DIXON TICONDEROGA CO
Form 10-Q
May 14, 2001

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, 2001

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, 2001, was 3,168,047.

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, 2001 (Unaudited)	September 30, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 300,842	$ 448,452
Receivables, less allowance for doubtful accounts of $1,402,557 at		

March 31, 2001 and $1,418,908 at September 30, 2000	29,419,970	30,881,626
Inventories	38,852,127	36,215,931
Other current assets	5,635,390	4,171,064
Total current assets	74,208,329	71,717,073
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	10,065,660	10,145,872
Machinery and equipment	16,126,843	16,054,327
Furniture and fixtures	1,706,204	1,654,404
	27,898,707	27,854,603
Less accumulated depreciation	(17,957,621)	(17,572,320)
	9,941,086	10,282,283
OTHER ASSETS	5,037,108	4,718,379
	$89,186,523	$86,717,735

	March 31, 2001 (Unaudited)	September 30, 2000
CURRENT LIABILITIES:		
Notes payable	$ 6,130,623	$ 3,574,929
Current maturities of long-term debt	7,140,767	7,135,198
Accounts payable	8,774,132	8,068,133
Accrued liabilities	7,956,912	10,056,935
Total current liabilities	30,002,434	28,835,195
LONG-TERM DEBT	32,562,315	30,210,410
DEFERRED INCOME TAXES AND OTHER	797,827	177,248
MINORITY INTEREST	554,274	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	3,710,309	3,710,309
Capital in excess of par value	3,700,272	3,700,272

Retained earnings	25,157,019	26,147,547
Accumulated comprehensive income (loss)	(3,776,043)	(3,093,577)
	28,791,557	30,464,551
Less - treasury stock, at cost (542,262 shares)	(3,521,884)	(3,521,884)
	25,269,673	26,942,667
	$ 89,186,523	$ 86,717,735

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, 2001 AND 2000

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2001	2000	2001	2000
REVENUES	$20,880,005	$22,392,291	$40,677,001	$42,017,436
COST AND EXPENSES:				
Cost of goods sold	13,272,116	14,689,101	27,203,304	28,424,972
Selling and administrative expenses	6,774,480	7,091,565	13,571,748	14,338,943
Provision for restructuring and related costs	322,435	--	322,435	--
	20,369,031	21,780,666	41,097,487	42,763,915
GAIN ON SALE OF ASSETS	1,202,448	--	1,202,448	--
OPERATING INCOME (LOSS)	1,713,422	611,625	781,962	(746,479)
INTEREST EXPENSE	1,178,708	988,508	2,297,717	1,921,545
INCOME (LOSS) BEFORE INCOME TAXES (BENEFIT) AND MINORITY INTEREST	534,714	(376,883)	(1,515,755)	(2,668,024)
INCOME TAXES (BENEFIT)	200,612	(156,830)	(527,589)	(933,013)
	334,102	(220,053)	(988,166)	(1,735,011)

MINORITY INTEREST	14,373	26,779	2,362	11,515
NET INCOME (LOSS)	$ 319,729	$ (246,832)	$ (990,528)	$(1,746,526)
EARNINGS (LOSS) PER COMMON SHARE:				
BASIC	$ 0.10	$ (.08)	$ (.31)	$ (.54)
DILUTED	$ 0.10	$ (.08)	$ (.31)	$ (.54)
SHARES OUTSTANDING:				
BASIC	3,168,047	3,157,290	3,168,047	3,238,704
DILUTED	3,168,492	3,157,290	3,168,047	3,238,704

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, 2001 AND 2000

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	2001	2000	2001	2000
NET INCOME (LOSS)	$ 319,729	$ (246,832)	$ (990,528)	$(1,746,526)
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	(119,233)	--	(276,948)	--
Foreign currency translation adjustments	229,030	418,527	(351,313)	113,853
COMPREHENSIVE INCOME (LOSS)	$ 429,526	$ 171,695	$ (1,672,994)	$(1,632,673)

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED MARCH 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (990,528)	$ (1,746,526)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,267,837	1,222,871
Deferred taxes	--	89,937
Provision for doubtful accounts receivable	43,801	77,057
Gain on sale of assets	(1,202,448)	--
Loss attributable to foreign currency exchange	69,253	4,671
Income attributable to minority interest	2,362	11,515
Changes in assets and liabilities:		
Receivables	1,149,469	3,133,725
Inventories	(2,710,990)	339,144
Other current assets	(527,113)	(79,793)
Accounts payable and accrued liabilities	(376,634)	(4,206,991)
Other assets	(327,638)	(97,017)
Net cash provided by (used in) operations	(3,602,629)	(1,251,407)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment, net	(1,508,385)	(372,918)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable	2,521,412	1,841,265

Net proceeds from long-term debt	2,426,615	1,647,164
Purchase of treasury stock	--	(2,016,510)
Exercise of stock options	--	168,624
Other non-current liabilities	47,631	(25,459)
Net cash provided by (used in) financing activities	4,995,658	1,615,084
Effect of exchange rate changes on cash	(32,254)	(128,575)
Net decrease in cash and cash equivalents	(147,610)	(137,816)
Cash and cash equivalents, beginning of period	448,452	935,413
Cash and cash equivalents, end of period	$ 300,842	$ 797,597
Supplemental Disclosures:		
Cash paid during the period:		
Interest	$ 2,175,812	$ 1,843,960
Income taxes	1,452,010	1,374,554

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, 2001, and the results of their operations and cash flows for the six months ended March 31, 2001 and 2000, have been included. The results of operations for such interim periods are not necessarily indicative of the results for the entire year.

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, 2001 (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, 2001	September 30, 2000
Raw materials	$13,861	$12,839
Work in process	3,639	3,656
Finished goods	21,352	19,721
	$38,852	$36,216

3. Effect of new accounting pronouncement:

On October 1, 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No.133, "Accounting for Derivative Instruments and Hedging Activities". 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 swaps designated as cash flow hedges 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 an accounting change. During the period ended March 31, 2001, the Company also recognized an adjustment to the fair value of these cash flow hedges of $441,001 in other liabilities. Other comprehensive loss was increased $276,948 (net of tax benefit of $164,053) 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.

SFAS No. 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 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 interest rate swap agreements that effectively convert a portion 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.

4. Contingencies:

The Company, in the normal course of business, is a party in certain litigation. In April 1996, a decision was rendered by the Superior Court of New Jersey in Hudson County finding the Company responsible for $1.94 million plus prejudgment interest. All Company appeals were denied and in 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 a legal malpractice action against its former attorney. In 2000, the Company reached settlements with its insurers and all amounts recovered were reflected in fiscal 2000 financial statements ($167,000 through March 31, 2000). In 1999, the malpractice suit was dismissed and the Company has appealed the decision.

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.

5. RESTRUCTURING AND RELATED COSTS:

During the fourth quarter of 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 includes further consolidation of certain U.S. manufacturing processes, the consolidation of its Mexico operations into a new leased facility and personnel reductions in manufacturing, sales, marketing and corporate activities. An additional 170 employees (principally plant workers) are affected by the second phase of the program. The carrying amount of property held for disposal under Phase 2 of the program is $1.1 million. Management expects to dispose of this additional property by June 2001 without material gain or loss.

The Phase 2 restructuring and impairment related charges and subsequent utilization through March 31, 2001 are summarized below (in thousands):

	2000 Restructuring and Related Charges	Utilized through March 31, 2001	Balance at March 31, 2001
Employee severance and related costs costs	$ 967	$ (422)	$ 545
Anticipated losses from the sale or abandonment of property and equipment	468	(299)	169
	$ 1,435	$ (721)	$ 714

In addition, during the quarter, the Company incurred $322,000 in costs

associated with the disposal of property remaining from its prior phase of restructuring.

6. STOCK REPURCHASE PROGRAM:

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. In the period ended March 31, 2000, the Company repurchased 260,000 shares at a cost of approximately $2 million.

7. LINE OF BUSINESS REPORTING:

The Company reports information about its operating segments under the "management approach". The management approach is based on the manner in which management reports segment information within the Company for making operating decisions and assessments.

The Company has two principal business segments - its Consumer Group and Industrial Group. The following information sets forth certain data pertaining to each line of business as of March 31, 2001 and 2000, and for the quarters then ended (in thousands):

	Consumer Group	Industrial Group	Total
Net revenues:			
Three months ended:			
March 31, 2001	$ 18,727	$ 2,153	$20,880
March 31, 2000	19,395	2,997	22,392
Six months ended:			
March 31, 2001	$ 35,969	$ 4,708	$40,677
March 31, 2000	35,746	6,271	42,017

	Consumer Group	Industrial Group	Total
Income (loss) before interest, taxes and minority interest:			
Three months ended:			
March 31, 2001	$ 1,525	$ (238)	$ 1,287
March 31, 2000	1,246	10	1,256
Six months ended:			
March 31, 2001	$ 1,450	$ (473)	$ 977
March 31, 2000	671	(148)	523

A reconciliation of income (loss) before interest, taxes and minority interest to net income (loss) follows (in thousands):

	Three Months Ended March 31, 2001			
	Consumer Group	Industrial Group	Corporate	Total Company
Income (loss) before interest, taxes and minority interest	$ 1,525	$ (238)	$ 426	$ 1,713
Interest expense	(875)	(109)	(195)	(1,179)
Income tax benefit(expense)	(232)	96	(64)	(200)

Minority interest	(14)	--	--	(14)
Net income (loss)	$ 404	$ (251)	$ 167	$ 320

	Six Months Ended March 31, 2001			
	Consumer Group	Industrial Group	Corporate	Total Company
Income (loss) before interest, taxes and minority interest	$ 1,450	$ (473)	$ (195)	$ 782
Interest expense	(1,689)	(218)	(391)	(2,298)
Income tax benefit	61	252	214	527
Minority interest	(2)	--	--	(2)
Net loss	$ (180)	$ (439)	$ (372)	$ (991)

	Three Months Ended March 31, 2000			
	Consumer Group	Industrial Group	Corporate	Total Company
Income (loss) before interest, taxes and minority interest	$ 1,246	$ 10	$ (644)	$ 612
Interest expense	(700)	(98)	(191)	(989)
Income tax benefit (expense)	(166)	31	292	157
Minority interest	(27)	--	--	(27)
Net income (loss)	$ 353	$ (57)	$ (543)	$ (247)

	Six Months Ended March 31, 2000			
	Consumer Group	Industrial Group	Corporate	Total Company
Income (loss) before interest, taxes and minority interest	$ 671	$ (148)	$(1,269)	$ (746)
Interest expense	(1,314)	(207)	(401)	(1,922)
Income tax benefit	286	114	533	933
Minority interest	(12)	--	--	(12)
Net loss	$ (369)	$ (241)	$(1,137)	$(1,747)

Corporate income (loss) before interest, taxes and minority interest includes a net gain on sale of assets of $1,202 and restructuring costs of $322 in the March 31, 2001 periods. Certain corporate expenses have been allocated based upon respective segment sales. Interest expense (where not specifically identified) has been allocated based upon identifiable assets by segment. Income taxes are determined based upon the respective effective tax rates.

8. GAIN ON SALE OF ASSETS:

In January 2001, the Company sold certain idle real estate in Burnet County, Texas. Under the terms of the sales contract, the buyer also assumed certain related obligations previously retained by the Company under its 1999 sale of its graphite and lubricants business. The transaction resulted in an aggregate net pre-tax gain of approximately $1.2 million.

9. LONG TERM DEBT

At March 31, 2001, the Company did not meet one of the financial ratio requirements of the loan and security agreement. In May 2001, the agreement was amended to revise this financial ratio requirement through September 30, 2001 to be less restrictive and to provide for an increase in the facility fees by $5,000 per month. The Company is presently in compliance with all provisions of the loan agreement, as amended.

Item 2.

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

RESULTS OF OPERATIONS

REVENUES for the quarter ended March 31, 2001, decreased $1,512,000 from the same quarter last year. The changes by segment are as follows:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price/Mix
U.S. Consumer	$ 584	6	7	(1)
Foreign Consumer	(1,252)	(14)	(16)	2
Industrial	(844)	(28)	(29)	1

U.S. Consumer revenue increased principally in the educational market as certain wholesalers deferred shipments from December 2000 into early 2001. Foreign Consumer revenues decreased primarily in the Mexico retail market. The 2000 quarter benefited from higher than normal orders from Mexico retailers and wholesalers that were held over from prior periods. Industrial revenue decreased due to weakness in the manufacturing industries served by the Refractories division.

Revenues for the six months ended March 31, 2001, decreased $1,340,000 from the same quarter last year. The changes by segment are as follows:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price/Mix
U.S. Consumer	$ (58)	--	--	--
Foreign Consumer	281	2	1	1
Industrial	(1,563)	(25)	(26)	1

U.S. Consumer revenue was flat with increases in the educational market being offset by decreases in other markets. Foreign Consumer increased principally in Mexico with large retailers and wholesalers. Industrial revenue decreased in the Refractories division as discussed above.

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 also managed through local currency financing and by export sales to the U.S. denominated in U.S. dollars.

OPERATING INCOME increased $1,101,000 over the same quarter last year, including a net gain on sale of assets of $1,202,000 and restructuring costs of $322,000. U.S. Consumer increased $687,000 as a result of lower selling and distribution costs, as well as ongoing consolidation and cost reduction efforts that resulted in improved manufacturing efficiencies. This improvement contributed to lower overall cost of goods sold during the March 2001 quarter (63.6% of sales as compared to 65.6% in the prior year quarter). Foreign Consumer decreased $408,000, primarily in Mexico, due to lower revenues. Industrial decreased $248,000 on lower revenues and higher energy costs.

Corporate administrative costs decreased $190,000 as lower salaries and fringes from cost reduction initiatives more than offset non-recurring legal expense recoveries of $167,000 in the prior year period.

Operating income for the six months ended March 31, 2001 increased $1,528,000 over the prior period reflecting the aforementioned gain on sale of assets and restructuring costs. U.S. Consumer increased $932,000 primarily due to lower costs from consolidation and cost reduction efforts, as well as lower sales and distribution expenses. Foreign Consumer decreased $154,000, primarily due to start-up costs associated with the new Mexico facility. Industrial decreased $325,000 on lower revenues and higher energy costs. Corporate administrative costs decreased $194,000 as lower salaries and fringes more than offset the aforementioned legal recoveries in the prior year period.

INTEREST EXPENSE increased $190,000 and $376,000 in the quarter and six months ended March 31, 2001, respectively, primarily due to higher borrowings in Mexico to finance the consolidation of manufacturing facilities.

INCOME TAX increased $357,000 and $405,000 from the same quarter and six months last year, respectively, due to the improvement in before tax income (loss).

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows used in operating activities in the first six months of fiscal 2001 were approximately $3.6 million as compared with only $1.25 million in the prior year period. Accounts receivable increased over the prior year due to increased sales in U.S. market channels and in Mexico where traditionally longer customer payment terms are provided. Additionally, inventories increased due to the manufacturing consolidation efforts in Mexico and as the Company prepares for its back-to-school shipping season. These

factors were partially offset by improved accounts payable management in the current year period.

The Company's investing activities included approximately $1.5 million in purchases of property and equipment in the current period compared to $0.4 million in the prior year. This is a higher level of purchases as compared with recent years, due to the Company's expansion of its Mexico manufacturing and consolidation into its new leased 300,000 square-foot facility. Generally, all major capital projects are discretionary in nature and thus no material purchase commitments exist. Capital expenditures will continue to be 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 underlying loan and security agreements, as amended, include a revolving line of credit facility in the amount of $35 million which bears interest at the prime rate plus 0.75% or the prevailing LIBOR rate plus 2.25%. Borrowings under the revolving credit facility are based upon eligible accounts receivable and inventories of the Company's U.S. and Canada operations, as defined. The Company has previously executed an interest rate swap agreement that effectively fixes the rate of interest on $8 million of the revolver debt 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.

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. At March 31, 2001, the Company did not meet one of the financial ratio requirements. In May 2001, the agreement was amended to revise one financial ratio requirement through September 30, 2001 to be less restrictive and to provide for the increase in the facility fees by $5,000 per month. The Company is presently in compliance with all such provisions, as amended. As of March 31, 2001, the Company had approximately $19 million of unused lines of credit available under the revolving credit facility. In

addition, the Company's Mexico subsidiary has $17 million in bank lines of credit ($11 million unused as of March 31, 2001) 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 also has outstanding $16.5 million of Senior Subordinated Notes valued at their face amount, due 2003. The notes bear interest at 13.5% through June 2002 and 12.25% through maturity in 2003. The Company has issued to noteholders warrants to purchase 300,000 shares of Company stock at $4.28 per share. The note agreement, as amended, contains provisions that limit the payment of dividends and require the maintenance of certain financial covenants and ratios. The Company is presently in compliance with all such provisions, as amended.

The subordinated and senior debts have been classified, in accordance with their terms and management's expectations as to Company performance, as long-term in the accompanying consolidated financial statements. However, the Company cannot assure that it will be in compliance with all covenant provisions of its debt agreements in all future quarters and cannot assure that it will receive waivers or amendments of any such provisions should that occur.

The Company entered into the aforementioned interest rate swap agreement to balance and manage overall interest rate exposure. The swaps are not presently expected to have a material effect on total interest expense over the term of the underlying agreements. (Also see Note 3 to Consolidated Financial Statements.)

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. The Company repurchased 260,000 shares at a cost of $2 million in the period ended March 31, 2000. These repurchases were financed through the aforementioned and previous U.S. revolving line of credit facilities.

The existing sources of financing and cash expected to be generated from future operations and / or asset sales should, in management's opinion, be sufficient to fulfill all current and anticipated requirements of the Company's ongoing business and to meet all of it obligations. However, if future covenant violations occur with respect to its current financing arrangements, the Company may need to pursue other sources of financing to satisfy certain obligations before their due date.

In September 2000, First Union Securities was engaged to advise and assist the Company in evaluating certain strategic alternatives, including capital restructuring, mergers and acquisitions and/or other measures designed to maximize shareholder value. These activities are ongoing.

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 Company's ability to meet its loan covenants in the future and its current and anticipated obligations; the effects of interest rate swap agreements; management's expectation for savings from the restructuring and cost reduction program; the Company's ability to increase sales in its core businesses; its expectations as to the effect of new accounting pronouncements; and its expectations with regards to legal proceedings and environmental matters. 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) manufacturing inefficiencies as a result of inventory management efforts, difficulties encountered with the consolidation and cost reduction program, increased competition, U.S. and foreign economic factors, environmental risks, foreign currency exchange risk and interest rate fluctuation risk, among others.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed elsewhere in this Form 10-Q, 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 33% of the Company's fiscal 2000 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 would impact reported operating profit by $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, 2001, approximately 54% of total short and long-term debt is fixed, at rates between 7.2% and 13.5%. The balance of the Company debt is variable, principally based upon the prevailing U.S. bank prime rate or LIBOR rate. Certain interest rate swaps, which expire in 2001 and 2005, fix the rate of interest on $8 million of this debt at approximately 9%. A change in the average prevailing interest rates of the remaining debt of 1% would not have a material effect upon the Company's results of operations or 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 variable interest rate factor.

PART II. OTHER INFORMATION

Item 4. Sumission of Matters to a Vote of Security Holder

a. The Annual Meeting of Shareholders of Dixon Ticonderoga Company was held on March 9, 2001.

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
Gino N. Pala	2,632,574	93,335	0
Richard F. Joyce	2,613,618	112,291	0
John Ritenour	2,632,574	93,335	0

Item 6. Exhibits and Reports on Form 8-K

(a) 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

(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

1Incorporated 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.

2Incorporated 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.

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

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

5Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1998, file number 0-2655, filed in Washington, D.C.

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

7Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1999, file number 0-2655 filed in Washington, D.C.

8Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2000, file number 1-8689, filed in Washington, D.C.

(b) Reports on Form 8-K:

None.

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 14, 2001

By: /s/ Gino N. Pala

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

Dated: May 14, 2001

By: /s/ Richard A. Asta

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

Dated: May 14, 2001

By: /s/ John Adornetto

John Adornetto
Vice President/Corporate Controller and
Chief Accounting Officer