

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

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

Form 10-Q/A

(Mark One)

S

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

For the quarterly period ended: **July 1, 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)

345-B Nowlin Lane, Chattanooga, TN

37421

62-0183370

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

(423) 510-7000

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(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. S Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an 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 Non-accelerated filer

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

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 June 2, 2007
Common Stock, \$3 Par Value	12,238,876 shares
Class B Common Stock, \$3 Par Value	877,539 shares
Class C Common Stock, \$3 Par Value	0 shares

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 Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006. The restatement does not affect our Net Income, Net Income per share, total cash flow, Balance Sheets, or stockholders' equity for any periods.

This Quarterly Report on Form 10-Q/A amends our Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 as of the date of its original filing on August 9, 2006 to correct a classification error for certain pension expenses that were classified as costs of discontinued operations.

The amendment reclassifies certain pension expenses from discontinued operations to continuing operations in our Consolidated Condensed Statements of Operations and Consolidated Condensed Statements of Cash Flows for the three and six months ended July 1, 2006. 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 expenses and their presentation in our consolidated condensed 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*".

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

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

We have revised our discussion of disclosure controls and procedures contained in our Quarterly Report on Form 10-Q for the quarterly period ended July 1, 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. We have concluded that, solely because of the restatement as described above and described in greater detail in Note P to our consolidated condensed 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 was not effective as of July 1, 2006.

The following sections of our Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 are hereby amended and are filed herewith:

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PART I, Item 1 - Financial Statements

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PART I, Item 2 - Management's Discussion and Analysis of Results of Operations

and Financial Condition

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PART I, Item 4 - Controls and Procedures

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PART II, Item 6 - Exhibits

Except for the foregoing amended information, this Form 10-Q/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 Quarterly Report on Form 10-Q/A contains forward-looking statements that were made at the time the original Quarterly Report on Form 10-Q was filed on August 9, 2006. It is subject to the factors described in PART II, OTHER INFORMATION, Item 1A Risk Factors and must be considered in light of any subsequent statements, including forward-looking statements, in any reports made by us subsequent to the filing of the original Form 10-Q, including all filings we made with the Securities and Exchange Commission. Furthermore, the remainder of our Quarterly Report on Form 10-Q will not be amended and, accordingly, is not filed herewith.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(dollars in thousands)

	(Unaudited)	
	July 1, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 552	\$ ---
Accounts receivable (less allowance for doubtful accounts of \$553 for 2006 and \$595 for 2005)	38,296	31,633
Inventories	73,530	72,871
Other current assets	11,515	10,577
TOTAL CURRENT ASSETS	123,893	115,081
 PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	6,100	6,047
Buildings and improvements	44,562	44,348
Machinery and equipment	110,735	107,993
	161,397	158,388
Less accumulated depreciation and amortization	(63,282)	(65,440)
NET PROPERTY, PLANT AND EQUIPMENT	98,115	92,948
 OTHER ASSETS		
Goodwill	57,068	57,177
Other long-term assets	12,962	11,797
TOTAL OTHER ASSETS	70,030	68,974
TOTAL ASSETS	\$ 292,038	\$ 277,003
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 14,764	\$ 14,929
Accrued expenses	19,660	18,295
Current portion of long-term debt	7,460	6,341
TOTAL CURRENT LIABILITIES	41,884	39,565

LONG-TERM DEBT		
Senior indebtedness	73,665	60,987
Capital lease obligations	4,139	4,727
Convertible subordinated debentures	19,662	22,162
TOTAL LONG-TERM DEBT	97,466	87,876
DEFERRED INCOME TAXES	10,691	10,768
OTHER LONG-TERM LIABILITIES	13,343	15,310
COMMITMENTS AND CONTINGENCIES	---	---
STOCKHOLDERS' EQUITY		
Common Stock (\$3 par value per share): Authorized 80,000,000 shares, issued - 15,447,732 shares for 2006 and 15,347,589 shares for 2005	46,343	46,043
Class B Common Stock (\$3 par value per share): Authorized 16,000,000 shares, issued - 840,433 for 2006 and 714,560 shares for 2005	2,521	2,144
Additional paid-in capital	134,098	134,353
Unearned stock compensation	---	(719)
Retained earnings (accumulated deficit)	373	(1,406)
Accumulated other comprehensive loss	(592)	(2,887)
	182,743	177,528
Less Common Stock in treasury at cost - 3,398,845 shares for 2006 and 3,395,390 shares for 2005	(54,089)	(54,044)
TOTAL STOCKHOLDERS' EQUITY	128,654	123,484
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 292,038	\$ 277,003

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	
	July 1, 2006	June 25, 2005	July 1, 2006	June 25, 2005
	Restated		Restated	
Net sales	\$ 88,046	\$ 82,073	\$ 167,219	\$ 154,107
Cost of sales	63,296	55,925	120,271	105,916
Gross profit	24,750	26,148	46,948	48,191
Selling and administrative expenses	18,795	19,075	38,011	36,875
Other operating income	(228)	(139)	(570)	(224)
Other operating expense	130	277	286	313
Defined benefit pension plan termination expenses	3,249	---	3,249	---
Operating income	2,804	6,935	5,972	11,227
Interest expense	1,944	1,403	3,711	2,805
Other income	(95)	(141)	(108)	(233)
Other expense	50	27	54	46
Income from continuing operations before taxes	905	5,646	2,315	8,609
Income tax provision (benefit)	(123)	2,062	362	3,153
Income from continuing operations	1,028	3,584	1,953	5,456
Loss from discontinued operations, net of tax	(84)	(95)	(174)	(507)
Income on disposal of discontinued operations, net of tax	---	---		