

DIXIE GROUP INC
Form 10-K/A
July 13, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 30, 2006
OR
**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the transition period from _____ to _____.

Commission File Number 0-2585

The Dixie Group, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of
incorporation or organization)

62-0183370

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

**104 Nowlin Lane, Suite 101
Chattanooga, TN 37421**

(Address of principal executive
offices)

(423) 510-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

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Title of each class	Name of each exchange on which registered
Common Stock, \$3.00 Par Value	None

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

Yes

R

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes

R

No

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

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

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

Large accelerated filer Accelerated filer R Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes

No

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FORM 10-K/A (Continued)

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 29, 2007 (the last business day of the registrant's most recently completed fiscal second quarter) was approximately \$125,800,000. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock as of the latest practicable date.

Class	Outstanding as of June 2, 2007
Common Stock, \$3.00 Par Value	12,238,876 shares
Class B Common Stock, \$3.00 Par Value	877,539 shares
Class C Common Stock, \$3.00 Par Value	0 shares

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the following document is incorporated by reference:

Proxy Statement of the registrant for annual meeting of shareholders to be held May 2, 2007 (Part III).

EXPLANATORY NOTE

We have received comments from the Securities and Exchange Commission (SEC) regarding our Annual Report on Form 10-K for the fiscal year ended December 30, 2006, and as a result of those comments, we are amending and restating our annual report on Form 10-K. The restatement does not affect our net income, net income per share, total cash flow, balance sheets, or stockholders' equity for any periods.

This Annual Report on Form 10-K/A amends our Annual Report on Form 10-K for the year ended December 30, 2006 as of the date of its original filing on March 9, 2007 to correct the following classification errors:

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The classification of certain pension expenses as costs of discontinued operations.

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The classification of certain income tax payments as investing activities.

The amendment reclassifies certain pension expenses from discontinued operations to continuing operations in our Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the fiscal years ended December 30, 2006 and December 31, 2005. We previously classified pension expenses related to employees of our textile operations based on our interpretation that Accounting Principles Board Opinion No. 30 required that such expenses be treated as costs of discontinued operations. The pension expenses related to former employees of our textile operations that were discontinued in 1998 and sold in 1999 and prior years. Our original classification of such pension costs and their presentation in our consolidated financial statements was reviewed with Ernst & Young LLP, our independent registered public accounting firm, who concurred with our presentation. Based on a review of our presentation, we have reclassified these expenses as costs of continuing operations in accordance with the requirements of Statement of Financial Accounting Standards No.88, as clarified by the answer to Question 37 in the Financial Accounting Standards Board Special Report, "*A Guide to Implementation of Statement 88 on Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers*".

In determining the original classification for the income tax payments, as cash flows from investing activities, we considered that these income tax payments directly related to the sale of a business and discussed the presentation with our independent registered public accounting firm, who concurred with this presentation. Based on a subsequent review of our presentation, we have now reclassified these income tax payments as operating activities in accordance with paragraph 23(c) of Statement of Financial Accounting Standards No. 95

We have also revised our presentation of comprehensive income to prominently display the details of comprehensive income in our Consolidated Statements of Stockholders' Equity and Comprehensive Income and made conforming changes to other relevant portions of our Annual Report on Form 10-K.

As a result of the reclassifications discussed above, modifications were required to previously filed notes to our consolidated financial statements as follows: Note D, Note J, Note K, and Note L.

We have revised our discussion of disclosure controls and procedures and our report on internal control over financial reporting contained in our Report on Form 10-K for the fiscal year ended December 30, 2006 to discuss the above-referenced restatement and how such restatement affected our CEO's and CFO's conclusions regarding our disclosure controls and procedures and internal control over financial reporting. We have concluded that, solely because of the restatement as described above and described in greater detail in Note Q to our consolidated financial statements, we are required to conclude, and we have concluded, that we had a material weakness in internal control. Accordingly, we have concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 30, 2006.

The following sections of our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 are hereby amended and are filed herewith:

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Item 5 - Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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Item 6 - Selected Financial Data

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Item 7 - Management's Discussion and Analysis of Results of Operations and Financial Condition

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Item 8 - Financial Statements and Supplementary Data

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Item 9A - Controls and Procedures

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Item 15 - Exhibits, Financial Statement Schedules

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the original filing and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

This Annual Report on Form 10-K/A contains forward-looking statements that were made at the time the original Annual Report on Form 10-K was filed on March 9, 2007. It is subject to the factors described in Item 1A - Risk Factors and must be considered in light of any subsequent statements, including forward-looking statements, in any reports made by the Company subsequent to the filing of the original Form 10-K, including all filings we made with the Securities and Exchange Commission. Furthermore, the remainder of our Annual Report on Form 10-K is not amended and, accordingly, is not filed herewith.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock trades on the NASDAQ Global Market under the symbol DXYN. No market exists for the Company's Class B Common Stock.

As of June 29, 2007, the total number of holders of the Company's Common Stock was approximately 4,000, including an estimated 3,500 shareholders who hold the Company's Common Stock in nominee names, but excluding approximately 880 participants in the Company's 401(k) plan who may direct the voting of the shares allocated to their accounts. The total number of holders of the Company's Class B Common Stock was 13.

Recent Sales of Unregistered Securities

None.

Quarterly Financial Data, Dividends and Price Range of Common Stock

Following are quarterly financial data, dividends and price range of Common Stock for the four quarterly periods in the years ended December 30, 2006 and December 31, 2005. Totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. The discussion of restrictions on payment of dividends is included in Note G to the Consolidated Financial Statements included herein.

THE DIXIE GROUP, INC.
QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF COMMON STOCK
(unaudited)
(dollars in thousands, except per share data)

	2006 Quarters				
	1st	2nd Previously Reported	2nd Restated	3rd	4th
Net sales	\$ 79,173	\$ 88,046	\$ 88,046	\$ 83,606	\$ 80,275
Gross profit	22,199	24,464	24,750	24,845	24,044
Operating income	3,168	5,767	2,804	5,606	4,979
Income from continuing operations	926	2,904	1,028	2,703	3,234
(Loss) income from discontinued operations	(91)	(1,960)	(84)	(86)	72
Income on disposal of discontinued operations	---	---	---	---	---
Net income	835	944	944	2,617	3,306
Basic earnings (loss) per share:					
Continuing operations	0.07	0.23	0.08	0.21	0.25
Discontinued operations	---	(0.16)	(0.01)	---	0.01
Disposal of discontinued operations	---	---	---	---	---
Net income	0.07	0.07	0.07	0.21	0.26
Diluted earnings (loss) per share:					
Continuing operations	0.07	0.22	0.08	0.21	0.25
Discontinued operations	(0.01)	(0.15)	(0.01)	(0.01)	---
Disposal of discontinued operations	---	---	---	---	---
Net income	0.06	0.07	0.07	0.20	0.25
Dividends:					
Common Stock	---	---	---	---	---
Class B Common Stock	---	---	---	---	---

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Common Stock Prices:

High	16.55	15.26	15.26	15.55	14.92
Low	12.62	11.44	11.44	10.75	11.80

2005 Quarters

	1st	2nd	3rd	4th Previously Reported	4th Restated
Net sales	\$ 72,034	\$ 82,073	\$ 76,661	\$ 87,759	\$ 87,759
Gross profit	22,043	26,148	22,453	25,874	25,866
Operating income	4,293	6,935	3,161	5,455	5,447
Income from continuing operations	1,872	3,584	1,253	3,254	3,249
Loss from discontinued operations	(412)	(95)	(32)	(122)	(117)
Income on disposal of discontinued operations	834	---	---	---	---
Net income	2,294	3,489	1,221	3,132	3,132
Basic earnings (loss) per share:					
Continuing operations	0.15	0.29	0.10	0.26	0.26
Discontinued operations	(0.03)	(0.01)	---	(0.01)	(0.01)
Disposal of discontinued operations	0.07	---	---	---	---
Net income	0.19	0.28	0.10	0.25	0.25
Diluted earnings (loss) per share:					
Continuing operations	0.15	0.28	0.10	0.25	0.25
Discontinued operations	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)
Disposal of discontinued operations	0.06	---	---	---	---
Net income	0.18	0.27	0.09	0.24	0.24
Dividends:					
Common Stock	---	---	---	---	---
Class B Common Stock	---	---	---	---	---

Common Stock Prices:

High	19.40	18.05	18.42	16.82	16.82
Low	16.65	14.84	16.12	12.83	12.83

Shareholder Return Performance Presentation

The Company has elected to compare its performance to two different industry indexes published by Dow Jones, Inc. The first of these is the Dow Jones Furnishings Index, which is composed of 9 publicly traded companies classified by Dow Jones in the furnishings industry. The second is the Dow Jones Building Materials & Fixtures Index, which is composed of 7 publicly traded companies classified by Dow Jones in the building materials and fixtures industry.

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on the Company's Common Stock against the total return of the Standard & Poor's 600 Stock Index, plus both the Dow Jones Furnishings Index and the Dow Jones Building Materials & Fixtures Index, in each case for the five year period ended December 31, 2006. The comparison assumes that \$100.00 was invested on December 31, 2001, in each of the Company's Common Stock, the S&P 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.

The foregoing shareholder performance presentation shall not be deemed "soliciting material" or to be "filed" with the Commission subject to Regulation 14A, or subject to the liabilities of Section 18 of the Exchange Act.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data have been derived from our consolidated financial statements. All financial information set forth below reflects the restatement of our financial statements as discussed in Note (Q) of the Notes to Consolidated Financial Statements. The classification errors affected periods prior to 2004 and, accordingly, we have restated our selected financial data for fiscal year 2003. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	FISCAL YEARS				
	2006 ⁽¹⁾ Restated	2005 Restated	2004 ⁽²⁾	2003 ⁽³⁾ Restated	2002 ⁽⁴⁾
OPERATIONS					
Net sales	\$ 331,100	\$ 318,526	\$ 291,971	\$ 234,149	\$ 223,283
Gross profit	95,838	96,510	99,479		