows For the For the Years Ended September 30, 2001, 2000 and 1999	23-24
Notes to Consolidated Financial Statements	25-44
Schedule For the Years Ended September 30, 2001, 2000 and 1999:	
II. Valuation and Qualifying Accounts	45
Information required by other schedules called for under Regulation S-X is either not applicable or is included in the Consolidated Financial Statements or Notes thereto.	

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and Board of Directors of  
Dixon Ticonderoga Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dixon Ticonderoga Company and its subsidiaries at September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

As discussed in Note 1 to the financial statements, in 2001, the Company changed its method of accounting for derivative instruments.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 4 and 15 to the financial statements, the Company did not make a scheduled payment to its subordinated lenders creating a default under the terms of the debt agreement. Additionally, the Company's debt agreements with its senior lenders include cross-default provisions that could result in a default under the terms of the Company's senior debt agreement, if the subordinated debt payments are not made and if the subordinated lenders declare an event of default. Negotiations to amend the scheduled subordinated note payments are ongoing. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 15. The financial statements do not include any adjustments that result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP  
Tampa, Florida  
December 6, 2001, except as to the  
first paragraph of Note 15 for which  
the date is January 10, 2002

17

### DIXON TICONDEROGA COMPANY AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2001 AND 2000

	2001	2000
ASSETS:	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 844,299	\$ 448,452
Receivables, less allowance for doubtful accounts of \$1,482,524 in 2001 and \$1,418,908 in 2000	31,647,950	30,881,626
Inventories	35,583,082	36,215,931
Other current assets	2,227,785	4,171,064
	-----	-----
Total current assets	70,303,116	71,717,073
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	10,608,980	10,145,872
Machinery and equipment	17,155,371	16,054,327
Furniture and fixtures	1,741,811	1,654,404
	-----	-----
	29,506,162	27,854,603
Less accumulated depreciation	(19,022,674)	(17,572,320)
	-----	-----
	10,483,488	10,282,283
	-----	-----

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

OTHER ASSETS	5,625,771	4,718,379
	-----	-----
	\$86,412,375	\$86,717,735
	=====	=====

18

LIABILITIES AND SHAREHOLDERS' EQUITY:	2001	2000
-----	-----	-----
CURRENT LIABILITIES:		
Notes payable	\$ 6,294,268	\$ 3,574,929
Current maturities of long-term debt	32,598,531	7,135,198
Accounts payable	9,321,957	8,068,133
Accrued liabilities	9,132,057	10,056,935
	-----	-----
Total current liabilities	57,346,813	28,835,195
	-----	-----
LONG-TERM DEBT	2,018,125	30,210,410
	-----	-----
DEFERRED INCOME TAXES AND OTHER	984,492	177,248
	-----	-----
MINORITY INTEREST	577,241	552,215
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, par \$1, authorized 100,000 shares, none issued	-	-
Common stock, par \$1, authorized 8,000,000 shares, issued 3,710,309 shares in 2001 and 3,710,309 shares in 2000	3,710,309	3,710,309
Capital in excess of par value	3,670,135	3,700,272
Retained earnings	25,667,675	26,147,547
Accumulated other comprehensive loss	(4,101,681)	(3,093,577)
	-----	-----
	28,946,438	30,464,551
Less treasury stock, at cost (532,847 shares in 2001 and 542,262 shares in 2000)	(3,460,734)	(3,521,884)
	-----	-----
	25,485,704	26,942,667
	-----	-----
	\$86,412,375	\$86,717,735
	=====	=====

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

19

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

	2001	2000	1999
	-----	-----	-----
REVENUES	\$90,492,514	\$91,691,241	\$97,372,466
	-----	-----	-----

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

COSTS AND EXPENSES:			
Cost of goods sold	56,732,494	57,462,598	58,788,522
Selling and administrative expenses	27,536,687	30,204,945	31,088,434
Provision for restructuring and related costs	867,666	1,508,481	1,916,800
	-----	-----	-----
	85,136,847	89,176,024	91,793,756
	-----	-----	-----
OPERATING INCOME	5,355,667	2,515,217	5,578,710
	-----	-----	-----
INTEREST EXPENSE	4,387,700	3,672,365	4,168,533
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFIT) AND MINORITY INTEREST	967,967	(1,157,148)	1,410,177
	-----	-----	-----
INCOME TAXES (BENEFIT)	316,933	(448,087)	606,531
	-----	-----	-----
	651,034	(709,061)	803,646
	-----	-----	-----
MINORITY INTEREST	31,267	23,938	402,135
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS	619,767	(732,999)	401,511
	-----	-----	-----
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF APPLICABLE INCOME TAXES	(1,099,639)	(65,246)	6,280,224
	-----	-----	-----
NET INCOME (LOSS)	\$ (479,872)	\$ (798,245)	\$ 6,681,735
	=====	=====	=====
EARNINGS (LOSS) PER COMMON SHARE (BASIC):			
Continuing operations	\$ .20	\$ (.23)	\$ .12
Discontinued operations	(.35)	(.02)	1.83
	-----	-----	-----
Net income (loss)	\$ (.15)	\$ (.25)	\$ 1.95
	=====	=====	=====
EARNING (LOSS) PER COMMON SHARE (DILUTED):			
Continuing operations	\$ .20	\$ (.23)	\$ .11
Discontinued operations	(.35)	(.02)	1.76
	-----	-----	-----
Net income (loss)	\$ (.15)	\$ (.25)	\$ 1.87
	=====	=====	=====

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

20

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

2001	2000	1999
-----	-----	-----

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

NET INCOME (LOSS)	\$ (479,872)	\$ (798,245)	\$ 6,681,735
OTHER COMPREHENSIVE INCOME (LOSS):			
Cumulative effect adjustment to recognize fair value of cash flow hedge	(54,205)	-	-
Adjustment to recognize fair value of cash flow hedge	(451,388)	-	-
Foreign currency translation adjustments	(502,511)	(677,102)	957,362
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ (1,487,976)</u>	<u>\$ (1,475,347)</u>	<u>\$ 7,639,097</u>

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

21

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

	Common Stock \$1 Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
BALANCE, September 30, 1998	\$ 3,654,559	\$ 3,327,755	\$ 20,264,057	\$ (3,373,837)	\$ (8,000)
Net income			6,681,735		
Other comprehensive income					9,000
Employee stock options exercised (34,001 shares)	34,000	227,094			
Employee Stock Purchase Plan (6,619 shares)		31,622			
Purchase of treasury stock (76,567 shares)					(76,567)
BALANCE, September 30, 1999	3,688,559	3,586,471	26,945,792	(2,416,475)	(1,500)
Net loss			(798,245)		
Other comprehensive loss					(6,000)
Employee stock options exercised (21,750 shares)	21,750	147,094			
Employee Stock Purchase Plan (10,757 shares)		(33,293)			
Purchase of treasury stock (260,230 shares)					(2,016)
BALANCE, September 30, 2000	3,710,309	3,700,272	26,147,547	(3,093,577)	(3,516)

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Net income			(479,872)		
Other comprehensive loss				(1,008,104)	
Employee Stock Purchase Plan (9,415 shares)		(30,137)			
BALANCE, September 30, 2001	\$ 3,710,309	\$ 3,670,135	\$ 25,667,675	\$ (4,101,681)	\$ (3,4

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

22

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss) from continuing operations	\$ 619,767	\$ (732,999)	\$ 401,511
Net income (loss) from discontinued operations	(1,099,639)	(65,246)	6,280,224
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,398,964	2,521,400	2,607,425
Deferred taxes	(534,000)	(639,000)	(889,000)
Provision for doubtful accounts receivable	151,263	218,795	191,356
Gain on sale of assets	(1,202,448)	-	(9,636,318)
Income attributable to minority interest	31,267	23,938	402,135
(Income) loss attributable to foreign currency exchange	52,071	(78,888)	(127,299)
Changes in assets [(increase) decrease] and liabilities [increase (decrease)]:			
Receivables, net	(1,252,621)	(1,994,505)	1,677,182
Inventories	474,990	3,087,532	(7,279,117)
Other current assets	101,950	17,422	(781,505)
Accounts payable and accrued liabilities	803,641	646,793	(1,787,274)
Other assets	802,706	(228,794)	(1,480,679)
Net cash provided by (used in) operating activities	1,347,911	2,776,448	(10,421,359)
Cash flows from investing activities:			
Purchases of plant and equipment, net	(2,188,773)	(1,399,403)	(638,384)
Proceeds on sale of assets	1,276,063	3,250,000	19,596,710
Net cash provided by (used in) investing activities	(912,710)	1,850,597	18,958,326

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

23

	2001	2000	1999
	-----	-----	-----
Cash flows from financing activities:			
Principal reductions of notes payable	-	-	(23,361,167)
Proceeds from additions to long-term debt	138,566	70,715	17,523,741
Proceeds from additions to notes payable	2,779,894	1,023,554	-
Principal reductions of long-term debt	(2,728,952)	(3,693,022)	(320,471)
Debt refinancing costs	-	(369,842)	-
Purchase of treasury stock	-	(2,016,510)	(789,618)
Purchase of subsidiary stock	-	-	(3,734,668)
Other non-current liabilities	6,759	(42,975)	(465,169)
Employee Stock Purchase Plan	31,013	36,574	63,294
Exercise of stock options	-	168,844	261,095
	-----	-----	-----
Net cash provided by (used in) financing activities	227,280	(4,822,662)	(10,822,963)
	-----	-----	-----
Effect of exchange rate changes on cash	(266,634)	(291,344)	368,128
	-----	-----	-----
Net decrease in cash and cash equivalents	395,847	(486,961)	(1,917,868)
Cash and cash equivalents, beginning of year	448,452	935,413	2,853,281
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 844,299	\$ 448,452	\$ 935,413
	=====	=====	=====
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$ 4,647,079	\$3,148,398	\$ 4,887,426
Income taxes	2,434,487	1,518,291	5,100,663

Non-cash investing and financing activities:

In fiscal 2001, the Company accepted a note receivable due May 2006 in the amount of \$1.64 million as consideration for the sale of an idle building in Deer Lake, Pennsylvania.

During fiscal 1999, the Company accepted a note receivable of \$3,250,000 as partial consideration for the sale of assets of its Graphite and Lubricants division. This note was repaid in fiscal 2000.

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

24

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

### Business:

Dixon Ticonderoga Company is a diversified manufacturer and marketer of writing and art products. Its largest principal customers are school products distributors and mass merchandisers, although none account for over 7% of revenues.

### Revenue recognition:

Revenues are comprised of gross sales from the shipment of product to customers, less product returns and allowances. The Company recognizes sales when the following has occurred: evidence of a sales arrangement exists; delivery of product to the customer; the price is fixed or determinable; and collectibility is reasonably assured. An estimate of sales returns and allowances is recorded in the period that the related product is shipped.

### Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### Loss contingencies:

The Company recognizes loss contingencies, including environmental liabilities, when they become probable and the related amounts can be reasonably estimated.

### Principles of consolidation:

The consolidated financial statements include the accounts of Dixon Ticonderoga Company and all of its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation. Minority interest represents the minority shareholders' proportionate share of the equity of the Company's Grupo Dixon, S.A. de C.V., subsidiary. In 1999, the Company repurchased shares of this subsidiary on the open market, reducing the minority interest from 20.2% to 3%.

### Translation of foreign currencies:

In accordance with Financial Accounting Standards Board (FASB) Statement No. 52, the Company has determined that each foreign subsidiary's functional currency is their local currency. All assets and liabilities are translated at period-end exchange rates. All revenues and expenses are translated using average exchange rates during that period. Translation gains and losses are reflected as a separate component of other comprehensive income (loss), except for Mexico for the period January 1, 1997 through December 31, 1998. As of January 1, 1997, Mexico was

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

considered a highly inflationary economy for purposes of applying this statement. Mexico translation gains and losses, therefore, affected results of operations through December 31, 1998. Gains and losses from foreign currency transactions are included in the Consolidated Statement

25

of Operations. Total foreign currency exchange gains (losses) included in operating income were approximately \$(52,000), \$79,000 and \$127,000 for fiscal years 2001, 2000 and 1999 respectively.

Cash and cash equivalents:  
-----

Cash and cash equivalents include investment instruments with a maturity of three months or less at time of purchase.

Inventories:  
-----

Inventories are stated at the lower of cost or market. Certain inventories amounting to \$14,126,292 and \$13,813,000 at September 30, 2001 and 2000, respectively, are stated on the last-in, first-out (LIFO) method of determining inventory costs. Under the first-in, first-out (FIFO) method of accounting, these inventories would be \$760,000 and \$805,000 higher at September 30, 2001 and 2000, respectively. All other inventories are accounted for using the FIFO method.

Inventories consist of (in thousands):  
-----

	September 30,	
	2001	2000
	-----	-----
Raw material	\$13,328	\$12,839
Work in process	3,572	3,656
Finished goods	18,683	19,721
	-----	-----
	\$35,583	\$36,216
	=====	=====

Property, plant and equipment:  
-----

Property, plant and equipment are stated at cost. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the respective assets. The range of estimated useful lives by class of property, plant and equipment are as follows:

Buildings and improvements	10-25 years
Machinery and equipment	5-15 years
Furniture and fixtures	3-5 years

When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts. Any gain or loss is included in income.



Impairment of long-lived assets:

-----

Long-lived assets used in the Company's operations, including cost in excess of net assets of businesses acquired, are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The primary indicators of recoverability are the associated current and forecasted undiscounted operating cash flows. Asset impairments in connection with the Company's restructuring programs are identified and measured using the estimated net proceeds from their ultimate sale or abandonment. (See Note 10.) The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds its fair value.

26

Stock-based compensation:

-----

The Company accounts for compensation cost related to employee stock options and other forms of employee stock-based compensation plans in accordance with the requirements of Accounting Principles Board (APB) Opinion 25 and related interpretations. APB 25 requires compensation cost for stock-based compensation plans to be recognized based on the difference, if any, between the fair market value of the stock on the date of grant and the option exercise price. The Company provides additional proforma disclosures as required under FASB Statement No. 123, "Accounting For Stock-Based Compensation".

Income taxes:

-----

The Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been included in the financial statements or tax returns. Under this method, amounts for deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Derivative instruments and hedging activities:

-----

The Company adopted FASB Statement No.133, "Accounting for Derivative Instruments and Hedging Activities", as amended by FASB Statement No.137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", an amendment of FASB Statement No.133, and FASB Statement No.138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of Statement No. 133 (referred to hereafter as "FAS 133") on October 1, 2000. The Company now records the fair value of interest rate swaps designated as cash flow hedges in other liabilities with the offset to the other comprehensive income (loss) component of shareholders' equity. At adoption, the Company recorded its interest rate swap designated as a cash

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

flow hedge with a fair value of \$86,314 in other liabilities. Other comprehensive loss was increased \$54,205 (net of tax benefit of \$32,109) as a cumulative effect adjustment for this accounting change. During the year ended September 30, 2001, the Company also recognized an adjustment to the fair value of this cash flow hedge of \$718,773 in other liabilities. Other comprehensive loss was increased \$451,388 (net of tax benefit of \$267,385) during this period.

The Company utilizes interest rate swap agreements to provide an exchange of interest payments computed on notional amounts that will offset any undesirable change in cash flows or fair value resulting from market rate changes on designated hedged bank borrowings. The Company limits the credit risks of the interest rate agreements by initiating the transactions with counterparties with significant financial positions, such as major financial institutions.

FAS 133 requires companies to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a Company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. For derivative instruments that are designated and qualify as a cash flow hedge (such as the Company's interest rate swap agreements), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the

27

hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of the change in fair values. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of the change in fair values.

The Company has entered into an interest rate swap agreement through August 2005 that effectively converts \$8 million of its floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. The fair values of interest rate instruments are estimated by obtaining quotes from brokers and are the estimated amounts that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and other relevant factors.

### Recent accounting pronouncements:

-----  
In July 2001, the FASB issued Statement No. 141 "Business Combinations" and Statement No. 142 "Goodwill and Other Intangible Assets". Statement No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Statement No. 142 requires the use of a nonamortization approach to account for purchased goodwill and indefinite lived intangibles. Under a

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

nonamortization approach, goodwill and indefinite lived intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and indefinite lived intangibles is more than its fair value. The provisions of Statement No. 141 are effective currently. The provisions of Statement No. 142 will be effective for the Company in fiscal 2003. Management does not expect these standards, when implemented, to have a material effect on its future results of operations or financial position.

In June 2001, the FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations". The statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement is effective for the Company in fiscal 2003. The Company does not expect the adoption of Statement No. 143 to have a material impact on the Company's future results of operations or financial position.

In August 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The statement is effective for the Company in fiscal 2003. The Company does not expect the adoption of Statement No. 144 to have a material impact on the Company's future results of operations or financial position.

28

(2) ACCRUED LIABILITIES:

-----  
The major components of accrued liabilities are as follows (in thousands):

	September 30,	
	2001	2000
Salaries and wages	\$ 968	\$ 1,462
Employee benefit plans	720	449
Income taxes	1,428	1,940
Other	6,016	6,206
	\$9,132	\$10,057

(3) NOTES PAYABLE:

-----  
The Company's Mexico subsidiary had bank lines of credit totaling approximately \$16 million, under which \$6.3 million and \$3.6 million of unsecured notes payable were outstanding as of September 30, 2001 and 2000, respectively. The notes bear interest (weighted average interest rate of approximately 7.1% and 9.2% at September 30, 2001 and 2000 respectively) based upon either a floating U.S. bank rate or the rate of certain Mexican government securities and are renewable annually.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

(4) LONG-TERM DEBT:  
-----

Long-term debt consists of the following (in thousands):

	September 30,	
	2001	2000
	-----	-----
Senior Subordinated Notes	\$ 16,500	\$ 16,500
Bank notes payable	11,327	12,280
Bank term loan	4,625	6,125
Building mortgage	2,138	2,273
Other	27	167
	-----	-----
	34,617	37,345
Less current maturities	(32,599)	(7,135)
	-----	-----
	\$ 2,018	\$ 30,210
	=====	=====

The Company's primary financing arrangements are with a consortium of lenders, providing a total of up to \$42.5 million in financing through September 2004. The financing agreements, as amended, include a revolving line of credit facility in the amount of \$35 million which bears interest at either the prime rate (6% at September 30, 2001) plus 0.75%, or the prevailing LIBOR rate (approximately 2.6% at September 30, 2001) plus 2.25% through September 2004. The agreements also provide for the payment of various bank fees approximating \$20,000 per month. Borrowings under the revolving credit facility are based upon eligible accounts receivable and inventories of the Company's U.S. and Canada operations, subject to reserves for anticipated subordinated debt payments and certain other items, as defined. The Company has executed an interest rate swap agreement that effectively fixed the rate of interest on \$8 million of these borrowings at 8.98% through August 2005.

29

The loan and security agreements also include a term loan in the initial amount of \$7.5 million. The term loan is payable in monthly installments of \$125,000, plus interest, through September 2004. The loan bears interest based upon the same prevailing rate described above in connection with the revolving credit facility.

These financing arrangements are collateralized by the tangible and intangible assets of the U.S. and Canada operations (including accounts receivable, inventories, property, plant and equipment, patents and trademarks) and a pledge of the capital stock of the Company's subsidiaries. The loan and security agreement contains provisions pertaining to the maintenance of certain financial ratios and annual capital expenditure levels, as well as restrictions as to payment of cash dividends. The Company was not in compliance with certain provisions of the loan and security agreement at September 30, 2001 (see Note 15) and, accordingly, has classified this debt as current maturities of long-term debt in the accompanying balance sheet as of that date. As of September 30, 2001, the Company had approximately \$23 million of unused lines of credit available under the revolving credit facility.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

The Company also has outstanding \$16.5 million of Senior Subordinated Notes valued at their face amount, due 2003. The subordinated note agreement provides for a total interest rate of 13.5% through June 2002 and 12.25% through maturity in 2003. Due to the Company's noncompliance under its primary lending arrangements discussed above, it was prohibited from making a scheduled subordinated note payment of \$5.5 million due in September 2001 (see Note 15). The note agreement provides for an additional interest charge of 2% on this amount until payment is made. The note agreement, as amended, contains provisions that limit dividends and other payments, and requires the maintenance of certain financial covenants and ratios, one of which the Company did not comply with as of September 30, 2001. Due to the payment default and noncompliance with a financial covenant, the subordinated notes have also been classified as current maturities of long-term debt in the accompanying balance sheet as of September 30, 2001.

Warrants to purchase 300,000 shares of common stock at an exercise price of \$4.28 per share remain outstanding in connection with the original subordinated note issue. The warrants expire in 2003.

In 1996, the Company entered into a mortgage agreement with respect to its corporate headquarters building in Heathrow, Florida. The mortgage (in the original amount of \$2.73 million) is for a period of 15 years and bears interest at 8.1%.

Carrying values of the Senior Subordinated Notes, the bank notes payable and term loan and the building mortgage are reasonable estimates of fair value as interest rates are based on prevailing market rates.

Aggregate maturities of long-term debt are as follows (in thousands):

2002	\$32,599
2003	185
2004	172
2005	187
Thereafter	1,473
	-----
	\$34,617
	=====

The bank notes payable and term loan under the Company's primary financing arrangements have a stated maturity date of September 2004; the Senior

30

Subordinated Notes have stated maturities of \$5.5 million each in September 2001, 2002 and 2003. However, as described above, all of this long-term debt is reflected in the foregoing table as current maturities.

(5) INCOME TAXES:  
-----

The components of net deferred tax asset recognized in the accompanying consolidated balance sheet are as follows (in thousands):

	2001	2000
	-----	-----
U.S. current deferred tax assets (included		

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

in other current assets)	\$ 578	\$ 831
Foreign current deferred tax liability (included in accrued liabilities)	(1,326)	(1,434)
U.S. and foreign, noncurrent deferred tax asset (liability) (included in other assets and deferred income taxes and other)	1,559	1,486
	-----	-----
Net deferred tax asset	\$ 811	\$ 883
	=====	=====
Deferred tax assets:		
Provisions for losses from discontinued operations	\$ 534	\$ -
Depreciation	192	257
Vacation pay	66	75
Accrued pension	622	635
Accrued restructuring and related costs	115	558
Accrued environmental costs	65	49
Installment sale and related expenses	216	702
Other	478	255
Foreign net operating loss carryforward	520	511
Valuation allowance	(520)	(511)
	-----	-----
Total deferred tax asset	2,288	2,531
	-----	-----
Deferred tax liabilities:		
Inventories	(1,384)	(1,128)
Property, plant and equipment	(93)	(520)
	-----	-----
Total deferred tax liability	(1,477)	(1,648)
	-----	-----
Net deferred tax asset	\$ 811	\$ 883
	=====	=====

It is the policy of the Company to accrue deferred income taxes on temporary differences related to the financial statement carrying amounts and tax bases of investments in foreign subsidiaries which are expected to reverse in the foreseeable future. Certain undistributed earnings of foreign subsidiaries that are essentially permanent in duration and not expected to reverse in the foreseeable future approximate \$26,890,000 as of September 30, 2001. The determination of the unrecognized deferred tax liability for such temporary differences is not practicable.

At September 30, 2001 and 2000, the Company had valuation allowances against certain deferred tax assets totaling \$520,000 and \$511,000, respectively. These valuation allowances relate to tax assets in jurisdictions where it is management's best estimate that there is not a greater than 50% probability that the benefit of the assets will be realized in the associated tax returns.

31

The provision (benefit) for income taxes from continuing operations is comprised of the following (in thousands):

	2001	2000	1999
	-----	-----	-----
Current:			
U.S. Federal	\$ (352)	\$ (530)	\$ (9)
State	(12)	(124)	(22)

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Foreign	1,215	845	1,527
	-----	-----	-----
	851	191	1,496
	-----	-----	-----
Deferred:			
U.S. Federal	(199)	(900)	(929)
State	(71)	-	(110)
Foreign	264	261	150
	-----	-----	-----
	(534)	(639)	(889)
	-----	-----	-----
	\$ 317	\$ (448)	\$ 607
	=====	=====	=====

Foreign deferred tax provision is comprised principally of temporary differences related to Mexico asset purchases. The U.S. deferred (benefit) in 2001, 2000 and 1999 result primarily from expenses accrued but not yet deductible for taxes.

The differences between the provision (benefit) for income taxes from continuing operations computed at the U.S. statutory federal income tax rate and the provision (benefit) from continuing operations in the accompanying consolidated financial statements are as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
Amount computed using statutory rate	\$ 329	\$ (393)	\$ 642
Foreign income	(28)	(169)	(26)
State taxes, net of federal benefit	(54)	(82)	(15)
Permanent differences	168	254	231
Other	(98)	(58)	(225)
	-----	-----	-----
Provision (benefit) for income taxes	\$ 317	\$ (448)	\$ 607
	=====	=====	=====

32

(6) EMPLOYEE BENEFIT PLANS:

-----

The Company maintains several defined benefit pension plans covering substantially all union employees. The benefits are based upon fixed dollar amounts per years of service. The assets of the various plans (principally corporate stocks and bonds, insurance contracts and cash equivalents) are managed by independent trustees. The policy of the Company and its subsidiaries is to fund the minimum annual contributions required by applicable regulations.

The following tables set forth the plans' funded status (accumulated benefits exceed assets in all plans) and other information for the fiscal

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

years ended September 30, 2001 and 2000 (in thousands):

	September 30,	
	2001	2000
Change in benefit obligation:		
Obligation at beginning of year	\$ 3,887	\$ 4,275
Service cost	178	180
Interest cost	245	238
Actuarial gain	25	(495)
Benefit payments	(504)	(311)
	\$ 3,831	\$ 3,887
	\$ 3,831	\$ 3,887

Change in market value of plan assets:		
Market value at beginning of year	\$ 3,338	\$ 2,906
Actual return on plan assets	298	219
Employer contributions	357	524
Benefit payments	(504)	(311)
	\$ 3,489	\$ 3,338
	\$ 3,489	\$ 3,338

33

	September 30,	
	2001	2000
Prepaid pension asset:		
Projected benefit obligation	\$ (3,831)	\$ (3,887)
Plan assets at market value	3,489	3,338
	(342)	(549)
Unrecognized net gain from past experience different from assumptions	278	334
Unrecognized net obligation being recognized over periods from 10 to 16 years	196	631
	196	631



Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Prepaid pension asset	\$ 132	\$ 415
	=====	=====

Net periodic pension costs include the following components (in thousands):

	2001	2000	1999
	-----	-----	-----
Service costs - benefits earned during period	\$ 178	\$ 180	\$ 311
Interest cost on projected benefit obligation	245	237	235
Expected return on plan assets	(248)	(214)	(203)
Net amortization and deferral	76	141	139
	-----	-----	-----
Net periodic pension cost	\$ 251	\$ 344	\$ 482
	=====	=====	=====

In determining the projected benefit obligation, the weighted average discount rates utilized were 6.4%, 6.4% and 6.7% for the periods ended September 30, 2001, 2000 and 1999, respectively. The expected long-term rates of return on assets used in determining net periodic pension cost ranged from 7.5 % to 8.5 % in all years presented above. There are no assumed rates of increase in compensation expense in any year, as benefits are fixed and do not vary with compensation levels.

The Company also maintains two defined-contribution plans (401k) for all non-union domestic employees and certain union employees who meet minimum service requirements, as well as a supplemental deferred contribution plan for certain executives. Company contributions under the plans consist of a basic amount of up to 3% of the compensation of participants for the plan year, and for those participants who elected to make voluntary contributions to the plan, matching contributions up to an additional 4%, as specified in the plan. Charges to operations for these plans for the years ended September 30, 2001, 2000 and 1999 were \$588,000, \$610,000 and \$871,000, respectively.

34

(7) SHAREHOLDERS' EQUITY:

-----

The Company provides an Employee Stock Purchase Plan under which shares of its common stock can be issued to eligible employees. Among the terms of this plan, eligible employees may purchase through payroll deductions shares of the Company's common stock up to 10 % of their compensation at the lower of 85 % of the fair market value of the stock on the first or last day of the plan year (May 1 and April 30). On May 1, 2001, 2000 and 1999, 9,415, 10,757 and 6,619 shares, respectively, were issued under this plan. At September 30, 2001, there are 72,306 shares available for future purchases under the plan.

The Company has also granted non-qualified options to key employees, under the 1988 Dixon Ticonderoga Company Executive Stock Plan, to purchase shares of its common stock at the market price on the date of grant. Under the 1988 Plan (as amended) options vest 25 % after one year; 25 % after two years; and 50 % after three years, and remain exercisable for a period of five years from the date of vesting. All options expire three months after termination of employment. At September 30, 2001, there were 267,250 options outstanding and no shares available for future grants under the 1988 Plan.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

In addition, the Dixon Ticonderoga Company 1999 Stock Option Plan (the "1999 Plan") was adopted in fiscal 1999, covering a maximum aggregate 300,000 shares. Under the 1999 Plan, qualified incentive stock options or non-qualified stock options can be granted to employees at the market price on the date of grant and which will vest on the same basis as the 1988 Plan described above. Non-qualified options under the 1999 Plan may also be issued to Company outside directors at the market price on the date of grant and which may vest over varying periods. In 2001, 159,800 and in 2000, 10,000 options were granted to employees under the 1999 Plan. In addition, in 1999, 30,000 non-qualified options were granted to outside directors that vest over a two-year period. At September 30, 2001 there were 189,800 options outstanding and 110,200 shares available for future grants under the 1999 Plan. The following table summarizes the combined stock options activity for 2001, 2000 and 1999.

35

	2001		2000		1999	
	Number of Shares	Option Price	Number of Shares	Option Price	Number of Shares	Option Price
Options outstanding at beginning of year					312	\$7.75
	27,000	\$8.63	41,750	\$8.63	44,250	8.63
	34,125	6.75	48,625	6.75	60,125	6.75
	10,750	7.13	10,750	7.13	15,250	7.13
	258,000	8.88	273,000	8.88	317,000	8.88
					10,000	14.13
	2,500	12.88	5,500	12.88	18,500	12.88
	10,000	11.38	10,000	11.38		
	30,000	11.00	40,000	11.00		
	7,500	4.25				
Options exercised			(10,000)	6.75	(10,250)	6.75
					(2,000)	7.13
					(312)	7.75
			(11,750)	8.63	(1,750)	8.63
					(19,688)	8.88
Options granted					10,000	11.38
					40,000	11.00
			10,000	4.25		
	10,000	4.75				
	17,500	3.81				
	132,300	3.70				
Options expired or canceled	(2,500)	4.25	(2,500)	4.25		
	(27,000)	8.63	(3,000)	8.63	(750)	8.63
	(12,875)	6.75	(4,500)	6.75	(1,250)	6.75
	(27,000)	8.88	(15,000)	8.88	(24,312)	8.88
	(8,250)	7.13			(2,500)	7.13
	(5,000)	11.00	(10,000)	11.00		
			(3,000)	12.88	(13,000)	12.88

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

-----	-----	(10,000)	14.13
457,050	379,875	429,625	
=====	=====	=====	

The Company has adopted the disclosure-only provisions of FASB Statement No. 123 and, accordingly, there is no compensation expense recognized for its stock option plans. Pro forma net income (loss) and earnings (loss) per share would have been as follows if the fair value estimates were used to record compensation expense:

	2001	2000	1999
	-----	-----	-----
Pro forma net income (loss)	\$ (505,281)	\$ (1,048,842)	\$ 6,476,269
	=====	=====	=====
Earnings (loss) per share:			
Basic	\$ (.16)	\$ (.33)	\$ 1.89
	=====	=====	=====
Diluted	\$ (.16)	\$ (.33)	\$ 1.81
	=====	=====	=====

36

These pro forma amounts were estimated using the Black-Scholes valuation model assuming no dividends, expected volatility of 36% in 2001 and 33% in prior years, an average risk-free interest rate of 4.7% in 2001 and 6.7% in prior years and expected lives of approximately six years for all grants prior to 2001 and eight years thereafter. The weighted average fair value estimates of options granted during 2001, 2000 and 1999 was \$2.47, \$2.92 and \$3.67, respectively. The weighted average remaining lives are 5.5, 5.6 and 5.6 years for options granted in 2001, 2000 and 1999, respectively.

In 1995, the Company declared a dividend distribution of one Preferred Stock Purchase Right on each share of Company common stock. Each Right will entitle the holder to buy one-thousandth of a share of a new series of preferred stock at a price of \$30.00 per share. The Rights will be exercisable only if a person or group (other than the Company's chairman, Gino N. Pala, and his family members) acquires 20% or more of the outstanding shares of common stock of the Company or announces a tender offer following which it would hold 30% or more of such outstanding common stock. The Rights entitle the holders other than the acquiring person to purchase Company common stock having a market value of two times the exercise prices of the Right. If, following the acquisition by a person or group of 20% or more of the Company's outstanding shares of common stock, the Company were acquired in a merger or other business combination, each Right would be exercisable for that number of the acquiring Company's shares of common stock having a market value of two times the exercise prices of the Right. The Company may redeem the Rights at one cent per Right at any time until ten days following the occurrence of an event that causes the Rights to become exercisable for common stock. The Rights expire ten years from the date of distribution.

In March 1999, the Company announced a Stock Repurchase Program authorizing the acquisition of up to \$3 million in Dixon Ticonderoga Company stock. Under this program, the Company repurchased approximately 337,000 shares at a cost of \$2.8 million through March 2000, when the program was terminated.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

(8) SUBSIDIARY STOCK REPURCHASE:  
-----

In fiscal 1999, the Company purchased 5,722,760 shares (or 17.2%) of its subsidiary, Grupo Dixon, S.A. de C.V., for approximately \$3.7 million, bringing its total ownership in its subsidiary to 97%. The shares were originally issued in 1994, when the Company sold 16,627,760 shares of the subsidiary in an initial public offering on the Mexico Intermediate Market. The Company applied the purchase method of accounting to record these repurchases of subsidiary stock.

(9) EARNINGS PER COMMON SHARE:  
-----

Basic earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. Diluted earnings per common share is based upon the weighted average number of shares outstanding, plus the effects of potentially dilutive common shares [consisting of stock options (Note 7) and stock warrants (Note 4)]. For the year ended September 30, 2000, options and warrants to purchase 679,875 shares of common stock were excluded from the computation of diluted earnings (loss) per share as such options and warrants were anti-dilutive.

37

Weighted average common shares used in the calculation of earnings (loss) per share are as follows:

Year	Basic	Diluted
----	-----	-----
2001	3,171,190	3,176,609
2000	3,202,582	3,202,582
1999	3,420,779	3,581,062

(10) RESTRUCTURING AND RELATED COSTS:  
-----

In fiscal 1999, the Company provided approximately \$1,917,000 in connection with Phase 1 of its Restructuring and Cost Reduction Program, which was intended to improve overall financial performance in the future. The program included manufacturing plant closure and consolidation, as well as personnel reduction in manufacturing, sales and marketing and corporate activities. Approximately 125 employees (principally plant workers) were affected by this phase of the program. In 1999, approximately \$213,000 was charged against the restructuring cost and impairment reserves, as set forth below. The carrying amount of property and equipment held for disposal in Phase 1 approximated \$2 million with the estimated fair value principally based upon assessments of value made by local realtors or appraisals. Management disposed of the remaining assets from Phase 1 in May 2001.

In fiscal 2000, approximately \$1,910,000 was charged against the restructuring cost and impairment reserves for finalization of the Phase 1 program (net of \$234,000 in credits representing higher than anticipated proceeds from the sale and abandonment of property and equipment

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

identified in the Phase 1 program). As set forth below, the Company incurred approximately \$206,000 in net additional charges, principally related to unanticipated employee costs and other costs directly related to the restructuring program which were not eligible for recognition in 1999 and thus expensed as incurred in 2000.

Also in fiscal 2000, the Company provided approximately \$1,435,000 of impairment and restructuring related costs in connection with Phase 2 of its Restructuring and Cost Reduction Program, which included further consolidation of certain U.S. manufacturing processes, the consolidation of its Mexico operations into a new facility and additional personnel reductions in manufacturing, sales, marketing and corporate activities. An additional 170 employees (principally plant workers) were affected by the second phase of the program. The carrying amount of additional property held for disposal under Phase 2 of the program was \$1.1 million and this additional property was disposed of in 2001 for approximately that amount.

38

The restructuring and impairment related charges and subsequent utilization through fiscal 2001 are summarized below (in thousands):

	Employee severance and related costs	Losses from impairment, sale and abandonment of property and equipment	Total
	-----	-----	-----
1999 restructuring and impairment related charges (Phase 1)	\$ 587	\$ 1,330	\$ 1,917
Utilized in fiscal 1999	(199)	(14)	(213)
	-----	-----	-----
Reserve balances at September 30, 1999	388	1,316	1,704
Utilized in fiscal 2000 (Phase 1)	(594)	(1,316)	(1,910)
	(206)	-	(206)
	-----	-----	-----
Additional fiscal 2000 provisions (Phase 1)	206	-	206
2000 restructuring and impairment related charges (Phase 2)	834	468	1,302
	-----	-----	-----
Total 2000 restructuring and impairment related charges	1,040	468	1,508
	834	468	1,302
Utilized in fiscal 2000 (Phase 2)	(161)	(156)	(317)
	-----	-----	-----
Reserve balances at September 30,			

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

2000	673	312	985
2001 restructuring and impairment related charges	-	868	868
Utilized in fiscal 2001 (Phase 2)	(334)	(1,180)	(1,514)
	-----	-----	-----
	\$ 339	\$ -	\$ 339
	=====	=====	=====

39

(11) LINE OF BUSINESS REPORTING:  
-----

Effective with the Company's 2001 plan to exit the Industrial Segment (Note 12), at September 30, 2001 the Company's continuing operations only consist of one principal business segment - its Consumer Group. The following information sets forth certain additional data pertaining to its operations as of September 30, 2001, 2000 and 1999, and for the years then ended (in thousands).

	Revenues	Operating Profit (Loss)	Identifiable Assets
	-----	-----	-----
2001:			
United States	\$ 56,770	\$ 2,076	\$ 44,598
Canada	8,675	527	5,673
Mexico	23,813	2,849	29,012
United Kingdom	1,046	(26)	674
China	189	(70)	1,363
2000:			
United States	\$ 57,043	\$ (658)	\$ 45,317
Canada	9,515	620	6,741
Mexico	23,943	2,664	27,910
United Kingdom	1,124	(16)	616
China	66	(95)	1,153
1999:			
United States	\$ 65,222	\$ 145	\$ 57,572
Canada	8,943	557	5,784
Mexico	22,127	4,890	22,921
United Kingdom	1,080	(13)	633

(12) DISCONTINUED OPERATIONS:  
-----

On September 17, 2001, the Company formalized its decision to offer for sale its New Castle Refractories division, the last business of its Industrial Group. The Company had disposed of its Graphite and Lubricants division in 1999. Accordingly, related operating results of the Industrial Group have been reported as discontinued operations in the accompanying consolidated financial statements.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

40

Net revenues and income (loss) from discontinued operations are as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
Net revenues	\$ 9,529	\$11,188	\$17,317
	=====	=====	=====
Income (loss) from discontinued operations before income taxes	\$ (85)	\$ (88)	\$10,267
Income tax benefit (expense)	29	23	(3,987)
	-----	-----	-----
	(56)	(65)	6,280
	-----	-----	-----
Loss on disposal of Industrial Group	(1,570)	-	-
Income tax benefit	526	-	-
	-----	-----	-----
	1,044	-	-
	-----	-----	-----
Income (loss) from discontinued operations	\$ (1,100)	\$ (65)	\$6,280
	=====	=====	=====
Earnings (loss) per share (basic)	\$ (0.35)	\$ (0.02)	\$ 1.83
	=====	=====	=====
Earnings (loss) per share (diluted)	\$ (0.35)	\$ (0.02)	\$ 1.76
	=====	=====	=====

Income (loss) from discontinued operations includes pre-tax gains on sales of assets of \$1,202 and \$9,636, in 2001 and 1999, respectively, attributable to the sale of the Company's Graphite and Lubricants division. In addition, interest expense of \$427, \$597 and \$603 has been allocated to income (loss) from discontinued operations in 2001, 2000 and 1999, respectively, based upon the identifiable assets of such operations. The loss on disposal in 2001 includes the anticipated loss on the sale of the New Castle Refractories division of \$468, a provision for the wind-up of that division's pension plans of \$432, and a provision for anticipated operating losses through the date of disposal (expected to be by August 2002) of \$670.

Assets and liabilities relating to discontinued operations and included in the accompanying consolidated balance sheets are as follows (in thousands):

	September 30,	
	2001	2000
	-----	-----
Current assets	\$ 4,619	\$ 4,447
Property, plant and equipment, net	473	534
Current liabilities	(1,448)	(733)
Long-term liabilities and other, net	(743)	(495)
	-----	-----
Net assets of discontinued operations	\$ 2,901	\$ 3,753
	=====	=====

41

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

(13) COMMITMENTS AND CONTINGENCIES:

The Company has entered into employment agreements with four executives which provide for the continuation of salary (currently aggregating \$68,700 per month) and related employee benefits for a period of 24 months following their termination of employment under certain changes in control of the Company. In addition, all options held by the executives would become immediately exercisable upon the date of termination and remain exercisable for 90 days thereafter. The Company has also entered into various agreements with nine additional employees which provide for continuation of salaries (averaging \$8,500 each per month) for periods up to 24 months under certain circumstances.

The Company leases a distribution center in Macon, Georgia for approximately \$365,000 per year and a manufacturing and distribution facility in Mexico at an average annual rental of \$1,188,000 per year. The Company also leases certain manufacturing equipment under a five-year noncancelable operating lease arrangement. The rental expense under this lease was \$372,000 in 2001. Annual future minimum rental payments are approximately \$372,000 per year through 2004 and \$93,000 in 2005. Rental expense under a previous equipment lease was \$417,000 in 1999.

The Company, in the normal course of business, is party in certain litigation. In 1996, a decision was rendered by the Superior Court of New Jersey in Hudson County finding the Company responsible for \$1.94 million in certain environmental clean-up costs relating to a claim under New Jersey's Environmental Clean-Up Responsibility Act (ECRA) by a 1984 purchaser of industrial property from the Company. All subsequent appeals were denied and as a result of the judgment, the Company paid \$3.6 million in 1998 to satisfy this claim in full, including all accrued interest. The Company continued to pursue other responsible parties for indemnification and/or contribution to the payment of this claim (including its insurance carriers) and in fiscal 2000 the Company reached settlements with its various insurers for reimbursement of legal costs in the amount of \$653,000 (reflected as a reduction in selling and administrative expenses). In 2001, a pending malpractice suit was settled and the Company received \$575,000 (also reflected as a reduction in selling and administrative expenses).

The Company has evaluated the merits of other litigation and believes their outcome will not have a further material effect on the Company's future results of operations or financial position.

The Company assesses the extent of environmental matters on an ongoing basis. In the opinion of management (after taking into account accruals of approximately \$269,000 as of September 30, 2001), the resolution of these matters will not materially affect the Company's future results of operations or financial position.

(14) SUMMARY OF QUARTERLY FINANCIAL INFORMATION ( UNAUDITED )

( In Thousands, Except Per Share Data ):

2001:	First	Second	Third	Fourth
----	-----	-----	-----	-----



Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Revenues	\$17,242	\$18,727	\$28,996	\$25,528
Income (loss) from continuing operations	(1,144)	(326)	1,514	576
Income (loss) from discontinued operations	(166)	646	(98)	(1,482)
Net income (loss)	(1,310)	320	1,416	(906)

Earnings (loss) per share: (a)

Continuing operations:

Basic	(.36)	(.10)	.48	.18
Diluted	(.36)	(.10)	.48	.18

Discontinued operations:

Basic	(.05)	.20	(.03)	(.47)
Diluted	(.05)	.20	(.03)	(.47)

Net income (loss):

Basic	(.41)	.10	.45	(.29)
Diluted	(.41)	.10	.45	(.29)

2000:	First	Second	Third	Fourth
----	-----	-----	-----	-----
Revenues	\$16,351	\$19,395	\$30,618	\$25,327
Income (loss) from continuing operations	(1,309)	(221)	1,371	(574)
Income (loss) from discontinued operations	(191)	(26)	145	7
Net income (loss)	(1,500)	(247)	1,516	(567)

Earnings (loss) per share: (a)

Continuing operations:

Basic	(.39)	(.07)	.44	(.18)
Diluted	(.39)	(.07)	.44	(.18)

Discontinued operations:

Basic	(.06)	(.01)	.04	.00
Diluted	(.06)	(.01)	.04	.00

Net income (loss):

Basic	(.45)	(.08)	.48	(.18)
Diluted	(.45)	(.08)	.48	(.18)

(a) Calculated independently for each period, and consequently, the sum of the quarters may differ from the annual amount.

(15) LIQUIDITY, CAPITAL RESOURCES AND SUBSEQUENT EVENTS:

-----

On September 15, 2001, a waiver of compliance with one provision of the Company's primary lending agreement expired and shortly thereafter its senior lenders prohibited the payment of \$5.5 million in principal due to senior subordinated noteholders on September 26, 2001 (see Note 4). The payment due date was later extended by the noteholders until November 14, 2001 and the aforementioned waiver from the Company's senior lenders was also extended through that date. These extensions expired on November 15, 2001. The senior lenders again blocked any payment to the subordinated noteholders and the Company has continued to negotiate with its various lenders since then. As of September 30, 2001, the Company was not in compliance with two financial covenants under its senior debt agreements and one financial covenant under its subordinated note agreement. The Company has received an additional extension and a waiver of certain defaults under its senior debt agreements through May 3, 2002 to allow the

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Company more time to address its debt issues to the mutual satisfaction of all parties involved. The Company has asked both its senior and subordinated lenders to amend various provisions of their debt agreements until at least October 2002 to allow the Company time to pursue a longer-term solution.

The Company believes it has sufficient lines of credit available under its senior debt and other agreements to fulfill all current and anticipated operating requirements of its business. Moreover, the senior lenders have consistently supported the Company by continuing normal funding under their agreements throughout the ongoing negotiations. However, the Company does not believe it will have excess cash flow to retire the total \$16.5 million in subordinated notes by their due date in 2003. The Company has asked the subordinated noteholders and they have expressed a willingness to consider restructuring their scheduled principal payments to allow the Company sufficient time to retire the notes through the infusion of some form of new equity capital, new secondary financing and/or the sale of assets. However, the Company cannot assure that its efforts will be successful, that the subordinated noteholders will amend their scheduled payments and/or that it will maintain and/or secure new sources of capital. Moreover, in light of the current circumstances regarding the Company's various debt arrangements, the report of the Company's independent accountants includes an explanatory paragraph as to substantial doubt about the Company's ability to continue as a going concern.

The Company's Mexico subsidiary presently has approximately \$13 million lines of credit (\$6 million unused) expiring at various dates. The Company's subsidiary cannot assure that these lines of credit will continue to be available after their respective expiration dates, or that replacement lines of credit will be secured.

The Company has retained Wachovia Securities (formerly First Union Securities) and certain other outside consultants to advise and assist it in evaluating certain strategic alternatives, including capital restructuring, mergers and acquisitions, and/or other measures designed to resolve the Company's issues with its lenders while maximizing shareholder value.

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES  
 SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
 FOR THE THREE YEARS ENDED SEPTEMBER 30, 2001, 2000 and 1999

Description	Balance at Beginning Of Period	Additions Charged to Income	Additions to (Deductions From) Reserves	Balance at Close of Period
Allowance for Doubtful Accounts:				
Year Ended				
September 30, 2001	\$ 1,418,908	\$ 151,263	\$ (87,647) (1)	\$ 1,482,524
Year Ended				
September 30, 2000	\$ 1,428,541	\$ 218,795	\$ (228,428) (1)	\$ 1,418,908

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Year Ended					
September 30, 1999	\$ 1,369,815	\$ 191,356	\$ (132,630) (1)		\$ 1,428,541
	=====	=====	=====		=====

(1) Write-off of accounts considered to be uncollectible (net of recoveries).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
 -----  
 FINANCIAL DISCLOSURES  
 -----

None.

45

PART III  
 -----

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY  
 -----

Certain information required under this Item with respect to Directors and Executive Officers will be contained in the Company's 2001 Proxy Statement, pursuant to Regulation 14A, which is incorporated herein by reference.

The following table sets forth the names and ages of the Company's Executive Officers, together with all positions and offices held with the Company by such Executive Officers. All Executive Officers are subject to re-election or re-appointment by the Board of Directors at the first Directors' Meeting succeeding the next Annual Meeting of shareholders.

Name	Age	Title
Gino N. Pala (Father-in-law of Richard F. Joyce)	73	Chairman of the Board since February 1989; President and Chief Executive Officer or Co-Chief Executive Officer since 1978.
Richard F. Joyce (Son-in-law of Gino N. Pala)	46	Vice Chairman of the Board since January 1990; President and Co-Chief Executive Officer since March 1999; prior thereto President and Chief Operating Officer, Consumer Group, since March, 1996; Executive Vice President and Chief Legal Executive since February 1991; Corporate Counsel since July 1990.
Richard A. Asta	45	Executive Vice President of Finance and Chief Financial Officer since February 1991; prior thereto Senior Vice President - Finance and Chief Financial Officer since March 1990; and Director since May 1999.

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

Leonard D. Dahlberg, Jr. 50 Executive Vice President of Operations since August 2000; Executive Vice President of Procurement since April 1999; prior thereto Executive Vice President, Industrial Group, since March 1996; Executive Vice President of Manufacturing/Consumer Products division since August 1995; Senior Vice President of Manufacturing since February 1993; Vice President of Manufacturing since March 1990.

John Adornetto 60 Vice President and Corporate Controller since January 1991; prior thereto Corporate Controller since September 1978.

Diego Cespedes Creixell 43 President, Grupo Dixon S.A. de C.V., since August 1996 and Director since May 2000.

46

ITEM 11. EXECUTIVE COMPENSATION  
-----

Information required under this Item will be contained in the Company's 2001 Proxy Statement which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
-----

Information required under this Item will be contained in the Company's 2001 Proxy Statement which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
-----

Information required under this Item will be contained in the Company's 2001 Proxy Statement which is incorporated herein by reference.

47

PART IV  
-----

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K  
-----

(a) Documents filed as part of this report:  
-----

1. Financial statements  
-----

See index under Item 8. Financial Statements and Supplementary Data.

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

### 2. Exhibits

-----  
The following exhibits are required to be filed as part of this Annual Report on Form 10-K:

- (2) a. Share Purchase Agreement by and among Dixon Ticonderoga de Mexico, S.A. de C.V., and by Grupo Ifam, S.A. de C.V., and Guillermo Almazan Cueto with respect to the capital stock of Vinci de Mexico, S.A. de C.V., (English translation). 4
- (2) b. Asset Purchase Agreement dated February 9, 1999, by and between Dixon Ticonderoga Company, as Seller and Asbury Carbons, Inc., as Buyer. 6
- (3) (i) Restated Certificate of Incorporation. 2
- (3) (ii) Amended and Restated Bylaws. 1
- (4) a. Specimen Certificate of Company Common Stock. 2
- (4) b. Amended and Restated Stock Option Plan. 3
- (10) a. First Modification of Amended and Restated Revolving Credit Loan and Security Agreement by and among Dixon Ticonderoga Company, Dixon Ticonderoga, Inc., First Union Commercial Corporation, First National Bank of Boston and National Bank of Canada. 1
- (10) b. 12.00% Senior Subordinated Notes, Due 2003, Note and Warrant Purchase Agreement. 1
- (10) c. 12.00% Senior Subordinated Notes, Due 2003, Common Stock Purchase Warrant Agreement. 1
- (10) d. License and Technological Agreement between Carborundum Corporation and New Castle Refractories Company, a division of Dixon Ticonderoga Company. 1
- (10) e. Equipment Option and Purchase Agreement between Carborundum Corporation and New Castle Refractories Company, a division of Dixon Ticonderoga Company. 1
- (10) f. Product Purchase Agreement between Carborundum Corporation and New Castle Refractories Company, a division of Dixon Ticonderoga Company. 1
- (10) g. Second Modification of Amended and Restated Revolving Credit Loan and Security Agreement by and among Dixon Ticonderoga Company, Dixon Ticonderoga, Inc., First Union Commercial Corporation, First National Bank of Boston and National Bank of Canada. 5
- (10) h. Third Modification of Amended and Restated Revolving Credit Loan and Security Agreement, Amendment to Loan Documents and Assignment by and among Dixon Ticonderoga Company, Dixon Ticonderoga, Inc., First Union Commercial Corporation, BankBoston, N.A., National Bank of Canada and

## Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

LaSalle Bank. 7

- (10) i. First Modification of Amended and Restated Term Loan Agreement and Assignment by and among Dixon Ticonderoga Company, Dixon Ticonderoga, Inc., First Union Commercial Corporation, BankBoston, N.A., National Bank of Canada and LaSalle Bank. 7
- (10) j. Amendment No. 1 to 12.00% Senior Subordinated Notes, Due 2003, Note and Warrant Purchase Agreement.7
- (10) k. Fourth Modification of Amended and Restated Revolving Credit Loan and Security Agreement.
- (10) l. Second Modification of Amended and Restated Term Loan Agreement.
- (10) m. Amendment No. 2 to Note and Warrant Purchase Agreement.
- (21) Subsidiaries of the Company
- (23) Consent of Independent Certified Public Accountants.

1 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1996, file number 0-2655, filed in Washington, D.C.

2 Incorporated by reference to the Company's quarterly report on Form 10-Q for the period ended March 31, 1997, file number 0-2655, filed in Washington, D.C.

3 Incorporated by reference to Appendix 3 to the Company's Proxy Statement dated January 27, 1997, filed in Washington, D.C.

4 Incorporated by reference to the Company's current report on Form 8-K dated December 12, 1997, filed in Washington D.C.

5 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1998, file number 0-2615, filed in Washington, D.C.

6 Incorporated by reference to the Company's current report on Form 8-K dated March 2, 1999, filed in Washington D.C.

7 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1999, file number 0-2615 filed in Washington, D.C.

8 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2000, file number 0-2655 filed in Washington, D.C.

- (b) Reports on Form 8-K:  
None.

49

SIGNATURES  
-----

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

DIXON TICONDEROGA COMPANY

Edgar Filing: DIXON TICONDEROGA CO - Form 10-K

/s/ Gino N. Pala

-----  
Gino N. Pala, Chairman of Board and  
Co-Chief Executive Officer

Pursuant to the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Company in the capacities indicated.

/s/ Gino N. Pala

-----  
Gino N. Pala Chairman of Board, Co-Chief  
Executive Officer and Director  
Date: January 15, 2002

/s/ Richard F. Joyce

-----  
Richard F. Joyce Vice Chairman of Board,  
Co-Chief Executive Officer,  
President and Director  
Date: January 15, 2002

/s/ Richard A. Asta

-----  
Richard A. Asta Executive Vice President of  
Finance, Chief Financial  
Officer and Director  
Date: January 15, 2002

/s/ Diego Cespedes Creixell

-----  
Diego Cespedes Creixell President, Grupo Dixon S.A. de  
C.V., and Director  
Date: January 15, 2002

/s/ Harvey L. Massey

-----  
Harvey L. Massey Director  
Date: January 15, 2002

/s/ Philip M. Shasteen

-----  
Philip M. Shasteen Director  
Date: January 15, 2002

/s/ Ben Berzin, Jr.

-----  
Ben Berzin, Jr. Director  
Date: January 15, 2002

/s/ Kent Kramer

-----  
Kent Kramer Director  
Date: January 15, 2002

/s/ John Ritenour

-----  
John Ritenour Director  
Date: January 15, 2002

2001 ANNUAL REPORT ON FORM 10-K

SUBSIDIARIES OF THE COMPANY

All of the Registrant's subsidiaries as of September 30, 2001, are listed below. Subsidiaries of a subsidiary are indented. All subsidiaries are included in the consolidated financial statements of the Registrant.

	State Or Jurisdiction of Organization	Percentage of Voting Securities Owned
Dixon Ticonderoga, Inc.	Canada	100%
Grupo Dixon, S.A. de C.V. (Subsidiary of Dixon Ticonderoga, Inc.)	Mexico	97%
Dixon Ticonderoga de Mexico, S.A. de C.V. (Subsidiary of Grupo Dixon, S.A. de C.V.)	Mexico	100%
Dixon Comercializadora Dixon, S.A. de C.V. (Subsidiary of Grupo Dixon, S.A. de C.V.)	Mexico	100%
Servidix, S.A. de C.V. (Subsidiary of Grupo Dixon, S.A. de C.V.)	Mexico	100%
Dixon Industrial Mexico, S.A. de C.V. (a)	Mexico	100%
Beijing Dixon Ticonderoga Stationery Company, Ltd.	China	100%
Ticonderoga Graphite, Inc. (a)	New York	100%
Dixon Europe, Limited	United Kingdom	100%

(a) Inactive

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-20054, 33-23380 and 333-22205) of Dixon Ticonderoga Company of our report dated December 6, 2001, except as to the first paragraph of Note 15 for which the date is January 10, 2002, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.



PricewaterhouseCoopers LLP  
Tampa, Florida  
January 10, 2002