

DIXIE GROUP INC  
Form 10-Q  
August 08, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

62-0183370

(State or other jurisdiction of incorporation or organization)

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

104 Nowlin Lane, Suite 101, Chattanooga, TN 37421

(423) 510-7000

(Address of principal executive offices)

(zip code)

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)  Yes  No

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

Class	Outstanding as of July 23, 2012
Common Stock, \$3 Par Value	12,156,590 shares
Class B Common Stock, \$3 Par Value	952,784 shares
Class C Common Stock, \$3 Par Value	0 shares

THE DIXIE GROUP, INC.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE DIXIE GROUP, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(dollars in thousands, except share data)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$240	\$298
Receivables, net	30,850	29,173
Inventories	72,940	63,939
Deferred income taxes	5,291	5,860
Other current assets	2,074	1,729
<b>TOTAL CURRENT ASSETS</b>	<b>111,395</b>	<b>100,999</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>185,536</b>	<b>183,816</b>
Less accumulated depreciation and amortization	(120,926)	(116,275)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>64,610</b>	<b>67,541</b>
<b>OTHER ASSETS</b>	<b>14,139</b>	<b>14,403</b>
<b>TOTAL ASSETS</b>	<b>\$190,144</b>	<b>\$182,943</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$16,575	\$14,668
Accrued expenses	16,495	17,185
Current portion of long-term debt	2,227	2,729
<b>TOTAL CURRENT LIABILITIES</b>	<b>35,297</b>	<b>34,582</b>
<b>LONG-TERM DEBT</b>		
Senior indebtedness	60,732	52,806
Mortgage note payable	9,772	10,141
Equipment notes payable	2,034	2,061
Capital lease obligations	800	349
<b>TOTAL LONG-TERM DEBT</b>	<b>73,338</b>	<b>65,357</b>
<b>DEFERRED INCOME TAXES</b>	<b>3,687</b>	<b>4,804</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>13,941</b>	<b>13,815</b>
<b>TOTAL LIABILITIES</b>	<b>126,263</b>	<b>118,558</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	—	—
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock (\$3 par value per share): Authorized 80,000,000 shares, issued - 16,170,030 shares for 2012 and 15,998,937 shares for 2011	48,510	47,997
Class B Common Stock (\$3 par value per share): Authorized 16,000,000 shares, issued - 952,784 shares for 2012 and 882,644 shares for 2011	2,858	2,648
Additional paid-in capital	137,825	138,118

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Accumulated deficit	(66,378	)	(65,764	)
Accumulated other comprehensive loss	(254	)	(88	)
	122,561		122,911	
Less Common Stock in treasury at cost - 4,013,440 shares for 2012 and 3,976,396 shares for 2011	(58,680	)	(58,526	)
TOTAL STOCKHOLDERS' EQUITY	63,881		64,385	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$190,144		\$182,943	

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
NET SALES	\$66,566	\$69,200	\$129,416	\$135,154
Cost of sales	50,847	52,477	97,995	101,861
GROSS PROFIT	15,719	16,723	31,421	33,293
Selling and administrative expenses	15,683	14,944	30,745	30,337
Other operating (income) expense, net	76	42	96	(450)
Facility consolidation and severance expenses, net	—	(563)	—	(563)
OPERATING INCOME (LOSS)	(40)	2,300	580	3,969
Interest expense	762	900	1,488	1,832
Other (income) expense, net	(95)	10	(92)	(6)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	(707)	1,390	(816)	2,143
Income tax provision (benefit)	(303)	582	(308)	691
INCOME (LOSS) FROM CONTINUING OPERATIONS	(404)	808	(508)	1,452
Loss from discontinued operations, net of tax	(29)	(42)	(106)	(62)
NET INCOME (LOSS)	\$(433)	\$766	\$(614)	\$1,390
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$(0.03)	\$0.06	\$(0.04)	\$0.11
Discontinued operations	—	—	(0.01)	—
Net income (loss)	\$(0.03)	\$0.06	\$(0.05)	\$0.11
BASIC SHARES OUTSTANDING	12,633	12,596	12,619	12,574
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$(0.03)	\$0.06	\$(0.04)	\$0.11
Discontinued operations	—	—	(0.01)	—
Net income (loss)	\$(0.03)	\$0.06	\$(0.05)	\$0.11
DILUTED SHARES OUTSTANDING	12,633	12,648	12,619	12,624
DIVIDENDS PER SHARE:				
Common Stock	—	—	—	—
Class B Common Stock	—	—	—	—

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)  
(dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
NET INCOME (LOSS)	\$ (433 )	\$ 766	\$ (614 )	\$ 1,390
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized loss on interest rate swaps	(241 )	(161 )	(321 )	(132 )
Reclassification of loss into earnings from interest rate swaps	24	85	48	172
Amortization of unrealized loss on dedesignated interest rate swaps	73	—	147	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans	(6 )	(4 )	(12 )	(9 )
Reclassification of prior service credits into earnings from postretirement benefit plans	(14 )	(14 )	(28 )	(28 )
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(164 )	(94 )	(166 )	3
COMPREHENSIVE INCOME (LOSS)	\$ (597 )	\$ 672	\$ (780 )	\$ 1,393

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(dollars in thousands)

	Six Months Ended	
	June 30, 2012	July 2, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) from continuing operations	\$ (508)	) \$ 1,452
Loss from discontinued operations	(106)	) (62)
Net income (loss)	(614)	) 1,390
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	4,782	4,879
Change in deferred income taxes	(446)	) 530
Net gain on property, plant and equipment disposals	—	(2)
Stock-based compensation expense	415	373
Excess tax benefits from stock-based compensation	(16)	) —
Changes in operating assets and liabilities:		
Receivables	(1,677)	) (1,995)
Inventories	(9,001)	) (10,464)
Other current assets	(345)	) (2,263)
Accounts payable and accrued expenses	1,326	3,043
Other operating assets and liabilities	12	(1,181)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(5,564)</b>	<b>) (5,690)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from sales of property, plant and equipment	—	2
Purchase of property, plant and equipment	(1,058)	) (2,140)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,058)</b>	<b>) (2,138)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings on previous credit line	—	12,509
Payments on previous term loan	—	(879)
Net borrowings on current credit line	7,926	—
Payments on current mortgage note payable	(369)	) —
Payments on previous mortgage note payable	—	(176)
Borrowings on equipment financing	469	—
Payments on equipment financing	(668)	) (1,315)
Payments on capitalized leases	(56)	) (204)
Payments on notes payable	(454)	) (374)
Payments on subordinated indebtedness	—	(2,500)
Change in outstanding checks in excess of cash	(93)	) 801
Common stock acquired for treasury	(154)	) (127)
Excess tax benefits from stock-based compensation	16	—
Payments for debt issuance costs	(53)	) —
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>6,564</b>	<b>7,735</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(58)</b>	<b>) (93)</b>



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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	298	244
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$240	\$151

Supplemental Cash Flow Information:

Interest paid	\$1,326	\$1,887
Income taxes paid, net of tax refunds	1,229	91
Equipment purchased under capital leases	631	—

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data)

#### NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements which do not include all the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2011. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the entire 2012 year. The six months ended June 30, 2012 contains 26 weeks compared with 27 weeks for the six months ended July 2, 2011.

The Company evaluated subsequent events through the date the financial statements were issued.

The Company is in one line of business, carpet manufacturing.

#### NOTE B - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board ("the Boards") on fair value measurement. The collective efforts of the Boards and their staffs have resulted in common requirements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU was effective during the first quarter of 2012 and its adoption did not have a material effect on the Company's Consolidated Condensed Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU eliminates the option to report other comprehensive income and its components in the statement of stockholders equity and requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company early adopted this ASU in the prior year and presented the components of other comprehensive income in a separate statement following the statement of operations. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 deferred the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to other comprehensive income. These amendments were delayed to allow the FASB time to redeliberate whether to present the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income on the face of the financial statements for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification

adjustments, the Company is required to continue reporting reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect that the adoption of this ASU will have a a material effect on the Company's Consolidated Condensed Financial Statements.

#### NOTE C - STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Condensed Financial Statements. The number of shares to be issued is determined by dividing the specified dollar value of the award by the market value per share on the grant date. Pursuant to a policy adopted by the Compensation Committee of the Board of Directors applicable to awards granted for years 2009 through 2012, \$5.00 per share will be used as the market value per share

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## THE DIXIE GROUP, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data) (Cont'd.)

to calculate the number of shares to be issued if the market value per share is less than \$5.00 per share on the grant date. The Company's stock compensation expense was \$256 and \$415 for the three and six months ended June 30, 2012, respectively, and \$200 and \$373 for the three and six months ended July 2, 2011, respectively.

On March 12, 2012, the Company issued 241,233 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was \$998, or \$4.135 per share, and will be recognized as stock compensation expense over the vesting periods which range from 2 to 15 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

## NOTE D - RECEIVABLES, NET

Receivables are summarized as follows:

	June 30, 2012	December 31, 2011
Customers, trade	\$30,390	\$28,372
Other receivables	1,038	1,268
Gross receivables	31,428	29,640
Less allowance for doubtful accounts	(578	) (467
Net receivables	\$30,850	\$29,173

The Company had notes receivable in the amount of \$476 and \$483 at June 30, 2012 and December 31, 2011, respectively. The current portions of notes receivable are included in other receivables above and the non-current portions are included in other assets in the Company's Consolidated Condensed Financial Statements.

## NOTE E - INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method, which generally matches current costs of inventory sold with current revenues, for substantially all inventories.

Inventories are summarized as follows:

	June 30, 2012	December 31, 2011
Raw materials	\$24,252	\$19,624
Work-in-process	14,295	13,116
Finished goods	49,236	45,840
Supplies, repair parts and other	453	351
LIFO reserve	(15,296	) (14,992
Total inventories	\$72,940	\$63,939

## NOTE F - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

June 30, 2012	December 31, 2011
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Compensation and benefits	\$3,897	\$4,348
Provision for customer rebates, claims and allowances	4,364	4,249
Outstanding checks in excess of cash	2,635	2,728
Other	5,599	5,860
Total accrued expenses	\$16,495	\$17,185

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## THE DIXIE GROUP, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data) (Cont'd.)

## NOTE G - PRODUCT WARRANTY RESERVES

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products. At the time sales are recorded, the Company records reserves for the estimated costs of defective products and failure of its products to meet applicable performance standards. The level of reserves the Company establishes is based primarily upon historical experience, including the level of sales and evaluation of pending claims. Product warranty reserves are included in accrued expenses in the Company's Consolidated Condensed Financial Statements. The following is a summary of the Company's product warranty activity.

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Warranty reserve at beginning of period	\$1,106	\$1,449	\$1,219	\$1,472
Warranty liabilities accrued	804	828	1,546	1,613
Warranty liabilities settled	(760	) (813	) (1,627	) (1,581
Changes for pre-existing warranty liabilities	58	(216	) 70	(256
Warranty reserve at end of period	\$1,208	\$1,248	\$1,208	\$1,248

## NOTE H - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	June 30, 2012	December 31, 2011
Senior indebtedness	\$60,732	\$52,806
Mortgage note payable	10,509	10,878
Equipment notes payable	3,156	3,354
Notes payable	129	584
Capital lease obligations	1,039	464
Total long-term debt	75,565	