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AMERICAN BILTRITE INC  
Form 10-Q  
August 13, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended June 30, 2001

Commission File Number 1-4773

AMERICAN BILTRITE INC.

(Exact name of registrant as specified in its charter)

Delaware

04-1701350

(State or other jurisdiction of  
incorporation or organization)

(IRS 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date covered by this report.

Title of Each Class -----	Outstanding at August 3, 2001 -----
Common	3,441,585 shares

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PART I.

Item 1. FINANCIAL INFORMATION

AMERICAN BILTRITE INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)  
(In thousands of dollars)

	June 30, 2001	December 31, 2000
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,496	\$ 16,859
Short-term investments	1,471	12,097
Accounts receivable, net	39,924	45,378

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Inventories	95,167	87,175
Prepaid expenses & other current assets	12,820	12,891
	-----	-----
TOTAL CURRENT ASSETS	166,878	174,400
Goodwill, net	24,353	23,431
Other assets	21,597	22,374
Property, plant and equipment, net	149,835	144,197
	-----	-----
TOTAL ASSETS	\$362,663	\$364,402
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 27,226	\$ 31,101
Accrued expenses	51,310	55,891
Notes payable	31,050	11,698
Current portion of long-term debt	3,094	3,713
	-----	-----
TOTAL CURRENT LIABILITIES	112,680	102,403
Long-term debt	104,367	108,425
Other liabilities	58,818	59,868
Noncontrolling interests	11,920	14,159
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01-authorized		
15,000,000 shares, issued 4,607,902 shares	46	46
Additional paid-in capital	19,521	19,521
Retained earnings	76,126	79,663
Accumulated other comprehensive loss	(5,683)	(5,514)
Less cost of shares in treasury	(15,132)	(14,169)
	-----	-----
	74,878	79,547
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$362,663	\$364,402
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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## PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Unaudited) (In thousands of dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,	July 1,	June 30,	July 1,
	2001	2000	2001	2000
	-----	-----	-----	-----
Net sales	\$98,060	\$102,398	\$197,757	\$204,843
Interest and other income	948	1,068	1,269	1,733
	-----	-----	-----	-----

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	99,008	103,466	199,026	206,576
	-----	-----	-----	-----
Costs and expenses:				
Cost of products sold	71,321	73,556	145,706	147,887
Selling, general and administrative expenses	25,872	27,716	54,688	55,199
Interest	2,730	2,301	5,244	4,439
	-----	-----	-----	-----
	99,923	103,573	205,638	207,525
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	(915)	(107)	(6,612)	(949)
Credit for income tax benefit	(316)	(41)	(2,381)	(344)
Noncontrolling interests	(81)	1,050	1,560	1,939
	-----	-----	-----	-----
NET (LOSS) EARNINGS	\$ (680)	\$ 984	\$ (2,671)	\$ 1,334
	=====	=====	=====	=====
(Loss) earnings per share:				
Basic	\$ (.20)	\$ .28	\$ (.77)	\$ .38
Diluted	\$ (.20)	\$ .28	\$ (.77)	\$ .38
Dividends declared per common share	\$ .125	\$ .125	\$ .25	\$ .25

See accompanying notes to consolidated condensed financial statements.

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) (In thousands of dollars)

	Six Months Ended	
	June 30,	July 1,
	2001	2000
	----	----
OPERATING ACTIVITIES		
Net (loss) earnings	\$ (2,671)	\$ 1,334
Adjustments to reconcile net (loss) earnings to net cash used by operating activities:		
Depreciation and amortization	9,843	8,534
Deferred income taxes	(1,832)	(1,141)
Accounts and notes receivable	5,244	(12,952)
Inventories	(8,376)	(7,649)
Prepaid expenses and other current assets	2,342	1,461
Accounts payable and accrued expenses	(9,138)	(3,419)
Noncontrolling interests	(1,560)	(1,939)
Other	(272)	(253)
	-----	-----

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NET CASH USED BY OPERATING ACTIVITIES	(6,420)	(16,024)
INVESTING ACTIVITIES		
Purchase of short-term investments	(1,471)	(6,453)
Maturities of short-term investments	12,097	19,182
Investment in property, plant and equipment	(15,389)	(10,424)
Proceeds from sale of property, plant and equipment	648	
Purchase of additional partnership interests in K&M	(2,066)	(1,381)
	-----	-----
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(6,181)	924
FINANCING ACTIVITIES		
Net short-term borrowings	19,284	14,500
Payments on long-term debt	(4,642)	(3,049)
Purchase of treasury shares	(1,066)	(466)
Dividends paid	(866)	(879)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,710	10,106
Effect of foreign exchange	528	327
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	637	(4,667)
Cash and cash equivalents at beginning of period	16,859	27,285
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,496	\$ 22,618
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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## PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

### Note A - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements which include the accounts of American Biltrite Inc. and its wholly-owned subsidiaries ("ABI") as well as entities over which it has voting control have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended June 30, 2001 are not necessarily

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indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

### Note B - Changes in Accounting Principles

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133, as amended by SFAS 138), which requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company adopted SFAS 133 in the first quarter of fiscal 2001. Adoption of this pronouncement had no effect on the Company's consolidated financial position or results of operations.

### Note C - Inventories

Inventories at June 30, 2001 and December 31, 2000 consisted of the following (in thousands):

	June 30, 2001	December 31, 2000
	-----	-----
Finished goods	\$68,884	\$63,810
Work-in-process	11,774	9,764
Raw materials and supplies	14,509	13,601
	-----	-----
	\$95,167	\$87,175
	=====	=====

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

### Note D - Distributor Transition Costs

During the third quarter of 2000, Congoleum Corporation ("Congoleum"), a consolidated majority owned subsidiary, announced the appointment of Mohawk Industries, Inc. as a national distributor. At the same time, Congoleum announced it was terminating its distribution arrangements with LDBrinkman & Co., who had been its exclusive distributor in much of the southwestern United States, accounting for 21% of Congoleum's sales in 1999. LDBrinkman & Co. contested Congoleum's right to terminate its distributor agreement and the matter went to arbitration in the fourth quarter of 2000. The parties signed a final settlement agreement in February 2001.

Congoleum recorded a charge of \$7,717,000 in the fourth quarter of 2000 to provide for the nonrecurring costs associated with the transition. Included in this charge were certain costs incurred by Congoleum for establishing Mohawk as a distributor. Also, included in the charge are certain termination payments to be made to LDBrinkman pursuant to the terms of the settlement agreement. Congoleum re-evaluated its allowance for doubtful accounts in light of this agreement and concluded it should be reduced by \$1,785,000 which was recorded as

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a credit to bad debt expense in the fourth quarter of 2000.

Congoleum has provided right-of-return provisions to LDBrinkman in the termination agreement whereby LDBrinkman may return certain unsold inventory purchased from Congoleum that meets minimum size and quality requirements. Therefore, Congoleum has deferred the recognition of revenue for its estimate of returns of inventory under this right-of-return agreement. Congoleum expects all obligations under this provision to be satisfied by the end of the third quarter of 2001.

Of the \$7,717,000 in costs incurred during 2000, \$2,180,000 remains unpaid as of June 30, 2001. These amounts are anticipated to be paid by August 15, 2001.

### Note E - Commitments and Contingencies

In the ordinary course of its business, ABI and Congoleum become involved in lawsuits, administrative proceedings, product liability and other matters, as more fully described below. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts, and the matters may remain unresolved for several years. On the basis of information furnished by counsel and others, management does not believe that these matters, individually or in the aggregate, will have a material adverse effect on their business or financial condition.

### American Biltrite Inc.

ABI records a liability for environmental remediation claims when it becomes probable that ABI 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 to reflect such revisions and progress.

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

### Note E - Commitments and Contingencies (continued)

ABI is a co-defendant with many other manufacturers and distributors of asbestos-containing products in approximately 460 pending claims involving approximately 1,405 individuals as of June 30, 2001. The claimants allege personal injury from exposure to asbestos or asbestos-containing products. Activity related to asbestos claims was as follows:

	Six Months Ended June 30, 2001 -----	Year Ended December 31, 2000 -----
Beginning claims	330	63
New claims	145	298
Settlements	(8)	(11)
Dismissals	(7)	(20)
	---	---
Ending claims	460	330
	===	===

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ABI reported in its December 31, 2000 Form 10-K that it has been named as a Potentially Responsible Party ("PRP") within the meaning of the Federal Comprehensive Environmental Response Compensation and Liability Act, as amended, with respect to two sites in two separate states. There have been no new developments relating to these sites during the quarter ended June 30, 2001.

With regard to the Olin Corporation ("Olin") site in Wilmington, MA, during the six month period ending June 30, 2001, ABI has paid Olin \$483,000 for the period from June 1, 2000 to December 31, 2000 and \$267,000 for the period January 1, 2001 to March 31, 2001. Olin has estimated that the response cost for all of 2001 will be \$6 million with ABI's allocated share being \$814,000. ABI, in discussion with Olin, has estimated that beyond 2001 the response costs will be in the range of \$16.3 million to \$29 million. As of June 30, 2001, ABI has estimated its share of potential liability for Olin to be in the range of \$3.3 million to \$5 million before any recoveries from insurance.

### Congoleum Corporation

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, asbestos-related claims and general liability claims. 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

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

#### Note E - Commitments and Contingencies (continued)

such future costs and timing of payments are indeterminable due to such unknown factors as the magnitude of clean-up 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 records a liability for environmental remediation, asbestos-related claim costs and general liability claims when a clean-up program or claim payment becomes probable and the costs can be reasonably estimated. As assessments and clean-ups progress, these liabilities are adjusted based upon progress in determining the timing and extent of remedial actions and the related costs and damages. The extent and amounts of the liabilities can change substantially due to factors such as the nature or extent of contamination, changes in remedial requirements and technological improvements. The recorded liabilities are not discounted for delays in future payments and are not reduced by the amount of estimated insurance recoveries. Such estimated insurance recoveries are considered probable of recovery.

Congoleum is named, together with a large number (in most cases, hundreds) of other companies, as a potentially responsible party ("PRP") in pending proceedings under the federal Comprehensive Environmental Response, Compensation

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and Liability Act ("CERCLA"), as amended, and similar state laws. In two instances, although not named as a PRP, Congoleum has received a request for information. These pending proceedings currently relate to seven disposal sites in New Jersey, Pennsylvania, Maryland, Connecticut and Delaware in which recovery from generators of hazardous substances is sought for the cost of cleaning up the contaminated waste sites. Congoleum's ultimate liability in connection with those sites depends on many factors, including the volume of material contributed to the site, the number of other PRP's and their financial viability, the remediation methods and technology to be used and the extent to which costs may be recoverable from insurance. However, under CERCLA, and certain other laws, as a PRP, Congoleum can be held jointly and severally liable for all environmental costs associated with a site.

The most significant exposure to which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland. Two removal actions were substantially complete as of December 31, 1998, however the groundwater remediation phase has not begun and the remedial investigation/feasibility study related to the groundwater remediation has not been approved. The PRP group is comprised of approximately 50 companies, substantially all of which are financially solvent. This group has estimated that future costs of groundwater remediation would be approximately \$26 million. Based on waste allocations amongst members of the PRP group in proportion to waste disposal at the site, Congoleum's share was estimated to be approximately 5.5%. At June 30, 2001, Congoleum believes its probable liability, which has been recorded in other liabilities, based on present facts and circumstances, to be approximately \$1.5 million. A corresponding insurance receivable of \$1.2 million has been recorded in other noncurrent assets. No other PRP sites are material on an individual basis.

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Congoleum also accrues remediation costs for certain of Congoleum's owned facilities on an undiscounted basis. Estimated total cleanup costs, including capital outlays and future maintenance costs for soil and groundwater remediation are primarily based on engineering studies.

Although the outcome of these matters could result in significant expenses or judgments, management does not believe based on present facts and circumstances that their disposition will have a material adverse effect on the financial position of Congoleum.

Congoleum is one of many defendants in approximately 4,007 pending claims (including workers' compensation cases) involving approximately 18,305 individuals as of June 30, 2001, alleging personal injury from exposure to asbestos or asbestos-containing products. There were 1,754 claims at December 31, 2000 that involved approximately 12,079 individuals. Activity related to asbestos claims was as follows:

	Six Months Ended June 30, 2001 -----	Year ended December 31, 2000 -----
Beginning claims	1,754	670



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New claims	2,336	1,302
Settlements	(23)	(76)
Dismissals	(60)	(142)
	-----	-----
Ending claims	4,007	1,754
	=====	=====

The total indemnity costs incurred to settle claims during the six months ending June 30, 2001 and twelve months ending December 31, 2000 were \$0.8 million and \$3.9 million, respectively, which were paid by Congoleum's insurance carriers, as were the related defense costs. Costs per claim vary depending on a number of factors, including the nature of the alleged exposure and the jurisdiction where the claim was litigated. As of June 30, 2001, Congoleum has incurred asbestos-related claims of \$11.1 million, to resolve claims of over 33,000 claimants, all of which have been paid by Congoleum's insurance carriers. The average indemnity cost per resolved claimant is \$332. Over 99% of claims incurred by Congoleum have settled, on average, for amounts less than \$101 per claimant.

Nearly all claims allege that various diseases were caused by exposure to asbestos-containing products, including sheet vinyl and resilient tile manufactured by Congoleum (or, in the workers' compensation cases, exposure to asbestos in the course of employment with Congoleum). Congoleum discontinued the manufacture of asbestos-containing sheet vinyl products in 1983 and asbestos-containing tile products in 1974. 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

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

they are properly maintained in place or properly removed so that they remain nonfriable. Congoleum has issued warnings not to remove asbestos-containing flooring by sanding or other methods that may cause the product to become friable.

Congoleum regularly evaluates its estimated liability to defend and resolve current and reasonably anticipated future asbestos-related claims. It reviews, among other things, recent and historical settlement and trial results, the incidence of past and recent claims, the number of cases pending against it, and asbestos litigation developments that may impact the exposure of Congoleum. One such development, the declarations of bankruptcy by several companies that are typically lead defendants in asbestos-related cases, may have negatively impacted Congoleum's claim experience. The estimates developed are highly uncertain due to the limitations of the available data and the difficulty of forecasting the numerous variables that can affect the range of the liability.

During the fourth quarter of fiscal 2000, Congoleum updated its evaluation of the range of potential defense and indemnity costs for asbestos-related liabilities and the insurance coverage in place to cover these costs. As a

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result of Congoleum's analysis, Congoleum has determined that its range of probable and estimable losses for asbestos-related claims through the year 2049 is \$35.1 million to \$161.3 million before considering the effects of insurance recoveries and before discounting to present value. As discussed previously, it is very difficult to forecast a liability for Congoleum's ultimate exposure for asbestos-related claims as there are multiple variables that can affect the timing, severity, and quantity of claims. Therefore, Congoleum has concluded that no amount within that range is more likely than any other, and therefore has determined that the amount of the gross liability it should record for asbestos-related claims is equal to \$35.1 million in accordance with accounting principles generally accepted in the United States.

For a majority of the period that Congoleum produced asbestos-containing products, Congoleum purchased primary and excess insurance policies that cover bodily injury asbestos claims. Congoleum believes that it has in excess of \$1 billion primary and excess insurance coverage available as of December 31, 2000 to cover asbestos-related claims. To date, all claims and defense costs have been paid through insurance coverage, and Congoleum anticipates that insurance coverage will continue to cover these costs in the foreseeable future.

The same factors that affect developing forecasts of potential defense and 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 possible uncertainties regarding the legal sufficiency of insurance claims or solvency of insurance carriers, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, and how legal and other loss handling costs will be covered by the insurance policies.

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PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
June 30, 2001

Note E - Commitments and Contingencies (continued)

Congoleum has determined, based on its review of its insurance policies and the advice of legal counsel, that approximately \$20 million of the estimated \$35 million gross liability is highly probable of recovery. This determination was made after considering the terms of the available insurance coverage and the financial viability of the insurance companies. Congoleum believes that the criteria to offset the estimated gross liability with this probable insurance recovery, as defined by accounting principles generally accepted in the United States, have been met. The balance of the estimated gross liability of \$15 million has been reflected in the balance sheet as a long-term liability as of December 31, 2000 and June 30, 2001. Congoleum has also recorded in the balance sheet an insurance receivable of \$7 million that represents an estimate of probable insurance recoveries that do not qualify for offsetting against the gross liability. This insurance receivable has been recorded in other long-term assets as of December 31, 2000 and June 30, 2001.

Since many uncertainties exist surrounding asbestos litigation, Congoleum will continue to evaluate its asbestos-related estimated liability and corresponding estimated insurance assets as well as the underlying assumptions used to derive these amounts. It is reasonably possible that Congoleum's total exposure to asbestos-related claims may be greater than the recorded liability and that

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insurance recoveries may be less than the recorded asset. These uncertainties may result in Congoleum incurring future charges to income to adjust the carrying value of recorded liabilities and assets. Congoleum does not believe, however, that asbestos-related claims will have a material adverse effect on its financial position or liquidity.

### Note F - Comprehensive Income

The following table presents total comprehensive income for the three months and six months ended June 30, 2001 and July 1, 2000 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	Jul 20
	----	----	----	---
Net (loss) earnings	\$ (680)	\$ 984	\$ (2,671)	\$1,
Foreign currency translation adjustments	839	(405)	(169)	(
	-----	-----	-----	---
Total comprehensive income (loss)	\$ 159	\$ 579	\$ (2,840)	\$
	=====	=====	=====	=====

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

### Note G - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months and six months ended June 30, 2001 and July 1, 2000 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
	----	----	----	----
Numerator:				
Net (loss) earnings	\$ (680)	\$ 984	\$ (2,671)	\$1,334
	=====	=====	=====	=====
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	3,449	3,517	3,469	3,519
Denominator for diluted earnings per share:				
Dilutive employee stock options		24		24
	-----	-----	-----	-----

Weighted-average shares and

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assumed conversions	3,449	3,541	3,469	3,543
	=====	=====	=====	=====
Basic (loss) earnings per share	\$ (.20)	\$ .28	\$ (.77)	\$ .38
	=====	=====	=====	=====
Diluted (loss) earnings per share	\$ (.20)	\$ .28	\$ (.77)	\$ .38
	=====	=====	=====	=====

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

#### Note H - Industry Segments

##### Description of Products and Services

The Company has four reportable segments: flooring products, tape products, jewelry and a Canadian division which produces flooring and rubber products. Congoleum, which manufactures vinyl and vinyl composition floor coverings with distribution primarily through floor covering distributors, retailers and contractors for commercial and residential use, represents the majority of the Company's flooring products segment. During 2000, the Company acquired Janus Flooring Corporation, which has been included in the flooring products segment effective October 12, 2000. The tape products segment consists of two production facilities in the United States and finishing and sales facilities in Belgium, Singapore and Italy. The tape products segment manufactures paper, film, HVAC, electrical, shoe and other tape products for use in industrial and automotive markets. The jewelry segment reflects the results of K&M Associates L.P., a national costume jewelry supplier to the mass merchandiser markets. The Company's Canadian division produces flooring, rubber products, including materials used by footwear manufacturers, and other industrial products.

#### Segment Profit and Assets (In thousands)

	Three Months Ended June 30, 2001 ----	July 1, 2000 ----	Six Months June 30, 2001 ----
Revenues			
Revenues from external customers:			
Flooring products	\$ 57,227	\$ 55,169	\$111,991
Tape products	21,491	24,825	44,126
Jewelry	8,934	9,869	19,691
Canadian division	10,408	12,535	21,949
	-----	-----	-----
Total revenues from external customers	98,060	102,398	197,757
	-----	-----	-----
Intersegment revenues:			
Flooring products	78	94	189
Tape products	42	4	70

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Jewelry			
Canadian division	2,285	1,558	4,110
	-----	-----	-----
Total intersegment revenues	2,405	1,656	4,369
	-----	-----	-----
	100,465	104,054	202,126
Reconciling items			
Intersegment revenues	(2,405)	(1,656)	(4,369)
	-----	-----	-----
Total consolidated revenues	\$ 98,060	\$102,398	\$197,757
	=====	=====	=====

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### PART I. FINANCIAL INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS June 30, 2001

#### Note H - Industry Segments (continued)

(In thousands)	Three Months Ended		Six M
	June 30,	July 1,	June 30,
	2001	2000	2001
	----	----	----
Segment (loss) profit			
Flooring products	\$ 62	\$ (2,891)	\$ (6,036)
Tape products	(70)	2,127	551
Jewelry	(99)	19	(216)
Canadian division	(93)	1,085	480
	-----	-----	-----
Total segment (loss) profit	(200)	340	(5,221)
Reconciling items			
Corporate office loss	(604)	(422)	(1,280)
Intercompany profit	(111)	(25)	(111)
	-----	-----	-----
Total consolidated loss before income taxes and other items	\$ (915)	\$ (107)	\$ (6,612)
	=====	=====	=====
	June 30,	Dec. 31,	
	2001	2000	
	----	----	
Segment assets			
Flooring products	\$237,459	\$244,574	
Tape products	67,730	53,724	
Jewelry	17,573	19,193	
Canadian division	30,170	29,858	
	-----	-----	
Total segment assets	352,932	347,349	

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Reconciling items		
Corporate office assets	33,238	30,163
Intersegment accounts receivable	(23,277)	(12,991)
Intersegment profit in inventory	(230)	(119)
	-----	-----
Total consolidated assets	\$362,663	\$364,402
	=====	=====

Tape product segment assets increased from \$53,724 to \$67,730 due to capital expenditures and seasonal increases in inventories and intersegment accounts.

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FORM 10-Q

PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
June 30, 2001

Note I - Pending Adoption of Financial Accounting Standards

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142. SFAS No. 141 applies to all business combinations completed after June 30, 2001 and requires the use of the purchase method of accounting. SFAS No. 141 also establishes new criteria for determining whether intangible assets should be recognized separately from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, companies with fiscal years beginning after March 15, 2001 may elect to adopt the statement early. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will not be amortized, but rather will be tested for impairment on an annual basis. SFAS No. 141 is not expected to have a significant impact on the results of operations or financial position of the Company. SFAS 142 will be effective for the Company as of January 1, 2002. While the Company has not fully evaluated the impact of adopting SFAS 142, adoption of this standard is expected to result in the elimination of approximately \$1.4 million of goodwill amortization expense per year.

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FORM 10-Q  
PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
June 30, 2001

Results of Operations

Net sales for the second quarter of 2001 were \$98.1 million compared to \$102.4 million in the second quarter of 2000, a decrease of \$4.3 million or 4.2%. Net sales for the six months of 2001 were \$197.8 million, down \$7.1 million or 3.5% from the first half of 2000. Weak economic conditions caused revenues to decline in all segments except flooring. Year to date flooring segment sales are essentially flat as sales by Janus have offset declines in sales by Congoleum to the manufactured housing industry.

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Cost of products sold as a percentage of net sales was 72.7% in the second quarter of 2001 versus 71.8% in the second quarter of 2000. This increase is due to lower manufacturing volumes and to a lesser extent, a competitive price environment. These same factors caused cost of products sold in the first six months of 2001 to increase to 73.7% from 72.2% one year earlier.

Selling, general and administrative expenses as a percentage of sales were 26.4% in the second quarter of 2001 compared to 27.1% in the second quarter of 2000, reflecting aggressive cost reduction initiatives undertaken in response to the economy, particularly at Congoleum. For the six months ended June 30, 2001, selling, general and administrative expenses as a percentage of sales were 27.7%, up from 26.9% in the first half of 2000, as the largest expense reductions did not occur until late in the first quarter of 2001.

Interest expense for the three and six months ended June 30, 2001 increased from comparable year earlier periods due to higher borrowings, primarily related to the Janus acquisition, and a decrease in the portion of interest capitalized in connection with capital projects. These factors were partly offset by lower interest rates.

For the three months ended June 30, 2001, the Company had a net loss of \$.7 million versus net earnings of \$1.0 million in the same period one year earlier. All segments except flooring reported losses this year versus income last year. Flooring showed a slight profit versus a large loss last year. For the first six months of 2001, the net loss was \$2.7 million versus net earnings of \$1.3 million in the year earlier period, with all segments reporting weaker results as a result of the economy.

### Liquidity and Capital Resources

Cash and cash equivalents, including short term investments, declined \$10.0 million in the first six months of 2001 to \$19.0 million, compared with a decline of \$17.4 million in the first six months of 2000. The higher use of cash was due to increased capital expenditures, lower net income, and higher payments of accrued expenses, partly offset by increased collections of accounts receivable.

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### FORM 10-Q

PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
June 30, 2001

Working capital at June 30, 2001 was \$54.2 million, down from \$72.0 million at December 31, 2000. The ratio of current assets to current liabilities at June 30, 2001 was 1.5, down from 1.7 at December 31, 2000.

Capital expenditures in the first half of 2001 were \$15.4 million. It is anticipated that capital spending for the full year 2001 will be in the range of \$25 - \$26 million.

The Company has recorded provisions which it believes are adequate for environmental remediation and product-related liabilities, including provisions for testing for potential remediation of conditions at its own facilities. While the Company believes its estimate of the future amount of these liabilities is reasonable, that such amounts will not have a material adverse effect on the

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financial position of the Company and that they will be paid over a period of three to ten years, 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 which could have a material adverse effect on its results of operations or financial position. There can be no assurances that such costs could be passed along to its customers.

Cash requirements for capital expenditures, working capital, debt service and the current authorization to repurchase \$3.0 million of ABI's Common Stock and \$5.3 million of Congoleum's Common Stock are expected to be financed from operating activities and borrowings under existing bank lines of credit, which at ABI are presently \$41.6 million and at Congoleum are \$20.0 million. During the first half of 2001, ABI repurchased \$1.1 million of its Common Stock.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in highly liquid debt instruments with strong credit ratings and short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Substantially all of the Company's outstanding long-term debt as of June 30, 2001 consisted of indebtedness with a fixed rate of interest, which is not subject to change based upon changes in prevailing market interest rates.

The Company operates internationally, principally in Canada, Europe and the Far East, giving rise to exposure to market risks from changes in foreign exchange rates. Foreign currency exchange rate movements also affect the Company's competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors. For foreign currency exposures existing at June 30, 2001, a 10% unfavorable movement in currency exchange rates in the near term would not materially affect ABI's consolidated operating results, financial position or cash flows.

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FORM 10-Q

### PART II. OTHER INFORMATION AMERICAN BILTRITE INC. AND SUBSIDIARIES June 30, 2001

The Company does not currently use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates, foreign currency exchange rates, commodity prices or equity prices.

### Item 4. Submission of Matters to a Vote of Security Holders:

At the Annual Meeting of Stockholders held on May 8, 2001, the following action was taken:

Three nominees were elected as Class II Directors who will hold office until the Annual Meeting of Stockholders in 2004 and until their successors are duly elected and qualify.

Withheld From



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Name	Votes For	All Nominees
John C. Garrels III	3,113,554	12,805
James S. Marcus	3,113,354	13,005
Roger S. Marcus	3,113,354	13,005

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

None

#### (b) Reports on Form 8-K

There were no reports on Form 8-K filed for the three months ended June 30, 2001.

### 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.

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(Registrant)

Date: August 10, 2001

BY: /s/ Howard N. Feist III

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Howard N. Feist III  
Vice President-Finance