DIXON TICONDEROGA CO
Form 10-Q
February 13, 2004

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 December 31, 2003

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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The total number of shares of the registrant's Common Stock, $1 par value,outstanding on December 31, 2003, was 3,202,149.

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1.

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2003 (Unaudited)	September 30, 2003
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	$ 540,892	$ 1,032,974
Receivables, less allowance for doubtful accounts of $1,213,727 at December 31, 2003 and $1,429,222 at September 30, 2003.	20,581,708	28,326,743
Inventories	30,159,593	26,439,361
Other current assets	2,044,798	2,350,813
Total current assets	53,326,991	58,149,891
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	6,731,529	6,737,943
Machinery and equipment	8,297,416	8,288,647
Furniture and fixtures	1,280,075	1,307,980
	16,309,020	16,334,570
Less accumulated depreciation	(8,447,794)	(8,225,067)
	7,861,226	8,109,503
OTHER ASSETS	5,513,271	5,774,649
	$ 66,701,488	$ 72,034,043

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable	$ 6,089,390	$ 6,382,065
Current maturities of long-term debt	12,639,691	13,227,965
Accounts payable	7,778,369	9,102,711
Accrued liabilities	6,408,033	8,496,182
Total current liabilities	32,915,483	37,208,923
LONG-TERM DEBT	12,127,180	12,510,860
DEFERRED INCOME TAXES AND OTHER	1,080,340	894,601
MINORITY INTEREST	560,783	578,530
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	3,547,567	3,547,567
Retained earnings	22,800,151	23,679,772
Accumulated other comprehensive loss	(6,182,209)	(6,238,403)
	23,875,818	24,699,245
Less shareholder loans	(557,721)	(557,721)
Less treasury stock, at cost (508,160 shares)	(3,300,395)	(3,300,395)
	20,017,702	20,841,129

	$ 66,701,488	$72,034,043

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	2003	2002
REVENUES	$ 15,478,620	$ 15,869,790
COST AND EXPENSES:		
Cost of goods sold	10,055,762	10,457,256
Selling and administrative expenses	5,718,290	5,728,236
Provision for restructuring and related cost	-	74,550
Debt refinancing costs	-	624,662
	15,774,052	16,884,704
OPERATING LOSS	(295,432)	(1,014,914)
OTHER INCOME	-	440,820
INTEREST EXPENSE	(774,088)	(804,227)
LOSS BEFORE INCOME TAX BENEFIT AND MINORITY INTEREST	(1,069,520)	(1,378,321)
INCOME TAX BENEFIT	180,739	436,553
	(888,781)	(941,768)
MINORITY INTEREST	9,160	9,238
NET LOSS	$ (879,621)	$ (932,530)
LOSS PER COMMON SHARE (BASIC):	$ (.27)	$ (.29)
LOSS PER COMMON SHARE (DILUTED):	$ (.27)	$ (.29)
SHARES OUTSTANDING:		
Basic	3,202,149	3,192,832
Diluted	3,202,149	3,192,832

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

DIXON TICONDEROGA COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31, 2003	2002
NET LOSS	$ (879,621)	$ (932,530)
OTHER COMPREHENSIVE INCOME (LOSS):		
Current period adjustment to recognize fair value of cash flow hedges	79,875	14,257
Foreign currency translation adjustments	(23,681)	(468,504)
TOTAL COMPREHENSIVE LOSS	$ (823,427)	$(1,386,777)

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)

	THREE MONTHS ENDED DECEMBER 31, 2003	2002
Cash flows from operating activities:		
Net loss	$ (879,621)	$ (932,530)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	553,987	609,057
Deferred taxes	308,102	433,620
Provision for doubtful accounts receivable	68,273	117,584

Loss (gain) attributable to foreign currency exchange	44,557	(116,114)
Loss attributable to minority interest	(9,160)	(9,238)
Changes in assets [(increase) decrease] and liabilities [increase (decrease)]:		
Receivables, net	7,648,445	9,580,033
Inventories	(3,866,530)	(2,834,198)
Other current assets	307,663	878,063
Accounts payable and accrued liabilities	(2,959,554)	(6,417,918)
Other assets	8,645	109,253
Net cash provided by operating activities	1,224,807	1,417,612
Cash flows from investing activities:		
Purchases of plant and equipment, net	(193,856)	(386,483)
Cash flows from financing activities:		
Principal reductions of notes payable	(150,379)	(1,597,469)
Principal reductions of long-term debt	(971,953)	(15,173,814)
Proceeds from long-term debt	-	14,449,123
Debt refinancing costs	-	(549,193)
Other non-current liabilities	-	(99,745)
Net cash used in financing activities	(1,122,332)	(2,971,098)
Effect of exchange rate changes on cash	64,788	79,614
Net decrease in cash and cash equivalents	(26,593)	(1,860,355)
Cash and cash equivalents, beginning of period	567,485	2,589,493
Cash and cash equivalents, end of period	$ 540,892	$ 729,138
Supplemental Disclosures:		
Cash paid during the period:		
Interest	$812,965	$2,483,514
Income taxes	270,466	1,290,899

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

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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 December 31, 2003, and the results of their operations and cash flows for the three months ended December 31, 2003 and 2002, have been included. The results of operations for such interim periods are not necessarily indicative of the results for the entire year.

Certain prior year amounts have been reclassified to conform with the current year classifications.

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 December 31, 2003 (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):

	December 31, 2003	September 30, 2003
Raw materials	$12,105	$10,486
Work in process	1,774	2,198
Finished goods	16,281	13,755
	$30,160	$26,439

3. RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. As the Company does not have any of these financial instruments, the adoption of Statement No. 150 is not expected to have any impact on the Company's consolidated financial statements.

In December 2003, the FASB issued Statement No. 132 (revised 2003), "Employers' Disclosures About Pensions and Other Post-Retirement Benefits, an amendment of FASB Statements No. 87, 88 and 106" (collectively

"Statement No. 132(R)"). Statement No. 132(R) incorporates all of the disclosure requirements of Statement No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits" and increases annual disclosure requirements to include more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. The Company will be required to adopt the new annual disclosure requirements effective September 30, 2004.

Statement No. 132(R) also amends Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" to require interim-period disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other post-retirement benefit plans. The Company is required to adopt the interim-period disclosure requirements of Statement No. 132(R) effective March 31, 2004. Because Statement No. 132(R) pertains only to disclosure provisions, the Company's adoption of Statement No. 132(R) will not have an impact on the Company's financial condition, results of operations or cash flows.

4. RESTRUCTURING AND RELATED COSTS:

In fiscal 2003, the Company completed its comprehensive Restructuring and Cost Reduction Program, including the final phase of consolidation of its manufacturing operations. The Company had reserved $90,000 of employee severance and related costs as of September 30, 2003.

The restructuring costs reserve and utilization since September 30, 2003 are summarized below (in thousands):

Reserve balances at September 30, 2003	$ 90
Payments in quarter ended December 31, 2003	(32)
Reserve balances at December 31, 2003	$ 58

In the prior year quarter ended December 31, 2002, the Company incurred approximately $75,000 for costs associated with the shutdown of a manufacturing facility, which were not accruable in advance.

5. DEBT FINANCING COSTS:

In connection with the completion of its debt restructuring in October 2002, the Company expensed approximately $625,000 of deferred financing costs in the quarter ended December 31, 2002 associated with its previous senior debt arrangements with a consortium of lenders and its previous subordinated debt agreements.

6. OTHER INCOME:

Other income represents import duty rebates received in the quarter ended December 31, 2002.

7. LINE OF BUSINESS REPORTING:

The Company's 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-month periods ended December 31, 2003 and 2002 (in thousands).

	Revenues	Operating Profit (Loss)
2003:		
United States	$ 9,240	$ 309
Canada	1,594	17
Mexico	4,363	(549)
United Kingdom	281	8
China	1	(80)
	$15,479	$ (295)
2002:		
United States	$ 9,479	$(1,059)
Canada	1,740	162
Mexico	4,344	(88)
United Kingdom	286	6
China	21	(36)
	$15,870	$(1,015)

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

8. STOCK OPTIONS - PRO FORMA DISCLOSURES:

The Company has adopted the disclosure-only provisions of FASB Statements No. 123 and No. 148, and, accordingly, there is no compensation expense recognized for its stock option plans. Pro forma net loss and loss per share would have been as follows if the fair value estimates were used to record compensation expense:

	Three Months Ended December 31, 2003	Three Months Ended December 31, 2002
Net loss, as reported	$ (879,621)	$ (932,530)
Deduct: total stock-based employee compensation expense determined under the fair value based method, net of related tax effects	(21,290)	(18,400)
Pro forma net loss	$ (900,911)	$ (950,930)
Loss per share:		
Basic	$ (.27)	$ (.30)
Diluted	$ (.27)	$ (.30)

9. SUBSEQUENT EVENTS:

On January 9, 2004, the Company and Jarden Corporation (NYSE: JAH) signed an exclusivity agreement to allow Jarden to evaluate a potential transaction among the companies whereby Jarden or its affiliate may acquire all of the outstanding shares of the Company's common stock at a price of $5 per share, subject to, among other things, due diligence and entering into definitive acquisition agreements. The exclusivity agreement was amended on February 10, 2004 to extend the expiration date from February 10, 2004 until February 29, 2004 and to contemplate a possible acquisition by Jarden of common stock or assets. No assurance can be made that a transaction with Jarden can or will be consummated.

In addition, on January 9, 2004, the Company's Chairmen entered into an option agreement, which grants Jarden, under certain circumstances, an option to buy 440,000 shares of the Chairmen's common stock at a purchase price of $5 per share, and a support agreement which provides the Chairman certain severance benefits if a transaction with Jarden is consummated. Moreover, certain other executives of the Company also executed support agreements with Jarden which obligate the executives to remain in the employ of the company for periods ranging from 12 to 36 months after the date of consummation of a transaction with Jarden and which provide the executives with certain severance benefits if they remain in the employ of the Company upon the terms and conditions provided in their support agreements.

Item 2.

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

RESULTS OF OPERATIONS

REVENUES for the quarter ended December 31, 2003, decreased $391,000 from the prior year. The changes are detailed below:

	Increase (Decrease) (in thousands)	% Increase (Decrease)		
		Total	Volume	Price/Mix
U.S. Consumer	$ (239)	(3)	(2)	(1)
Foreign Consumer	(152)	(2)	5	(7)

U.S. Consumer revenue decreased 2.5% overall primarily in the educational market as major wholesalers continued a shift in buying patterns away from the Company's first fiscal quarter to its later quarters. Foreign Consumer revenue decreased principally due to a combined decline in the value of foreign currencies when compared to the U.S. dollar. The decrease in the value of the Mexican peso affected revenues by $425,000, while the Canadian dollar and British pound strengthened to increase revenue by $270,000. In addition, revenues in Mexico were adversely affected by a less favorable mix of products sold, despite higher unit volume.

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 LOSS improved $720,000 principally due to the prior year's quarterly results reflecting $75,000 in restructuring and related costs as well as $625,000 in costs expensed in connection with the Company's debt refinancing. Excluding these items, consolidated operating loss improved by $20,000. U.S. operating results (excluding the aforementioned items) increased $668,000. This improvement is primarily due to manufacturing cost reductions brought about by the Company's consolidation efforts and which account for the continuing improvement in consolidated cost of goods sold (65% of revenues as compared with 66% of revenues in the prior year quarter). In addition, U.S. selling and administrative expenses were reduced due to the Company's cost reduction program and improved distribution costs. Foreign operating results decreased $648,000. The operating loss in Mexico increased $461,000 due to lower gross profit from less favorable mix of products sold during the quarter; manufacturing inefficiencies from certain new plant processes; and high foreign currency exchange losses. Somewhat higher selling and administrative costs and currency exchange losses reduced operating profit in Canada by $145,000.

OTHER INCOME represents import duty rebates received in the prior year quarter.

INTEREST EXPENSE decreased $30,000 on lower overall consolidated borrowings.

INCOME TAX benefit decreased to 17% from 32% of loss from operations before income taxes. Income tax benefit in the December 31, 2003 quarter represents foreign tax benefit only. Despite the continuing improvement in U.S. operating results, the Company incurred a U.S. tax loss during the period and, accordingly, recorded further valuation allowances to offset its deferred tax assets.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company generated approximately $1.2 million in cash flows from operating activities in the first quarter of fiscal 2004, as compared with $1.4 million in the prior year period. Increased Mexico accounts receivable and higher Mexico inventories (reflecting increased production and lead-time for shipments to the U.S., as well as the deferral of purchases by certain educational wholesalers) reduced cash flows in the current year period. These factors were largely offset by lower cash flows needed to extinguish trade payables, interest and restructuring liabilities during the current quarter.

The Company's fiscal 2003 investing activities included approximately $200,000 in net purchases of property and equipment, compared to $400,000 in the prior year period. The reduction reflects the disposal of the Company's refractory division as well as lower foreign purchases during the period. Generally, all major capital projects are discretionary in nature. A purchase

commitment exists with respect to one project for certain computer software enhancements approximating $300,000. Capital expenditures are usually funded from operations and existing financing or new leasing arrangements.

In October 2002, the Company completed a financing agreement with a new senior lender and its existing subordinated lenders to restructure its present U.S. debt through fiscal 2005. Wells Fargo Foothill provided a three-year $28 million senior debt facility which replaced the Company's previous senior debt with a consortium of lenders. The new senior debt arrangement provided approximately $5 million in increased working capital liquidity for operations and to make certain subordinated debt payments.

The senior debt facility includes a $25 million revolving loan, which bears interest at either the prime rate, plus 0.75%, or the prevailing LIBOR rate, plus 3.5%. Borrowings under the revolving loan are based upon 85% of eligible U.S. and Canada accounts receivable, as defined; 50% of certain accounts receivable having extended payment terms; and varying advance rates for U.S. and Canada raw materials and finished goods inventories. The facility also includes term loans aggregating $3 million, which bear interest at either the prime rate, plus 1.5%, or the prevailing LIBOR rate, plus 4.25%. These loans are payable in monthly installments of $50,000, plus interest, with the balance due in a balloon payment in October 2005. The loan agreement also contains restrictions regarding the payment of dividends as well as subordinated debt payments (discussed below), a requirement to maintain a minimum level of earnings before interest, taxes, depreciation and amortization and net worth and a limitation on the amount of annual capital expenditures. To better balance and manage overall interest rate exposure, the Company previously executed an interest rate swap agreement that effectively fixed the rate of interest on $8 million of its variable rate debt at 8.98% through August 2005.

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 guarantee by and pledge of capital stock of the Company's subsidiaries. As of December 31, 2003, the Company had approximately $15 million of unused lines of credit available.

In October 2002, the Company also reached agreement with the holders of $16.5 million of Senior Subordinated Notes to restructure the notes, extending the maturity date to 2005. The Company had only been required to pay monthly installments of $50,000 through December 2003 and $150,000 per month, commencing January 2004 through the maturity date. However, the Company paid a total of $3.5 million in principal through December 31, 2003 and expects to make additional excess payments to its subordinated lenders through the maturity date in October 2005. Payments to the subordinated lenders are subject to certain restrictions imposed under the senior debt facility. Interest on the balance of subordinated debt is paid quarterly. If the Company is unable to make scheduled and excess payments totaling at least an additional $5.5 million by 2005 (due to restrictions imposed under the new senior debt facility or otherwise) warrants issued to the noteholders equivalent to up to approximately 1.7% of the diluted common shares outstanding for each $1 million in remaining unpaid additional principal will become exercisable at an exercise price of $.01 per share. The first date at which a portion of the warrants issued to the subordinated noteholders will become exercisable is March 31, 2004, when warrants to purchase

up to 2.5% of the diluted common shares outstanding will become exercisable if aggregate payments to the subordinated noteholders are less than $4.75 million through that date. The Company expects to make sufficient additional payments to avoid the exerciseability of part or all of the March 2004 warrants. The agreement also grants the subordinated lenders a lien on Company assets (junior in all aspects to the new senior debt collateral agreements described above). The interest rate on the subordinated notes is 12.5% through maturity in October

2005. The new subordinated note agreement includes certain other provisions, including restrictions as to the payment of dividends and the elimination or adjustment of financial covenants contained in the original agreement to conform to those contained in the new senior debt agreements.

In addition, the Company's Mexico subsidiary had approximately $15 million in bank lines of credit ($9 million unused) as of December 31, 2003, expiring at various dates from March 2004 through December 2004, which bear interest at a rate based upon either a floating U.S. bank rate or the rate of certain Mexico government securities. The Company relies heavily upon the availability of the lines of credit in the U.S. and Mexico for liquidity in its operations.

The Company believes that amounts available from its lines of credit under its senior debt and under lines of credit available to its Mexican subsidiary are sufficient to fulfill all current and anticipated operating requirements of its business through 2005. The Company's Mexico subsidiary cannot assure that each of its lines of credit will continue to be available after their respective expiration dates, or that replacement lines of credit will be secured. However, the Company believes there should be sufficient amounts available under its present or future facilities or lines of credit to cover any potential shortfalls due to any expiring lines of credit.

The Company has been assisted by investment bankers 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 maximize shareholder value.

On January 9, 2004, the Company and Jarden Corporation (NYSE: JAH) signed an exclusivity agreement to allow Jarden to evaluate a potential transaction among the companies whereby Jarden or its affiliate may acquire all of the outstanding shares of the Company's common stock at a price of $5 per share, subject to, among other things, due diligence and entering into definitive acquisition agreements. The exclusivity agreement was amended on February 10, 2004 to extend the expiration date from February 10, 2004 until February 29, 2004 and to contemplate a possible acquisition by Jarden of common stock or assets. No assurance can be made that a transaction with Jarden can or will be consummated.

In addition, on January 9, 2004, the Company's Chairmen entered into an option agreement, which grants Jarden, under certain circumstances, an option to buy 440,000 shares of the Chairmen's common stock at a purchase price of $5 per share, and a support agreement which provides the Chairman certain severance benefits if a transaction with Jarden is consummated. Moreover, certain other executives of the Company also executed support agreements with Jarden which obligates the executives to remain in the employ of the company for periods ranging from 12 to 36 months from the date of consummation of a transaction with Jarden and which provide the executives with certain severance benefits if they remain in the employ of the company upon the terms and conditions provided in their support agreements.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. As the Company does not have any of these financial instruments, the adoption of Statement No. 150 is not

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Statement No. 132(R) also amends Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" to require interim-period disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other post-retirement benefit plans. The Company is required to adopt the interim-period disclosure requirements of Statement No. 132(R) effective March 31, 2004. Because Statement No. 132(R) pertains only to disclosure provisions, the Company's adoption of Statement No. 132(R) will not have an impact on the Company's financial condition, results of operations or cash flows.

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, including payments due under its subordinated debt; 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 regarding the Company's ability to utilize certain tax benefits in the future; the probability of completing a transaction with Jarden Corporation; and the avoidance of the exercisability of part or all of the March 2004 warrants issued to the Company's subordinated noteholders. 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 shareholders' ownership will be diluted by the issuance of common stock to the Company's subordinated lenders; the Company's lenders will not continue to fund the Company in the future; 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; difficulties encountered with the consolidation and cost-reduction program; increased competition; decrease in revenues; U.S. and foreign economic factors; foreign currency exchange risk; interest rate fluctuation risk; and the risk that negotiations with Jarden Corporation will be terminated before the execution of definitive agreements, 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 39% of the Company's fiscal 2003 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 December 31, 2003, approximately 50% of total short and long-term debt is fixed, at rates between 8% and 12.5%. 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 $100,000 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.

Item 4.

CONTROLS AND PROCEDURES

Within the 90-day period prior to the date of this report, the Company's Co-Chief Executive Officers, Chief Financial Officer and Chief Accounting Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures and concluded that such disclosure controls and procedures are effective. There have been no significant changes in internal controls or in other factors, which could significantly affect internal controls subsequent to the date that the officers carried out their evaluations.

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PART II. OTHER INFORMATION

Item 6. Exhibit and Reports on Form 8-K.

(a) Documents filed as part of this report:

1. Financial statements

   See index under Item 1. Financial Information.

2. Exhibits

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

(2) c. Asset Purchase Agreement dated December 23, 2002, between Dixon Ticonderoga Company, as Seller and New Castle Refractories Company,
Inc., Inc., as Buyer with addenda.7

(3) (i) Restated Certificate of Incorporation2

(3) (ii) Amended and Restated Bylaws1

(4) a. Specimen Certificate of Company Common Stock2

(4) b. Amended and Restated Stock Option Plan3

(10) b. 12.00% Senior Subordinated Notes, Due 2003, Note and Warrant Purchase Agreement1

(10) c. 12.00% Senior Subordinated Notes, Due 2003, Common Stock Purchase Warrant Agreement1

(10) j. Amendment No. 1 to 12.00% Senior Subordinated Notes, Due 2003, Note and Warrant Purchase Agreement.4

(10) m. Amendment No. 2 to Note and Warrant Purchase Agreement. 5

(10) n. Loan and Security Agreement by and among Dixon Ticonderoga Company and its Subsidiaries and Foothill Capital Corporation. 6

(10) o. Dixon Ticonderoga Company Amended and Restated Note and Warrant Purchase Agreement, 12.5% Senior Subordinated Notes, due October 3, 2005.6

(21) Subsidiaries of the Company. 7

(31.1) Chairman of the Board and Co-Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Vice Chairman of the Board and Co-Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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(31.3) Executive Vice President of Finance and Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32.1) Chairman of the Board and Co-Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act

of 2002.

(32.2) Vice Chairman of the Board and Co-Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.3) Executive Vice President of Finance and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(99.A11) Code of Ethics8

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, file number 0-2655, filed in Washington, D.C.

4Incorporated 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.

5Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2002, file number 0-2655, filed in Washington, D.C.

6Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31 2002, file number 0-2655, filed in Washington, D.C.

7Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003, file number 0-2655 filed in Washington, D.C.

8Incorporated by reference to the Company's report on Form 10-K/A, Amendment No. 1, for the year ended September 30, 2003, file number 0-2655, filed in Washington, D.C.

(b) Reports on Form 8-K:

On December 29, 2003, the Company filed a Form 8-K which included as an exhibit its press release dated December 29, 2003, regarding its fourth fiscal quarter and fiscal year end results.

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

Date: February 13, 2004 By: /s/ GINO N. PALA
Gino N. Pala
Chairman of Board, Co-Chief
Executive Officer and Director

Date: February 13, 2004 By: /s/ RICHARD A. ASTA
Richard A. Asta
Executive Vice President of Finance,
Chief Financial Officer and Director

Date: February 13, 2004 By: /s/ JOHN ADORNETTO
John Adornetto
Vice President, Corporate Controller and
Chief Accounting Officer