DIXON TICONDEROGA CO
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

Commission file number 1-8689

DIXON TICONDEROGA COMPANY
Incorporated pursuant to the Laws of Delaware State

Internal Revenue Service-- Employer Identification No. 23-0973760

195 International Parkway, Heathrow, FL 32746
(407) 829-9000

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on March 31, 2002, was 3,177,462.

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1.

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)	September 30, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 603,674	$ 844,299
Receivables, less allowance for doubtful accounts of $1,459,508 at March 31, 2002 and $1,482,524 at September 30, 2001	29,581,309	31,647,950
Inventories	35,613,512	35,583,082

Other current assets	2,314,749	2,227,785
Total current assets	68,113,244	70,303,116
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	11,020,297	10,608,980
Machinery and equipment	17,519,554	17,155,371
Furniture and fixtures	1,726,228	1,741,811
	30,266,079	29,506,162
Less accumulated depreciation	(19,409,256)	(19,022,674)
	10,856,823	10,483,488
OTHER ASSETS	5,967,737	5,625,771
	$84,937,804	$86,412,375

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	March 31, 2002 (Unaudited)	September 30, 2001
CURRENT LIABILITIES:		
Notes payable	$ 8,900,398	$ 6,294,268
Current maturities of long-term debt	32,584,644	32,598,531
Accounts payable	8,549,210	9,321,957
Accrued liabilities	6,507,086	9,132,057
Total current liabilities	56,541,338	57,346,813
LONG-TERM DEBT	1,946,299	2,018,125
DEFERRED INCOME TAXES AND OTHER	581,831	984,492
MINORITY INTEREST	629,052	577,241
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	3,710,309	3,710,309
Capital in excess of par value	3,670,135	3,670,135
Retained earnings	24,367,775	25,667,675
Accumulated comprehensive income (loss)	(3,048,201)	(4,101,681)

	28,700,018	28,946,438
Less - treasury stock, at cost (532,847 shares)	(3,460,734)	(3,460,734)
	25,239,284	25,485,704
	$ 84,937,804	$ 86,412,375

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2002 AND 2001

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
REVENUES	$18,418,306	$18,519,620	$36,320,456	$35,660,502
COST AND EXPENSES:				
Cost of goods sold	11,813,650	11,164,625	23,122,657	22,638,943
Selling and administrative expenses	6,409,765	6,399,717	13,176,478	12,856,411
Provision for restructuring and related costs	150,951	322,435	325,801	322,435
	18,374,366	17,886,777	36,661,256	35,817,789
OPERATING INCOME (LOSS)	43,940	632,843	(304,480)	(157,287)
INTEREST EXPENSE	931,675	1,070,034	1,806,176	2,081,437
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX BENEFIT AND MINORITY INTEREST	(887,735)	(437,191)	(2,110,656)	(2,238,724)
INCOME TAX BENEFIT	(247,053)	(124,976)	(700,967)	(769,783)
MINORITY INTEREST	15,414	14,373	21,018	2,362

LOSS FROM CONTINUING OPERATIONS	(656,096)	(326,588)	(1,430,707)	(1,471,303)
DISCONTINUED OPERATIONS, NET OF INCOME TAXES	130,806	646,317	130,806	480,775
NET INCOME (LOSS)	$ (525,290)	$ 319,729	$(1,299,901)	$ (990,528)
EARNINGS (LOSS) PER COMMON SHARE (BASIC):				
Continuing operations	$ (0.21)	$ (0.10)	$ (0.45)	$ (0.46)
Discontinued operations	0.04	0.20	0.04	0.15
Net income (loss)	$ (0.17)	$ 0.10	$ (0.41)	$ (0.31)
EARNINGS (LOSS) PER COMMON SHARE (DILUTED):				
Continuing operations	$ (0.21)	$ (0.10)	$ (0.45)	$ (0.46)
Discontinued operations	0.04	0.20	0.04	0.15
Net income (loss)	$ (0.17)	$ 0.10	$ (0.41)	$ (0.31)
Shares Outstanding:				
Basic	3,177,462	3,168,047	3,177,462	3,168,047
Diluted	3,177,462	3,168,492	3,177,462	3,168,047

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2002 AND 2001

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
NET INCOME (LOSS)	$(525,290)	$ 319,729	$(1,299,901)	$ (990,528)

OTHER COMPREHENSIVE INCOME (LOSS):				
Cumulative effect adjustment to recognize fair value of cash flow hedges	--	--	--	(54,205)
Current period adjustment to recognize fair value of cash flow hedges	79,706	(119,233)	150,969	(276,948)
Foreign currency translation adjustments	244,333	229,030	902,511	(351,313)
COMPREHENSIVE INCOME (LOSS)	$(201,251)	$ 429,526	$ (246,421)	$(1,672,994)

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

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DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED MARCH 31, 2002 AND 2001

	2002	2001

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	$ (1,430,707)	$ (1,471,303)
Net income from discontinued operations	130,806	480,775
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,228,477	1,267,837
Provision for doubtful accounts receivable	109,935	43,801
Gain on sale of assets	(208,290)	(1,202,448)
Loss (gain) attributable to foreign currency exchange	(3,595)	69,253
Income attributable to minority interest	21,018	2,362
Changes in assets and liabilities:		
Receivables, net	2,542,287	1,149,469
Inventories	476,966	(2,710,990)
Other current assets	(77,469)	(527,113)
Accounts payable and accrued liabilities	(3,641,961)	(543,670)
Other assets	(655,006)	(327,638)
Net cash used in operations	(1,507,569)	(3,769,665)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment, net	(871,569)	(1,508,385)
Proceeds on sale of assets	208,290	167,036
Net cash used in investing activities	(663,279)	(1,341,349)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable	2,049,647	2,521,412
Net proceeds from (principal reductions of) long-term debt	(85,713)	2,426,615
Other non-current liabilities	(16,194)	47,631
Net cash provided by financing activities	1,947,740	4,995,658
Effect of exchange rate changes on cash	(17,517)	(32,254)
Net decrease in cash and cash equivalents	(240,625)	(147,610)
Cash and cash equivalents, beginning of period	844,299	448,452
Cash and cash equivalents, end of period	$ 603,674	$ 300,842
Supplemental Disclosures:		
Cash paid during the period:		
Interest	$ 2,185,008	$ 2,175,812
Income taxes	789,104	1,452,010

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. In the opinion of the Company, all adjustments (solely of a normal recurring nature) necessary to present fairly the financial position of Dixon Ticonderoga Company and subsidiaries as of March 31, 2002, and the results of their operations and cash flows for the six months ended March 31, 2002 and 2001 have been included. The results of operations for such interim periods are not necessarily indicative of the results for the entire year. Certain fiscal 2001 balances have been reclassified to conform to current year presentation.

2. INVENTORIES:

Since amounts for inventories under the LIFO method are based on annual determinations of quantities and costs as of the end of the fiscal year, the inventories at March 31, 2002 (for which the LIFO method of accounting are used) are based on certain estimates relating to quantities and costs as of year end.

Inventories consist of (in thousands):

	March 31, 2002	September 30, 2001
Raw materials	$14,469	$13,328
Work in process	3,069	3,572
Finished goods	18,076	18,683
	$35,614	$35,583

3. EFFECT OF NEW ACCOUNTING PRONOUNCEMENT:

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 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.

In April 2002, the FASB issued Statement No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The statement addresses the accounting for extinguishment of debt, sale-leaseback transactions and certain lease modifications. The statement is effective for transactions occurring after May 15, 2002. The Company does not expect the adoption of Statement No. 145 to have a material impact on the Company's future results of operations or financial position.

4. RESTRUCTURING AND RELATED COSTS:

In the first six months of fiscal 2002, the Company continued its efforts towards completion of Phase 2 of its Restructuring and Cost Reduction Program, including the further consolidation of certain U.S. manufacturing processes with its Mexico operations as well as additional personnel reductions at all facilities. The restructuring and related costs (severances and lease settlement expense) and utilization since September 30, 2001 are summarized below (in thousands):

	Employee severance and related costs	Losses from the impairment, sale or abandonment of property and equipment	Total
Reserve balances at September 30, 2001	$ 339	$ --	$ 339
Period ended March 31, 2002 restructuring and impairment related charges	174	152	326
Payments in period ended March 31, 2002	(325)	--	(325)

Reserves balances at March 31, 2002	$ 188	$ 152	$ 340

During the quarter ending March 31, 2001, the Company incurred approximately $322,000 in costs associated with the disposal of property remaining from its prior phase of restructuring.

5. LINE OF BUSINESS REPORTING:

Effective with the Company's 2001 plan to exit the Industrial Segment (Note 6), the Company's continuing operations consist only of one principal business segment - its Consumer Group. The following information sets forth certain additional data pertaining to its operations for the three and six-month periods ended March 31, 2002 and 2001 (in thousands).

	Three Months		Six Months	
	Revenues	Operating Profit (Loss)	Revenues	Operating Profit (Loss)
2002:				
United States	$ 9,387	$(1,021)	$ 20,405	$(1,677)
Canada	1,723	158	3,600	353
Mexico	7,076	858	11,833	949
United Kingdom	227	(3)	459	(9)
China	5	52	23	79
	$ 18,418	$ 44	$ 36,320	$ (305)
2001:				
United States	$ 10,864	$ (405)	$ 22,733	$ (849)
Canada	1,522	43	3,347	147
Mexico	5,890	1,068	9,117	711
United Kingdom	239	(13)	453	(29)
China	5	(60)	11	(137)
	$ 18,520	$ 633	$ 35,661	$ (157)

The United States operating loss in each period includes unallocated corporate expenses.

6. DISCONTINUED OPERATIONS:

In September 2001, the Company formalized its decision to offer for sale its New Castle Refractories division, the last business of its Industrial Group. Accordingly, related operating results of the Industrial Group have been reported as discontinued operations in the accompanying consolidated financial statements. The Company expects to complete the sale of this division by August 2002.

Net revenues and income (loss) from discontinued operations in the

accompanying financial statements are as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2001	2002	2001
Net revenues	$ --	$2,153	$ --	$4,708
Income from discontinued operations before income taxes	$ 208	$ 972	$ 208	$ 723
Income taxes	77	325	77	242
Income from discontinued operations	$ 131	$ 647	$ 131	$ 481
Earnings per share (basic)	$ 0.04	$ 0.20	$ 0.04	$ 0.15
Earnings per share (diluted)	$ 0.04	$ 0.20	$ 0.04	$ 0.15

Income from discontinued operations includes allocated interest expense of $108 and $216 in the three-month and six-month periods ended March 31, 2001, respectively, based upon the identifiable assets of such operations. The Company recorded pre-tax gains of $208 and $1,202 on the sale of idle real estate in the three-month periods ended March 31, 2002 and 2001, respectively. In September 2001, the Company provided $670 for anticipated operating losses and $432 for the wind-up of certain pension plans. Losses from discontinued operations during the three-month and six-month periods ended March 31, 2002 were $100 and $365 (including $83 and $167 in allocated interest expense, respectively). In addition, during the six-month period ended March 31, 2002, the Company paid $432 for the wind-up of pension plans.

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

	March 31, 2002	September 30, 2001
Current assets	$ 4,499	$ 4,619
Property, plant and equipment, net	429	473
Current liabilities	(1,429)	(1,448)
Long-term liabilities and other, net	(788)	(743)
Net assets of discontinued operations	$ 2,711	$ 2,901

7. LIQUIDITY AND CAPITAL RESOURCES:

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 prevented any payment to the subordinated noteholders and the Company has continued to negotiate with its various lenders. The Company has received additional extensions and waivers of default and its subordinated lenders have agreed to extend its debt payments through May

31, 2002 to allow the 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 2003 to allow the Company time to pursue a longer-term solution.

The Company has improved its cash management processes and 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 September 2003. Accordingly, the Company is pursuing a new debt agreement with its present or new senior lenders and has asked the subordinated noteholders 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. The subordinated lenders have expressed a willingness to consider this proposal. 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 loan arrangements, the report of the Company's independent accountants (with respect to its fiscal 2001 financial statements) included 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 $14 million in bank lines of credit ($4 million unused) expiring at various dates. The Company is awaiting approval on $5 to $7 million of additional Mexico lines of credit with various financial institutions. The Company's subsidiary cannot assure that these lines of credit will continue to be available after their respective expiration dates, or that additional 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.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

REVENUES for the quarter ended March 31, 2002 decreased $101,000 from the same quarter last year. The changes are detailed below:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price/Mix
U.S. Consumer	$ (1,477)	(13)	(11)	(2)
Foreign Consumer	1,376	18	20	(2)

U.S. Consumer revenue decreased primarily due to lower demand in the educational market as distributor consolidations led to delayed purchasing in an effort to reduce their inventory levels. Foreign Consumer increased primarily due to increased sales volume to existing customers in the Mexico and Canada retail mass-market channels.

Revenues for the six months ended March 31, 2002 increased $660,000 from the same quarter last year. The changes are as follows:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price/Mix
U.S. Consumer	$ (2,328)	(10)	(8)	(2)
Foreign Consumer	2,988	23	24	(1)

The U.S. Consumer revenue decrease was primarily in the educational market as discussed above, partially offset by increased demand for new branded products in the U.S. retail market channel. Foreign Consumer revenue increased primarily in Mexico on increased demand in the mass retail market.

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 1998. In the short term after such a devaluation, 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 denominated in U.S. dollars.

OPERATING INCOME in the March 2002 quarter decreased $589,000 from the same quarter last year. U.S. Consumer decreased $616,000 due to decreased revenues and plant inefficiencies related to the scale-back in production in the Company's U.S. plants in connection with its strict inventory reduction program. Foreign Consumer operating income remained relatively flat (despite higher revenues) due to lower Mexico margins from somewhat lower selling prices and mix of business. These factors contributed to an increase in overall cost of goods sold in the quarter (63.9% of revenues as compared to 60.3% of revenues in the prior year quarter). Restructuring and related costs also increased $171,000 during the current year quarter due to additional severance costs and carrying costs of an idled Mexico facility.

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Operating loss for the six months ended March 31, 2002 increased $148,000 from the same period last year. U.S. Consumer operating results decreased $828,000 due to the aforementioned decrease in revenues, as well as somewhat higher marketing and selling costs associated with the retail mass market. Foreign Consumer operating income increased $680,000 on higher Mexico and Canada

revenues as well as start-up costs incurred in the Beijing, China operation in the prior year period.

INTEREST EXPENSE decreased $138,000 and $275,000 in the quarter and six months ended March 31, 2002, respectively, primarily due to decreases in average borrowing levels. In 2001, borrowings were higher, principally in order to finance higher inventory levels.

INCOME TAX benefit increased $122,000 in the quarter ended March 31, 2002 when compared to the same quarter last year due to the increased before tax loss. Conversely, the tax benefit decreased in the six months ended March 31, 2002 due to a lower before tax loss.

MINORITY INTEREST represents approximately 3% of the results of operations of the Company's Mexico subsidiary.

CURRENT ECONOMIC ENVIRONMENT AND EVENTS

Although not directly impacted by recent events in the U.S. and abroad (such as September 11th and the Mid-East crisis), softening economic conditions appeared to have an effect in certain U.S. markets earlier in the fiscal year and thus could lead to reduced overall annual revenues. In addition, certain expenses (such as insurance and financing costs) have increased and could be significantly higher in the coming years due to tightening in the various financial markets in light of these events.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows used in operating activities decreased by $2.3 million in the period ended March 31, 2002. Cash flows from changes in inventory improved and account receivable collections increased as the Company enhanced its cash management processes. The improvements were partially offset by higher cash flows used to extinguish certain Mexico trade liabilities.

The Company's fiscal 2002 investing activities included approximately $872,000 in net purchases of property and equipment, compared to $1,508,000 in the prior year period. The prior year 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. 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, initially 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 $30 million, which bears interest at either the prime rate plus 1.15%, or the prevailing LIBOR rate plus 2.65%, through September 2004. The agreements also provide for the payment of various bank fees approximating $14,000 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 in the loan documents. The Company 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 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 agreement 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 prevented any payment to the subordinated noteholders and the Company has continued to negotiate with its various lenders. The Company has received additional extensions and waivers of default and its subordinated lenders have agreed to extend its debt payments through May 31, 2002 to allow the 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 2003 to allow time for the Company to pursue a longer-term solution. As of March 31, 2002, the Company had approximately $13 million outstanding under the revolving credit facility. In addition, the Company's Mexico subsidiary currently has approximately $14 million in bank lines of credit ($4 million unused) expiring at various dates that bear interest at a rate based upon either a floating U.S. bank rate or the rate of certain Mexican government securities. The Company is awaiting approval on $5 to $7 million of additional Mexico lines of credit with various financial institutions. 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 September 2003. The subordinated note agreement provides for an 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 was not in compliance with as of March 31, 2002.

The Company has improved its cash management processes and believes that amounts available under its lines of credit under its senior debt and under lines of credit available to or requested by 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 existing 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 September 2003. Accordingly, the Company is pursuing a new debt agreement with its present or new senior lenders and has asked the subordinated noteholders 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. The subordinated lenders have expressed a willingness to consider this proposal. However, the Company cannot assure that its efforts will be successful; that the subordinated noteholders will amend their scheduled payments and/or that the Company 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 additional lines of credit will be secured.

Due to the defaults described above, the subordinated and senior loans have been classified as current maturities of long-term debt in the accompanying consolidated balance sheets. Moreover, in light of the current circumstances regarding the Company's various loan arrangements, the report of the Company's independent accountants (with respect to its fiscal 2001 financial statements) included an explanatory paragraph as to substantial doubt about the Company's ability to continue as a going concern.

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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.

Contractual cash obligations as of March 31, 2002 are summarized in the table below. The senior and subordinated debt balances are reflected as an obligation in the current fiscal year, due to the defaults described above.

	Payments Due by Period (in thousands)				
Contractual Cash Obligations	Total	Current fiscal year	Fiscal years 2003-2005	Fiscal years 2006-2007	Thereafter
Long Term Debt	$43,431	$41,485	$ 620	$ 389	$ 937
Capital Lease Obligations	63	47	16	--	--
Operating Leases	5,627	798	4,730	99	--
	$49,121	$42,330	$ 5,366	$ 488	$ 937

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 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.

In April 2002, the FASB issued Statement No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The statement addresses the accounting for extinguishment of debt, sale-leaseback transactions and certain lease modifications. The statement is effective for transactions occurring after May 15, 2002. The Company does not expect the adoption of Statement No. 145 to have a material impact on the Company's future results of operations or financial position.

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CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. The following accounting policies require management to make estimates and assumptions. These estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. If actual results differ significantly from management's estimates, the financial statements could be materially impacted.

Accounts receivable is recorded net of allowance for doubtful accounts. The Company regularly reviews the adequacy of its accounts receivable allowance after considering the size of the accounts receivable, the age of each invoice, each customer's expected ability to pay and the collection history with each customer. The Company reviews any invoice greater than 60 days past due to determine if an allowance is appropriate based on the risk category using the factors discussed above. In addition, the Company maintains a general reserve for all other invoices that may become doubtful in the future. The allowance for doubtful accounts represents management's best estimate, but changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the near future.

Inventories are stated at the lower of cost or market. The inventory valuation policy is based on a review of forecasted demand compared with existing inventory levels. If the estimate of forecasted demand is significantly less than the actual demand, the Company may have excess inventory which may be over-valued.

Long-lived assets, such as property, plant and equipment, are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. When such events occur, the Company compares the carrying amount of the assets to undiscounted expected future cash flows. Should this comparison indicate that there is an impairment, the amount of the impairment is calculated using discounted expected future cash flows. If the estimate of an asset's future cash flows is significantly different from the asset's actual cash flows, we may over- or under-estimate the value of an asset's impairment. A long-lived asset's value is also dependent upon its estimated useful life. A change in the useful life of a long-lived asset could result in higher or lower depreciation and amortization expense. If the asset's actual life is different than its estimated life, the asset could be over- or under-valued.

Restructuring and related costs reserves are recorded in connection with the restructuring initiatives as they are announced. These reserves include estimates pertaining to employee severance costs, the settlement of contractual obligations and other matters. Although management does not anticipate significant changes, the actual costs may differ from these estimates, resulting in further charges or reversals of previously recorded charges.

FORWARD-LOOKING STATEMENTS

The statements in this Quarterly Report on Form 10-Q 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; and the Company's ability to increase sales in its core businesses. 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 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.

Item 3.

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 March 31, 2002, approximately 43% 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 annual 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.

PART II. OTHER INFORMATION

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

(a) The Annual Meeting of Shareholders of Dixon Ticonderoga Company was held on March 8, 2002

(b) The following members of the Board of Directors were elected to serve until the 2004 Annual Meeting or until their successors are elected and qualified:

	For	Against	Abstained
Richard A. Asta	2,718,709	42,207	0
Philip M. Shasteen	2,719,103	41,813	0
Harvey L. Massey	2,634,268	126,648	0

ITEM 6. EXHIBITS 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.

2. Exhibits

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

   (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

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(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 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. 8

(10) l. Second Modification of Amended and Restated Term Loan Agreement. 8

(10) m. Amendment No. 2 to Note and Warrant Purchase Agreement. 8

(21) Subsidiaries of the Company 9

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.

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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.

9 Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2001, file number 1-8689 filed in Washington, D.C.

(b) Reports on Form 8-K:

None.

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SIGNATURES

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

DIXON TICONDEROGA COMPANY

Dated: May 15, 2002

By: /s/ Gino N. Pala

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

Dated: May 15, 2002

By: /s/ Richard A. Asta

Richard A. Asta
Executive Vice President of Finance
Chief Financial Officer

Dated: May 15, 2002

By: /s/ John Adornetto

John Adornetto
Vice President / Corporate Controller and
Chief Accounting Officer