

AMERICAN BILTRITE INC  
Form 10-Q  
November 13, 2009

FORM 10-Q  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For Quarter Ended September 30, 2009

Commission File Number 1-4773

AMERICAN BILTRITE INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

04-1701350  
(I.R.S. Employer Identification No.)

57 River Street  
Wellesley Hills, Massachusetts 02481-2097  
(Address of Principal Executive Offices)

(781) 237-6655  
(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 corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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, a non-accelerated filer or a smaller reporting company. See the definitions 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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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class        | Outstanding at November 13, 2009 |
|--------------|----------------------------------|
| Common Stock | 3,441,531 shares                 |

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## FORWARD LOOKING STATEMENTS

Some of the information presented in or incorporated by reference in this report constitutes "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks, uncertainties and assumptions. These statements can be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project" and other words of similar meaning. In particular, these include statements relating to intentions, beliefs or current expectations concerning, among other things, future performance, results of operations, the outcome of contingencies, such as bankruptcy and other legal proceedings, and financial conditions. These statements do not relate strictly to historical or current facts. These forward-looking statements are based on American Biltrite Inc.'s expectations and American Biltrite Inc.'s understanding of its majority-owned subsidiary Congoleum Corporation's expectations, as of the date of this report, of future events, and American Biltrite Inc. undertakes no obligation to update any of these forward-looking statements, except as required by federal securities laws. Although American Biltrite Inc. believes that these expectations are based on reasonable assumptions, within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Readers are cautioned not to place undue reliance on any forward-looking statements. Any or all of these statements may turn out to be incorrect. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements made in this report speak only as of the date of this report unless the statement indicates that another date applies. It is not possible to predict or identify all factors that could potentially cause actual results to differ materially from expected and historical results. Factors that could cause or contribute to American Biltrite Inc.'s actual results differing from its expectations include those factors discussed in Item 1A of Part II of this Quarterly Report on Form 10-Q and in American Biltrite Inc.'s other filings with the Securities and Exchange Commission.

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AMERICAN BILTRITE INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
 CONSOLIDATING CONDENSED BALANCE SHEETS – ASSETS  
 (In thousands of dollars)

|                                            | ABI Consolidated                     |                      | Eliminations                         |                      | Congoleum                            |                      | American Biltrite                    |                      |
|--------------------------------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|
|                                            | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
| Assets                                     |                                      |                      |                                      |                      |                                      |                      |                                      |                      |
| Current Assets:                            |                                      |                      |                                      |                      |                                      |                      |                                      |                      |
| Cash and cash equivalents                  | \$ 14,817                            | \$ 18,072            |                                      |                      | \$ 14,069                            | \$ 15,077            | \$ 748                               | \$ 2,995             |
| Restricted cash                            | 30,770                               | 29,680               |                                      |                      | 30,770                               | 29,680               |                                      |                      |
| Short-term investments                     | 2,400                                | -                    |                                      |                      |                                      |                      | 2,400                                | -                    |
| Accounts receivable, net                   | 41,014                               | 36,627               | \$(454 )                             | \$(367 )             | 16,078                               | 13,789               | 25,390                               | 23,205               |
| Inventories                                | 59,843                               | 79,082               | (50 )                                | (89 )                | 24,503                               | 35,814               | 35,390                               | 43,357               |
| Taxes receivable                           | 806                                  | 1,334                |                                      |                      |                                      |                      | 806                                  | 1,334                |
| Prepaid expense & other current assets     | 6,804                                | 6,406                |                                      |                      | 3,570                                | 3,922                | 3,234                                | 2,484                |
| Total current assets                       | 156,454                              | 171,201              | (504 )                               | (456 )               | 88,990                               | 98,282               | 67,968                               | 73,375               |
| Property, plant & equipment, net           | 82,854                               | 88,466               |                                      |                      | 51,205                               | 56,520               | 31,649                               | 31,946               |
| Other assets:                              |                                      |                      |                                      |                      |                                      |                      |                                      |                      |
| Insurance for asbestos-related liabilities | 13,509                               | 13,509               |                                      |                      |                                      |                      | 13,509                               | 13,509               |
| Other assets                               | 24,565                               | 21,825               | (109 )                               | (117 )               | 17,065                               | 17,065               | 7,609                                | 4,877                |
|                                            | 38,074                               | 35,334               | (109 )                               | (117 )               | 17,065                               | 17,065               | 21,118                               | 18,386               |
| Total assets                               | \$ 277,382                           | \$ 295,001           | \$(613 )                             | \$(573 )             | \$ 157,260                           | \$ 171,867           | \$ 120,735                           | \$ 123,707           |

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED BALANCE SHEETS – LIABILITIES AND STOCKHOLDERS' EQUITY  
(In thousands of dollars)

|                                                                      | ABI Consolidated                  |                   | Eliminations                      |                   | Congoleum                         |                   | American Biltrite                 |                   |
|----------------------------------------------------------------------|-----------------------------------|-------------------|-----------------------------------|-------------------|-----------------------------------|-------------------|-----------------------------------|-------------------|
|                                                                      | September 30, 2009<br>(Unaudited) | December 31, 2008 | September 30, 2009<br>(Unaudited) | December 31, 2008 | September 30, 2009<br>(Unaudited) | December 31, 2008 | September 30, 2009<br>(Unaudited) | December 31, 2008 |
| <b>Liabilities</b>                                                   |                                   |                   |                                   |                   |                                   |                   |                                   |                   |
| <b>Current liabilities:</b>                                          |                                   |                   |                                   |                   |                                   |                   |                                   |                   |
| Accounts payable                                                     | \$ 15,034                         | \$ 16,298         | \$(454 )                          | \$( 366 )         | \$ 6,277                          | \$ 7,472          | \$ 9,211                          | \$ 9,192          |
| Accrued expenses                                                     | 31,736                            | 31,880            |                                   |                   | 14,709                            | 16,897            | 17,027                            | 14,983            |
| Asbestos-related liabilities                                         | 44,792                            | 50,022            |                                   |                   | 44,792                            | 50,022            |                                   |                   |
| Deferred income taxes                                                | 6,533                             | 6,533             |                                   |                   | 6,533                             | 6,533             |                                   |                   |
| Notes payable                                                        | 25,427                            | 32,747            |                                   |                   | 12,442                            | 13,994            | 12,985                            | 18,753            |
| Current portion of long-term debt                                    | 1,447                             | 5,611             |                                   |                   |                                   |                   | 1,447                             | 5,611             |
| Liabilities subject to compromise                                    | 4,997                             | 4,997             |                                   |                   | 4,997                             | 4,997             |                                   |                   |
| <b>Total current liabilities</b>                                     | <b>129,966</b>                    | <b>148,088</b>    | <b>(454 )</b>                     | <b>( 366 )</b>    | <b>89,750</b>                     | <b>99,915</b>     | <b>40,670</b>                     | <b>48,539</b>     |
| Long-term debt, less current portion                                 | 7,378                             | 1,112             |                                   |                   |                                   |                   | 7,378                             | 1,112             |
| Asbestos-related liabilities                                         | 13,563                            | 13,563            |                                   |                   |                                   |                   | 13,563                            | 13,563            |
| Other liabilities                                                    | 17,543                            | 16,801            |                                   |                   |                                   |                   | 17,543                            | 16,801            |
| Liabilities subject to compromise                                    | 163,924                           | 161,386           | (109 )                            | (117 )            | 164,033                           | 161,503           |                                   |                   |
| <b>Total liabilities</b>                                             | <b>332,374</b>                    | <b>340,950</b>    | <b>(563 )</b>                     | <b>(483 )</b>     | <b>253,783</b>                    | <b>261,418</b>    | <b>79,154</b>                     | <b>80,015</b>     |
| <b>Equity</b>                                                        |                                   |                   |                                   |                   |                                   |                   |                                   |                   |
| Common stock                                                         | 46                                | 46                | (94 )                             | (93 )             | 94                                | 93                | 46                                | 46                |
| Additional paid-in capital                                           | 19,899                            | 19,749            | (49,393)                          | (49,386 )         | 49,393                            | 49,386            | 19,899                            | 19,749            |
| Less treasury shares                                                 | (15,132 )                         | (15,132 )         | 7,813                             | 7,813             | (7,813 )                          | (7,813 )          | (15,132 )                         | (15,132 )         |
| Accumulated other comprehensive loss (Deficit) retained earnings     | (51,060 )                         | (53,250 )         | 6,111                             | 6,110             | (51,179 )                         | (51,179 )         | (5,992 )                          | (8,181 )          |
| <b>Total stockholders' (deficit) equity of controlling interests</b> | <b>(52,766 )</b>                  | <b>(46,784 )</b>  | <b>3,088</b>                      | <b>(90 )</b>      | <b>(96,523 )</b>                  | <b>(89,551 )</b>  | <b>40,669</b>                     | <b>42,857</b>     |
| Noncontrolling interests                                             | (2,226 )                          | 835               | (3,138 )                          |                   |                                   |                   | 912                               | 835               |

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|                                 |           |            |          |           |           |            |           |            |
|---------------------------------|-----------|------------|----------|-----------|-----------|------------|-----------|------------|
| Total (deficit)<br>equity       | (54,992 ) | (45,949 )  | (50 )    | (90 )     | (96,523 ) | (89,551 )  | 41,581    | 43,692     |
| Total liabilities and<br>equity | \$277,382 | \$ 295,001 | \$(613 ) | \$( 573 ) | \$157,260 | \$ 171,867 | \$120,735 | \$ 123,707 |

See accompanying notes to consolidating condensed financial statements.



AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited)  
For the Three Months Ended September 30, 2009 and 2008  
(In thousands of dollars, except share and per share amounts)

|                                                         | ABI Consolidated |             | Eliminations |        | Congoleum   |             | American Biltrite |           |
|---------------------------------------------------------|------------------|-------------|--------------|--------|-------------|-------------|-------------------|-----------|
|                                                         | 2009             | 2008        | 2009         | 2008   | 2009        | 2008        | 2009              | 2008      |
| Net sales                                               | \$ 83,883        | \$ 97,351   | \$ -         | \$ -   | \$ 37,359   | \$ 46,085   | \$ 46,524         | \$ 51,266 |
| Cost of products sold                                   | 65,234           | 75,330      | (310 )       | (377 ) | 31,871      | 37,765      | 33,673            | 37,942    |
| Selling, general & administrative expenses              | 19,602           | 21,269      |              |        | 7,208       | 7,768       | 12,394            | 13,501    |
| Asbestos-related reorganization charges                 | -                | 11,491      |              |        | -           | 11,491      |                   |           |
| (Loss) income from operations                           | (953 )           | (10,739)    | 310          | 377    | (1,720 )    | (10,939)    | 457               | (177 )    |
| Other income (expense)                                  |                  |             |              |        |             |             |                   |           |
| Interest income                                         | 11               | 64          |              |        | 8           | 49          | 3                 | 15        |
| Interest expense                                        | (292 )           | (360 )      |              |        | -           | (43 )       | (292 )            | (317 )    |
| Other income (expense)                                  | 139              | (945 )      | (300 )       | (360 ) | (182 )      | (377 )      | 621               | (208 )    |
|                                                         | (142 )           | (1,241 )    | (300 )       | (360 ) | (174 )      | (371 )      | 332               | (510 )    |
| (Loss) income before taxes                              | (1,095 )         | (11,980)    | 10           | 17     | (1,894 )    | (11,310)    | 789               | (687 )    |
| Provision for (benefit from) income taxes               | 324              | (1,631 )    |              |        | 35          | (1,185 )    | 289               | (446 )    |
| Net (loss) income                                       | (1,419 )         | (10,349)    | 10           | 17     | (1,929 )    | (10,125)    | 500               | (241 )    |
| Noncontrolling interests                                | 743              | (17 )       | 867          |        |             |             | (124 )            | (17 )     |
| (Loss) income from continuing operations                | (676 )           | (10,366)    | 877          | 17     | (1,929 )    | (10,125)    | 376               | (258 )    |
| Discontinued operation                                  | -                | -           |              |        |             |             | -                 | -         |
| Net (loss) income attributable to controlling interests | \$ (676 )        | \$ (10,366) | \$ 877       | \$ 17  | \$ (1,929 ) | \$ (10,125) | \$ 376            | \$ (258 ) |

Basic and Diluted  
2009                      2008

|                                                  |            |            |
|--------------------------------------------------|------------|------------|
| Loss from continuing operations per common share | \$ (0.20 ) | \$ (3.01 ) |
| Discontinued operation                           | -          | -          |

Net loss  
attributable to  
controlling  
interests per  
common share \$ (0.20 ) \$ (3.01 )

Weighted  
average  
number of  
common and  
equivalent  
shares  
outstanding 3,441,551 3,441,551

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited)  
For the Nine Months Ended September 30, 2009 and 2008  
(In thousands of dollars, except share and per share amounts)

|                                                         | ABI Consolidated  |             | Eliminations |         | Congoleum   |             | American Biltrite |             |
|---------------------------------------------------------|-------------------|-------------|--------------|---------|-------------|-------------|-------------------|-------------|
|                                                         | 2009              | 2008        | 2009         | 2008    | 2009        | 2008        | 2009              | 2008        |
| Net sales                                               | \$ 235,266        | \$ 294,347  | \$ -         | \$ -    | \$ 106,815  | \$ 140,948  | \$ 128,451        | \$ 153,399  |
| Cost of products sold                                   | 186,338           | 225,600     | (813 )       | (1,077) | 90,690      | 111,866     | 96,461            | 114,811     |
| Selling, general & administrative expenses              | 59,223            | 67,234      |              |         | 22,907      | 26,138      | 36,316            | 41,096      |
| Asbestos-related reorganization charges                 | -                 | 11,491      |              |         | -           | 11,491      |                   |             |
| (Loss) income from operations                           | (10,295 )         | (9,978 )    | 813          | 1,077   | (6,782 )    | (8,547 )    | (4,326 )          | (2,508 )    |
| Other income (expense)                                  |                   |             |              |         |             |             |                   |             |
| Interest income                                         | 16                | 1,427       |              |         | 3           | 1,241       | 13                | 186         |
| Interest expense                                        | (945 )            | (1,679 )    |              |         | (200 )      | (240 )      | (745 )            | (1,439 )    |
| Other (expense) income                                  | 125               | (858 )      | (774 )       | (1,059) | 49          | (791 )      | 850               | 992         |
|                                                         | (804 )            | (1,110 )    | (774 )       | (1,059) | (148 )      | 210         | 118               | (261 )      |
| (Loss) income before taxes                              | (11,099 )         | (11,088 )   | 39           | 18      | (6,930 )    | (8,337 )    | (4,208 )          | (2,769 )    |
| Provision for (benefit from) income taxes               | 292               | (549 )      |              |         | 50          | (103 )      | 242               | (446 )      |
| Net (loss) income                                       | (11,391 )         | (10,539 )   | 39           | 18      | (6,980 )    | (8,234 )    | (4,450 )          | (2,323 )    |
| Noncontrolling interests                                | 3,061             | 50          | 3,138        | -       |             |             | (77 )             | 50          |
| (Loss) income from continuing operations                | (8,330 )          | (10,489 )   | 3,177        | 18      | (6,980 )    | (8,234 )    | (4,527 )          | (2,273 )    |
| Discontinued operation                                  | -                 | 1,025       |              |         |             |             | -                 | 1,025       |
| Net (loss) income attributable to controlling interests | \$ (8,330 )       | \$ (9,464 ) | \$ 3,177     | \$ 18   | \$ (6,980 ) | \$ (8,234 ) | \$ (4,527 )       | \$ (1,248 ) |
|                                                         | Basic and Diluted |             |              |         |             |             |                   |             |
|                                                         | 2009              | 2008        |              |         |             |             |                   |             |
| Loss from continuing operations per                     | \$ (2.42 )        | \$ (3.05 )  |              |         |             |             |                   |             |

|                                                                             |           |           |
|-----------------------------------------------------------------------------|-----------|-----------|
| common share<br>Discontinued<br>operation                                   | -         | 0.30      |
| Net loss<br>attributable to<br>controlling<br>interests per<br>common share | \$(2.42 ) | \$(2.75 ) |

|                                                                                       |           |           |
|---------------------------------------------------------------------------------------|-----------|-----------|
| Weighted<br>average<br>number of<br>common and<br>equivalent<br>shares<br>outstanding | 3,441,551 | 3,441,551 |
|---------------------------------------------------------------------------------------|-----------|-----------|

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS – OPERATING ACTIVITIES (Unaudited)  
For the Nine Months Ended September 30, 2009 and 2008  
(In thousands of dollars)

|                                                                                                 | ABI Consolidated |             | Eliminations |        | Congoleum   |             | American Biltrite |             |
|-------------------------------------------------------------------------------------------------|------------------|-------------|--------------|--------|-------------|-------------|-------------------|-------------|
|                                                                                                 | 2009             | 2008        | 2009         | 2008   | 2009        | 2008        | 2009              | 2008        |
| Operating activities                                                                            |                  |             |              |        |             |             |                   |             |
| Net (loss) income                                                                               | \$ (11,391)      | \$ (9,514 ) | \$ 39        | \$ 18  | \$ (6,980 ) | \$ (8,234 ) | \$ (4,450 )       | \$ (1,298 ) |
| Net income from discontinued operation                                                          | -                | (1,025 )    |              |        |             |             | -                 | (1,025 )    |
| (Loss) income from continuing operations                                                        | (11,391)         | (10,539)    | 39           | 18     | (6,980)     | (8,234 )    | (4,450)           | (2,323)     |
| Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities: |                  |             |              |        |             |             |                   |             |
| Depreciation and amortization                                                                   | 10,453           | 11,686      |              |        | 7,242       | 7,781       | 3,211             | 3,905       |
| Asbestos-related reorganization charges                                                         | -                | 11,491      |              |        | -           | 11,491      |                   |             |
| Stock compensation expense                                                                      | 157              | 107         |              |        | 7           | 14          | 150               | 93          |
| Change in operating assets and liabilities:                                                     |                  |             |              |        |             |             |                   |             |
| Accounts and notes receivable                                                                   | (3,782 )         | 34          | 80           | 247    | (2,289 )    | (1,809 )    | (1,573 )          | 1,596       |
| Inventories                                                                                     | 21,353           | (4,447 )    | (39 )        | (18 )  | 11,311      | (1,548 )    | 10,081            | (2,881 )    |
| Prepaid expenses and other assets                                                               | 438              | (1,499 )    |              |        | 353         | (946 )      | 85                | (553 )      |
| Proceeds from legal fees disgorgement                                                           | -                | 9,168       |              |        | -           | 9,168       |                   |             |
| Accounts payable and accrued expenses                                                           | (608 )           | (4,318 )    | (80 )        | (247 ) | (2,244 )    | (5,209 )    | 1,716             | 1,138       |
| Asbestos-related expenses                                                                       | (6,317 )         | (12,519)    |              |        | (6,317 )    | (12,519)    |                   |             |
| Other                                                                                           | 2,225            | (358 )      |              |        | 2,478       | (137 )      | (253 )            | (221 )      |
| Net cash provided (used) by operating activities of continuing operations                       | \$ 12,528        | \$ (1,194 ) | \$ -         | \$ -   | \$ 3,561    | \$ (1,948 ) | \$ 8,967          | \$ 754      |

See accompanying notes to consolidating condensed financial statements.



AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS – INVESTING & FINANCING  
ACTIVITIES (Unaudited)  
For the Nine Months Ended September 30, 2009 and 2008  
(In thousands of dollars)

|                                                  | ABI Consolidated |             | Eliminations |      | Congoleum   |             | American Biltrite |             |
|--------------------------------------------------|------------------|-------------|--------------|------|-------------|-------------|-------------------|-------------|
|                                                  | 2009             | 2008        | 2009         | 2008 | 2009        | 2008        | 2009              | 2008        |
| Investing activities                             |                  |             |              |      |             |             |                   |             |
| Investments in property, plant and equipment     | \$ (3,427 )      | \$ (3,749 ) | \$ -         | \$ - | \$ (1,927 ) | \$ (2,746 ) | \$ (1,500 )       | \$ (1,003 ) |
| Purchase of short-term investments               | (3,400 )         | -           |              |      |             |             | (3,400 )          | -           |
| Proceeds from sale of short-term investments     | 1,000            | -           |              |      |             |             | 1,000             | -           |
| Net cash used by investing activities            | (5,827 )         | (3,749 )    | -            | -    | (1,927 )    | (2,746 )    | (3,900 )          | (1,003 )    |
| Financing activities                             |                  |             |              |      |             |             |                   |             |
| Net short-term borrowings (repayments)           | (7,676 )         | (2,162 )    |              |      | (1,552 )    | 2,086       | (6,124 )          | (4,248 )    |
| Payments on long-term debt                       | (5,898 )         | (1,320 )    |              |      |             |             | (5,898 )          | (1,320 )    |
| Proceeds from borrowings on long-term debt       | 8,000            | -           |              |      |             |             | 8,000             | -           |
| Refinancing costs                                | (2,110 )         | -           |              |      |             |             | (2,110 )          | -           |
| Funding of letters of credit                     | (714 )           | -           |              |      |             |             | (714 )            | -           |
| Collection on Janus note receivable              | -                | 4,034       |              |      |             |             | -                 | 4,034       |
| Net change in restricted cash                    | (1,090 )         | 38          |              |      | (1,090 )    | 38          |                   |             |
| Net cash (used) provided by financing activities | (9,488 )         | 590         | -            | -    | (2,642 )    | 2,124       | (6,846 )          | (1,534 )    |
| Effect of foreign exchange rate changes on cash  | (468 )           | 800         |              |      |             |             | (468 )            | 800         |
| Net decrease in cash                             | (3,255 )         | (3,553 )    | -            | -    | (1,008 )    | (2,570 )    | (2,247 )          | (983 )      |
| Cash and cash equivalents at beginning of period | 18,072           | 30,185      |              |      | 15,077      | 26,327      | 2,995             | 3,858       |

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|                                            |           |           |      |      |           |           |        |          |
|--------------------------------------------|-----------|-----------|------|------|-----------|-----------|--------|----------|
| Cash and cash equivalents at end of period | \$ 14,817 | \$ 26,632 | \$ - | \$ - | \$ 14,069 | \$ 23,757 | \$ 748 | \$ 2,575 |
|--------------------------------------------|-----------|-----------|------|------|-----------|-----------|--------|----------|

See accompanying notes to consolidating condensed financial statements.



AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATING CONDENSED  
FINANCIAL STATEMENTS  
September 30, 2009  
(Unaudited)

Note A - Basis of Presentation

The accompanying unaudited consolidating condensed financial statements which include the accounts of American Biltrite Inc. and its wholly owned subsidiaries (and including, unless the context otherwise indicates, its majority-owned subsidiary K&M Associates L.P., are referred to herein as "ABI", "American Biltrite" or the "Company") as well as entities over which it has voting control have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and provisions to effect a plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") of Congoleum Corporation ("Congoleum"), a majority-owned subsidiary of the Company, to settle asbestos liabilities) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for future periods, including the year ending December 31, 2009. For further information, refer to the consolidating financial statements and the notes to those financial statements included in American Biltrite Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008.

The consolidating condensed balance sheet at December 31, 2008 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

During 2003, the Company decided to discontinue the operations of its Janus Flooring Corporation subsidiary ("Janus"), a manufacturer of pre-finished hardwood flooring, and sell the related assets. Historical financial results were restated to reflect the classification of Janus as a discontinued operation. Results of Janus, including charges resulting from the shutdown, are being reported as a discontinued operation. In April 2006, the Company completed the sale of Janus' remaining building and land (see Note N). As a result of the sale of property, the discontinued operation was effectively dissolved during 2006. As of December 31, 2006, the Company merged Janus with and into American Biltrite Inc.'s subsidiary, American Biltrite (Canada) Ltd. ("AB Canada"), primarily for the purposes of utilizing Janus' prior years' net operating losses against future taxable income.

Note A - Basis of Presentation (continued)

As discussed more fully below and elsewhere in these notes to consolidating condensed financial statements, the Company's subsidiary Congoleum filed for bankruptcy protection on December 31, 2003 in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"), and on August 17, 2009, the United States District Court for the District of New Jersey (the "District Court") withdrew Congoleum's chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. The accompanying consolidated financial statements include the results for Congoleum for all periods presented. Congoleum's results include losses (including other comprehensive losses) of \$93.4 million and \$89.6 million in excess of the value of ABI's investment in Congoleum at September 30, 2009 and December 31, 2008, respectively. ABI owns a majority of the voting stock of Congoleum, and expects to continue doing so until Congoleum's reorganization proceedings are concluded. Upon effectiveness of any plan of reorganization for Congoleum, ABI expects that its ownership interests in Congoleum will be cancelled, at which time ABI would no longer include Congoleum's results in the consolidated results of the Company. The Company has elected to continue to consolidate the financial statements of Congoleum in its consolidated results because it believes that is the appropriate presentation given its current voting control of Congoleum. However, the accompanying financial statements also present the details of consolidation to separately show the financial condition, operating results and cash flows of ABI (including its non-debtor subsidiaries) and Congoleum (and its debtor subsidiaries), which may be more meaningful for certain analyses.

For more information regarding Congoleum's asbestos liability and plan for resolving that liability, please refer to Note I.

The American Institute of Certified Public Accountants provides financial reporting guidance for entities that are reorganizing under the Bankruptcy Code. Congoleum has implemented this guidance in its consolidated financial statements for periods commencing after December 31, 2003. Companies in reorganization under the Bankruptcy Code are required to segregate pre-petition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Liabilities for asbestos claims are recorded based upon the minimum amount Congoleum expects to spend for its contribution to, and costs to settle asbestos liabilities through, the trust that would be created on or after the date the District Court confirms a plan of reorganization containing terms currently proposed and by the effective date of that plan (as described in Note I). Obligations arising post-petition and pre-petition obligations that are secured or that the Bankruptcy Court has authorized Congoleum to pay, are not classified as liabilities subject to compromise. Other pre-petition claims (which would be classified as liabilities subject to compromise) may arise due to the rejection by Congoleum of executory contracts or unexpired leases pursuant to the Bankruptcy Code or as a result of the allowance by the District Court of contingent or disputed claims related to pre-petition matters.

Note A - Basis of Presentation (continued)

The consolidated financial statements of American Biltrite Inc. have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might be necessary should American Biltrite or Congoleum be unable to continue as a going concern. At December 31, 2008, there was substantial doubt about American Biltrite's ability to continue as a going concern unless it was successful in obtaining replacement financing. As described in Note D, the Company was successful in obtaining replacement financing in June 2009. In light of Congoleum's substantial asbestos liabilities (see Note I), there is substantial doubt about Congoleum's ability to continue as a going concern unless it timely obtains relief from those liabilities through a successful reorganization under Chapter 11 of the Bankruptcy Code.

Recently Issued Accounting Principles

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162. On the effective date, the FASB Accounting Standards Codification became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission. This statement became effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued new accounting guidance that establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new accounting guidance was effective for interim and annual periods ending after June 15, 2009. In particular, the new accounting guidance established (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of the new accounting guidance did not have a material effect on the Company's financial condition or results of operations. There were no events subsequent to September 30, 2009 and through our financial statement issuance date of November 13, 2009 requiring disclosure.

## Note A - Basis of Presentation (continued)

On January 1, 2009, the Company adopted the FASB's new accounting standards for the accounting and reporting of noncontrolling interests. The new accounting guidance requires that noncontrolling interests be presented in the consolidated balance sheets within equity, but separate from the Company's stockholders' equity, and that the amount of consolidated net income (loss) attributable to American Biltrite Inc. and to the noncontrolling interests be clearly identified and presented in the consolidated statement of operations. Any losses in excess of the noncontrolling interests' equity interests will continue to be allocated to the noncontrolling interests. Purchases or sales of equity interests that do not result in a change of control will be accounted for as equity transactions. Upon a sale of equity interests that results in a loss of control of a previously controlling interest, the interest sold, as well as any interest retained, will be measured at fair value, with the gain or loss recognized in earnings. The new standard has been applied prospectively as of January 1, 2009, except for the presentation and disclosure requirements, which have been applied retrospectively for prior periods presented (see Note J).

## Note B - Inventories

Inventories at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

|                               | September 30,<br>2009 | December 31,<br>2008 |
|-------------------------------|-----------------------|----------------------|
| Finished goods                | \$ 39,774             | \$ 56,262            |
| Work-in-process               | 10,789                | 10,847               |
| Raw materials<br>and supplies | 9,280                 | 11,973               |
|                               | \$ 59,843             | \$ 79,082            |

## Note C – Accrued Expenses

Accrued expenses at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

|                                            | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------------|-----------------------|----------------------|
| Accrued advertising and sales promotions   | \$ 15,401             | \$ 17,625            |
| Employee compensation and related benefits | 7,099                 | 7,124                |
| Environmental matters                      | 1,140                 | 815                  |
| Royalties                                  | 614                   | 959                  |
| Income taxes                               | 99                    | 371                  |
| Other                                      | 7,383                 | 4,986                |
|                                            | \$ 31,736             | \$ 31,880            |

See Note F for Liabilities Subject to Compromise.

## Note D – Financing Arrangements

American Biltrite Inc.'s primary source of borrowings are the revolving credit facility (the "Revolver") and the term loan ("Term Loan") it has with Wachovia Bank, National Association ("Wachovia") pursuant to a loan and security agreement (the "Credit Agreement"). The Credit Agreement was entered into on June 30, 2009, and initial borrowings on the Credit Agreement were used to pay off borrowings from another financial institution and to pay fees and expenses in connection with the refinancing.

The Credit Agreement provides American Biltrite Inc. and its subsidiaries with (i) a \$30.0 million commitment under the Revolver (including a \$12 million Canadian revolving credit facility sublimit) and (ii) an \$8.0 million Term Loan. The Credit Agreement also provides letter of credit facilities with availability of up to \$6.0 million (including a \$3 million Canadian letter of credit facility sublimit) subject to availability under the Revolver. The Revolver expires on June 30, 2012. The Term Loan principal is payable in 72 monthly installments of \$111 thousand beginning August 1, 2009 and ending on July 1, 2015. The maximum amount available for revolving debt borrowings is reduced to the amount of the borrowing base if that amount is lower. The borrowing base is based upon eligible assets of the Company, including accounts receivables and inventory. The Company's obligations under the Credit Agreement are secured by assets of the Company and its subsidiaries. At September 30, 2009, the Company had \$12.4 million and \$7.7 million outstanding on its Revolver and Term Loan, respectively, and \$7.5 million of availability under the Revolver.

Note D – Financing Arrangements (continued)

Interest is payable monthly on borrowings under the Credit Agreement at rates based on a base interest rate plus an applicable margin for each type of loan, which varies depending on whether the loan is based on U.S., Canadian, or Eurodollar rate loans and which ranges from an applicable rate of two hundred basis points over U.S. and Canadian base rates to four hundred basis points over Eurodollar base rates for revolving debt loans and three hundred basis points over U.S. base rates and five hundred basis points over Eurodollar base rates for the Term Loan. The Credit Agreement charges the Company a monthly unused borrowing line fee, at a rate equal to five-eighths of one percent (0.625%) per annum. In addition, the Credit Agreement imposes a monthly letter of credit fee equal to four percent (4%) per annum for unused letter of credit availability.

The Credit Agreement contains customary bank covenants, including limitations on incurrence of debt and liens or other encumbrances on assets or properties, sale of assets, making of loans or investments, including paying dividends and redemptions of capital stock, the formation or acquisition of subsidiaries and transactions with affiliates. The Credit Agreement requires the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum fixed charge coverage ratio that increases from 0.8:1.0 to 1.0:1.0 over the term of the Credit Agreement. The Credit Agreement also requires that the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum amount of earnings before interest, taxes, depreciation, and amortization, as determined under, and for the periods specified in, the Credit Agreement. The Company currently anticipates it will be able to comply with these covenants. However, the Company had to receive covenant waivers on several occasions under its prior credit agreement or enter amendments to that agreement to address failures to satisfy covenants under that prior credit agreement, and it is possible that, in the future, the Company may need to obtain waivers for failures to satisfy its covenants under the Credit Agreement or enter amendments to the Credit Agreement to address any such failures or obtain replacement financing as a result. There can be no assurance the Company would be successful in obtaining any such waiver, entering any such amendment or obtaining any such replacement financing.

Any waivers, amendments and/or replacement financing, if obtained, could result in significant cost to the Company. If an event of default under the Credit Agreement were to occur, the lenders could cease to make borrowings available under the Revolver and require the Company to repay all amounts outstanding under the Credit Agreement. If the Company were unable to repay those amounts due, the lenders could have their rights over the collateral exercised, which would likely have a material adverse effect on the Company's business, results of operations or financial condition.

## Note D – Financing Arrangements (continued)

On June 30, 2009, the Company also entered into accounts receivable financing agreements (the “FGI Financing Agreements”) with Faunus Group International (“FGI”). Under the terms of the FGI Financing Agreements, the Company may offer to sell certain of its foreign accounts receivable to FGI during the term of the FGI Financing Agreements, up to a maximum amount outstanding at any time of \$4.0 million in net amounts funded based upon an 80% advance rate. The Company will pay FGI a monthly collateral management fee equal to 0.66% of the average monthly balance of accounts purchased by FGI. In addition, FGI will charge the Company interest on the daily net funds employed at a rate equal to the greater of (i) 7.0% or (ii) 2.5% above FGI’s prime rate. The Company is obligated to maintain an average balance of net funded amounts of \$1.2 million (or pay fees based on such a minimum), and FGI has the right to decline to purchase any accounts.

The FGI Financing Agreements are for a term of 36 months and automatically renew for additional one year terms unless either party gives notice of non-renewal. In addition, FGI may terminate the agreements upon a default by the Company. The Company may terminate the agreements at any time by paying a \$120 thousand termination fee. The termination fee is not payable upon a termination by FGI or upon non-renewal.

The accounts receivable factored under the FGI Financing Agreements are factored with recourse. Accordingly, the factored receivables are included in accounts receivable on the balance sheet until invoice payment from the customer has been received, and the Company accounts for the transfer of these financial assets as secured borrowings. At September 30, 2009, the Company had \$542 thousand payable to FGI, which has been recorded in notes payable.

## Note E – Other Liabilities

Other Liabilities at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

|                                                                    | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------------------------------------|-----------------------|----------------------|
| Pension benefits                                                   | \$ 8,667              | \$ 8,185             |
| Environmental<br>remediation and<br>product related<br>liabilities | 5,722                 | 4,454                |
| Income taxes<br>payable                                            | 394                   | 394                  |
| Deferred income<br>taxes                                           | 131                   | 131                  |
| Other                                                              | 2,629                 | 3,637                |
|                                                                    | \$ 17,543             | \$ 16,801            |

See Note F for Liabilities Subject to Compromise.

## Note F – Liabilities Subject to Compromise

As a result of Congoleum's Chapter 11 filing (see Notes A and I), Congoleum is required to segregate pre-petition liabilities that are subject to compromise and report them separately on the consolidated balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of Congoleum's pre-petition debt is recorded at face value and is classified within liabilities subject to compromise. Prior to the fourth quarter of 2007, Congoleum's accrued interest expense on its 8 5/8% Senior Notes due August 1, 2008 was also recorded in liabilities subject to compromise. In the fourth quarter of 2007, Congoleum also recorded a \$41.0 million interest expense credit to reverse post-petition interest accrued on its Senior Notes. Terms of previous reorganization plans had provided for the payment of post-petition interest on the Senior Notes and therefore Congoleum had continued to accrue such interest. Under the terms of the Second Amended Joint Plan, the Senior Note holders will not receive any post-petition interest.

Liabilities subject to compromise at September 30, 2009 and December 31, 2008 and included in ABI's consolidated balance sheet at each such date were as follows (in thousands):

|                                                           | September 30,<br>2009 | December 31,<br>2008 |
|-----------------------------------------------------------|-----------------------|----------------------|
| Current liability                                         |                       |                      |
| Pre-petition<br>other payables<br>and accrued<br>interest | \$ 4,997              | \$ 4,997             |
| Non-current<br>Debt (at face<br>value)                    | 100,000               | 100,000              |
| Pension liability                                         | 39,335                | 37,022               |
| Other<br>post-retirement<br>benefit<br>obligation         | 11,339                | 10,938               |
| Pre-petition<br>other liabilities                         | 13,359                | 13,543               |
|                                                           | 164,033               | 161,503              |
| Elimination –<br>Payable to<br>American<br>Biltrite       | (109 )                | (117 )               |
| Total<br>non-current<br>liability                         | 163,924               | 161,386              |
| Total liabilities<br>subject to<br>compromise             | \$ 168,921            | \$ 166,383           |

Additional pre-petition claims (which would be classified as liabilities subject to compromise) may arise due to the rejection by Congoleum of executory contracts or unexpired leases pursuant to the Bankruptcy Code, or as a result of the allowance by the District Court of contingent or disputed claims.





## Note G – Pension Plans

The Company and Congoleum sponsor several noncontributory defined benefit pension plans covering most of their employees. Benefits under the plans are based on years of service and employee compensation. Amounts funded annually by the Company and Congoleum are actuarially determined using the projected unit credit and unit credit methods and are equal to or exceed the minimum required by government regulations. Congoleum also maintains health and life insurance programs for retirees (reflected in the table below under the columns entitled "Other Benefits").

The table below summarizes the components of the net periodic benefit cost for the Company's and Congoleum's pension and other benefit plans during the three and nine months ended September 30, 2009 and 2008 (in thousands):

|                                    | Three Months Ended September 30, |                |          |                |
|------------------------------------|----------------------------------|----------------|----------|----------------|
|                                    | 2009                             |                | 2008     |                |
|                                    | Pension                          | Other Benefits | Pension  | Other Benefits |
| Service cost                       | \$ 499                           | \$ 57          | \$ 642   | \$ 56          |
| Interest cost                      | 1,658                            | 161            | 1,652    | 144            |
| Expected return on plan assets     | (1,204 )                         | -              | (1,719 ) | -              |
| Recognized net actuarial loss      | 1,101                            | 16             | 384      | 15             |
| Amortization of prior service cost | 28                               | -              | 31       | -              |
| Net periodic benefit cost          | \$ 2,082                         | \$ 234         | \$ 990   | \$ 215         |
|                                    | Nine Months Ended September 30,  |                |          |                |
|                                    | 2009                             |                | 2008     |                |
|                                    | Pension                          | Other Benefits | Pension  | Other Benefits |
| Service cost                       | \$ 1,497                         | \$ 171         | \$ 1,926 | \$ 168         |
| Interest cost                      | 4,973                            | 483            | 4,956    | 432            |
| Expected return on plan assets     | (3,611 )                         | -              | (5,157 ) | -              |
| Recognized net actuarial loss      | 3,302                            | 48             | 1,152    | 45             |
| Amortization of prior service cost | 84                               | -              | 93       | -              |
| Net periodic benefit cost          | \$ 6,245                         | \$ 702         | \$ 2,970 | \$ 645         |

## Note G – Pension Plans (continued)

The weighted average assumptions used to determine net periodic benefit cost for the three and nine months ended September 30, 2009 and 2008 were as follows:

|                                          | 2009          |                | 2008          |                |
|------------------------------------------|---------------|----------------|---------------|----------------|
|                                          | Pension       | Other Benefits | Pension       | Other Benefits |
| Discount rate                            | 5.75% - 7.50% | 5.75%          | 5.50% - 6.00% | 6.00%          |
| Expected long-term return on plan assets | 7.00%         | —              | 7.00% - 7.50% | —              |
| Rate of compensation increase            | 3.00% - 4.00% | —              | 4.00% - 5.00% | —              |

## Note H - Commitments and Contingencies

The Company and Congoleum are subject to federal, state and local environmental laws and regulations, and certain legal and administrative claims are pending or have been asserted against the Company and Congoleum. Among these claims, the Company and Congoleum are separately a named party in several actions associated with waste disposal sites. These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of the Company's and Congoleum's owned and previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future cost and timing of payments are indeterminable due to such unknown factors as the magnitude of cleanup costs, the timing and extent of the remedial actions that may be required, the determination of the Company's and Congoleum's liability in proportion to other potentially responsible parties, the financial viability of other potentially responsible parties, and the extent to which costs may be recoverable from insurance. Provisions in the financial statements have been recorded for the estimated probable loss associated with all known general and environmental contingencies for the Company and Congoleum. While the Company and Congoleum believe their estimate of the future amount of these liabilities is reasonable, and that they will be paid over a period of five to ten years, the timing and amount of such payments may differ significantly from the Company's and Congoleum's assumptions. Although the effect of future government regulation could have a significant effect on the Company's and Congoleum's costs, the Company and Congoleum are not aware of any pending legislation that would have such an effect. There can be no assurances that the costs of any future government regulations could be passed along to their customers. Estimated insurance recoveries related to these liabilities are reflected in other non-current assets.

The Company and Congoleum record a liability for environmental remediation claims when it becomes probable that the Company or Congoleum, as applicable, will incur costs relating to a clean-up program or will have to make claim payments, and the costs or payments can be reasonably estimated. As assessments are revised and clean-up programs progress, these liabilities are adjusted as appropriate to reflect such revisions and progress.

## Note H - Commitments and Contingencies (continued)

Liabilities of Congoleum comprise the substantial majority of the environmental and other liabilities reported on the Company's consolidated balance sheet. Due to the relative magnitude and wide range of estimates of these liabilities and the fact that recourse related to these liabilities is generally limited to Congoleum, these matters are discussed separately following matters for which ABI has actual or potential liability. However, since ABI includes Congoleum in ABI's consolidating financial statements, to the extent that Congoleum incurs a liability or expense, it will be reflected in ABI's consolidating financial statements.

## American Biltrite Inc.

ABI is a co-defendant with many other manufacturers and distributors of asbestos containing products in approximately 1,218 pending claims involving approximately 1,773 individuals as of September 30, 2009. The claimants allege personal injury or death from exposure to asbestos or asbestos-containing products. Activity related to ABI's asbestos claims is as follows:

|                  | Nine Months<br>Ended<br>September 30,<br>2009 | Year Ended<br>December 31,<br>2008 |
|------------------|-----------------------------------------------|------------------------------------|
| Beginning claims | 1,269                                         | 1,360                              |
| New claims       | 171                                           | 356                                |
| Settlements      | (20 )                                         | (13 )                              |
| Dismissals       | (202 )                                        | (434 )                             |
| Ending claims    | 1,218                                         | 1,269                              |

The total indemnity costs incurred to settle claims during the nine months ended September 30, 2009 and the year ended December 31, 2008 were \$5.1 million and \$0.9 million, respectively, all of which were paid by ABI's insurance carriers, as were the related defense costs. ABI has first-layer excess umbrella policies with several insurers, which include coverage for the Company's asbestos related liabilities (the "Umbrella Coverage").

In addition to coverage available under the Umbrella Coverage, ABI has additional excess liability insurance policies that should provide further coverage if and when limits of certain policies within the Umbrella Coverage exhaust. While ABI expects the Umbrella Coverage will result in the substantial majority of defense and indemnity costs for asbestos claims against ABI being paid by its insurance carriers for the foreseeable future, ABI may incur uninsured costs related to asbestos claims, and those costs could be material. If ABI were to incur significant uninsured costs for asbestos claims, or its insurance carriers failed to fund insured costs for asbestos claims, such costs could have a material adverse impact on its liquidity, financial condition and results of operations.

Note H - Commitments and Contingencies (continued)

In general, governmental authorities have determined that asbestos-containing sheet and tile products are nonfriable (i.e., cannot be crumbled by hand pressure) because the asbestos was encapsulated in the products during the manufacturing process. Thus, governmental authorities have concluded that these products do not pose a health risk when they are properly maintained in place or properly removed so that they remain nonfriable. The Company has issued warnings not to remove asbestos--containing flooring by sanding or other methods that may cause the product to become friable.

The Company estimates its liability for indemnity to resolve current and reasonably anticipated future asbestos-related claims (not including claims asserted against Congoleum), based upon a strategy to actively defend against and strategically settle those claims on a case-by-case basis. Factors such as recent and historical settlement and trial results, the court dismissal rate of claims, the incidence of past and recent claims, the number of cases pending against it, and asbestos litigation developments that may impact the exposure of the Company were considered in performing these estimates. Changes in these factors could have a material impact on the Company's liability. For example, it is estimated that a 1 percentage point increase in the Company's acceptance rate of mesothelioma claims results in a 21% increase in mesothelioma liability assuming all other variables remained constant.

The Company utilizes an actuarial study to assist it in developing estimates of the Company's potential liability for resolving present and possible future asbestos claims. Projecting future asbestos claim costs requires estimating numerous variables that are extremely difficult to predict, including the incidence of claims, the disease that may be alleged by future claimants, future settlement and trial results, future court dismissal rates for claims, and possible asbestos legislation developments. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, the Company believes that six years is the most reasonable period over which to include future claims that may be brought against the Company for recognizing a reserve for future costs. Due to the numerous variables and uncertainties, including the effect of Congoleum's Chapter 11 case and any proposed plan of reorganization on the Company's liabilities, the Company does not believe that reasonable estimates can be developed of liabilities for claims beyond a six year horizon. The Company will continue to evaluate its range of future exposure, and the related insurance coverage available, and when appropriate, record future adjustments to those estimates, which could be material.

The estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2014 was \$13.6 million to \$44.0 million as of December 31, 2008. The Company believes no amount within this range is more likely than any other, and accordingly has recorded a liability of \$13.6 million as of September 30, 2009 in its financial statements which represents a probable and reasonably estimable amount for the future liability at the present time. The Company also believes that based on this liability estimate, the corresponding amount of insurance probable of recovery is \$13.5 million as of September 30, 2009, which has

Note H - Commitments and Contingencies (continued)

been included in other assets. The same factors that affect developing forecasts of potential indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include terms of the Umbrella Coverage and additional excess liability insurance policies, the allocation of costs to those policies as applicable, and the financial viability of some of the insurance companies. These amounts were based on facts currently known by ABI and a number of assumptions. However, projecting future events, such as the number of new claims to be filed each year, the average cost of disposing of each such claim, and the continuing solvency of various insurance companies, as well as numerous uncertainties surrounding asbestos legislation in the United States, could cause the actual liability and insurance recoveries for the Company to be higher or lower than those projected or recorded.

There can be no assurance that the Company's accrued asbestos liabilities will approximate its actual asbestos-related settlement costs, or that it will receive the insurance recoveries which it has accrued. The Company believes that it is reasonably possible that it will incur charges for resolution of asbestos claims in the future, which could exceed the Company's existing reserves. The Company's strategy remains to actively defend against and strategically settle its asbestos claims on a case-by-case basis. The Company believes it has substantial insurance coverage to mitigate future costs related to its asbestos liabilities.

In the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, the Company disclosed various legal proceedings. Material developments relating to those matters during the nine month period ended on September 30, 2009 include those mentioned in the immediately following paragraphs.

Additional potential remediation costs have been identified related to the Olin Corporation site in Wilmington, Massachusetts (the "Olin Site") and the Parcel A site owned by Miller Industries, Inc., in Lisbon Falls, Maine (the "Lisbon Falls Site"). At the Olin Site, potential additional remediation costs of approximately \$750 thousand had been identified at March 31, 2009 of which ABI's estimated share would be approximately \$163 thousand. In addition, Olin provided the Company with an update on the expected future costs for site remediation, monitoring, maintenance and oversight. ABI's estimated share of the increase in costs over the June 30, 2009 estimate is approximately \$700 thousand. As a result, in the revised estimates of current oversight costs and of future remediation, monitoring, maintenance and oversight costs, the environmental reserve was increased to reflect these changes in estimates. ABI now estimates its potential liability to Olin to be in the range of \$4.8 million to \$10.4 million after allocation for the annual reimbursement of \$100 thousand for Olin's internal costs and before any recovery from insurance and The Biltrite Corporation ("TBC"). Under a preexisting agreement between ABI and TBC, TBC is liable for 37.5% of these costs incurred by ABI. These costs are expected to be paid out over approximately 25 years.

Note H - Commitments and Contingencies (continued)

At the Lisbon Falls Site, the cost of site investigation, remediation, maintenance and monitoring was estimated at December 31, 2008 to be between \$1.3 million and \$2.3 million. The estimate had been revised as of March 31, 2009 by an environmental consultant to be between \$2.0 million to \$3.0 million because additional remediation may be necessary. Pursuant to ABI's pre-existing agreement with TBC, TBC is liable for 37.5% of costs ABI incurs in connection with the Lisbon Falls Site. Because there are other parties potentially responsible for the remediation costs and no cost allocation has been agreed upon, ABI's estimated liability with regard to the Lisbon Falls Site is subject to future negotiation with the current owner of the property.

The Company entered into an administrative consent order with the New Jersey Department of Environmental Protection (the NJDEP) in 1993 under which the Company agreed to provide a remediation funding source for an environmental matter at a Company plant in New Jersey. Congoleum subsequently assumed that liability for the clean-up of the site as part of the Joint Venture Agreement between American Biltrite and Congoleum in 1993 but the NJDEP still holds the Company primarily liable. The Company in prior years was able to provide a self guarantee to the NJDEP. In 2009, the Company was not able to qualify for a self-guarantee and thus the Company entered into a Remediation Trust Fund Agreement with Wells Fargo Bank whereby the Company funded the trust contemplated by that agreement with \$348 thousand as financial assurance to the NJDEP to complete the remediation in the event that Congoleum and American Biltrite fail to perform the remediation at that site. As of September 30, 2009, the funded amount was included in other non-current assets.

There have been no other material developments relating to the environmental sites or the other environmental matters described in ABI's Annual Report on Form 10-K during the nine month period ended September 30, 2009.

Congoleum

Congoleum is a defendant in a large number of asbestos-related lawsuits and on December 31, 2003, filed a petition commencing a voluntary reorganization case under Chapter 11 of the Bankruptcy Code for purposes of resolving its asbestos-related liabilities, and on August 17, 2009, the District Court withdrew Congoleum's chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. See Note I.

Congoleum is named, together with a large number (in most cases, hundreds) of other companies, as a Potentially Responsible Party ("PRP") within the meaning of the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA") in pending proceedings under CERCLA and similar state laws. In addition, in four other instances, although not named as a PRP, Congoleum has received a request for information. The pending proceedings in which Congoleum is a named PRP currently relate to eight disposal sites in New Jersey, Pennsylvania and Maryland in which recovery from generators of hazardous substances is sought for the cost of cleaning up the contaminated waste sites. Congoleum's ultimate liability and funding obligations in connection with those other sites

## Note H - Commitments and Contingencies (continued)

depends on many factors, including the volume of material contributed to the site by Congoleum, the number of other PRPs and their financial viability, the remediation methods and technology to be used and the extent to which costs may be recoverable by Congoleum from relevant insurance policies. However, under CERCLA and certain other laws, Congoleum, as a PRP, can be held jointly and severally liable for all environmental costs associated with a site.

The most significant exposure for which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland (the "Galaxy/Spectron Superfund Site"). The PRP group at this site is made up of 81 companies, substantially all of which are large, financially solvent entities. Two removal actions were substantially complete as of December 31, 1998, and a groundwater treatment system was installed thereafter. The United States Environmental Protection Agency has selected a remedy for the soil and shallow groundwater (Operable Unit 1 or OU-1); however, the remedial investigation/feasibility study related to the deep groundwater (Operational Unit 2 or OU-2) has not been completed. The PRP group, of which Congoleum is a part, has entered into a consent decree to perform the remedy for OU-1 and resolve natural resource damage claims. The consent decree also requires the PRP group to perform the OU-2 remedy, assuming that the estimated cost of the remedy is not more than \$10.0 million. If the estimated cost of the OU-2 remedy is more than \$10.0 million, the PRP group may decline to perform it or they may elect to perform it anyway. Cost estimates for the OU-1 and OU-2 work combined (including natural resource damages) range between \$22 million and \$34 million, with Congoleum's share ranging between approximately \$1.0 million and \$1.6 million. This assumes that all parties participate and that none cash-out and pay a premium; those two factors may account for some fluctuation in Congoleum's share of the costs. Fifty percent (50%) of Congoleum's share of the costs is presently being paid by one of its insurance carriers, Liberty Mutual Insurance Company, whose remaining policy limits for this claim are expected to cover approximately \$300 thousand in additional costs. Congoleum expects to fund the balance to the extent further insurance coverage is not available. In August 2006, the Bankruptcy Court issued an order authorizing and approving the consent decree and related settlement agreements for the Galaxy/Spectron Superfund Site, including authorization for Liberty Mutual Insurance Company and Congoleum to make certain payments that had been invoiced to Congoleum with respect to the consent decree and related settlement agreements.

Congoleum also accrues remediation costs for certain of Congoleum's owned facilities on an undiscounted basis. Congoleum has entered into an administrative consent order with the NJDEP and has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. Estimated total clean-up costs of \$1.3 million for Congoleum's expected portion of those remediation funding obligations, including capital outlays and future maintenance costs for soil and groundwater remediation, are primarily based on engineering studies. Of this amount, \$300 thousand was included in current liabilities subject to compromise and \$1.0 million was included in non-current liabilities subject to compromise in ABI's consolidated balance sheet as of September 30, 2009 and December 31, 2008.



Note H - Commitments and Contingencies (continued)

At September 30, 2009 and December 31, 2008, Congoleum recorded a total of \$4.4 million for estimated environmental liabilities, which liabilities were not reduced by the amount of expected insurance recoveries. At September 30, 2009 and December 31, 2008, such estimated insurance recoveries are approximately \$2.1 million. Receivables for expected insurance recoveries are recorded if the related carriers are solvent and paying claims under a reservation of rights or under an obligation pursuant to coverage in place or a settlement agreement. Substantially all of Congoleum's recorded insurance assets for environmental matters are collectible from a single carrier.

Congoleum anticipates that these matters will be resolved over a period of years, and that after application of expected insurance recoveries, funding of the costs by Congoleum will not have a material adverse impact on Congoleum's liquidity or financial position. However, unfavorable developments in these matters could result in significant expenses or judgments that could have a material adverse effect on Congoleum's and the Company's business, results of operations or financial condition.

Other

In addition to the matters referenced above and in Note I, in the ordinary course of their businesses, the Company and Congoleum become involved in lawsuits and administrative proceedings in connection with product liability claims (in addition to asbestos related claims) and other matters. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts, and the matters may remain unresolved for several years.

Note I – Congoleum Asbestos Liabilities and Reorganization

On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the Asbestos Claimants' Committee ("ACC"), the Future Claimants' Representative ("FCR") and other asbestos claimant representatives. In addition, an insurance company, Continental Casualty Company, and its affiliate, Continental Insurance Company (collectively, "CNA"), filed a plan of reorganization and the Official Committee of Bondholders ("Bondholders' Committee") (representing holders of Congoleum's 8 5/8% Senior Notes due August 1, 2008) also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in reorganization plan mediation discussions. Several mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 (the "Tenth Plan") and the other filed by CNA, both of which the Bankruptcy Court subsequently

## Note I – Congoleum Asbestos Liabilities and Reorganization (continued)

ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, on February 5, 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed a joint plan of reorganization (the "Joint Plan"). The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and on May 12, 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. On June 6, 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing on June 26, 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008. Following further negotiations, the Bondholders' Committee, the ACC, the FCR, representatives of holders of pre-petition settlements and Congoleum reached an agreement in principle which the Company understands that Congoleum believed addressed the issues raised by the Bankruptcy Court in the ruling on the Joint Plan and in the court's prior decisions. A term sheet describing the proposed material terms of a contemplated new plan of reorganization and a settlement of avoidance litigation with respect to pre-petition claim settlements (the "Litigation Settlement") was entered into by those parties and was filed with the Bankruptcy Court on August 14, 2008. Certain insurers and a large bondholder have filed objections to the Litigation Settlement and/or reserved their rights to object to confirmation of the contemplated new plan of reorganization. The Bankruptcy Court approved the Litigation Settlement following a hearing on October 20, 2008, but the court reserved certain issues, including whether any plan of reorganization embodying the settlement meets the standards required for confirmation of a plan of reorganization. On November 14, 2008, Congoleum, the ACC and the Bondholders' Committee filed an amended joint plan of reorganization for Congoleum, et al. with the Bankruptcy Court (the "Amended Joint Plan"). In January 2009, an insurer filed a motion for summary judgment seeking denial of confirmation of the Amended Joint Plan, and a hearing was held on February 5, 2009. On February 26, 2009, the Bankruptcy Court rendered an opinion denying confirmation of the Amended Joint Plan. Pursuant to the opinion, the Bankruptcy Court entered the Order of Dismissal dismissing Congoleum's bankruptcy case (the "Order of Dismissal"). On February 27, 2009, Congoleum and the Bondholders' Committee appealed the Order of Dismissal to the District Court. On March 3, 2009, an order was entered by the Bankruptcy Court granting a stay of the Bankruptcy Court's Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal. On August 17, 2009, the District Court issued an opinion and order reversing the Order of Dismissal. With respect to the plan of reorganization, the District Court ruled that a settlement with certain asbestos claimants was not an impediment to confirmation while another plan provision would require modification. The decision also provided specific guidance about the plan and directed the parties in the case to provide briefings in preparation

Note I – Congoleum Asbestos Liabilities and Reorganization (continued)

for a confirmation hearing. In addition, the District Court assumed jurisdiction over the proceedings from the Bankruptcy Court. Certain insurers have filed notices of appeal with respect to the District Court's ruling with the United States Court of appeals for the Third Circuit. The Debtors, the Bondholders' Committee and the ACC have moved to dismiss the appeals, and such motion is pending.

Following additional negotiations, on October 22, 2009, the ACC, the Bondholders' Committee and Congoleum jointly filed the Second Amended Joint Plan with the District Court. The District Court has scheduled a hearing to consider the adequacy of the disclosure statement for the Second Amended Joint Plan for November 19, 2009.

Under the terms of the Second Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

Under the terms of the Second Amended Joint Plan, a trust would be created that would assume the liability for Congoleum's current and future asbestos claims (the "Plan Trust"). That trust would receive the proceeds of various settlements Congoleum has reached with a number of insurance carriers and would be assigned Congoleum's rights under its remaining policies covering asbestos product liability. The trust would also receive 50.1% of the newly issued common stock of reorganized Congoleum when the plan takes effect.

Under the proposed terms of the Second Amended Joint Plan, holders of Congoleum's \$100 million in 8 5/8% Senior Notes due in August 2008 would receive on a pro rata basis \$33 million in new 9% senior secured notes (the "New Senior Notes") maturing December 31, 2017. The New Senior Notes would not accrue or earn interest for the first six months after the effective date of the Second Amended Joint Plan, after which they would accrue interest at the rate of 9% per annum payable semi-annually in cash. During the period beginning with the interest payment due 12 months after the effective date of the Second Amended Joint Plan to and including the interest payment due 30 months after the effective date of the Second Amended Joint Plan, at Congoleum's option, interest may be paid in kind by the issuance of additional New Senior Notes in the aggregate amount of the interest then due and payable on each such payment date, in which case the interest rate applicable during the period for which the payment applies would be 11%.

The indenture governing the New Senior Notes also will provide for the annual issuance of additional New Senior Notes ("Additional Notes"), with the amount of Additional Notes to be issued being determined as of the end of reorganized Congoleum's fiscal year ending December 31, 2011, and on an annual basis at the end of each of the succeeding five years (each such date, a "Determination Date"), according to the following procedure. As soon as practicable after each Determination Date, the average EBITDA for reorganized Congoleum for the two-year period ending on the Determination Date shall be calculated. An assumed net debt capacity ("Net Debt Capacity") shall then be determined as of each such Determination Date by

Note I – Congoleum Asbestos Liabilities and Reorganization (continued)

multiplying this two-year average annual EBITDA by four. Additional Notes shall be issuable to holders of New Senior Notes with respect to a Determination Date to the extent that the Net Debt Capacity as of such Determination Date, plus any cash amount on reorganized Congoleum's balance sheet as of such Determination Date, exceeds the sum of (i) the amount of the balance of reorganized Congoleum's working capital loan (determined as the daily average of such loan for the year ending on such Determination Date); (ii) the \$33 million of New Senior Notes to be issued on the effective date of the Second Amended Joint Plan; (iii) the amount of Additional Notes issued with respect to all prior Determination Dates; and (iv) the amount of other interest-bearing debt of reorganized Congoleum outstanding as of such Determination Date. The calculation of the amount of Additional Notes to be issued shall take place within three months after each Determination Date, and the issuance of such Additional Notes shall be deemed to have occurred as of the first day of the fiscal year following the Determination Date. The indenture governing the New Senior Notes will provide that in no event will the cumulative amount of Additional Notes issued under the procedures described in this paragraph exceed \$37 million.

The New Senior Notes would be subordinated to the working capital facility providing reorganized Congoleum's financing upon exiting bankruptcy reorganization. In addition, holders of the \$100 million in 8 5/8% Senior Notes due August 1, 2008 would receive 49.9% of the common stock in reorganized Congoleum. Congoleum's obligations for the \$100 million in 8 5/8% Senior Notes due August 1, 2008, including accrued pre-petition interest (which amounted to \$3.6 million) would be satisfied by the New Senior Notes and the 49.9% common stock issued if the Second Amended Joint Plan becomes effective.

Under the terms of the Second Amended Joint Plan, existing Class A and Class B common stock of Congoleum would be cancelled when the plan became effective and holders of those shares, including ABI, would not receive anything on account of their cancelled shares.

The Second Amended Joint Plan also includes terms that would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum. The Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and ABI in form and substance mutually agreeable to the Bondholders' Committee, the ACC and ABI. The existing intercompany arrangements providing for management services by ABI to reorganized Congoleum and other business relationships expire on the earlier of (a) the effective date of a plan of reorganization for Congoleum, following a final order of confirmation, or (b) March 31, 2010, unless renewed. Although there can be no assurances, ABI currently expects that the terms of any new intercompany agreement would be substantially similar to the form of that agreement that was included in previous proposed plans of reorganization for Congoleum and would provide for the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. Expiration or termination of these existing arrangements, failure to reach definitive agreement on

Note I – Congoleum Asbestos Liabilities and Reorganization (continued)

final terms of future arrangements, or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

There can be no assurance that the Second Amended Joint Plan or any other plan will receive the acceptances necessary for confirmation, that the Second Amended Joint Plan will not be modified further, that the conditions to the Second Amended Joint Plan or any other plan will be satisfied or waived, that the Second Amended Joint Plan or any other plan will timely receive necessary court approvals from the District Court, that the Second Amended Joint Plan or any other plan will be confirmed, that the Second Amended Joint Plan or any other plan, if confirmed, will become effective, or that Congoleum will have sufficient funds to pay for completion of the appellate process with respect to the Second Amended Joint Plan, continued litigation over any plan of reorganization and the state court insurance coverage litigation. Any other plan of reorganization that may be proposed for Congoleum may contain terms substantially different from those contained in the Second Amended Joint Plan.

On July 30, 2009, certain insurers filed summary judgment motions in the ongoing New Jersey state court coverage litigation seeking declarations that Congoleum has materially breached its insurance policies and that the insurers have no coverage obligation for the underlying asbestos claims that are the subject of the Claimant Agreement (which agreement is described in the next paragraph), the Joint Plan, the Amended Joint Plan or any other agreement for which the insurers' consent was not procured. The insurers take the position that their motions impact all present and future asbestos claims. Congoleum opposed these motions, and on October 30, 2009, the New Jersey state court denied these motions. The Phase 2 trial is scheduled to begin on February 12, 2010. The precise scope of the Phase 2 trial is in dispute. The parties have submitted competing case management orders to define the scope of the Phase 2 trial, but no case management order has been entered by the Court.

In anticipation of Congoleum's commencement of the Chapter 11 cases, Congoleum entered into a Claimant Agreement, which provides for the settlement of certain pre-petition asbestos claims against Congoleum and provides for an aggregate settlement value of at least \$466 million as well as an additional number of individually negotiated trial listed settlements with an aggregate value of approximately \$25 million, for total settlements in excess of \$491 million. Participants in the Claimant Agreement signed releases limiting their recourse against Congoleum to what they would receive from the Plan Trust and Congoleum has therefore estimated its liability under the Claimant Agreement as the cost of effecting the settlement through confirmation of a plan of reorganization. In addition, as a result of tabulating ballots on a previous proposed plan of reorganization, Congoleum is also aware of claims by claimants whose claims were not determined under the Claimant Agreement but who have submitted claims with a value of approximately \$512 million based on the settlement values applicable in the previous proposed plan of reorganization. It is also likely that additional new claims may be asserted in connection with any solicitation of acceptances of any future plan. Congoleum does not believe it can reasonably estimate the liability associated with claims that may be pending.

## Note J – Stockholders’ (Deficit) Equity

The following table reconciles stockholders’ (deficit) equity for the nine months ended September 30, 2009 (in thousands):

|                                                          | Stockholders’<br>(Deficit) Equity<br>of Controlling<br>Interests | Non-<br>Controlling<br>Interests | Total<br>Equity |
|----------------------------------------------------------|------------------------------------------------------------------|----------------------------------|-----------------|
| December 31, 2008                                        | \$ (46,784 )                                                     | \$ 835                           | \$ (45,949 )    |
| Net loss for the nine months ended<br>September 30, 2009 | (8,330 )                                                         | (3,061 )                         | (11,391 )       |
| Stock compensation expense                               | 158                                                              | —                                | 158             |
| Foreign currency translation adjustments                 | 2,190                                                            | —                                | 2,190           |
| September 30, 2009                                       | \$ (52,766 )                                                     | \$ (2,226 )                      | \$ (54,992 )    |

American Biltrite Inc. owns 55% of Congoleum’s outstanding shares of Class A and Class B common stock as of September 30, 2009. The majority of the noncontrolling interests recorded in American Biltrite’s consolidated financial statements represent the 45% of the outstanding shares of Congoleum Class A and Class B common stock not owned by American Biltrite Inc. Prior to January 1, 2009, American Biltrite Inc. reported in its consolidated results 100% of Congoleum’s losses from the period Congoleum incurred a deficit in earnings during 2002 through December 31, 2008. Under U.S. GAAP, 45% of Congoleum’s income or loss is attributed to the noncontrolling interests even if the attribution of a loss results in a negative balance. The effect of the change in attributing earnings or losses has a significant impact on the consolidated results reported by American Biltrite Inc. Had the Company not adopted the FASB’s new standard on January 1, 2009 (see Note A), the pro forma consolidated net loss reported by American Biltrite Inc. and the consolidated loss per share for the nine months ended September 30, 2009 would have been \$11.5 million and \$3.33 per share (basic and diluted), respectively. The pro forma consolidated stockholders’ deficit would have been \$58.1 million as of September 30, 2009.

## Note K - Comprehensive Income (Loss)

The following table presents total comprehensive income for the three and nine months ended September 30, 2009 and 2008 (in thousands):

|                                             | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |             |
|---------------------------------------------|-------------------------------------|--------------|------------------------------------|-------------|
|                                             | 2009                                | 2008         | 2009                               | 2008        |
| Net loss                                    | \$ (676 )                           | \$ (10,366 ) | \$ (8,330 )                        | \$ (9,464 ) |
| Foreign currency translation<br>adjustments | 1,284                               | 110          | 2,190                              | (130 )      |
| Total comprehensive income (loss)           | \$ 608                              | \$ (10,256 ) | \$ (6,140 )                        | \$ (9,594 ) |

## Note L - Earnings (Loss) Per Share

Basic earnings per share is based on the weighted-average number of common shares outstanding, and diluted earnings per share is based on the weighted-average number of common shares outstanding and all dilutive potential common share equivalents outstanding. The dilutive effect of options is determined under the treasury stock method using the average market price for the period. Common equivalent shares are included in the per share calculations when the effect of their inclusion would be dilutive.

## Note M - Industry Segments

## Description of Products and Services

The Company has four segments for financial reporting purposes: flooring products, tape division, jewelry and a Canadian division. The flooring products segment consists of Congoleum, a manufacturer of resilient floor coverings, which are sold primarily through floor covering distributors to retailers and contractors for residential use. The tape division segment manufactures paper, film, HVAC, electrical, shoe and other tape products for use in industrial and automotive markets in two production facilities in the United States, and in finishing and sales facilities in Belgium and Singapore. The jewelry segment consists of the Company's majority-owned subsidiary K&M Associates L.P., a national costume jewelry supplier to mass merchandisers and department stores. The Company's Canadian division produces flooring, rubber and other industrial products.

## Note M - Industry Segments (continued)

Net sales by segment for the three and nine months ended September 30, 2009 and 2008 were as follows (in thousands):

|                                       | Three Months Ended |          | Nine Months Ended |           |
|---------------------------------------|--------------------|----------|-------------------|-----------|
|                                       | September 30,      |          | September 30,     |           |
|                                       | 2009               | 2008     | 2009              | 2008      |
| Net sales to external customers:      |                    |          |                   |           |
| Flooring products                     | \$37,359           | \$46,085 | \$106,815         | \$140,948 |
| Tape products                         | 20,094             | 21,835   | 55,827            | 70,320    |
| Jewelry                               | 14,619             | 14,587   | 37,618            | 39,043    |
| Canadian division                     | 11,811             | 14,844   | 35,006            | 44,036    |
| Total net sales to external customers | 83,883             | 97,351   | 235,266           | 294,347   |
| Intersegment net sales:               |                    |          |                   |           |
| Flooring products                     | -                  | -        | -                 | -         |
| Tape products                         | -                  | -        | -                 | -         |
| Jewelry                               | -                  | -        | -                 | -         |
| Canadian division                     | 784                | 954      | 2,048             | 3,170     |
| Total intersegment net sales          | 784                | 954      | 2,048             | 3,170     |
| Reconciling items                     | -                  | -        | -                 | -         |
| Intersegment net sales                | (784 )             | (954 )   | (2,048 )          | (3,170 )  |
| Total consolidated net sales          | \$83,883           | \$97,351 | \$235,266         | \$294,347 |

Segment profit or loss is before income tax expense or benefit and noncontrolling interests. Profit (loss) by segment for the three and nine months ended September 30, 2009 and 2008 was as follows (in thousands):

|                                                             | Three Months Ended |             | Nine Months Ended |             |
|-------------------------------------------------------------|--------------------|-------------|-------------------|-------------|
|                                                             | September 30,      |             | September 30,     |             |
|                                                             | 2009               | 2008        | 2009              | 2008        |
| Segment profit (loss)                                       |                    |             |                   |             |
| Flooring products                                           | \$(1,894 )         | \$(11,310 ) | \$(6,930 )        | \$(8,337 )  |
| Tape products                                               | (590 )             | (1,875 )    | (4,276 )          | (2,106 )    |
| Jewelry                                                     | 1,271              | 320         | 538               | (1,636 )    |
| Canadian division                                           | 407                | 380         | 358               | 936         |
| Total segment loss                                          | (806 )             | (12,485 )   | (10,310 )         | (11,143 )   |
| Reconciling items                                           |                    |             |                   |             |
| Corporate expenses                                          | (299 )             | 489         | (828 )            | 37          |
| Intercompany profit                                         | 10                 | 16          | 39                | 18          |
| Total consolidated loss before income taxes and other items | \$(1,095 )         | \$(11,980 ) | \$(11,099 )       | \$(11,088 ) |



## Note M - Industry Segments (continued)

Assets by segment as of the end of the quarter and the end of the prior year were as follows (in thousands):

|                                  | September 30,<br>2009 |  | December 31,<br>2008 |
|----------------------------------|-----------------------|--|----------------------|
| Segment assets                   |                       |  |                      |
| Flooring products                | \$ 157,260            |  | \$ 171,867           |
| Tape products                    | 50,985                |  | 48,115               |
| Jewelry                          | 22,377                |  | 24,038               |
| Canadian division                | 29,308                |  | 29,866               |
| Total segment assets             | 259,930               |  | 273,886              |
| Reconciling items                |                       |  |                      |
| Corporate items                  | 27,184                |  | 35,948               |
| Intersegment accounts receivable | (9,572 )              |  | (14,626 )            |
| Intersegment profit in inventory | (51 )                 |  | (90 )                |
| Intersegment other asset         | (109 )                |  | (117 )               |
| Consolidated assets              | \$ 277,382            |  | \$ 295,001           |

## Note N – Sale of Property

In April 2006, the Company completed the sale of a building and land owned by the Company's former subsidiary Janus Flooring Corporation, a discontinued operation. The building and land were sold for \$5.0 million Canadian dollars ("C\$"). The Company received C\$1.0 million in cash and a C\$4.0 million note. The note was paid in full in May 2008, and the Company recognized a gain of approximately C\$1.0 million on the sale of the building and land during the second quarter of 2008. The gain has been recorded as a gain from a discontinued operation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Economic conditions in the United States have been challenging, including in the industries in which the Company and Congoleum conduct business. The downturn in the housing industry has resulted in reduced demand for the Company's and Congoleum's products. The slowdown in manufacturing, including in the automotive and industrial sectors, has resulted in reduced demand for the Tape division's products. In addition, the decline in consumer and retailer, especially mid-tier retailer, spending has resulted in reduced demand for K&M's products. Although the U.S. economy may have grown during the third quarter of 2009, it is unclear the extent to which any such growth may be sustainable, how long any possible improvement in economic conditions may last, and whether and the extent to which the conditions in the particular industries in which the Company and Congoleum conduct business may improve and whether any such improvement would be sustainable.

In addition, raw material and energy costs have been volatile and, although below their peak levels in 2008, remain at historically high levels and have recently increased. The volatile and high raw material and energy costs have negatively impacted the Company's and Congoleum's businesses and operating results. The Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers, particularly in light of the recent difficult economic conditions in the United States and the industries in which the Company and Congoleum conduct business.

Although the Company and Congoleum intend to implement reductions in their expenses, there can be no assurance that they will be able to reduce their respective expenses, that any reductions they may implement will have any meaningful positive impact on their businesses, results of operations or financial condition, or that they will be able to sustain any expense reductions that they may implement.

American Biltrite's consolidated financial statements include its majority-owned subsidiary, Congoleum. However, under the terms of the Second Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated, and ABI expects its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed joint plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the ACC, the FCR and other asbestos claimant representatives. In addition, an insurance company and its affiliate (together referred to as "CNA"), filed a plan of reorganization and the Bondholders' Committee also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in global mediation discussions. Numerous mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in

September 2006 and the other filed by CNA, both of which the Bankruptcy Court subsequently ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, on February 5, 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed the Joint Plan. The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and on May 12, 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. On June 6, 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing on June 26, 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008. Following further negotiations, the Bondholders' Committee, the ACC, the FCR, representatives of holders of pre-petition settlements and Congoleum reached an agreement in principle which the Company understands that Congoleum believes addresses the issues raised by the Bankruptcy Court in the ruling on the Joint Plan and in the court's prior decisions. A term sheet describing the proposed material terms of a contemplated new plan of reorganization and a settlement of avoidance litigation with respect to pre-petition claim settlements (the "Litigation Settlement") was entered into by those parties and was filed with the Bankruptcy Court on August 14, 2008.

Certain insurers and a large bondholder filed objections to the Litigation Settlement and/or reserved their rights to object to confirmation of the contemplated new plan of reorganization. The Bankruptcy Court approved the Litigation Settlement following a hearing on October 20, 2008, but the court reserved certain issues, including whether any plan of reorganization embodying the settlement meets the standards required for confirmation of a plan of reorganization. On November 14, 2008, Congoleum, the ACC and the Bondholders' Committee filed the Amended Joint Plan. In January 2009, an insurer filed a motion for summary judgment seeking denial of confirmation of the Amended Joint Plan, and a hearing was held on February 5, 2009. On February 26, 2009, the Bankruptcy Court rendered an opinion denying confirmation of the Amended Joint Plan. Pursuant to the opinion, the Bankruptcy Court entered the Order of Dismissal dismissing Congoleum's bankruptcy case. On February 27, 2009, Congoleum and the Bondholders' Committee appealed the Order of Dismissal to the District Court. On March 3, 2009, an order was entered by the Bankruptcy Court granting a stay of the Bankruptcy Court's Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal. On August 17, 2009, the District Court issued an opinion and order reversing the Order of Dismissal. With respect to the plan of reorganization, the District Court ruled that a settlement with certain asbestos claimants was not an impediment to confirmation while another plan provision would require a modification. The decision also provided specific guidance about the plan and directed the parties in the case to provide briefings in preparation for a confirmation hearing. In addition, the District Court assumed jurisdiction over the proceedings from the Bankruptcy Court. Certain insurers have filed notices of appeal with respect to the District Court's ruling with the United States Court of Appeals for the Third Circuit. The Debtors, the Bondholders' Committee and the ACC have moved to dismiss the appeals, and such motion is pending.

Following additional negotiations, on October 22, 2009, the ACC, the Bondholders' Committee and Congoleum jointly filed the Second Amended Joint Plan with the District Court. The District Court has scheduled a hearing to consider the adequacy of the disclosure statement for the Second Amended Joint Plan for December 7, 2009.

Under the terms of the Second Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

The Second Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum. The Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and ABI in form and substance mutually agreeable to the Bondholders' Committee, the ACC and the Company. The existing intercompany arrangements providing for management services by ABI to reorganized Congoleum and other business relationships expire on the earlier of (a) the effective date of a plan of reorganization for Congoleum, following a final order of confirmation, or (b) March 31, 2010, unless renewed. Although there can be no assurances, ABI currently expects that the terms of any new intercompany agreement would be substantially similar to the form of that agreement that was included in previous proposed plans of reorganization for Congoleum and would provide for the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The prior form of new intercompany agreement contemplated the agreement becoming effective on the date the plan became effective and having a term of two years. In addition, consistent with the terms of previous plans of reorganization proposed for Congoleum, under the terms of the Second Amended Joint Plan, ABI's rights and claims to indemnification from Congoleum under the existing joint venture agreement between ABI and Congoleum that relate to ABI's contribution to Congoleum in 1993 of ABI's tile division, and the joint venture agreement itself, would be deemed rejected and disallowed upon the effective date of the Second Amended Joint Plan, and therefore eliminated. The Second Amended Joint Plan's rejection and disallowance of the joint venture agreement and ABI's claims thereunder would include any unfunded indemnification claims ABI may have had prepetition and during the pendency of Congoleum's chapter 11 case as well as any such claims ABI might otherwise be entitled to assert after the Second Amended Joint Plan becomes effective. There can be no assurance that ABI, Congoleum and other applicable Congoleum constituencies will be able to reach agreement on the terms of any management services proposed to be provided by ABI to reorganized Congoleum or any other proposed business relationships among ABI and its affiliates and reorganized Congoleum. Any plan of reorganization for Congoleum that may be confirmed by the District Court and become effective may have terms that differ significantly from the terms contemplated by the Second Amended Joint Plan or otherwise described in this report, including with respect to any management services that may be provided by ABI to reorganized Congoleum and ABI's claims and interests and other business relationships with reorganized Congoleum.

There can be no assurance that the Second Amended Joint Plan or any other plan will receive the acceptances necessary for confirmation, that the Second Amended Joint Plan will not be modified further, that the conditions to the Second Amended Joint Plan or any other plan will be satisfied or waived, that the Second Amended Joint Plan or any other plan will timely receive necessary court approvals from the Bankruptcy Court and the United States District Court for the District of New Jersey, that the Second Amended Joint Plan or any other plan will be confirmed, that the Second Amended Joint Plan or any other plan, if confirmed, will become effective, or that Congoleum will have sufficient funds to pay for completion of the appellate process with respect to the Second Amended Joint Plan, continued litigation over any plan of reorganization and the state court insurance coverage litigation. Any other plan of reorganization that may be proposed for Congoleum may contain terms substantially different from those contained in the Second Amended Joint Plan.

On July 30, 2009, certain insurers filed summary judgment motions in the ongoing New Jersey state court coverage litigation seeking declarations that Congoleum has materially breached its insurance policies and that the insurers have no coverage obligation for the underlying asbestos claims that are the subject of the Claimant Agreement, the Joint Plan, the Amended Joint Plan or any other agreement for which the insurers' consent was not procured. The insurers take the position that their motions impact all present and future asbestos claims. Congoleum opposed these motions, and on October 30, 2009, the New Jersey state court denied these motions. The Phase 2 trial is scheduled to begin on February 12, 2010. The precise scope of the Phase 2 trial is in dispute. The parties have submitted competing case management orders to define the scope of the Phase 2 trial, but no case management order has been entered by the Court.

ABI estimates that it will spend \$300 thousand for legal fees in 2009, which it has accrued, in connection with Congoleum's reorganization plan. Actual costs for pursuing and implementing any plan of reorganization could be materially higher, and Congoleum and the Company may record significant additional charges should the applicable minimum estimated cost increase.

Due to Congoleum's reorganization and separate capital structure, as well as the anticipated elimination of ABI's ownership interest in Congoleum, the Company believes that presenting the results of operations of ABI and its non-debtor subsidiaries separately from those of Congoleum is the most meaningful way to discuss and analyze its financial condition and results of operations.

Please refer to "Risk Factors – The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful. Any plan of reorganization for Congoleum is expected to result in elimination of the interests of Congoleum's equity holders, including the Company" and "Elimination of the Company's equity interests in Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition" included in Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of certain factors that could cause actual results to differ from the Company's and Congoleum's goals for resolving their asbestos liabilities.

## Application of Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidating financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the Company's financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies, upon which its financial condition depends and which involve the most complex or subjective decisions or assessments, are those described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission.

There have been no material changes in what the Company considers to be its critical accounting policies or the applicability of the disclosure the Company provided regarding those policies in that Form 10-K.

## Results of Operations

## ABI and Non-Debtor Subsidiaries

|                                            | Three Months Ended September 30 |       |           |       | Nine Months Ended September 30 |       |             |       |
|--------------------------------------------|---------------------------------|-------|-----------|-------|--------------------------------|-------|-------------|-------|
|                                            | 2009                            |       | 2008      |       | 2009                           |       | 2008        |       |
|                                            | (In thousands)                  |       |           |       |                                |       |             |       |
| Net sales                                  | \$ 46,524                       |       | \$ 51,266 |       | \$ 128,451                     |       | \$ 153,399  |       |
| Cost of sales                              | 33,673                          |       | 37,942    |       | 96,461                         |       | 114,811     |       |
| Gross profit                               | 12,851                          | 27.6% | 13,324    | 26.0% | 31,990                         | 24.9% | 38,588      | 25.2% |
| Selling, general & administrative expenses | 12,394                          | 26.6% | 13,501    | 26.3% | 36,316                         | 28.3% | 41,096      | 26.8% |
| Operating income (loss)                    | 457                             |       | (177 )    |       | (4,326 )                       |       | (2,508 )    |       |
| Interest expense, net                      | (289 )                          |       | (302 )    |       | (732 )                         |       | (1,253 )    |       |
| Other income, net                          | 621                             |       | (208 )    |       | 850                            |       | 992         |       |
| Income (loss) before taxes and other items | 789                             |       | (687 )    |       | (4,208 )                       |       | (2,769 )    |       |
| Provision for (benefit from) income taxes  | 289                             |       | (446 )    |       | 242                            |       | (446 )      |       |
| Noncontrolling interests                   | (124 )                          |       | (17 )     |       | (77 )                          |       | 50          |       |
| Income (loss) from continuing operations   | \$ 376                          |       | \$ (258 ) |       | \$ (4,527 )                    |       | \$ (2,273 ) |       |



Net sales in the third quarter of 2009 were \$46.5 million compared to \$51.3 million in the third quarter of 2008, a decrease of \$4.7 million or 9.2%. Canadian division sales decreased by \$3.2 million or 20.3% due to lower sales of industrial rubber products resulting from reduced demand in both the US and Canada. Tape division sales decreased \$1.7 million or 8.0%, reflecting lower sales of automotive, electrical and graphics products out of the division's Belgium operation. Jewelry sales were essentially level with year earlier levels (up 0.2%).

Net sales for the nine months ended September 30, 2009 were \$128.5 million compared to \$153.4 million for the same period in 2008, a decrease of \$24.9 million or 16.3%. Tape division sales decreased \$14.5 million or 20.6% primarily due to reduced global demand for the division's graphics, electrical, film and shoe product lines. Canadian division sales decreased \$10.2 million or 21.5% due to the reduced sales of industrial rubber products and the effect of currency translation. Jewelry sales decreased \$1.4 million or 3.6% due to lower sales through department stores versus the year earlier period.

Gross profit margin percentage increased from 26.0% of net sales for the third quarter of 2008 to 27.6% of net sales for the third quarter of 2009. Tape division gross profit margin improved from 21.6% of net sales to 23.3% of net sales due to the impact of costs for a product recall in the third quarter of 2008, partly offset by the negative impact of lower production volumes in the third quarter of 2009. Canadian division gross profit margins improved from 25.3% to 27.0% due to the impact of selling price increases and a more profitable mix of flooring sales. Jewelry segment gross margins improved from 31.0% of net sales in the third quarter of 2008 to 32.2%, as product costs and licensing expenses declined but were partly offset by lower selling prices.

Gross profit margin percentage for the nine months ended September 30, 2009 was 24.9% of net sales compared to 25.2% for the first nine months of 2008. Tape division gross profit margins decreased from 22.1% of net sales to 21.2% due to the impact of lower production volumes over which to spread fixed manufacturing overhead costs. Canadian division gross margins improved from 23.1% to 23.6% due to improved gross profit margin on flooring sales, which more than offset lower gross profit margins on industrial product sales. Jewelry gross margins as a percent of net sales decreased from 30.6% to 29.9% due to slightly higher allowances for returns and markdowns for the first nine months of 2009 versus the corresponding period for 2008.

The Company includes the cost of purchasing and finished goods inspection in selling, general and administrative ("SG&A") expenses. Some companies also record such costs in operating expenses while others record them in cost of goods sold. Consequently, the Company's gross profit margins may not be comparable to other companies. Had the Company recorded these expenses in cost of sales, the gross profit margins for the quarter ended September 30, 2009 and 2008 would have been 27.0% and 25.3%, respectively. The gross profit margins for the nine months ended September 30, 2009 and 2008 would have been 24.3% and 24.5%, respectively.

SG&A expenses in the third quarter of 2009 decreased by \$1.1 million or 8.2% compared to the third quarter of 2008 primarily as a result of headcount and expense reductions at all locations, as well as lower freight and other sales-volume-related expenses, partly offset by increases in pension expense resulting from market value declines in pension fund assets and use of a lower discount rate on projected liabilities and an increase in the expense provision for legacy environmental matters. For the nine months ended September 30, 2009, SG&A expenses decreased by \$4.8 million or 11.6% from the year earlier period. SG&A expenses in the first quarter of 2008 included a \$1.2 million insurance recovery. Excluding this recovery, SG&A expenses decreased by \$6.0 million or 14.1% in the first nine months of 2009 compared to 2008, for the same reasons as the decrease in the third quarter of 2009 from the third quarter of 2008.





Net interest expense for the three and nine months ended September 30, 2009 was lower than the comparable periods of 2008 primarily due to a lower weighted average effective interest rate on the Company's borrowings, as well as lower average borrowings outstanding.

Other income for the third quarter of 2009 was \$621 thousand compared to other expense of \$208 thousand for the third quarter of 2008. This change is primarily attributed to realized foreign exchange gains at the Tape division's Belgian operations during the third quarter of 2009 compared to realized foreign exchange losses in the third quarter of 2008. Other income for the nine months ended September 30, 2009 and 2008 was \$850 thousand and \$992 thousand, respectively.

During the third quarter of 2009, the Company recognized income tax expense for foreign income tax expense and state income tax expense. During the third quarter of 2008, the Company recorded a tax benefit it expected to recover from carrying back 2008 losses against a prior year's taxable income, and also recorded a benefit of approximately \$200 thousand for a change in valuation allowance against foreign tax credits.

#### Congoleum

|                                            | Three Months Ended September 30 |       |              |       | Nine months Ended September 30 |       |             |       |
|--------------------------------------------|---------------------------------|-------|--------------|-------|--------------------------------|-------|-------------|-------|
|                                            | 2009                            |       | 2008         |       | 2009                           |       | 2008        |       |
|                                            | (In thousands)                  |       |              |       |                                |       |             |       |
| Net sales                                  | \$ 37,359                       |       | \$ 46,085    |       | \$ 106,815                     |       | \$ 140,948  |       |
| Cost of sales                              | 31,871                          |       | 37,765       |       | 90,690                         |       | 111,866     |       |
| Gross profit                               | 5,488                           | 14.7% | 8,320        | 18.1% | 16,125                         | 15.1% | 29,082      | 20.6% |
| Selling, general & administrative expenses | 7,208                           | 19.3% | 7,768        | 16.9% | 22,907                         | 21.4% | 26,138      | 18.5% |
| Asbestos-related reorganization costs      | -                               |       | 11,491       |       | -                              |       | 11,491      |       |
| Operating loss                             | (1,720 )                        |       | (10,939 )    |       | (6,782 )                       |       | (8,547 )    |       |
| Interest income (expense), net             | 8                               |       | 6            |       | (197 )                         |       | 1,001       |       |
| Other income (expense), net                | (182 )                          |       | (377 )       |       | 49                             |       | (791 )      |       |
| Loss before taxes                          | (1,894 )                        |       | (11,310 )    |       | (6,930 )                       |       | (8,337 )    |       |
| Provision for (benefit from) income taxes  | 35                              |       | (1,185 )     |       | 50                             |       | (103 )      |       |
| Net loss                                   | \$ (1,929 )                     |       | \$ (10,125 ) |       | \$ (6,980 )                    |       | \$ (8,234 ) |       |

Net sales for the three months ended September 30, 2009 were \$37.4 million as compared to \$46.1 million for the three months ended September 30, 2008, a decrease of \$8.7 million or 18.9% on net sales. The sales decline was primarily a result of significantly lower sales to the manufactured housing industry as well as continuing weakness in the residential new construction and remodeling categories.

Net sales for the nine months ended September 30, 2009 were \$106.8 million as compared to \$140.9 million for the nine months ended September 30, 2008, a decrease of \$34.1 million or 24.2%. The year-to-date sales shortfall reflects lower sales to the manufactured housing industry as a result of sharp reductions in manufactured and RV home production during 2009, coupled with declines in new residential construction and remodeling activity demand.

Gross profit for the three months ended September 30, 2009 totaled \$5.5 million, or 14.7% of net sales, compared to \$8.3 million, or 18.1% of net sales, for the same period last year. The decrease in gross profit dollars resulted from the lower sales levels while the reduced gross profit margin percentage reflects the impact of lower production volumes (resulting from both lower and demand and inventory reductions) over which to spread fixed manufacturing overhead, partially mitigated by cost reductions enacted earlier in the year.

Gross profit for the nine months ended September 30, 2009 totaled \$16.1 million, or 15.1% of net sales, compared to \$29.1 million, or 20.6% of net sales, for the same period last year. The decrease in gross profit dollars resulted from the lower sales levels and the impact of unabsorbed fixed overhead spending, with the decline in gross profit margins reflecting lower production volume over which to spread fixed manufacturing overhead, partially offset by manufacturing costs reductions, including workforce reductions.

Selling, general and administrative expenses were \$7.2 million for the three months ended September 30, 2009 as compared to \$7.8 million for the three months ended September 30, 2008. The decrease reflects cost reductions measures enacted during the first quarter of 2009, including headcount and expense reductions, partially offset by increased pension expense of \$0.9 million.

Selling, general and administrative expenses were \$22.9 million for the nine months ended September 30, 2009 or 21.4% of net sales, compared to \$26.1 million or 18.5% of net sales for the nine months ended September 30, 2008. Cost reduction measures instituted during the first quarter of 2009 accounted for most of the decrease, partially offset by a severance charge of \$0.5 million and incremental pension expense of \$2.7 million.

The loss from operations was \$1.7 million for the three months ended September 30, 2009 compared to a loss of \$10.1 million for three months ended September 30, 2008. The three months ending September 30, 2008 included an \$11.5 million charge to increase the reorganization related reserve. The loss from operations for the nine months ended September 30, 2009 was \$6.8 million compared to a loss from operations of \$8.5 million for the same period last year, which included a charge of \$11.5 million to increase the reorganization reserve.

Due to the inability to recognize any tax benefits associated with operating losses, Congoleum expects its effective tax rate for 2009 will be negligible. Congoleum recorded a provision of \$35 thousand for income taxes for the three months ended September 30, 2009. For the nine months ended September 30, 2009 Congoleum has recorded \$50 thousand as a provision for income taxes. Congoleum recorded a tax benefit of \$1.2 million during the third quarter of 2008 primarily related to the deferred federal tax impact (net of valuation) of \$11.5 million in additional asbestos reserves recorded in the third quarter of 2008.

## Liquidity and Capital Resources

### ABI & Non-Debtor Subsidiaries

Cash, cash equivalents, and short-term investments (consisting of bank certificates of deposit with original maturity greater than three months), increased \$153 thousand in the nine months ended September 30, 2009 to \$3.1 million. Cash generated from improved working capital reductions (primarily inventory) and was offset by the net loss and costs paid in connection with a debt refinancing. Working capital at September 30, 2009 was \$27.3 million compared to \$24.8 million at December 31, 2008. The ratio of current assets to current liabilities at September 30, 2009 was 1.67 compared to 1.51 at December 31, 2008. Net cash provided by operating activities was \$9.0 million for the nine months ended September 30, 2009, compared to cash provided by operating activities of \$754 thousand for the nine months ended September 30, 2008.

Capital expenditures in the first nine months of 2009 were \$1.5 million compared to \$1.0 million for the first nine months of 2008. It is currently anticipated that capital spending for the full year 2009 will be approximately \$2.0 million.

The Company has recorded provisions which it believes are adequate for environmental remediation, including provisions for testing and potential remediation of conditions at its own facilities, and non-asbestos product-related liabilities. While the Company believes its estimate of the future amount of these environmental liabilities is reasonable, that most of such amounts will be paid over a period of five to ten years and that the Company expects to have sufficient resources to fund such amounts, the actual timing and amount of such payments may differ significantly from the Company's assumptions. Although the effect of future government regulation could have a significant effect on the Company's costs, the Company is not aware of any pending legislation or regulation relating to these matters that would have a material adverse effect on its consolidated results of operations or financial position. There can be no assurances that any such costs could be passed along to its customers.

American Biltrite Inc.'s primary source of borrowings are the revolving credit facility (the "Revolver") and the term loan ("Term Loan") it has with Wachovia Bank, National Association ("Wachovia") pursuant to a loan and security agreement (the "Credit Agreement"). The Credit Agreement was entered into on June 30, 2009, and initial borrowings on the Credit Agreement were used to pay off borrowings from another financial institution and to pay fees and expenses in connection with the refinancing.

The Credit Agreement provides American Biltrite Inc. and its subsidiaries with (i) a \$30.0 million commitment under the Revolver (including a \$12 million Canadian revolving credit facility sublimit) and (ii) an \$8.0 million Term Loan. The Credit Agreement also provides letter of credit facilities with availability of up to \$6.0 million (including a \$3 million Canadian letters of credit facility sublimit) subject to availability under the Revolver. The maximum amount available for revolving debt borrowings is reduced to the amount of the borrowing base if that amount is lower. The borrowing base is based upon eligible assets of the Company, including accounts receivables and inventory. The Company's obligations under the Credit Agreement are secured by assets of the Company and its subsidiaries. At September 30, 2009, the Company had \$12.4 million and \$7.7 million outstanding on its Revolver and Term Loan, respectively, and \$7.5 million of availability under the Revolver.

The Term Loan principal is payable in 72 monthly installments of \$111 thousand beginning August 1, 2009 and ending on July 1, 2015. All indebtedness under the Credit Agreement, other than the Term Loan, matures on June 30, 2012.

Interest is payable monthly on borrowings under the Credit Agreement at rates based on a base interest rate plus an applicable margin for each type of loan, which varies depending on whether the loan is based on U.S., Canadian, or Eurodollar rate loans and which ranges from an applicable rate of two hundred basis points over U.S. and Canadian base rates to four hundred basis points over Eurodollar base rates for revolving debt loans and three hundred basis points over U.S. base rates and five hundred basis points over Eurodollar base rates for the Term Loan. The Credit Agreement charges the Company a monthly unused borrowing line fee, at a rate equal to five-eighths of one percent (0.625%) per annum. In addition, the Credit Agreement imposes a monthly letter of credit fee equal to four percent (4%) per annum for unused letter of credit availability.

Pursuant to the Credit Agreement, payments on the Company's accounts receivable will be deposited in accounts assigned by the Company and the other borrowers to Wachovia and the funds in that account may be used by Wachovia to pay down outstanding borrowings under the Credit Agreement.

The Credit Agreement contains customary bank covenants, including limitations on incurrence of debt and liens or other encumbrances on assets or properties, sale of assets, making of loans or investments, including paying dividends and redemptions of capital stock, the formation or acquisition of subsidiaries and transactions with affiliates. The Credit Agreement requires the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum fixed charge coverage ratio that increases from 0.8:1.0 to 1.0:1.0 over the term of the Credit Agreement. The Credit Agreement also requires that the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum amount of earnings before interest, taxes, depreciation, and amortization, as determined under, and for the periods specified in, the Credit Agreement. The Company currently anticipates it will be able to comply with these covenants. However, the Company had to receive covenant waivers on several occasions under its prior credit agreement or enter amendments to that agreement to address failures to satisfy covenants under that prior credit agreement, and it is possible that, in the future, the Company may need to obtain waivers for failures to satisfy its covenants under the Credit Agreement or enter amendments to the Credit Agreement to address any such failures or obtain replacement financing as a result. There can be no assurance the Company would be successful in obtaining any such waiver, entering any such amendment or obtaining any such replacement financing.

Any waivers, amendments and/or replacement financing, if obtained, could result in significant cost to the Company. If an event of default under the Credit Agreement were to occur, the lenders could cease to make borrowings available under the Revolver and require the Company to repay all amounts outstanding under the Credit Agreement. If the Company were unable to repay those amounts due, the lenders could have their rights over the collateral exercised, which would likely have a material adverse effect on the Company's business, results of operations or financial condition.

On June 30, 2009, the Company also entered into accounts receivable financing agreements (the "FGI Financing Agreements") with Faunus Group International ("FGI"). Under the terms of the FGI Financing Agreements, the Company may offer to sell certain of its foreign accounts receivable to FGI during the term of the FGI Financing Agreements, up to a maximum amount outstanding at any time of \$4.0 million in net amounts funded based upon an 80% advance rate. The Company will pay FGI a monthly collateral management fee equal to 0.66% of the average monthly balance of accounts purchased by FGI. In addition, FGI will charge the Company interest on the daily net funds employed at a rate equal to the greater of (i) 7.0% or (ii) 2.5% above FGI's prime rate. The Company is obligated to maintain an average balance of net funded amounts of \$1.2 million (or pay fees based on such a minimum), and FGI has the right to decline to purchase any accounts.

The FGI Financing Agreement is for a term of 36 months and automatically renews for additional one year terms unless either party gives notice of non-renewal. In addition, FGI may terminate the agreement upon a default by the Company. The Company may terminate the agreement at any time by paying a \$120 thousand termination fee. The termination fee is not payable upon a termination by FGI or upon non-renewal. At September 30, 2009, the Company had \$542 thousand payable to FGI.

Under the terms of the Second Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects that its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case. While the Company does not believe the loss of the value of its equity interest in Congoleum would have a direct material adverse effect on ABI's liquidity, the loss of a controlling interest could have a material adverse impact on the business relationships between ABI and Congoleum, which in turn could have a material adverse impact on ABI's business, operations and financial condition. In connection with Congoleum's plan of reorganization, ABI expects to spend \$300 thousand for legal fees in 2009, which is not expected to have a material adverse effect on ABI's working capital or cash flow.

The Company has not declared a dividend subsequent to the third quarter of 2003. The Credit Agreement generally prohibits the Company from paying cash dividends to its stockholders. Therefore, so long as the Credit Agreement remains outstanding, the Company would need to obtain the consent of the lenders under the Credit Agreement to pay dividends to its stockholders in the future. In addition to this need for lender consent, any determination to pay future dividends would be made by the Company's Board of Directors based upon, among other considerations, the financial performance and capital requirements of the Company, as well as market conditions.

The Company has recorded what it believes are adequate provisions for environmental remediation and product-related liabilities (including asbestos-related claims). The Company is subject to federal, state and local environmental laws and regulations and certain legal and administrative claims are pending or have been asserted against the Company. Among these claims, the Company is a named party in several actions associated with waste disposal sites (more fully discussed in Note H to the Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q). These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of the Company's previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future cost and timing of payments are indeterminable due to such unknown factors as the magnitude of cleanup costs, the timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other potentially responsible parties, and the extent to which costs may be recoverable from insurance. The Company has recorded provisions in its financial statements for the estimated probable loss associated with all known general and environmental contingencies. While the Company believes its estimate of the future amount of these liabilities is reasonable, and that they will be paid over a period of five to twenty-five years, the timing and amount of such payments may differ significantly from the Company's assumptions. Although the effect of future government regulations could have a significant effect on the Company's costs, the Company is not aware of any pending legislation which would reasonably have such an effect. There can be no assurances that the costs of any future government regulations could be passed along to the Company's customers. Estimated insurance and third party recoveries related to these liabilities are reflected in other non-current assets.

The outcome of these environmental and product liability matters could result in significant expenses incurred by or judgments assessed against the Company.

#### Congoleum

The consolidated financial statements of Congoleum have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, Congoleum's consolidated financial statements do not include any adjustments that might be necessary should Congoleum be unable to continue as a going concern. In light of Congoleum's substantial asbestos liabilities, which are further described in the Notes to Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, there is substantial doubt about Congoleum's ability to continue as a going concern unless it obtains relief from those liabilities through a successful reorganization under Chapter 11 of the Bankruptcy Code.

On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court (Case No. 03-51524) seeking relief under the Bankruptcy Code, and on August 17, 2009, the District Court withdrew Congoleum's chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. See Notes A and I of the Notes to Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a discussion of Congoleum's bankruptcy proceedings. These matters continue to have a material adverse impact on liquidity and capital resources. During the first nine months of 2009, Congoleum paid \$6.3 million in fees and expenses related to reorganization proceedings under the Bankruptcy Code and the New Jersey state court insurance coverage action Congoleum is litigating against certain of its insurers (the "Coverage Action"). Furthermore, at September 30, 2009, Congoleum had incurred but not paid approximately \$8.6 million in additional fees and expenses for services rendered through that date.

Based on its reorganization plans, Congoleum has made provision in its financial statements for the minimum estimated cost to effect its plan to settle asbestos liabilities through confirmation of a plan that complies with section 524(g) of the Bankruptcy Code. Congoleum recorded charges aggregating approximately \$51.3 million in years prior to 2007. Based on the terms of the Joint Plan, in the fourth quarter of 2007 Congoleum recorded an additional \$41.3 million charge. Of this charge, \$14.9 million related to the write-off of certain insurance litigation costs receivable that would not have been collected under the terms of the Joint Plan and are not expected to be collected under any subsequent plan, including the Second Amended Joint Plan, and \$26.4 million was an additional provision for estimated costs for the reorganization proceedings and the Coverage Action. In the fourth quarter of 2007 Congoleum also recorded a \$41.0 million interest expense credit to reverse post-petition interest accrued on its Senior Notes. Terms of previous reorganization plans had provided for the payment of post-petition interest on the Senior Notes and therefore Congoleum had continued to accrue such interest. Under the terms of the Joint Plan, and the terms of all subsequent plans, including the Second Amended Joint Plan, the Senior Note holders would not have received any post-petition interest. Following the ruling that the Joint Plan was unconfirmable and based on the anticipated terms and timing of effectiveness of the Amended Joint Plan, Congoleum recorded an additional charge of \$11.5 million in the third quarter of 2008 for costs to effect its reorganization.

In February 2006, the Bankruptcy Court ordered Congoleum's former counsel, then known as Gilbert Heintz & Randolph LLP ("GHR") to disgorge all fees and certain expenses it was paid by Congoleum. In October 2006, Congoleum and GHR entered into the a settlement agreement under which GHR was to pay Congoleum approximately \$9.2 million plus accrued interest in full satisfaction of the disgorgement order. The obligation was secured by assets of GHR and was to be made over time according to a formula based on GHR's earnings. The Bankruptcy Court approved that settlement agreement in April 2007. Congoleum received \$9.2 million plus \$1.0 million of accrued interest in full satisfaction of the settlement agreement in March 2008.

Unrestricted cash and cash equivalents, including short-term investments at September 30, 2009, were \$14.1 million, a decrease of \$1.0 million from December 31, 2008. Restricted cash of \$30.8 million at September 30, 2009 consists of insurance settlement proceeds, the disposition of which is subject to court order. Congoleum expects to contribute these funds, less any amounts withheld pursuant to reimbursement arrangements, to the Plan Trust should the Bankruptcy Court confirm a plan pursuant to section 524(g) of the Bankruptcy Code. Net working capital was a negative \$0.8 million at September 30, 2009 and a negative \$1.6 million at December 31, 2008.



The ratio of current assets to current liabilities was 1.0 to 1.0 at September 30, 2009 and December 31, 2008. Net cash provided by operations during the nine months ended September 30, 2009 was \$3.6 million, as compared to net cash used in operations of \$1.9 million during the nine months ended September 30, 2008.

Capital expenditures for the nine months ended September 30, 2009 totaled \$1.9 million. Congoleum is currently planning capital expenditures of approximately \$3.5 million in 2009 and between \$3 million and \$5 million in 2010, primarily for maintenance and improvement of plants and equipment, which it expects to fund with cash from operations and credit facilities.

In January 2004, the Bankruptcy Court authorized entry of a final order approving Congoleum's debtor-in-possession financing, which replaced its pre-petition credit facility on substantially similar terms. The debtor-in-possession financing agreement (as amended and approved by the Bankruptcy Court to date) provides a revolving credit facility expiring on the earlier of (i) December 31, 2009 and (ii) the date the plan of reorganization in Congoleum's bankruptcy cases as confirmed by the Bankruptcy Court becomes effective. Total borrowing under the facility may not exceed \$30.0 million. Interest is based on 0.25% above the prime rate. This financing agreement contains certain covenants, which include the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA"). In connection with the amendment and extension of the agreement during 2008, the minimum level of EBITDA that Congoleum must maintain was reduced for quarters ending after June 30, 2008. Congoleum paid a fee of \$25 thousand for such amendment, plus an amendment fee in the amount of \$15 thousand per month. The financing agreement also includes restrictions on the incurrence of additional debt and limitations on capital expenditures. The covenants and conditions under this financing agreement must be met in order for Congoleum to borrow from the facility. Congoleum was not in compliance with the minimum EBITDA covenant under its credit facility for the period ended December 31, 2008, and obtained a waiver of that covenant as well as an amendment of the covenant levels for the remaining term of the facility to make them less restrictive. In connection with this waiver and amendment, the interest rate was increased to 1.75% above the prime rate. A fee of \$30 thousand was paid in connection with the waiver and amendment. Borrowings under this facility are collateralized by inventory and receivables. At September 30, 2009, based on the level of receivables and inventory, \$18.6 million was available under the facility, of which \$2.0 million was utilized for outstanding letters of credit and \$12.4 million was utilized by the revolving loan. During the second quarter of 2009 Congoleum received an extension on the existing financing facility to December 31, 2009. A covenant modification and extension fee of \$25 thousand was paid in connection with this extension, plus a monthly extension fee of \$15 thousand per month. In October 2009, Congoleum and the lenders agreed to a further modification of the credit facility that would extend the facility until June 30, 2010, provide Congoleum with an additional \$5 million of availability under the revolver, and add certain real estate of Congoleum as security for the obligations of Congoleum under the facility. The \$5 million loan availability against real estate reduces by \$69 thousand per month beginning December 1, 2009. In connection with the amendment, Congoleum agreed to grant the lenders a first lien on its properties on East State Street in Trenton, NJ and in Marcus Hook, PA. The amendment will be effective upon approval by the District Court, which is pending. A \$60 thousand amendment fee will be payable at that time.

There can also be no assurances that Congoleum will continue to be in compliance with the required covenants under this facility or that the debtor-in-possession facility will be renewed prior to its expiration if a plan of reorganization is not confirmed before that time. Congoleum was in compliance with the terms of the debtor-in-possession financing at September 30, 2009, as the excess borrowing availability it maintained under the revolving line of credit exceeded the threshold at which it was required to meet minimum EBITDA levels. Congoleum anticipates that its debtor-in-possession financing facility (including anticipated extensions thereof) together with cash from operations will provide it with sufficient liquidity to operate during 2009 and 2010 while its Chapter 11 case remains pending. For a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it.

In addition to the provision for asbestos litigation discussed previously, Congoleum has also recorded what it believes are adequate provisions for environmental remediation and product-related liabilities (other than asbestos-related claims), including provisions for testing for potential remediation of conditions at its own facilities. Congoleum is subject to federal, state and local environmental laws and regulations and certain legal and administrative claims are pending or have been asserted against Congoleum. Among these claims, Congoleum is a named party in several actions associated with waste disposal sites (more fully discussed in Note H to the Unaudited Condensed Consolidating Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q). These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of Congoleum's owned and previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future cost and timing of payments are indeterminable due to such unknown factors as the magnitude of cleanup costs, the timing and extent of the remedial actions that may be required, the determination of Congoleum's liability in proportion to other potentially responsible parties, and the extent to which costs may be recoverable from insurance. Congoleum has recorded provisions in its financial statements for the estimated probable loss associated with all known general and environmental contingencies. While Congoleum believes its estimate of the future amount of these liabilities is reasonable, and that they will be paid over a period of five to ten years, the timing and amount of such payments may differ significantly from Congoleum's assumptions. Although the effect of future government regulation could have a significant effect on Congoleum's costs, Congoleum is not aware of any pending legislation which would reasonably have such an effect. There can be no assurances that the costs of any future government regulations could be passed along to its customers. Estimated insurance recoveries related to these liabilities are reflected in other non-current assets.

The outcome of these environmental matters could result in significant expenses incurred by or judgments assessed against Congoleum.

Congoleum's principal sources of capital are net cash provided by operating activities and borrowings under its financing agreement. Congoleum believes that its existing cash (including restricted cash), cash generated from operations, and debtor-in-possession credit arrangements should be sufficient to provide adequate working capital for operations during 2009 and 2010. Congoleum's ability to emerge from its Chapter 11 case will depend on obtaining sufficient exit financing to settle administrative expenses of the reorganization and any other related obligations, and to provide adequate future liquidity.

#### Item 4T. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The information contained in Note H "Commitments and Contingencies" and Note I "Congoleum Asbestos Liabilities and Reorganization" of the Notes to Unaudited Consolidating Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part I, Item 2 of this Quarterly Report on Form 10-Q, and in "Risk Factors – The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful. Any plan of reorganization for Congoleum is expected to result in elimination of the interests of Congoleum's equity holders, including the Company" and "Elimination of the Company's equity interests in Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition" included in Part II, Item 1A of this Quarterly Report on Form 10-Q, to the extent addressing matters reportable under this Part II, Item 1, are incorporated herein by reference.

### Item 1A. Risk Factors

The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful. Any plan of reorganization for Congoleum is expected to result in elimination of the interests of Congoleum's equity holders, including the Company.

As more fully set forth in Notes A and I of the Notes to Unaudited Consolidating Condensed Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, the Company and Congoleum have significant liability and funding exposure for asbestos personal injury claims. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. An amended joint plan of reorganization for Congoleum proposed by the Asbestos Claimants' Committee, the Bondholders' Committee and Congoleum was filed in the Bankruptcy Court, which plan is referred to elsewhere in this Quarterly Report on Form 10-Q as the "Amended Joint Plan." The Bankruptcy Court issued an opinion denying confirmation of the Amended Joint Plan and ordered Congoleum's bankruptcy case be dismissed (which is referred to elsewhere in this Quarterly Report on Form 10-Q as the "Order of Dismissal"). That order was appealed with the United States District Court for the District of New Jersey, and the Bankruptcy Court granted a stay of its Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal. On August 17, 2009, the District Court issued an opinion and order reversing the Order of Dismissal. In addition, the District Court assumed jurisdiction over the proceedings from the Bankruptcy Court. Certain insurers have filed notices of appeal with respect to the District Court's ruling with the United States Court of Appeals for the Third Circuit. The Debtors, the Bondholders' Committee and the ACC have moved to dismiss the appeals, and such motion is pending.

Following additional negotiations, on October 22, 2009, the ACC, the Bondholders' Committee and Congoleum jointly filed the Second Amended Joint Plan with the District Court. The District Court has scheduled a hearing to consider the adequacy of the disclosure statement for the Second Amended Joint Plan for December 7, 2009.

Under the terms of the Second Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects that its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

The Second Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum. The Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and ABI in form and substance mutually agreeable to the Bondholders' Committee, the ACC and the Company. The existing intercompany arrangements providing for management services by ABI to reorganized Congoleum and other business relationships expire on the earlier of (a) the effective date of a plan of reorganization for Congoleum, following a final order of confirmation, or (b) March 31, 2010, unless renewed. Although there can be no assurances, ABI currently expects that the terms of any new intercompany agreement would be substantially similar to the form of that agreement that was included in previous proposed plans of reorganization for Congoleum and would provide for the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The prior form of new intercompany agreement contemplated the agreement becoming effective on the date the plan became effective and having a term of two years. In addition, consistent with the terms of previous plans of reorganization proposed for Congoleum, under the terms of the Second Amended Joint Plan, ABI's rights and claims to indemnification from Congoleum under the existing joint venture agreement between ABI and Congoleum that relate to ABI's contribution to Congoleum in 1993 of ABI's tile division, and the joint venture agreement itself, would be deemed rejected and disallowed upon the effective date of the Second Amended Joint Plan, and therefore eliminated. The Second Amended Joint Plan's rejection and disallowance of the joint venture agreement and ABI's claims thereunder would include any unfunded indemnification claims ABI may have had prepetition and during the pendency of Congoleum's chapter 11 case as well as any such claims ABI might otherwise be entitled to assert after the Second Amended Joint Plan becomes effective. There can be no assurance that ABI, Congoleum and other applicable Congoleum constituencies will be able to reach agreement on the terms of any management services proposed to be provided by ABI to reorganized Congoleum or any other proposed business relationships among ABI and its affiliates and reorganized Congoleum. Any plan of reorganization for Congoleum that may be confirmed may have terms that differ significantly from the terms contemplated by the Second Amended Joint Plan, including with respect to any management services that may be provided by ABI to reorganized Congoleum and ABI's claims and interests and other business relationships with reorganized Congoleum.

In addition, in view of ABI's relationships with Congoleum, ABI will be affected by Congoleum's negotiations regarding, and its pursuit of, any plan of reorganization, and there can be no assurance as to what that impact, positive or negative, might be. In any event, the failure of Congoleum to obtain confirmation and consummation of a Chapter 11 plan of reorganization would have a material adverse effect on Congoleum's business, results of operations or financial condition and could have a material adverse effect on ABI's business, results of operations or financial condition.

Any plan of reorganization proposed for Congoleum will be subject to numerous conditions, approvals and other requirements, including the receipt of necessary creditor, claimant and court approvals. Certain insurers have contested the reorganization plans previously proposed by Congoleum, and Congoleum is involved in ongoing litigation against its insurers in the Coverage Action. On July 30, 2009, certain insurers filed summary judgment motions in the ongoing New Jersey state court coverage litigation seeking declarations that Congoleum has materially breached its insurance policies and that the insurers have no coverage obligation for the underlying asbestos claims that are the subject of the Claimant Agreement, the Joint Plan, the Amended Joint Plan or any other agreement for which the insurers' consent was not procured. The insurers take the position that their motions impact all present and future asbestos claims. Congoleum opposed these motions, and on October 30, 2009, the New Jersey state court denied these motions. The Phase 2 trial is scheduled to begin on February 12, 2010. The precise scope of the Phase 2 trial is in dispute. The parties have submitted competing case management orders to define the scope of the Phase 2 trial, but no case management order has been entered by the Court. Congoleum may be required to incur significant time and expense litigating against the insurers, which could further delay any confirmation or effectiveness of any reorganization plan. If the insurers successfully avoid having to fund under the applicable policies in connection with the Second Amended Joint Plan or other plan of reorganization for Congoleum, significantly delay confirmation and effectiveness of any such plan, or cause Congoleum to incur significant additional costs in connection with pursuing confirmation and effectiveness of any such plan, Congoleum may be unable to obtain confirmation and effectiveness of the Second Amended Joint Plan or other plan of reorganization for Congoleum.

In order to obtain confirmation of any reorganization plan, Congoleum will need sufficient funds to pay for the continued litigation with these insurers as well as the bankruptcy proceedings generally. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it, particularly in light of the recent difficult conditions in the global credit markets, which if such conditions continued, may make it more expensive and difficult for Congoleum to obtain that financing. Moreover, the failure of any lender under any credit facility Congoleum may have or obtain to fund requests for borrowings by Congoleum could negatively impact Congoleum's business, results of operations or financial condition and its chances of obtaining confirmation of any plan of reorganization.

The Company has its own direct asbestos liability as well. The Company's strategy remains to actively defend against and strategically settle its asbestos claims on a case-by-case basis. To date, the Company's insurers have funded substantially all of the Company's liabilities and expenses related to its asbestos liability under the Company's applicable insurance policies. The Company expects its insurance carriers will continue to defend and indemnify it for a substantial amount of its asbestos liabilities for the foreseeable future pursuant to an umbrella/first-layer excess policies arrangement between the Company and the applicable insurance carriers. It is possible that asbestos claims may be asserted against the Company alleging exposure allocable solely to years in which the Company's insurance policies excluded coverage for asbestos, that the policies providing coverage under the umbrella/first-layer excess policies arrangement will exhaust, or that the carriers responsible for such policies may at some future date be unwilling or unable to meet their obligations under the policies or that arrangement. If ABI were to incur significant additional asbestos liabilities for which it did not have insurance coverage or was not able to receive recoveries under its insurance policies due to the carriers which underwrote those policies being insolvent or otherwise, ABI may have to fund such liabilities, which could have a material adverse effect on ABI's business, results of operations or financial condition.

As a result of Congoleum's significant liability and funding exposure for asbestos claims, there can be no assurance that if Congoleum were to incur any unforecasted or unexpected liability or disruption to its business or operations it would be able to withstand that liability or disruption and continue as an operating company. Any significant increase of the Company's asbestos liability and funding exposure would likely have a material adverse effect on the Company's business, operations and financial condition and possibly its ability to continue as a going concern.

In the past, federal legislation has been proposed which would establish a national trust to provide compensation to victims of asbestos-related injuries and channel all current and future asbestos-related personal injury claims to that trust. In light of the numerous uncertainties surrounding this and other possible asbestos legislation in the United States, ABI does not know what effects any such legislation, if adopted, may have upon its or Congoleum's businesses, results of operations or financial conditions, or upon any plan of reorganization for Congoleum.

For further information regarding the Company's and Congoleum's asbestos liability, insurance coverage and strategies to resolve that asbestos liability, please see Notes A, H and I of the Notes to Unaudited Consolidating Condensed Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in Part I, Item 1 and Part I, Item 2, respectively, of this Quarterly Report on Form 10-Q.

Elimination of the Company's equity interests in Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

Under the Second Amended Joint Plan, ABI's ownership would be eliminated, and ABI expects that its ownership interest in Congoleum would be eliminated under any plan or outcome in Congoleum's Chapter 11 case. There can be no assurances as to the ownership structure under the terms of any reorganization plan for Congoleum that may be proposed, confirmed or effected, or how such structure and any other change in ownership and control may affect reorganized Congoleum's business, operations and financial condition, or its future relationships with ABI.

ABI provides management services to Congoleum, sells and purchases products to and from Congoleum, and receives royalties from Congoleum. Agreements for these current intercompany arrangements expire on the earlier of (a) the effective date of a plan of reorganization for Congoleum, following a final order of confirmation, or (b) March 31, 2010, or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first. It is not known whether ABI, Congoleum and the other parties in interest will agree to extend the term of these arrangements if necessary, and if so, for how long any extension would last or what the terms of any such extension and related intercompany arrangements would be. The Second Amended Joint Plan includes terms that would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum. The Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and ABI in form and substance mutually agreeable to the Bondholders' Committee, the ACC and ABI. Although there can be no assurances, ABI currently expects that the terms of any new intercompany agreement would be substantially similar to the form of that agreement that was included in previous proposed plans of reorganization for Congoleum and would provide for the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The terms of the applicable prior plans provided for certain intercompany arrangements continuing for a two year period ending on the second anniversary of the effective date of the plan pursuant to a new agreement to be entered into by ABI and reorganized Congoleum on the effective date of the plan. Pursuant to that previously proposed new agreement, ABI's current chief executive officer would serve as a director and the chief executive officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum substantially all of his time during normal working hours on an annual basis, ABI would have to make available to reorganized Congoleum approximately 25% of the time of ABI's current president and chief operating officer during normal working hours and on an annual basis, and ABI's current chief financial officer would serve as the chief financial officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum approximately 50% of his time during normal working hours and on an annual basis. Expiration or termination of such intercompany arrangements, failure to reach definitive agreement on final terms of future arrangements between ABI and reorganized Congoleum, or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum or otherwise could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

The Company relies on debt financing to fund its business, operations and working capital needs, it has had to amend its debt agreements in the past in order to avoid being in default of those agreements and may have to do so again in the future, and the Company's ability to obtain additional financing may be limited.

The Company relies on debt financing to fund its business, operations and working capital needs, including borrowings under its Credit Agreement, which agreement is further discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" in Part I, Item 2 of this Quarterly Report on Form 10-Q. If the Company is not able to generate sufficient cash flows from its operations, it may have greater reliance on the availability of borrowings under its credit facilities.



The Company's debt agreements contain financial and other covenants which the Company must comply with. In the past, the Company has had to amend its debt agreements in order to avoid being in default of those agreements as a result of failing to satisfy certain financial covenants contained in those agreements. Although the Company currently anticipates it will be able to comply with its covenants under its debt agreements, due to economic or other conditions or reasons, the Company may in the future fail to comply with its covenants. If that were to occur, the Company would likely need to obtain a waiver of such covenant breach from the lenders or enter into an amendment to the debt agreement to address the covenant breach. There can be no assurance that the Company would be successful in obtaining any such waiver or entering into any such amendment.

If an event of default under the Credit Agreement were to occur, the lenders could cease to make borrowings available under the revolving credit facility and require the Company to repay all amounts outstanding under the Credit Agreement. If the Company were unable to repay those amounts due, the lenders could have their rights over the collateral exercised, which would likely have a material adverse effect on the Company's business, results of operations or financial condition.

In addition, under the terms of the Credit Agreement, the Company's ability to obtain additional debt financing is limited. Moreover, since the Company and its subsidiaries have already granted security interests in most of their assets, the Company's ability to obtain any additional debt financing may be limited. Further, in light of the recent difficult conditions in the global credit markets credit has been more expensive and difficult to obtain, which if such conditions continue, would further limit the availability of any additional financing for the Company.

If a lender under the Company's credit facilities fails to fund a request by the Company to borrow money under a credit facility, the Company's business, results of operations or financial condition may be materially adversely affected.

The Company and Congoleum sell their products on credit and their customers may fail to pay, or they may extend the payment period, for products sold to them on credit.

The Company and Congoleum sell their products on credit. Customers purchasing goods on credit from the Company or Congoleum may default on their obligations to pay, or they may extend the payment period, for products sold to them on credit, which may result in an increased investment in accounts receivable by the Company or Congoleum. In light of the recent economic conditions in the United States, the risk that the Company and Congoleum may realize an increased investment in accounts receivable may be greater. To the extent the Company and Congoleum are unable to collect receivables owed to them in a timely fashion, increased demands may be placed on their respective working capital, which could have a material adverse effect on their respective businesses, results of operations or financial condition.

The Company may not be able to maintain its listing with the NYSE Amex LLC.

On May 28, 2009, the Company received written notice from the NYSE Amex LLC (the "NYSE Amex") indicating that the Company does not meet certain of the continued listing standards of the NYSE Amex. Specifically, the notice stated that the Company is not in compliance with Section 1003(a)(i) of the NYSE Amex Company Guide, with stockholders' equity of less than \$2,000,000 and losses from continuing operations and/or net losses in two of its three most recent fiscal years; and Section 1003(a)(ii) of the NYSE Amex Company Guide, with stockholders' equity of less than \$4,000,000 and losses from continuing operations and/or net losses in three of its four most recent fiscal years. On or about June 29, 2009, the Company submitted a plan for compliance with the continued listing standards with the NYSE Amex, and on August 31, 2009, the Company received a letter from the NYSE Amex indicating that the Amex had accepted the plan submitted by American Biltrite to regain compliance with certain continued listing standards, and would extend the deadline for meeting those standards to November 29, 2010. American Biltrite's listing on the Amex is being continued pursuant to this extension. Although the Company was granted an extension by the NYSE Amex until November 29, 2010 to comply with the applicable Amex listing standards, the NYS Amex may still initiate delisting proceedings, including if it believes that the Company fails to show sufficient progress consistent with its plan for compliance or if the Company fails to comply with other NYSE Amex listing standards. There can be no assurance that the Company will be able to maintain its listing with the NYSE Amex. If the Company's common stock is delisted, the market for the Company's common stock may be significantly adversely affected, including as a result of possible less liquidity which generally occurs for securities traded in the over-the-counter market as compared with securities traded on a national securities exchange, difficulty reselling shares at prices quoted in the market or at all, broader market fluctuations, and depressed share price. In addition, a delisting may make it difficult for the Company to issue additional securities for financing or other purposes, or to otherwise arrange for any financing the Company may need in the future.

The Company and its majority-owned subsidiary Congoleum may incur substantial liability for environmental claims and compliance matters.

Due to the nature of the Company's and its majority-owned subsidiary Congoleum's businesses and certain of the substances which are or have been used, produced or discharged by them, the Company's and Congoleum's operations and facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with releases of hazardous substances at Company and Congoleum facilities and off-site disposal locations. The Company and Congoleum have historically expended substantial amounts for compliance with existing environmental laws or regulations, including environmental remediation costs at both third-party sites and Company and Congoleum-owned sites. The Company and Congoleum will continue to be required to expend amounts in the future because of the nature of their prior activities at their facilities, in order to comply with existing environmental laws, and those amounts may be substantial. Although the Company and Congoleum believe that those amounts should not have a material adverse effect on their respective financial positions, there is no certainty that these amounts will not have a material adverse effect on their respective financial positions because, as a result of environmental requirements becoming increasingly strict, neither the Company nor Congoleum is able to determine the ultimate cost of compliance with environmental laws and enforcement policies.

Moreover, in addition to potentially having to pay substantial amounts for compliance, future environmental laws or regulations may require or cause the Company or Congoleum to modify or curtail their operations, which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum, may incur substantial liability for other product and general liability claims.

In the ordinary course of their businesses, the Company and its majority-owned subsidiary Congoleum become involved in lawsuits, administrative proceedings, product liability claims and other matters. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts and the matters may remain unresolved for several years. These matters could have a material adverse effect on the Company's business, results of operations or financial condition if the Company or Congoleum, as applicable, is unable to successfully defend against or settle these matters, and its insurance coverage is insufficient to satisfy any judgments against it or settlements relating to these matters, or the Company or Congoleum, as applicable, is unable to collect insurance proceeds relating to these matters.

The Company and its majority-owned subsidiary Congoleum are dependent upon a continuous supply of raw materials from third party suppliers and would be harmed if there were a significant, prolonged disruption in supply or increase in its raw material costs.

The Company and its majority-owned subsidiary Congoleum generally design and engineer their own products. Most of the raw materials required by the Company for its manufacturing operations are available from multiple sources; however, the Company does purchase some of its raw materials from a single source or supplier. Any significant delay in or disruption of the supply of raw materials could substantially increase the Company's cost of materials, require product reformulation or require qualification of new suppliers, any one or more of which could materially adversely affect the Company's business, results of operations or financial condition. The Company's majority-owned subsidiary Congoleum does not have readily available alternative sources of supply for specific designs of transfer print paper, which are produced utilizing print cylinders engraved to Congoleum's specifications. Although Congoleum does not anticipate any loss of this source of supply, replacement could take a considerable period of time and interrupt production of certain products, which could have a material adverse affect on the Company's business, results of operations or financial condition. The Company and Congoleum have occasionally experienced significant price increases for some of its raw materials. Although the Company has been able to obtain sufficient supplies of raw materials, there can be no assurances that it may not experience difficulty in the future, particularly if global supply conditions deteriorate, which could have a material adverse effect on profit margins. In addition, raw material and energy costs have been volatile and, although below their peak levels in 2008, remain at historically high levels and have recently increased. The volatile and high raw material and energy costs have negatively impacted the Company's and Congoleum's business and operating results. The Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers, particularly in light of the recent difficult economic conditions in the United States and the industries in which the Company and Congoleum conduct business.

The Company and its majority-owned subsidiary Congoleum operate in highly competitive markets and some of their competitors have greater resources, and in order to be successful, the Company and Congoleum must keep pace with and anticipate changing customer preferences.

The market for the Company's and its majority-owned subsidiary Congoleum's products and services is highly competitive. Some of their respective competitors have greater financial and other resources and access to capital. Furthermore, to the extent any of the Company's or Congoleum's competitors make a filing under Chapter 11 of the Bankruptcy Code and emerge from bankruptcy as continuing operating companies that have shed much of their pre-filing liabilities, those competitors could have a cost competitive advantage over Congoleum. In addition, in order to maintain their competitive positions, the Company and Congoleum may need to make substantial investments in their businesses, including, as applicable, product development, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for their products and in the loss of market share for their products. Moreover, due to the competitive nature of their industries, they may be commercially restricted from raising or even maintaining the sales prices of their products, which could result in the incurrence of significant operating losses if their expenses were to increase or otherwise represent an increased percentage of sales.

The markets in which the Company and Congoleum compete are characterized by frequent new product introductions and changing customer preferences. There can be no assurance that the Company's and Congoleum's existing products and services will be properly positioned in the market or that the Company and Congoleum will be able to introduce new or enhanced products or services into their respective markets on a timely basis, or at all, or that those new or enhanced products or services will receive customer acceptance. The Company's and Congoleum's failure to introduce new or enhanced products or services on a timely basis, keep pace with industry or market changes or effectively manage the transitions to new products, technologies or services could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum are subject to general economic conditions and conditions specific to their respective industries.

Economic conditions in the United States have been challenging, including in the industries in which the Company and Congoleum conduct business. The downturn in the housing industry has resulted in reduced demand for the Company's and Congoleum's products. The slowdown in manufacturing, including in the automotive and industrial sectors, has resulted in reduced demand for the Tape division's products. In addition, the decline in consumer and retailer, especially mid-tier retailer, spending has resulted in reduced demand for K&M's products. Although the U.S. economy may have grown during the third quarter of 2009, it is unclear the extent to which any such growth may be sustainable, how long any possible improvement in economic conditions may last, and whether and the extent to which the conditions in the particular industries in which the Company and Congoleum conduct business may improve and whether any such improvement would be sustainable.

In addition, raw material and energy costs have been volatile and, although below their peak levels in 2008, remain at historically high levels and have recently increased. The volatile and high raw material and energy costs have negatively impacted the Company's and Congoleum's businesses and operating results. The Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers, particularly in light of the recent difficult economic conditions in the United States and the industries in which the Company and Congoleum conduct business.

Although the Company and Congoleum intend to implement reductions in their expenses, there can be no assurance that they will be able to reduce their respective expenses, that any reductions they may implement will have any meaningful positive impact on their businesses, results of operations or financial condition, or that they will be able to sustain any expense reductions that they may implement.

The Company and its majority-owned subsidiary Congoleum could realize shipment delays, depletion of inventory and increased production costs resulting from unexpected disruptions of operations at any of the Company's or Congoleum's facilities.

The Company's and its majority-owned subsidiary Congoleum's businesses depend upon their ability to timely manufacture and deliver products that meet the needs of their customers and the end users of their products. If the Company or Congoleum were to realize an unexpected, significant and prolonged disruption of its operations at any of its facilities, including disruptions in its manufacturing operations, it could result in shipment delays of its products, depletion of its inventory as a result of reduced production and increased production costs as a result of taking actions in an attempt to cure the disruption or carry on its business while the disruption remains. Any resulting delay, depletion or increased production cost could result in increased costs, lower revenues and damaged customer and product end user relations, which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum offer limited warranties on their products which could result in the Company or Congoleum incurring significant costs as a result of warranty claims.

The Company and its majority-owned subsidiary Congoleum offer a limited warranty on many of their products against manufacturing defects. In addition, as a part of its efforts to differentiate mid- and high-end products through color, design and other attributes, Congoleum offers enhanced warranties with respect to wear, moisture discoloration and other performance characteristics which generally increase with the price of such products. If the Company or Congoleum were to incur a significant number of warranty claims, the resulting warranty costs could be substantial.

The Company and its majority-owned subsidiary Congoleum rely on a small number of customers and distributors for a significant portion of their sales or to sell their products.

The Company's Tape Division principally sells its products through distributors. Sales to five unaffiliated customers accounted for approximately 20% of the Company's Tape Division's net sales for the year ended December 31, 2008. The loss of the largest unaffiliated customer and/or two or more of the other four unaffiliated customers would have a material adverse effect on the Company's business, results of operations or financial condition.

The Company's Canadian Division sells its products through distributors and a direct sales force. Sales to five unaffiliated customers accounted for approximately 22% of the Canadian Division's net sales for the year ended December 31, 2008. The loss of the largest unaffiliated customer and/or two or more of the other four unaffiliated customers would have a material adverse effect on the Company's business, results of operations or financial condition.

The Company's majority-owned subsidiary Congoleum principally sells its products through distributors. Although Congoleum has more than one distributor in some of its distribution territories and actively manages its credit exposure to its distributors, the loss of a major distributor would have a material adverse impact on the Company's consolidated results of operations. Congoleum derives a significant percentage of its sales from two of its distributors. These two distributors accounted for approximately 63% of Congoleum's net sales for the year ended December 31, 2008.

The Company's subsidiary K&M sells its products through its own direct sales force and, indirectly, through a wholly owned subsidiary and through third-party sales representatives. Three of K&M's customers accounted for approximately 54% of its net sales for the year ended December 31, 2008. The loss of the largest of these customers would have a material adverse effect on K&M's business, results of operations and financial condition and would likely have a material adverse effect on the Company's business, results of operations or financial condition.

The Company and its majority-owned subsidiary Congoleum depend on key executives to run their businesses, and the loss of any of these executives would likely harm the Company's business.

The Company and its majority-owned subsidiary Congoleum depend on key executives to run their businesses. In particular, three of the persons that serve as key executives at the Company also serve as key executives at Congoleum. The Company's future success will depend largely upon the continued service of these key executives, all of whom have no employment contract with the Company or Congoleum, as applicable, and may terminate their employment at any time without notice. Although certain key executives of the Company and Congoleum are, directly or indirectly, large shareholders of the Company or Congoleum, and thus are less likely to terminate their employment, the loss of any key executive, or the failure by the key executive to perform in his current position, could have a material adverse effect on the Company's business, results of operations or financial condition.

### Item 3. Defaults Upon Senior Securities

On August 3, 1998, Congoleum issued \$100 million 8 5/8% Senior Notes due August 1, 2008 priced at 99.505% to yield 8.70%. The commencement of Congoleum's Chapter 11 proceedings constituted an event of default under the indenture governing the Senior Notes. During 2003, Congoleum and the trustee under the indenture governing the Senior Notes amended the indenture, and sufficient note holders consented, to explicitly permit Congoleum to take steps in connection with preparing and filing its prepackaged plan of reorganization under Chapter 11 of the Bankruptcy Code. The amount of accrued interest on the Senior Notes that was not paid as of the bankruptcy filing on December 31, 2003 was approximately \$3.6 million. The accrued pre-petition interest and the principal amount of the Senior Notes are included in "Liabilities Subject to Compromise" as of September 30, 2009 (see Note F of the Notes to the Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q). During 2007, Congoleum reversed all accrued post-petition interest on the Senior Notes to reflect the terms of the Joint Plan.

### Item 5. Other Information

On November 11, 2009, the Company issued a press release announcing its financial results for the three and nine months ended September 30, 2009. A copy of that press release is being furnished to the Securities and Exchange Commission pursuant to this Part II, Item 5 of Form 10-Q and is attached hereto as Exhibit 99.3.

Item 6. Exhibits

Exhibit No. Description

|      |     |                                                                                                                                                                                                                                                                                                            |
|------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1  | I   | Restated Certificate of Incorporation                                                                                                                                                                                                                                                                      |
| 3.2  | II  | By-Laws, amended and restated as of November 7, 2007                                                                                                                                                                                                                                                       |
| 31.1 |     | Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended                                                                                                                                        |
| 31.2 |     | Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended                                                                                                                                        |
| 32   |     | Certification of the Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                        |
| 99.1 | III | Opinion of the United States District Court for the District of New Jersey, dated August 17, 2009                                                                                                                                                                                                          |
| 99.2 | IV  | Order of the United States District Court for the District of New Jersey, dated August 17, 2009                                                                                                                                                                                                            |
| 99.3 |     | Press release dated November 11, 2009                                                                                                                                                                                                                                                                      |
| 99.4 | V   | Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of the Debtors, the Official Asbestos Claimants' Committee and the Official Committee of Bondholders for Congoleum Corporation, et al., dated as of October 22, 2009                                                   |
| 99.5 | V   | Proposed Disclosure Statement with respect to the Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of the Debtors, the Official Asbestos Claimants' Committee and the Official Committee of Bondholders for Congoleum Corporation, et al., dated as of October 22, 2009 |

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I Incorporated by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and filed with the Securities and Exchange Commission on March 27, 1997 (1-4773)

II Incorporated by reference to the exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and filed with the Securities and Exchange Commission on November 14, 2007





- III Incorporated by reference to the exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2009
- IV Incorporated by reference to the exhibits filed with the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on August 25, 2009
- V Incorporated by reference to the exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 22, 2009

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN BILTRITE INC.  
(Registrant)

Date: November 13, 2009

BY: /s/ Howard N. Feist III  
Howard N. Feist III  
Vice President-Finance  
(Duly Authorized Officer and  
Principal Financial and Chief  
Accounting Officer)

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