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AMERICAN BILTRITE INC

Form 10-Q

November 14, 2005

FORM 10-Q

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, 2005

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

(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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class

Common

Outstanding at October 31, 2005

3,441,551 shares

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		Eliminati
September 30, 2005	December 31, 2004	September 30, 2005

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	(Unaudited)		(Unaudited)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 20,959	\$ 34,691	
Restricted cash	11,334	15,682	
Accounts receivable, net	54,089	43,591	\$ (499)
Inventories	79,545	76,036	(200)
Assets of discontinued operation	3,184	2,952	
Deferred income taxes	12,636	12,636	
Prepaid expense & other current assets	10,865	6,826	
Total current assets	192,612	192,414	(699)
Property, plant & equipment, net	117,296	124,070	
Other assets:			
Insurance for asbestos-related liabilities	7,500	7,500	
Goodwill, net	11,300	11,300	
Other assets	19,854	20,001	(147)
	38,654	38,801	(147)
Total assets	\$348,562	\$355,285	\$ (846)

	Congoleum		American Bil
	September 30, 2005	December 31, 2004	September 30, 2005
	(Unaudited)		(Unaudited)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 17,658	\$ 29,710	\$ 3,301
Restricted cash	11,334	15,682	
Accounts receivable, net	26,159	17,621	28,429
Inventories	37,065	39,623	42,680
Assets of discontinued operation			3,184
Deferred income taxes	10,678	10,678	1,958
Prepaid expense & other current assets	7,302	5,124	3,563
Total current assets	110,196	118,438	83,115
Property, plant & equipment, net	75,107	79,550	42,189
Other assets:			
Insurance for asbestos-related liabilities			7,500
Goodwill, net			11,300
Other assets	14,642	14,894	5,359
	14,642	14,894	24,159
Total assets	\$199,945	\$212,882	\$149,463

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See accompanying notes to consolidating condensed financial statements.

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

	ABI Consolidated September 30, 2005	December 31, 2004	Eliminat September 30, 2005
	(Unaudited)		(Unaudited)
Liabilities			
Current liabilities:			
Accounts payable	\$ 22,565	\$ 18,700	\$ (499)
Accrued expenses	44,246	48,605	
Asbestos-related liabilities	18,771	21,079	
Liabilities of discontinued operation	204	165	
Notes payable	21,575	17,036	
Current portion of long-term debt	20,135	21,411	
Liabilities subject to compromise	21,377	14,225	
Total current liabilities	148,873	141,221	(499)
Long-term debt, less current portion	1,385	2,790	
Asbestos-related liabilities	10,238	10,238	
Other liabilities	25,582	25,237	
Noncontrolling interests	1,360	623	
Liabilities subject to compromise	135,694	137,104	(147)
	323,132	317,213	(646)
Stockholders' equity			
Common stock	46	46	(93)
Additional paid-in capital	19,548	19,548	(49,106)
Retained earnings	36,455	49,526	35,075
Accumulated other comprehensive loss	(15,487)	(15,916)	6,111
Less treasury shares	(15,132)	(15,132)	7,813
Total stockholders' equity	25,430	38,072	(200)
Total liabilities and stockholders' equity	\$348,562	\$355,285	\$ (846)

	Congoleum September 30, 2005	December 31, 2004	American Bil September 30, 2005
	(Unaudited)		(Unaudited)
Liabilities			
Current liabilities:			

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Accounts payable	\$ 9,583	\$ 10,295	\$ 13,481
Accrued expenses	23,976	28,066	20,270
Asbestos-related liabilities	18,771	21,079	
Liabilities of discontinued operation			204
Notes payable	12,595	9,500	8,980
Current portion of long-term debt			20,135
Liabilities subject to compromise	21,377	14,225	
Total current liabilities	86,302	83,165	63,070
Long-term debt, less current portion			1,385
Asbestos-related liabilities	2,738	2,738	7,500
Other liabilities	10,678	10,678	14,904
Noncontrolling interests			1,360
Liabilities subject to compromise	135,841	137,290	
	235,559	233,871	88,219
Stockholders' equity			
Common stock	93	93	46
Additional paid-in capital	49,106	49,106	19,548
Retained earnings	(58,455)	(43,830)	59,835
Accumulated other comprehensive loss	(18,545)	(18,545)	(3,053)
Less treasury shares	(7,813)	(7,813)	(15,132)
Total stockholders' equity	(35,614)	(20,989)	61,244
Total liabilities and stockholders' equity	\$199,945	\$212,882	\$149,463

See accompanying notes to consolidating condensed financial statements.

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AMERICAN BILTRITE INC. AND SUBSIDIARIES CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited) For the Three Months Ended September 30, 2005 and 2004 (In thousands of dollars, except per share amounts)

	ABI Consolidated 2005	2004	Eliminati 2005
Net sales	\$114,152	\$113,180	\$ 54
Cost of products sold	85,841	80,564	2
Selling, general & administrative expenses	23,938	26,520	
Income from operations	4,373	6,096	52
Other (income) expense:			
Interest income	(91)	(26)	
Interest expense	3,241	3,136	
Other (income) expense	(417)	12	67
	2,733	3,122	67

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Income (loss) before taxes and other items	1,640	2,974	(15)
Provision for income taxes	481	1,342	
Noncontrolling interests	(71)	(118)	
Income (loss) from continuing operations	1,088	1,514	(15)
Discontinued operation	(80)	(70)	
Net income (loss)	\$ 1,008	\$ 1,444	\$ (15)

	Congoleum 2005	2004	American Bil 2005
Net sales	\$60,507	\$58,871	\$53,591
Cost of products sold	47,270	41,812	38,569
Selling, general & administrative expenses	10,556	12,959	13,382
Income from operations	2,681	4,100	1,640
Other (income) expense:			
Interest income	(91)	(26)	-
Interest expense	2,670	2,417	571
Other (income) expense	(223)	(212)	(261)
	2,356	2,179	310
Income (loss) before taxes and other items	325	1,921	1,330
Provision for income taxes	-	768	481
Noncontrolling interests			(71)
Income (loss) from continuing operations	325	1,153	778
Discontinued operation			(80)
Net income (loss)	\$ 325	\$ 1,153	\$ 698

	Basic 2005	2004	2005
Income per common share from continuing operations	\$ 0.32	\$ 0.44	\$ 0.31
Discontinued operation	(0.02)	(0.02)	(0.02)
Net income per common share	\$ 0.30	\$ 0.42	\$ 0.29

Weighted average number of common and

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equivalent shares outstanding	3,442	3,442	3,475
	=====	=====	=====

See accompanying notes to consolidating condensed financial statements.

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AMERICAN BILTRITE INC. AND SUBSIDIARIES CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited) For the Nine Months Ended September 30, 2005 and 2004 (In thousands of dollars, except per share amounts)

	ABI Consolidated 2005	2004	Eliminati 2005
Net sales	\$331,118	\$325,105	\$178
Cost of products sold	246,630	234,034	(81)
Selling, general & administrative expenses	88,428	79,166	
(Loss) income from operations	(3,940)	11,905	259
Other (income) expense:			
Interest income	(320)	(38)	
Interest expense	9,772	9,185	
Other (income) expense	(2,582)	(256)	191
	6,870	8,891	191
(Loss) income before taxes and other items	(10,810)	3,014	68
Provision (credit) for income taxes	1,436	1,395	
Noncontrolling interests	(632)	(141)	
(Loss) income from continuing operations	(12,878)	1,478	68
Discontinued operation	(193)	(342)	
Net (loss) income	\$ (13,071)	\$ 1,136	\$ 68
	=====	=====	=====
	Congoleum 2005	2004	American Bilt 2005
Net sales	\$176,245	\$173,822	\$154,695
Cost of products sold	135,577	126,326	111,134
Selling, general & administrative expenses	48,416	37,961	40,012
(Loss) income from operations	(7,748)	9,535	3,549
Other (income) expense:			
Interest income	(273)	(26)	(47)
Interest expense	7,788	6,976	1,984

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Other (income) expense	(638)	(877)	(2,135)
	6,877	6,073	(198)
(Loss) income before taxes and other items	(14,625)	3,462	3,747
Provision (credit) for income taxes	--	1,384	1,436
Noncontrolling interests			(632)
(Loss) income from continuing operations	(14,625)	2,078	1,679
Discontinued operation			(193)
Net (loss) income	\$ (14,625)	\$ 2,078	\$ 1,486

	Basic		
	2005	2004	2005
(Loss) income per common share from continuing operations	\$ (3.74)	\$ 0.43	\$ (3.74)
Discontinued operation	(0.06)	(0.10)	(0.06)
Net (loss) income per common share	\$ (3.80)	\$ 0.33	\$ (3.80)
Weighted average number of common and equivalent shares outstanding	3,442	3,442	3,442

See accompanying notes to consolidating condensed financial statements.

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AMERICAN BILTRITE INC. AND SUBSIDIARIES CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) For the Nine Months Ended September 30, 2005 and 2004 (In thousands of dollars)

	ABI Consolidated		Eli
	2005	2004	2005
Operating activities			
Net (loss) income	\$ (13,071)	\$ 1,136	\$ 68
Net loss from discontinued operation	193	342	
Net (loss) income from continuing operations	(12,878)	1,478	68
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:			
Depreciation and amortization	12,669	13,246	

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(Gain) loss on disposal of property	(2,280)	184	
Asbestos related charge	15,454		
Change in operating assets and liabilities:			
Accounts and notes receivable	(10,706)	(12,326)	(537)
Inventories	(3,564)	(2,984)	(68)
Prepaid expenses and other assets	(1,323)	6,009	
Accounts payable and accrued expenses	6,932	28,870	537
Asbestos-related expenses	(20,819)	(4,500)	
Asbestos-related expense reimbursements from insurance settlement	6,091		
Noncontrolling interests	737	(74)	
Other	(1,588)	395	
Net cash (used) provided by operating activities	(11,275)	30,298	--
Investing activities			
Investments in property, plant and equipment	(5,425)	(3,955)	
Proceeds from sale of property	2,327	30	
Net cash (used) provided by investing activities	(3,098)	(3,925)	--
Financing activities			
Net short-term borrowings	4,307	982	
Payments on long-term debt	(2,611)	(897)	
Net change in restricted cash	(1,441)	(1,854)	
Net cash provided (used) by financing activities	255	(1,769)	--
Effect of foreign exchange rate changes on cash	686	164	
Net cash (used) provided by continuing operations	(13,432)	24,768	--
Net cash used by discontinued operations	(300)	(619)	
Cash and cash equivalents at beginning of period	34,691	3,959	
Cash and cash equivalents at end of period	\$ 20,959	\$ 28,108	\$ --

	Congo		America
	2005	2004	2005
Operating activities			
Net (loss) income	\$ (14,625)	\$ 2,078	\$ 1,486
Net loss from discontinued operation			193
Net (loss) income from continuing operations	(14,625)	2,078	1,679
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:			
Depreciation and amortization	8,371	8,545	4,298
(Gain) loss on disposal of property			(2,280)
Asbestos related charge	15,454	--	
Change in operating assets and liabilities:			
Accounts and notes receivable	(8,538)	(5,009)	(1,631)
Inventories	2,558	1,899	(6,054)
Prepaid expenses and other assets	577	3,498	(1,900)
Accounts payable and accrued expenses	2,703	23,516	3,692
Asbestos-related expenses	(20,819)	(4,500)	
Asbestos-related expense reimbursements from insurance settlement	6,091		
Noncontrolling interests			737
Other	(1,838)	1,054	250
Net cash (used) provided by operating activities	(10,066)	31,081	(1,209)
Investing activities			

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Investments in property, plant and equipment	(3,640)	(2,246)	(1,785)
Proceeds from sale of property		30	2,327
Net cash (used) provided by investing activities	(3,640)	(2,216)	542
Financing activities			
Net short-term borrowings	3,095	(1,594)	1,212
Payments on long-term debt			(2,611)
Net change in restricted cash	(1,441)	(1,854)	
Net cash provided (used) by financing activities	1,654	(3,448)	(1,399)
Effect of foreign exchange rate changes on cash			686
Net cash (used) provided by continuing operations	(12,052)	25,417	(1,380)
Net cash used by discontinued operations			(300)
Cash and cash equivalents at beginning of period	29,710	2,169	4,981
Cash and cash equivalents at end of period	\$ 17,658	\$27,586	\$ 3,301

See accompanying notes to consolidating condensed financial statements.

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AMERICAN BILTRITE INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATING CONDENSED FINANCIAL STATEMENTS September 30, 2005 (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, K&M Associates, L.P., 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 for interim financial information, 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, provisions for discontinued operations and provisions to effect the plan of reorganization of Congoleum Corporation, a majority-owned subsidiary of the Company, to settle asbestos liability) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidating financial statements and footnotes thereto included in the American Biltrite Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004.

The consolidating balance sheet at December 31, 2004 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain amounts appearing in the prior period's consolidating condensed financial statements have been reclassified to conform to the current period's

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presentations.

During 2003, the Company decided to discontinue the operations of Janus Flooring Corporation ("Janus"), a manufacturer of pre-finished hardwood flooring, and sell the related assets. Historical financial results have been restated to reflect the classification of Janus as a discontinued operation in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. Results of Janus, including charges resulting from the shutdown, are being reported as a discontinued operation.

As discussed more fully below and elsewhere in these footnotes, the Company's majority owned subsidiary Congoleum Corporation ("Congoleum") and two of its subsidiaries filed voluntary petitions commencing cases for reorganization relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") on December 31, 2003. The accompanying

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Note A - Basis of Presentation (continued)

consolidating condensed financial statements include the results for Congoleum for all periods presented. ABI continues to own a majority of the voting stock of Congoleum. As a result, the Company expects to continue to control Congoleum while it is in reorganization proceedings. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. In November 2004, Congoleum filed a modified plan of reorganization and related documents with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the modified plan. In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the trust to be formed upon confirmation of the plan under Section 524(g) of the Bankruptcy Code (the "Plan Trust") to pay asbestos claims against Congoleum. In July 2005, Congoleum filed an amended plan of reorganization (the "Sixth Plan") and related documents with the Bankruptcy Court which reflected the result of these negotiations, as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan. In October 2005, Congoleum sought and obtained an extension of the voting deadline to December 14, 2005 to allow time to address this issue. Congoleum is presently in negotiations with these claimants, as well as other constituencies, to determine the modifications of the Sixth Plan and other steps that may be appropriate for the implementation of the plan. The Bankruptcy Court has given Congoleum permission to file a new amended plan and disclosure statement by December 2, 2005. On November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court

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ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

There can be no assurance that Congoleum will finalize the terms of a new amended plan by that date, that Congoleum will receive the acceptances necessary for confirmation of a new amended plan of reorganization, that a new amended plan will not be modified further, that a new amended plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court, or that such approvals will be received in a timely fashion, that a new amended plan will be confirmed, or that a new amended plan, if confirmed, will become effective.

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Note A - Basis of Presentation (continued)

Congoleum is presently involved in litigation with certain insurance carriers related to disputed insurance coverage for asbestos related liabilities, and certain insurance carriers filed various objections to Congoleum's previously proposed plans of reorganization and related matters and may file objections to any new amended plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to any new amended plan.

Although the terms of a new amended plan have not been determined, Congoleum is negotiating amendments and modifications with reference to the terms of the Sixth Plan. Any descriptions of the Sixth Plan provided in these Notes to Unaudited Consolidating Condensed Financial Statements are provided to assist the reader in understanding the basis from which any further amended plan may be negotiated. There can be no assurance that the terms of any new amended plan will not materially differ from the terms of the Sixth Plan or that Congoleum will reach agreement on a new amended plan on or before December 2, 2005.

The Sixth Plan would leave Congoleum's non-asbestos creditors unimpaired and would resolve all pending and future asbestos claims against Congoleum. The Sixth Plan provides, among other things, for an assignment of certain rights in, and proceeds of, Congoleum's applicable insurance to the Plan Trust that would fund the settlement of all pending and future asbestos claims and protect Congoleum from future asbestos-related litigation by channeling all asbestos claims to the Plan Trust under Section 524(g) of the Bankruptcy Code. The Bankruptcy Court has authorized Congoleum to pay its trade creditors in the ordinary course of business. Congoleum expects that it will take until some time in the second or third quarter of 2006 at the earliest to obtain confirmation of any new amended plan of reorganization.

For more information regarding Congoleum's asbestos liability and plan for resolving that liability, please refer to Note J of the Notes to Unaudited Consolidating Condensed Financial Statements.

Although there can be no assurances with respect to the terms of any new amended plan, the Company believes, based on the terms of the Sixth Plan and subsequent negotiations regarding a new amended plan that have occurred to date, that there is reasonable basis to expect it will maintain control of Congoleum under the terms of a new amended plan, subject to Congoleum obtaining the necessary acceptances and approvals required for confirmation of the plan. Accordingly, 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 anticipated continuing control of Congoleum. However, the accompanying financial statements also present the details of

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consolidation to separately show the financial condition, operating results and cash flows of ABI (excluding Congoleum and its wholly owned subsidiaries) and Congoleum and its wholly owned subsidiaries, which may be more meaningful for certain analyses.

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Note A - Basis of Presentation (continued)

The 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, the financial statements do not include any adjustments that might be necessary should Congoleum be unable to continue as a going concern. As described in Note J, there is substantial doubt about Congoleum's ability to continue as a going concern unless it obtains relief from its substantial asbestos liabilities through a successful reorganization under Chapter 11 of the Bankruptcy Code.

The American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code ("SOP 90-7"), 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. Pursuant to SOP 90-7, 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 Plan Trust. 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 Bankruptcy Court of contingent or disputed claims related to pre-petition matters.

Note B - Stock Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"). SFAS No. 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. SFAS No. 123(R) was originally effective for public companies at the beginning of the first interim or annual period beginning after September 15, 2005. In April 2005, the Securities and Exchange Commission ("SEC") provided for a phased-in implementation process for public companies. Based on the Company's year end of December 31, the Company must adopt SFAS No. 123(R) on January 1, 2006.

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Note B - Stock Based Compensation (continued)

SFAS No. 123(R) allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The Company is currently evaluating these transition methods and determining the effect on the Company's consolidated results of operations and whether the adoption will result in amounts that are similar to the current pro-forma disclosures under SFAS No. 123. For 2005, the Company will continue to disclose stock-based compensation information in accordance with FASB Statement No. 148 ("SFAS 148"), Accounting for Stock-Based Compensation--Transition and Disclosure--an Amendment of FASB Statement No. 123, and SFAS No. 123.

Below is a reconciliation of consolidated net income (loss), as reported, to pro forma consolidated net income (loss) including compensation expense for the Company's and Congoleum's stock-based plans as calculated based on the fair value at the grant dates for awards made under these plans in accordance with the provisions of SFAS 123 as amended by SFAS 148, as well as a comparison of as reported and pro forma basic and diluted EPS follows (in thousands, except per share data):

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net income (loss):				
As reported	\$ 1,008	\$ 1,444	\$ (13,071)	\$ (13,071)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(99)	(101)	(293)	(293)
	-----	-----	-----	-----
As adjusted	\$ 909	\$ 1,343	\$ (13,364)	\$ (13,364)
	=====	=====	=====	=====
Net income (loss) per share - basic:				
As reported	\$ 0.30	\$ 0.42	\$ (3.80)	\$ (3.80)
Pro forma compensation expense	(0.03)	(0.03)	(0.08)	(0.08)
	-----	-----	-----	-----
	\$ 0.27	\$ 0.39	\$ (3.88)	\$ (3.88)
	=====	=====	=====	=====
Net income (loss) per share - diluted:				
As reported	\$ 0.29	\$ 0.42	\$ (3.80)	\$ (3.80)
Pro forma compensation expense	(0.03)	(0.03)	(0.08)	(0.08)
	-----	-----	-----	-----
	\$ 0.26	\$ 0.39	\$ (3.88)	\$ (3.88)
	=====	=====	=====	=====

In November 2005, the Compensation Committee of the Board of Directors of the Company approved the vesting of all outstanding and unvested options held by directors, officers and employees under American Biltrite's stock option plans. See Note N - Subsequent Event.

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Note C - Inventories

Inventories at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	September 30, 2005	December 31, 2004
	-----	-----
Finished goods	\$55,226	\$54,597
Work-in-process	11,140	9,207
Raw materials and supplies	13,178	12,232
	-----	-----
	\$79,544	\$76,036
	=====	=====

Note D - Sale of Property

In January 2005, the Company completed the sale of a warehouse building and land located in Tullahoma, Tennessee. The building and land were owned by Tullahoma Properties, L.L.C. ("Tullahoma Properties"), a subsidiary in which ABI owns a 62.5% interest. The building was previously leased to a third party, and upon termination of the lease in 2003, Tullahoma Properties listed the property for sale. The building and land were sold for \$2.5 million in cash and a gain of approximately \$2.3 million was recognized and included in other income in the first quarter 2005. After taxes and non-controlling interest, the increase in first quarter net income as a result of the sale was \$887 thousand or \$0.26 per share.

Note E - Accrued Expenses

Accrued Expenses at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	September 30, 2005	December 31, 2004
	-----	-----
Accrued warranty, marketing and sales promotion	\$23,677	\$24,260
Employee compensation and related benefits	9,479	9,138
Interest	143	191
Environmental matters	1,000	1,000
Royalties	675	1,118
Taxes payable	2,511	3,709
Other	6,760	9,189
	-----	-----
	\$44,245	\$48,605
	=====	=====

See Note G for Liabilities Subject to Compromise.

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Note F - Other Liabilities

Other Liabilities at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	September 30, 2005	December 31, 2004
	-----	-----
Pension benefits	\$ 2,701	\$ 2,615
Environmental remediation and non- asbestos product related liabilities	4,867	4,680
Deferred income taxes	16,559	16,531
Other	1,455	1,411
	-----	-----
	\$25,582	\$25,237
	=====	=====

See Note G for Liabilities Subject to Compromise.

Note G - Liabilities Subject to Compromise

As a result of Congoleum's Chapter 11 filing (see Notes A and J to the Unaudited Consolidating Condensed Financial Statements), pursuant to SOP 90-7, Congoleum is required to segregate pre-petition liabilities that are subject to compromise and report them separately on its 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. In addition, Congoleum's accrued but unpaid interest expense on its 8 5/8% Senior Notes Due 2008 is also recorded in liabilities subject to compromise. See Notes A and J to the Unaudited Consolidating Condensed Financial Statements for further discussion of Congoleum's asbestos liability. Liabilities subject to compromise for the Company on a consolidated basis were as follows (in thousands):

	September 30, 2005	December 31, 2004
	-----	-----
Current		
Other pre-petition payables and accrued interest	\$ 21,377	\$ 14,225
Non-current		
Debt (at face value)	100,000	100,000
Pension liability	15,490	16,936
Other post-retirement benefit obligation	8,067	8,303
Other pre-petition liabilities	12,284	12,051
	-----	-----
	135,841	137,290
Elimination - Payable to American Biltrite	(147)	(186)
	-----	-----
	135,694	137,104
	-----	-----
Total liabilities subject to compromise	\$157,071	\$151,329
	=====	=====

Note G - Liabilities Subject to Compromise (continued)

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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, or as a result of the allowance by the Bankruptcy Court of contingent or disputed claims relating to pre-petition matters.

Note H - 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 following 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, 2005 and 2004 (in thousands):

	Three Months Ended September 30, 2005		Three Months Ended September 30, 2004	
	Pension	Other Benefits	Pension	Other Benefits
Components of Net Periodic Benefit Cost:				
Service cost	\$ 519	\$ 46	\$ 500	\$ 46
Interest cost	1,446	130	1,402	130
Expected return on plan assets	(1,370)	--	(1,210)	--
Recognized net actuarial (gain) loss	(60)	15	(61)	15
Amortization of transition obligation	(9)	--	(35)	--
Amortization of prior service cost	255	(47)	349	(47)
Net periodic benefit cost	\$ 781	\$ 144	\$ 945	\$ 144

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Note H - Pension Plans (continued)

	Nine Months Ended September 30, 2005		Nine Months Ended September 30, 2004	
	Pension	Other Benefits	Pension	Other Benefits
Components of Net Periodic Benefit Cost:				

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Service cost	\$ 1,690	\$ 138	\$ 1,556	\$
Interest cost	4,334	390	4,206	
Expected return on plan assets	(3,908)	--	(3,636)	
Recognized net actuarial (gain) loss	(181)	45	(183)	
Amortization of transition obligation	(45)	--	(104)	
Amortization of prior service cost	976	(141)	1,098	
	-----	-----	-----	-----
Net periodic benefit cost	\$ 2,866	\$ 432	\$ 2,937	\$
	=====	=====	=====	=====

The weighted average assumptions used to determine net periodic benefit cost for the three and nine months ended September 30, 2005 and 2004 were as follows:

	2005		2004	
	Pension	Other Benefits	Pension	Other Benefits
Discount rate	6.10% - 6.25%	6.25%	6.25% - 6.75%	6.25%
Expected long-term return on plan assets	7.00% - 7.50%	--	7.00% - 7.50%	--
Rate of compensation increase	4.00% - 5.50%	--	4.00% - 5.50%	--

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Note I - 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 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, and the extent to which costs may be recoverable from insurance. The Company has recorded provisions in the financial statements for the estimated probable loss associated with all known general and environmental contingencies, including those related to Congoleum. While the Company believes these estimates of the future amount of these liabilities are reasonable, and that they will be paid over a period of three 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 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

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regulations could be passed along to the Company's and Congoleum's customers. Estimated insurance recoveries related to these liabilities are reflected in other non-current assets.

The Company records 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 to reflect such revisions and progress.

Liabilities of Congoleum comprise the substantial majority of the environmental and other liabilities reported on the Company's consolidating balance sheet. Due to the relative magnitude and wide range of estimates of these liabilities and 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 financial statements, to the extent that Congoleum incurs a liability or expense, it will be reflected in ABI's consolidating financial statements.

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Note I - Commitments and Contingencies (continued)

American Biltrite Inc.

ABI is a co-defendant with many other manufacturers and distributors of asbestos containing products in approximately 1,747 pending claims involving approximately 2,416 individuals as of September 30, 2005. 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 Ended September 30, 2005 -----	Year Ended December 31, 2004 -----
Beginning claims	1,838	1,954
New claims	524	678
Settlements	(20)	(20)
Dismissals	(595)	(774)
	-----	-----
Ending claims	1,747 =====	1,838 =====

The total indemnity costs incurred to settle claims during the nine months ended September 30, 2005 and twelve months ended December 31, 2004 were \$1,138,000 and \$1,320,000, respectively, all of which were paid by ABI's insurance carriers pursuant to ABI's applicable insurance policies, as were the related defense costs. The average indemnity cost per resolved claim was approximately \$1,913 for the nine months ended September 30, 2005 and \$2,000 for the year ended December 31, 2004.

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

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not to remove asbestos-containing flooring by sanding or other methods that may cause the product to become friable.

The Company estimates its liability to defend and resolve current and reasonably anticipated future asbestos-related claims (not including claims asserted against Congoleum), based upon a strategy to actively defend or seek settlement for those claims in the normal course of business. Factors such as 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 the Company were considered in performing these estimates. In 2004, the Company utilized an actuarial study to assist it in developing estimates of the Company's potential liability

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Note I - Commitments and Contingencies (continued)

for resolving present and possible future asbestos claims. At September 30, 2005 and December 31, 2004, the estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2010 was \$7.5 million to \$19.4 million. The Company believes no amount within this range is more likely than any other, and accordingly has recorded the minimum liability estimate of \$7.5 million in its consolidated financial statements. The Company also believes that, based on this minimum liability estimate, the corresponding amount of insurance probable of recovery is \$7.5 million at September 30, 2005 and December 31, 2004, which has been included in other assets. 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. Two insurance carriers account for 70% and 25%, respectively, of the \$7.5 million deemed probable of recovery. The estimated liabilities and insurance recovery amounts were based on currently known facts 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 the potential enactment of asbestos legislation in the United States, could cause the actual liability and insurance recoveries for the Company to be significantly higher or lower than those projected or recorded.

Due to the numerous variables and uncertainties, including the effect of Congoleum's Chapter 11 case and plan of reorganization on the Company's liabilities, the Company does not believe that reasonable estimates can be developed of liabilities for asbestos-related claims against the Company (not including claims asserted against Congoleum) beyond a five 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 Company anticipates that resolution of its asbestos related liabilities resulting from Congoleum's reorganization plan will be limited to liabilities derivative of claims asserted against Congoleum as may be afforded under Section 524(g) (4) of the Bankruptcy Code.

ABI reported in its December 31, 2004 Annual Report on 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 ("CERCLA"), with respect to four sites located in three separate states. ABI also reported that it is potentially responsible for response and remediation costs with respect to three state-supervised sites located in two separate states. There have been no material developments relating to these

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sites during the three month period ended September 30, 2005.

In 1993, a lawsuit was brought by Olin Corporation ("Olin"), the present owner of a former chemical plant site in Wilmington, Massachusetts (the "Olin Site"), which alleged that ABI and three other named defendants were liable for a portion of the site's soil and groundwater response and remediation costs at the site. A wholly-owned subsidiary of ABI owned and operated the Wilmington plant from 1959 to 1964, and for approximately one month during 1964, American Biltrite Inc. held title to the property directly.

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Note I - Commitments and Contingencies (continued)

In 2000, ABI and The Biltrite Corporation ("TBC") entered into a settlement agreement with Olin that resolved all claims and counterclaims among the parties. Under the terms of the agreement, ABI and TBC together paid Olin \$4.1 million in settlement of their share of Olin's \$18 million of alleged past response costs incurred through December 31, 1998. ABI and TBC also agreed to reimburse Olin for 21.7% of Olin's response costs incurred at the Olin Site after January 1, 1999, plus pay an annual reimbursement of \$100 thousand for Olin's internal costs as long as Olin is actively working on remediating the site. Under an agreement between ABI and TBC, TBC is liable for 37.5% of the aggregate amounts due from ABI and TBC under the settlement agreement with Olin.

Additional expenditures, principally consisting of remediation and oversight costs, will be required to remediate the Olin Site. Olin has estimated that the total response costs for 2005 will be approximately \$6.4 million. For costs beyond 2005, ABI has estimated the range of total response costs for the site to be between \$20.0 million and \$59.0 million. As of September 30, 2005, ABI has estimated its potential liability to Olin to be in the range of \$4.4 million to \$13.8 million after allocation for the annual reimbursement of \$100 thousand for Olin's internal costs but before any recoveries from insurance and TBC.

The State of Maine Department of Environmental Protection has put Miller Industries, Inc. ("Miller"), the present owner of a former ABI sheet vinyl plant in Lisbon Falls, Maine, on notice to clean up a dumpsite where there is exposed asbestos from sheet vinyl waste along with other hazardous substances. In September 2005, a lawsuit was brought by Miller against ABI, which alleged that ABI and one other named defendant are liable for costs to clean up the dumpsite ("Parcel A") and a second parcel of land ("Parcel B"), which is alleged to contain polychlorinated biphenyls ("PCB's") in the soil. The lawsuit, captioned Miller Industries, Inc. v. American Biltrite Inc. et al, was filed on September 22, 2005 in the Androscoggin Superior Court of Maine. Miller is seeking indemnification or contribution from ABI for the clean-up of both parcels of land (together, the "Maine Sites").

Prior to the commencement of the lawsuit by Miller, the Company had been investigating and reviewing the condition of Parcel A and its potential liability for its share of any clean-up costs. The Company believes, at this time, that the cost of site investigation, remediation, maintenance and monitoring for Parcel A will be between approximately \$1.2 million and \$2.9 million. Prior to the filing of the lawsuit, the Company was also in the process of reviewing the condition of Parcel B and its potential liability for its share of any clean-up costs. The Company cannot determine at this time the cost of site investigation, remediation, maintenance and monitoring for Parcel B. Furthermore, at this time, the Company is not able to determine what its potential liability will be with regard to the Maine Sites. Under an agreement between ABI and TBC, TBC is liable for 37.5% of costs incurred by ABI for the Maine Sites.

Note I - Commitments and Contingencies (continued)

ABI has made demands against its insurance carriers to provide defense and indemnity for ABI's liabilities at the CERCLA sites, the three state supervised sites, the Olin Site, and the Maine Sites. An agreement was executed by ABI and its carriers regarding the payment of the defense costs for the Olin Site. ABI has reached agreements with three of its insurance carriers whereby the carriers have reimbursed the Company \$1.9 million for past and current environmental claims. One carrier has also agreed to reimburse the Company for 2.5% of the Company's liabilities regarding future environmental expenses related to the Olin Site, \$49,600 of which was reimbursed through September 30, 2005 and 37.5% of the amount of that reimbursement was shared with TBC pursuant to the Company's agreement with TBC. ABI and its insurance carriers continue to discuss ABI's remaining demands for insurance coverage for these sites. As of September 30, 2005, the Company has accrued \$5.9 million for ABI's estimable and probable amounts for environmental-related contingencies described above. The Company has also recorded a receivable of \$2.2 million for ABI's estimable and probable recoveries for the contingencies described above.

In connection with the transfer of ABI's Trenton, NJ tile plant to Congoleum in 1993, the Company signed an administrative consent order from the New Jersey Department of Environmental Protection for any environmental remediation the state may require at that location. Pursuant to the contribution in 1993 of the Company's former tile division to Congoleum, Congoleum assumed liability for the cost of cleaning up the site. Congoleum has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. The Company remains contingently liable in the event that Congoleum fails to perform or fund any required remediation relating to this site.

The outcome of these matters could result in significant expenses incurred by, or judgments assessed against, the Company, which could have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Congoleum

Congoleum is a defendant in a large number of asbestos-related lawsuits and on December 31, 2003, filed a petition commencing a voluntary case under Chapter 11 of the Bankruptcy Code. See Note J - "Congoleum Asbestos Liabilities and Reorganization."

Congoleum is named, together with a large number (in most cases, hundreds) of other companies, as a PRP 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. These 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 depends on many factors, including the volume of material contributed to the site by Congoleum,

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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 by Congoleum from relevant insurance policies. 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. 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 EPA recently selected a remedy for the soil and shallow groundwater; however, the remedial investigation/feasibility study related to the deep groundwater has not been completed. The PRP group estimated that future costs of the remedy recently selected by the EPA based on engineering estimates would be approximately \$11 million. Congoleum's proportionate share, based on waste disposed at the site, is estimated to be approximately 5.7%, or approximately \$0.7 million. The majority of Congoleum's share of costs incurred to date has been paid by one of its insurance carriers, whose remaining policy limits for this claim will cover approximately half this amount. Congoleum expects the balance to be funded by other insurance carriers and Congoleum.

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 New Jersey Department of Environmental Protection and has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. Estimated total clean-up costs of \$1.7 million, 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 \$1.4 million was included in non-current liabilities subject to compromise as of September 30, 2005 and December 31, 2004.

At September 30, 2005 and December 31, 2004, Congoleum had recorded a total of \$4.6 million for estimated environmental liabilities and \$2.1 million for related insurance recoveries. 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 asset for environmental matters is 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 the business, operations and financial position of Congoleum.

Note I - Commitments and Contingencies (continued)

Other

In addition to the matters referenced above and in Note J, in the ordinary course of their businesses, the Company and Congoleum become involved in lawsuits, administrative proceedings in connection with product liability claims and other matters. In some of these proceedings, plaintiffs may seek to recover

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large and sometimes unspecified amounts, and the matters may remain unresolved for several years.

Note J - Congoleum Asbestos Liabilities and Reorganization

In early 2003, Congoleum announced a strategy for resolving current and future asbestos claims liability through confirmation of a pre-packaged plan of reorganization under Chapter 11 of the Bankruptcy Code. Later in 2003, Congoleum entered into a settlement agreement with various asbestos personal injury claimants (the "Claimant Agreement"). As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing a pre-petition trust (the "Collateral Trust") to distribute funds in accordance with the terms of the Claimant Agreement and granting the Collateral Trust a security interest in Congoleum's rights under its applicable insurance coverage and payments from Congoleum's insurers for asbestos claims. Under the terms of the Sixth Plan, participants in the Claimant Agreement who vote in favor of the plan agree to forbear from exercising the security interest in and priority rights to distributions from the Collateral Trust. As discussed below, in September 2005 certain asbestos claimants indicated that they are not willing to agree to forbear from exercising their security interest as contemplated by the Sixth Plan. Congoleum is presently in negotiations with these claimants, as well as other constituencies, to determine the modifications of the Sixth Plan and other steps that may be appropriate for the implementation of the plan. Although the terms of any new amended plan have not been determined, Congoleum is negotiating amendments and modifications with reference to the terms of the Sixth Plan. There can be no assurance that the terms of any new amended plan will not materially differ from the terms of the Sixth Plan.

The Claimant Agreement established a compensable disease valuation matrix (the "Matrix") and allowed claimants who qualified to participate in the Claimant Agreement (the "Qualifying Claimants") to settle their claims for the Matrix value, secured in part (75%) by a security interest in the collateral granted to the Collateral Trust. The Collateral Trust provides for distribution of trust assets according to various requirements that give priority (subject to aggregate distribution limits) to participating claimants who had pre-existing unfunded settlement agreements ("Pre-Existing Settlement Agreements") with Congoleum and participating claimants who qualified for payment under unfunded settlement agreements entered into by Congoleum with plaintiffs that had asbestos claims pending against Congoleum and which claims were scheduled for trial after the effective date of the Claimant Agreement but prior to the commencement of Congoleum's anticipated Chapter 11 reorganization case ("Trial-Listed Settlement Agreements").

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

The Claimant Agreement incorporated Pre-Existing Settlement Agreements and the settlement of certain Trial-Listed Settlement Agreement claims for a fully secured claim against the Collateral Trust, and it settled all other claims for a secured claim against the Collateral Trust equal to 75% of the claim value and an unsecured claim for the remaining 25%. Under the Sixth Plan, after the establishment of the Plan Trust, the assets in the Collateral Trust would be transferred to the Plan Trust and any claims subject to the Claimant Agreement would be channeled to the Plan Trust and paid in accordance with the terms of the Sixth Plan, which incorporates the forbearance discussed above.

In October 2003, Congoleum began soliciting acceptances for its proposed pre-packaged plan of reorganization and Congoleum received the votes necessary for acceptance of the plan in late December 2003. On December 31, 2003,

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Congoleum filed a voluntary petition with the United States Bankruptcy Court for the District of New Jersey (Case No. 03-51524) seeking relief under Chapter 11 of the Bankruptcy Code. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court.

In November 2004, Congoleum filed a modified plan of reorganization and related documents with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the modified plan.

In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the Plan Trust.

In July 2005, Congoleum filed the Sixth Plan and related documents with the Bankruptcy Court which reflected the result of these negotiations, as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan.

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

In October 2005, Congoleum sought and obtained an extension of the voting deadline to December 14, 2005 to allow time to address this issue. Congoleum is presently in negotiations with these claimants, as well as other constituencies, to determine the modifications of the Sixth Plan and other steps that may be appropriate for the implementation of the plan. The Bankruptcy Court has given Congoleum permission to file a new amended plan and disclosure statement to the court by December 2, 2005. On November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

There can be no assurance that Congoleum will finalize the terms of a new amended plan by that date, that Congoleum will receive the acceptances necessary for confirmation of a new amended plan of reorganization, that a new amended plan will not be modified further, that a new amended plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court or that such approvals will be received in a timely fashion, that a new amended plan will be confirmed, or that a new amended plan, if confirmed, will become effective.

Congoleum is presently involved in litigation with certain insurance carriers related to disputed insurance coverage for asbestos related liabilities, and

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certain insurance carriers filed various objections to Congoleum's previously proposed plans of reorganization and related matters and may file objections to any new amended plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to any new amended plan.

During 2005, Congoleum has entered into a number of settlement agreements with excess insurance carriers over coverage for asbestos-related claims. In May 2005, certain AIG companies agreed to pay approximately \$103 million over ten years to the Plan Trust. This settlement resolves coverage obligations of policies with a total of \$114 million in liability limits for asbestos bodily injury claims, and is subject to the effectiveness of a plan of reorganization that provides AIG with certain specified relief including a channeling injunction pursuant to Section 524(g) of the Bankruptcy Code. An insurer has appealed the approval order granted by the Bankruptcy Court to the U.S. District Court, where it is pending. In June 2005, Congoleum entered into a settlement agreement with certain underwriters at Lloyd's, London, pursuant to which the certain underwriters paid approximately \$20 million into an escrow account in exchange for a release of insurance coverage obligations. The escrow agent will transfer the funds to the Plan Trust once a plan of reorganization with the Section 524(g) protection specified in the settlement agreement goes effective and the Bankruptcy Court approves the transfer of the funds. In August 2005, Congoleum entered into a settlement agreement with Federal Insurance Company pursuant to which Federal will pay \$4 million to the Plan Trust once a plan of reorganization with the Section 524(g) protection specified in the settlement agreement goes effective and the Bankruptcy Court approves the transfer of the funds. A motion to reconsider the Bankruptcy Court's approval will be heard by

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

the Bankruptcy Court on November 21, 2005. In October 2005, Congoleum entered into a settlement agreement with Mt. McKinley Insurance Company and Everest Reinsurance Company pursuant to which Mt. McKinley and Everest has paid \$21.5 million into an escrow account. The escrow agent will transfer the funds to the Plan Trust once a plan goes effective and the Bankruptcy Court approves the transfer of the funds. Court approval of these settlement agreements has been or may be appealed by other insurance carriers who are not party to the agreements, or by other parties. It also is possible that a settling insurer may argue that a new amended plan is not substantially similar to the Sixth Plan and therefore is relieved of its settlement obligation.

Although the terms of a new amended plan have not yet been determined, Congoleum is negotiating amendments and modifications with reference to the terms of the Sixth Plan. The following description of the Sixth Plan is provided to assist the reader in understanding the basis from which any further amended plan may be negotiated. There can be no assurance that the terms of any new amended plan will not materially differ from the terms of the Sixth Plan or that Congoleum will reach agreement on a new amended plan on or before December 2, 2005. Congoleum expects that it will take until the second or third quarter of 2006 at the earliest to obtain confirmation of any new amended plan of reorganization.

Under the Sixth Plan and related documents, Congoleum's assignment of insurance recoveries to the Plan Trust is net of costs incurred by Congoleum in connection with insurance coverage litigation. Congoleum is entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for coverage litigation costs incurred after January 1, 2003 in excess of \$6 million. Furthermore, once insurance recoveries exceed \$375 million, Congoleum is entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for the first \$6 million

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of such costs for which it could not presently seek reimbursement due to the above items of the Sixth Plan. Congoleum also paid \$1.3 million in claims processing fees in connection with claims settled under the Claimant Agreement. Under the Sixth Plan, Congoleum is entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for the \$1.3 million claims processing fee once insurance recoveries exceed \$375 million. There can be no assurance that any future plan will provide for Congoleum to recover any coverage litigation costs or claims processing fees.

In connection with modifications to the Sixth Plan and certain prior plans and to the Collateral Trust, Congoleum agreed to indemnify the Claimants Counsel and the trustee of the Collateral Trust for all acts relating to the modifications of such plan and the Collateral Trust made on or after April 1, 2005, including attorneys' fees, up to a maximum of \$3 million.

The Sixth Plan provides for the channeling of asbestos property damage claims in addition to asbestos personal injury claims to the Plan Trust. There were no property damage claims asserted against Congoleum at the time of its bankruptcy filing. The Bankruptcy Court approved an order establishing a bar date of May 3, 2004 for the filing of asbestos property damage claims. The claims agent appointed in Congoleum's bankruptcy proceeding advised Congoleum that, as

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

of the bar date, it received 35 timely filed asbestos property damage claims asserting liquidated damages in the amount of approximately \$0.8 million plus additional unspecified amounts. Congoleum objected to certain claims on various grounds, and the Bankruptcy Court ultimately allowed 19 claims valued at \$133 thousand.

The Sixth Plan provides that Congoleum will issue a promissory note (the "Congoleum Note") to the Plan Trust. Under the terms of the Sixth Plan, the original principal amount of Congoleum Note will be \$2,738,234.75 (the "Original Principal Amount") and will be subject to increase as of the last trading day of the 90 consecutive trading day period commencing on the first anniversary of the effective date of Congoleum's confirmed Chapter 11 plan of reorganization (the "Principal Adjustment Date") in an amount equal to the excess, if any, of the amount by which 51% of Congoleum's market capitalization as of the Principal Adjustment Date (based upon (subject to certain exceptions) the total number of shares of Congoleum's common stock outstanding as of such date multiplied by the average of the closing trading prices of Congoleum's Class A common stock for the 90 consecutive trading days ending on the Principal Adjustment Date) exceeds the Original Principal Amount (the "Additional Principal Amount"), plus any accrued but unpaid interest or other amounts that may be added to such principal amount pursuant to the terms of the Congoleum Note. This adjustment amount could result in the principal amount of the note increasing materially. For example, if the adjustment amount were calculated during the 90 consecutive day trading period ended September 30, 2005, the resulting adjustment amount would be \$14.9 million. Under the terms of the Sixth Plan, interest on the outstanding principal of the Congoleum Note will accrue at a rate of 9% per annum, with interest on the Original Principal Amount payable quarterly and interest on the Additional Principal Amount added to the Additional Principal Amount as additional principal. Upon the earlier of August 1, 2008 and the date that all of Congoleum's outstanding 8-5/8% Senior Notes due 2008 (the "Congoleum Senior Notes") are repaid in full, interest on the then outstanding Additional Principal Amount will become payable quarterly.

Under the terms of the Sixth Plan, all principal on the Congoleum Note then

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outstanding together with any accrued but unpaid interest will be payable in full on the tenth anniversary of the date of the Congoleum Note, subject to the right of the Plan Trust to accelerate all amounts then owed on the Congoleum Note following an uncured event of default under the Congoleum Note. Events of default under the Congoleum Note would include the failure to pay interest and principal prior to the expiration of a 10-day grace period following the applicable due date, the occurrence of an event of default under the indenture governing the Senior Notes, the breach by Congoleum of any covenant or agreement contained in the Congoleum Note which remains uncured 30 days following notice by the Plan Trust to Congoleum and its controlling shareholder, American Biltrite Inc. ("ABI"), of the breach and a material breach of the pledge agreement (the "ABI Pledge Agreement") by ABI (which agreement is discussed below) which remains uncured 30 days following notice by the Plan Trust to ABI and Congoleum of the breach. The terms of the Congoleum Note would provide that, upon the occurrence of an event of default under the Congoleum Note, Congoleum and ABI would have 10 days from the date they receive notice that

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

an event of default has occurred to cure the event of default. If the event of default remains uncured after the 10-day cure period, the aggregate outstanding principal amount of the Congoleum Note together with any accrued but unpaid interest thereon would become immediately due and payable if the event of default relates to an uncured event of default under the indenture governing the Congoleum Senior Notes, and with regard to other events of default under the Congoleum Note, the Plan Trust may, upon notice to Congoleum and ABI, declare the aggregate outstanding principal amount of the Congoleum Note together with any accrued but unpaid interest thereon to be immediately due and payable. The Plan Trust's rights to payment under the Congoleum Note will be subordinate and subject in right of payment to the prior payment in full of all amounts owing and payable pursuant to the Congoleum Senior Notes and Congoleum's credit facility, except that regularly scheduled interest payments under the Congoleum Note are expected to be payable by Congoleum so long as no default or event of default has occurred or is continuing under the indenture governing the Congoleum Senior Notes or Congoleum's credit facility.

The Sixth Plan contemplates that, pursuant to the ABI Pledge Agreement, ABI will pledge all of the shares of Congoleum's common stock that ABI owns, together with any other equity interests and rights ABI may own or hold in Congoleum, as of the date of the Congoleum Note, as collateral for Congoleum's obligations under the Congoleum Note. As additional security for the Congoleum Note, the ABI Pledge Agreement and the terms of the Sixth Plan provide that any amounts that Congoleum would be obligated to pay ABI pursuant to any rights of indemnity that ABI may have against the Plan Trust for asbestos-related claims pursuant to the Sixth Plan or a certain Joint Venture Agreement, entered into in 1992, to which both Congoleum and ABI are parties (as amended, the "Joint Venture Agreement"), will not be paid by the Plan Trust until after any amounts due and payable to the Plan Trust under the Congoleum Note have been paid in full to the Plan Trust. Until such time, any such indemnity payments that would otherwise have been payable by the Plan Trust to ABI would be set aside by the Plan Trust and held in escrow by the Plan Trust for ABI's benefit and pledged by ABI as additional collateral securing Congoleum's obligations under the Congoleum Note until released from such escrow and paid to ABI, as further provided under the Sixth Plan, the Congoleum Note and the ABI Pledge Agreement.

The Congoleum Note, the ABI Pledge Agreement and the Sixth Plan also provide that Congoleum would be prohibited from making any payments to ABI pursuant to any rights of indemnity that ABI may have against Congoleum for claims pursuant

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to the Joint Venture Agreement until after any amounts due and payable to the Plan Trust under the Congoleum Note have been paid in full to the Plan Trust. Until such time, any such indemnity payments that would otherwise have been payable to ABI by Congoleum will be paid by Congoleum to the Plan Trust and the Plan Trust will set aside and hold in escrow such amounts for ABI's benefit and ABI will pledge such amounts as additional collateral securing Congoleum's obligations under the Congoleum Note until released from such escrow and paid to ABI, as further provided under the Sixth Plan, the Congoleum Note and the ABI Pledge Agreement.

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

Under the Sixth Plan, ABI would be permitted to prepay the principal amount of the Congoleum Note, in whole but not in part, without any penalty or premium at any time following the Principal Adjustment Date and any interest that may have accrued but not yet paid at the time of any principal repayment would be due and payable at the time of the principal repayment. Congoleum would be obligated to repay ABI for any amounts paid by ABI pursuant to the Congoleum Note, which repayment obligation would be evidenced by a promissory note or notes to be issued by Congoleum to ABI. Any such note would have similar payment terms as those expected to be afforded to the Plan Trust with regard to the Congoleum Note, which rights of repayment are expected to be subordinate and subject in right of payment to the prior payment in full of all amounts owing and payable to the Plan Trust with regard to the Congoleum Note and with regard to amounts owing and payable pursuant to the Congoleum Senior Notes and Congoleum's credit facility, except that the right of full subordination with regard to the Congoleum Senior Notes and Congoleum's credit facility would contain an exception that would allow Congoleum to make regularly scheduled interest payments to ABI pursuant to any such note so long as no default or event of default has occurred or is continuing under the indenture governing the Congoleum Senior Notes or Congoleum's credit facility.

The Sixth Plan also provides that if ABI prepays the Congoleum Note and ABI sells all or substantially all of the shares of Congoleum's stock that it holds as of the Principal Adjustment Date during the three-year period following such date, ABI would be obligated to make a contribution to the Plan Trust if the equity value of Congoleum implied by the price paid to ABI for the shares of Congoleum's stock exceeded the greater of \$2,738,234.75 or 51% of Congoleum's market capitalization as of the Principal Adjustment Date (based upon (subject to certain exceptions) the total number of shares of Congoleum's common stock outstanding as of such date multiplied by the average of the closing trading prices of Congoleum's Class A common stock for the 90 consecutive trading days ending on the Principal Adjustment Date). In such instance, the Sixth Plan would obligate ABI to pay to the Plan Trust an amount equal to 50% of such excess amount. Under the terms of the Sixth Plan, Congoleum would be obligated to repay ABI for any amounts paid by ABI to the Plan Trust pursuant to this obligation. In satisfaction of this repayment obligation, Congoleum would issue a promissory note to ABI in a principal amount equal to the amount of any such payments made by ABI plus any accrued but unpaid interest or other amounts that may be added to such principal amount pursuant to the terms of the promissory note which would be subordinate and subject in right of payment to the prior payment in full of all amounts owing and payable pursuant to the Congoleum Senior Notes and Congoleum's credit facility, except that regularly scheduled interest payments could be paid on such note so long as no default or event of default has occurred or is continuing under the indenture governing the Congoleum Senior Notes or Congoleum's credit facility.

The Sixth Plan provides that the Plan Trust would be able to transfer the

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Congoleum Note, in whole but not in part, at any time following the Principal Adjustment Date. Upon any transfer of the Congoleum Note, the amounts pledged by ABI and held in escrow by the Plan Trust for ABI's benefit with regard to ABI's indemnity rights discussed above will be paid by the Plan Trust,

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Note J - Congoleum Asbestos Liabilities and Reorganization (continued)

first, to the Plan Trust in repayment of principal then outstanding on the Congoleum Note together with any accrued but unpaid interest thereon and, second, any amounts remaining would be distributed by the Plan Trust to ABI.

Under the Sixth Plan and related documents, ABI has agreed to make a cash contribution in the amount of \$250 thousand to the Plan Trust upon the formation of the Plan Trust. Under the Sixth Plan, ABI would receive certain relief as may be afforded under Section 524(g)(4) of the Bankruptcy Code from asbestos claims that derive from claims made against Congoleum, which claims are expected to be channeled to the Plan Trust. However, the Sixth Plan does not provide that any other asbestos claims that may be asserted against ABI would be channeled to the Plan Trust.

While Congoleum believes that it will be able to negotiate a new amended plan which is feasible and should be confirmed by the Bankruptcy Court, there are sufficient risks and uncertainties such that no assurances of the outcome can be given. In addition, the remaining costs to effect the reorganization process, consisting principally of legal and advisory fees and contributions to the Plan Trust, including one or more notes expected to be contributed to the Plan Trust by Congoleum, are expected to be approximately \$12.7 million at a minimum, not including any Additional Principal Amount arising from revaluation of the Congoleum Note, and could be materially higher. Congoleum is not yet able to determine the additional costs that may be required to effect a new amended plan and actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher.

Based on the Sixth Plan, Congoleum has made provision in its financial statements for the minimum amount of the range of estimates for its contribution to effect its plan to settle asbestos liabilities through the Plan Trust. Congoleum recorded charges aggregating approximately \$26 million in prior years and a further approximately \$15.5 million in the second quarter of 2005, to provide for the estimated minimum costs of completing its reorganization given the revised timeline then assumed in the second quarter of 2005 for anticipated confirmation and based on the Sixth Plan. Congoleum is not yet able to determine the additional costs that may be required to effect a new amended plan and actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher than currently recorded. Delays in proposing, filing and obtaining approval of any new amended plan of reorganization could result in a proceeding that takes longer and is more costly than Congoleum has estimated. Congoleum may record significant additional charges should the minimum estimated cost increase.

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Note K - Comprehensive Income (Loss)

The following table presents total comprehensive income (loss) for the three and nine months ended September 30, 2005 and 2004 (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,
	2005	2004	2005
	-----	-----	-----
Net income (loss)	\$1,008	\$1,444	\$ (13,071)
Foreign currency translation adjustments	151	827	429
Minimum pension liability adjustment	--	--	--
	-----	-----	-----
Total comprehensive income (loss)	\$1,159	\$2,271	\$ (12,642)
	=====	=====	=====

Note L - Earnings (Loss) Per Share

Basic and diluted earnings per share are computed in accordance with FASB Statement No. 128, Earnings per Share ("SFAS 128"). SFAS 128 requires both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding and all dilutive potential common equivalent shares 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 reportable segments: flooring products, tape products, jewelry and a Canadian division that produces flooring and rubber products. 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 commercial and residential use. The tape products 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.

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Note M - Industry Segments (continued)

Net sales by segment for the three and nine months ended September 30, 2005 and 2004 were as follows (in thousands):

	Three Months Ended September 30,		
	2005	2004	2004
	-----	-----	-----

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Net sales to external customers:			
Flooring products	\$ 60,494	\$ 58,927	\$ 176
Tape products	24,043	20,569	71
Jewelry	16,907	22,714	46
Canadian division	12,708	10,970	36
	-----	-----	-----
Total net sales to external customers	114,152	113,180	331
Intersegment net sales:			
Flooring products	13	--	
Tape products	23	46	
Jewelry	--	--	
Canadian division	1,309	1,728	4
	-----	-----	-----
Total intersegment net sales	1,345	1,774	4
Reconciling items			
Intersegment net sales	(1,345)	(1,774)	(4)
	-----	-----	-----
Total consolidated net sales	\$ 114,152	\$ 113,180	\$ 331
	=====	=====	=====

Segment profit or loss is before income tax expense or benefit. Profit (loss) by segment for the three and nine months ended September 30, 2005 and 2004 was as follows (in thousands):

	Three Months Ended September 30,		N
	2005	2004	200
	-----	-----	-----
Segment profit (loss)			
Flooring products	\$ 325	\$ 1,920	\$ (14,
Tape products	600	(57)	1,
Jewelry	1,531	2,700	1,
Canadian division	(445)	(255)	(1,
	-----	-----	-----
Total segment profit (loss)	2,011	4,308	(12,
Reconciling items			
Corporate expenses	(356)	(1,276)	1,
Intercompany profit (loss)	(15)	(58)	
	-----	-----	-----
Total consolidated income (loss) before income taxes and other items	\$ 1,640	\$ 2,974	\$ (10,
	=====	=====	=====

Note M - Industry Segments (continued)

Corporate expenses for the nine months ended September 30, 2005 include a gain of \$2.3 million from the sale of a warehouse during the first quarter (see Note D). The flooring products segment's loss for the nine months ended September 30,

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2005 includes a \$15.5 million charge recorded by Congoleum during the second quarter to increase its reserves for asbestos related reorganization costs (see Note J).

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

	September 30, 2005	December 31, 2004
	-----	-----
Segment assets		
Flooring products	\$ 199,945	\$ 212,882
Tape products	57,174	51,788
Jewelry	39,106	37,158
Canadian division	38,285	39,953
	-----	-----
Total segment assets	334,510	341,781
Reconciling items		
Assets of discontinued operation	3,184	2,952
Corporate items	27,788	22,577
Intersegment accounts receivable	(16,574)	(11,558)
Intersegment profit in inventory	(200)	(281)
Intersegment other asset	(147)	(186)
	-----	-----
Total consolidated assets	\$ 348,562	\$ 355,285
	=====	=====

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Note N - Subsequent Event

On November 10, 2005, the Compensation Committee of the Board of Directors of the Company approved the vesting of all outstanding and unvested options held by directors, officers and employees under the Company's 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997, and 1999 Stock Option Plan for Non-Employee Directors. As a result of the acceleration of vesting, options to acquire 195,600 shares of the Company's common stock, which otherwise would have vested from time to time over the next four years, became immediately exercisable in full. This action was taken to eliminate, to the extent permitted, the transition expense that the Company otherwise would incur in connection with the adoption of SFAS No. 123(R). The exercise prices of all of the unvested options were lower than the closing trading price of the Company's common stock on the modification date. Under the accounting guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, the accelerated vesting resulted in a charge for stock-based compensation of approximately \$23,000. The charge was recognized by the Company in November 2005. The Company's pro forma disclosure for 2005 will include the aggregate effect of the accelerated vesting of \$799,000, as calculated under SFAS No. 123, Accounting for Stock-Based Compensation. The remaining unvested portion would have otherwise been recognized in the Company's consolidating statements of operations over the next four fiscal years, upon the adoption of SFAS No. 123(R) on January 1, 2006.

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

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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 forward-looking statements are based on the Company's (and its majority-owned subsidiary Congoleum Corporation's) expectations, as of the date of this report, of future events and the Company undertakes no obligation to update any of these forward-looking statements. Although the Company 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. Factors that could cause or contribute to the Company's actual results differing from its expectations include those factors discussed elsewhere in this report, including in the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors That May Affect Future Results," in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and in the Company's other filings with the Securities and Exchange Commission.

On December 31, 2003, Congoleum filed a voluntary petition with the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court") (Case No. 03-51524) seeking relief under Chapter 11 of the United States Bankruptcy Code (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 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. In November 2004, Congoleum filed a modified plan of reorganization and related documents with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the modified plan. In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the trust to be formed upon confirmation of the plan under Section 524(g) of the Bankruptcy Code (the "Plan Trust") to pay asbestos claims against Congoleum. In July 2005, Congoleum filed an amended plan of reorganization (the "Sixth Plan") and related documents with the Bankruptcy Court which reflected the result of these negotiations as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum

learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan. In October 2005, Congoleum sought and obtained an extension of the voting deadline to December 14, 2005 to allow time to address this issue. Congoleum is presently in negotiations with these claimants, as well as other constituencies, to determine

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the modifications of the Sixth Plan and other steps that may be appropriate for the implementation of the Plan. The Bankruptcy Court has given Congoleum permission to file a new amended plan and disclosure statement by December 2, 2005. On November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

There can be no assurance that Congoleum will finalize the terms of a new amended plan by that date, that Congoleum will receive the acceptances necessary for confirmation of a new amended plan of reorganization, that a new amended plan will not be modified further, that a new amended plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court, or that such approvals will be received in a timely fashion, that a new amended plan will be confirmed, or that a new amended plan, if confirmed, will become effective.

Congoleum is presently involved in litigation with certain insurance carriers related to disputed insurance coverage for asbestos related liabilities, and certain insurance carriers filed various objections to Congoleum's previously proposed plans of reorganization and related matters and may file objections to any new amended plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to any new amended plan.

Although the terms of a new amended plan have not been determined, Congoleum is negotiating amendments and modifications with reference to the terms of the Sixth Plan. Any descriptions of the Sixth Plan provided in this Quarterly Report on Form 10-Q are provided to assist the reader in understanding the basis from which any further amended plan may be negotiated. There can be no assurance that the terms of any new amended plan will not materially differ from the terms of the Sixth Plan or that Congoleum will reach agreement on a new amended plan on or before December 2, 2005. Congoleum expects that it will take until the second or third quarter of 2006 at the earliest to obtain confirmation of any new amended plan of reorganization.

In anticipation of Congoleum's commencement of the Chapter 11 cases, Congoleum entered into a settlement agreement with various asbestos personal injury claimants (the "Claimant Agreement"), which 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 of approximately \$491 million. As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing a pre-petition trust (the "Collateral Trust") to distribute funds in accordance with the terms of the Claimant Agreement and granting the Collateral Trust a security interest in Congoleum's rights under its applicable insurance coverage

and payments from Congoleum's insurers for asbestos claims. Under the terms of the Sixth Plan, after the establishment of the Plan Trust, the assets in the Collateral Trust would be transferred to the Plan Trust and any claims subject to the Claimant Agreement would be channeled to the Plan Trust and paid in accordance with the terms of the Sixth Plan. As a result of tabulating ballots on its fourth amended plan, 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 Sixth Plan.

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Based on the Sixth Plan, Congoleum has made provision in its financial statements for the minimum amount of the range of estimates for its contribution to effect its plan to settle asbestos liabilities through the Plan Trust. Congoleum recorded charges aggregating approximately \$26 million in prior years and a further approximately \$15.5 million in the second quarter of 2005, to provide for the estimated minimum costs of completing its reorganization given the revised timeline then assumed in the second quarter of 2005 for anticipated confirmation and based on the Sixth Plan. Congoleum is not yet able to determine the additional costs that may be required to effect a new amended plan, and actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher than currently recorded. Congoleum may record significant additional charges should the minimum estimated cost increase. Delays in proposing, filing and obtaining approval of any new amended plan of reorganization could result in a proceeding that takes longer and is more costly than Congoleum has estimated.

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors That May Affect Future Results - 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" for a discussion of certain factors that could cause actual results to differ from the Congoleum's goals for resolving its asbestos liability through a plan of reorganization.

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. Results of Janus, including charges resulting from the shutdown, are being reported as a discontinued operation.

Due to Congoleum's Chapter 11 proceedings and separate capital structure, the Company believes that presenting ABI and its non-debtor subsidiaries separately from Congoleum is the most meaningful way to discuss and analyze its financial condition and results of operations. ABI and its non-debtor subsidiaries are comprised of the Tape, Jewelry (comprised of the Company's majority-owned subsidiary, K&M Associates L.P.) and Canadian division segments as well as Corporate items and Janus. Congoleum is the flooring products segment.

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 accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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

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the fiscal year ended December 31, 2004, 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	
	2005		2004		2005	
	-----		-----		-----	
Net sales	\$ 53,591		\$ 54,253		\$ 154,695	
Cost of sales	38,569		38,700		111,134	
	-----		-----		-----	
Gross profit	15,022	28.0%	15,553	28.7%	43,561	28.2%
Selling, general & administrative expenses	13,382	25.0%	13,561	25.0%	40,012	25.9%
	-----		-----		-----	
Operating income (loss)	1,640		1,992		3,549	
Interest expense, net	571		719		1,937	
Other (income) expense, net	(261)		168		(2,135)	
	-----		-----		-----	
Income (loss) before taxes and other items	1,330		1,105		3,747	
Provision for (benefit from) income taxes	481		574		1,436	
Noncontrolling interests	(71)		(118)		(632)	
	-----		-----		-----	
Income (loss) from continuing operations	\$ 778		\$ 413		\$ 1,679	
	=====		=====		=====	

Net sales in the third quarter of 2005 were \$53.6 million compared to \$54.3 million in the third quarter of 2004, a decrease of \$0.7 million or 1.2%. This decrease was due to lower net sales at K&M, partly offset by higher net sales at the Tape and Canadian divisions. K&M's sales declined \$5.8 million (25.6%) due to back-to-school and children's product programs in 2004 which were not repeated in 2005 coupled with brand transitions by certain retailers which negatively affected sales. Tape and the Canadian divisions had increases in net sales of \$3.4 million (16.7%) and \$1.7 million (15.5%), respectively. The increase in net sales at the Tape division was mainly due to higher volume in paper, film and HVAC products, with higher pricing contributing \$ 1.2 million to the increase. Canadian division net sales increased primarily due to higher sales of industrial rubber products. Net sales for the first nine months of 2005

increased \$3.6 million (2.4%) to \$154.7 million from \$151.1 million for the first nine months of 2004. Tape and Canadian division net sales were higher by 10.7% and 11.1%, respectively, on higher volume and pricing, while K&M's net sales were 13.1% lower for the first nine months of this year versus last year principally due to lower sales to a major mass merchandiser.

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Gross profit declined from 28.7% for the third quarter of 2004 to 28.0% for the third quarter of 2005. Gross profit at the Tape division improved by 1.3 points as a result of additional sales volume, better manufacturing performance, and sales price increases, which helped offset increases in raw material costs. Gross profit at the Canadian division declined by 3.8 points because of higher raw material costs. Gross profit at K&M improved by 2.6 points as a result of lower costs for inventory losses and fixtures. Gross profit for the nine months ended September 30, 2005 was 28.2% compared to 28.7% for the first nine months of 2004. Tape division gross profit was higher (1.8 points) for the nine months compared to the prior year as a result of increased volume and pricing which helped offset higher raw material costs. The gross profit percentage for the Canadian division for the first nine months of 2005 declined 1.4 points versus the first nine months of 2004 due to higher raw material costs. Gross profit for K&M decreased by 1.3 points for the nine month period as a result of higher provisions for markdowns and returns in the second quarter of 2005

The Company includes the cost of purchasing and finished goods inspection in selling, general and administrative 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, 2005 and 2004 would have been 27.6% and 28.2%, respectively. The gross profit margins for the nine months ended September 30, 2005 and 2004 would have been 27.8% and 28.2%, respectively.

Selling, general and administrative ("SG&A") expenses in the third quarter of 2005 decreased by \$179 thousand compared to the third quarter of 2004. The decrease in expense was primarily due to lower legal and professional fees, partly offset by higher selling expenses and freight costs. As a percentage of net sales, SG&A was 25.0% of sales in both periods. SG&A expenses for the nine months ended September 30, 2005 were \$40.0 million (25.9% of net sales) versus \$41.2 million (27.3% of net sales) for the first nine months of 2004. The decrease in expense is primarily due to lower payroll costs at K&M and lower professional fees.

Interest expense for the third quarter and first nine months of 2005 declined versus the same prior year periods, reflecting a lower average interest rate under the Company's Note Agreements.

Other income was \$261 thousand in the third quarter of 2005 compared to other expense of \$168 thousand in the third quarter of 2004 primarily due to more favorable currency translation. Other income for the nine months ended September 30, 2005 includes a gain of \$2.3 million recognized on the sale of a warehouse. The impact of this sale on the Company's net income after taxes and non-controlling interest was \$887 thousand, or \$0.26 per share.

The effective tax rate was 38% for the first nine months of 2005, and the full year rate is expected to be comparable. The effective tax rate for the first nine months of 2004 was not meaningful.

Income from continuing operations in the third quarter of 2005 was \$778 thousand compared to \$413 thousand in the corresponding prior year period. For the nine months ended September 30, 2005, income from continuing operations was \$1.7 million compared to a loss of \$617 thousand for the same period last year. Excluding the net impact of the sale of the warehouse, the income from continuing operations for the first nine months of 2005 was approximately \$600 thousand.

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Congoleum

	Three Months Ended September 30				Nine Months Ended September			
	2005		2004		2005		2004	
	-----		-----		-----		-----	
Net sales	\$60,507		\$58,871		\$ 176,245		\$173,822	
	-----		-----		-----		-----	
Cost of sales	47,270		41,812		135,577		126,326	
	-----		-----		-----		-----	
Gross profit	13,237	21.9%	17,059	29.0%	40,668	23.1%	47,496	
Selling, general & administrative expenses	10,556	17.4%	12,959	22.0%	48,416	27.5%	37,961	
	-----		-----		-----		-----	
Operating income (loss)	2,681		4,100		(7,748)		9,535	
Interest expense, net	2,579		2,391		7,515		6,950	
Other income, net	223		212		638		877	
VIncome (loss) before taxes	325		1,921		(14,625)		3,462	
Provision for income taxes	--		768		--		1,384	
	-----		-----		-----		-----	
Net income (loss)	\$ 325		\$ 1,153		\$ (14,625)		\$ 2,078	
	=====		=====		=====		=====	

Net sales for the quarter ended September 30, 2005 were \$60.5 million as compared to \$58.9 million for the quarter ended September 30, 2004, an increase of \$1.6 million or 2.7%. The increase resulted primarily from the impact of higher sales to the manufactured housing industry reflecting hurricane-related orders for both mobile homes and RV trailers (up 17.5%) and the impact of price increases taken in late 2004 and early 2005 (up 5.5%) partially offset by lower sales of residential products (down 3.0%), the reduction in inventory by a major customer during the quarter (down 3.0%) and lower sales of do-it-yourself tile to mass merchandisers (down 33%). Net sales for the nine months ended September 30, 2005 totaled \$176.2 million as compared to \$173.8 million for the same period in the prior year, an increase of \$2.4 million or 1.4%. The increase reflects higher sales to the manufactured housing category (up 12.0%) and the impact of selling price increases instituted in late 2004 and 2005 (up 7%) partially offset by lower sales of do-it-yourself tile to the mass merchandiser category (down 36%) and sales of residential products (down 6.0%)

Gross profit for the quarter ended September 30, 2005 totaled \$13.2 million, or 21.9% of net sales, compared to \$17.1 million, or 29.0% of net sales, for the same period last year. The major factor leading to the deterioration in gross margin percent was the sharp rise in raw material costs experienced during the second half of 2004 and ongoing through 2005, which reduced margins by 7.5 percentage points of net sales, coupled with a poorer sales mix (3.5 percentage points of net sales) and the unfavorable absorption impact of lower production volumes (1.5 percentage points of net sales). This was partially mitigated by the 5.5 percentage point increase in selling prices. Gross profit for the nine

months ended September 30, 2005 was \$40.7 million or 23.1% of net sales, compared to \$47.5 million, or 27.3% of net sales for the same period in the prior year. The lower gross profit dollars and margin percent reflect higher raw

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material costs (9 percentage points of net sales) and the unfavorable absorption impact of lower production volumes (2.5 percentage points of net sales) partially offset by higher selling prices (7.0 percentage points of net sales). Raw material costs are expected to remain high in 2005 and until additional capacity becomes available.

Selling, general and administrative expenses were \$10.6 million for the quarter ended September 30, 2005 as compared to \$13.0 million for the quarter ended September 30, 2004, a decrease of \$2.4 million. The decrease in expenses reflects lower sales support and merchandising expenses of \$1.1 million, lower incentive compensation related expenses of \$0.6 million and lower insurance costs of \$0.5 million. As a percent of net sales, selling, general and administrative costs were 17.4% for the quarter ended September 30, 2005 compared to 22.0% for the same period last year. Selling, general and administrative expenses for the nine months ended September 30, 2005 totaled \$48.4 or 27.5% of sales as compared to \$38.0 million or 21.8% for the same period last year. The increase in expenses reflects a \$15.5 million charge taken during the second quarter of 2005 for reorganization expenses partially offset by the factors outlined for the third quarter of 2005.

Income from operations was \$2.7 million for the quarter ended September 30, 2005 compared to income of \$4.1 million for the quarter ended September 30, 2004. The reduction in operating income was a result of the lower gross margin dollars partially offset by lower operating expenses. For the nine months ended September 30, 2005, loss from operations totaled \$7.7 million as compared to income from operations of \$9.5 million for the same period in the prior year. The decline in income from operations reflected the impact of the reorganization charge and higher raw material costs.

Liquidity and Capital Resources

ABI & Non-Debtor Subsidiaries

Cash and cash equivalents, including short term investments, decreased \$1.7 million in the first nine months of 2005 to \$3.3 million. Net earnings, short term borrowings, and proceeds from the sale of a warehouse provided cash that was used to fund seasonal working capital increases, capital expenditures, and payments on long-term debt. Working capital at September 30, 2005 was \$20.0 million, up from \$16.2 million at December 31, 2004. The ratio of current assets to current liabilities at September 30, 2005 was 1.32 compared to 1.27 at December 31, 2004, consistent with the increased amount of working capital at September 30, 2005.

Capital expenditures in the first nine months of 2005 were \$1.8 million compared to \$1.7 million for the first nine months of 2004. It is anticipated that capital spending for the full year 2005 will be between \$3 million and \$4 million.

During the first quarter, the Company sold a warehouse for \$2.5 million, resulting in net cash proceeds of \$2.3 million. The warehouse was owned by Tullahoma Properties L.L.C., a subsidiary in which the Company owns a 62.5% interest.

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 liabilities is reasonable, that most of such amounts will

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be paid over a period of three 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. has two principal debt agreements that it is party to as borrower. The first of those agreements is a credit agreement (the "Credit Facility") with Fleet National Bank, a Bank of America company ("Fleet"), and Bank of America National Association acting through its Canada branch (the "Canadian Lender"). The Credit Facility provides American Biltrite Inc. and its subsidiary K&M Associates L.P. with a revolving credit facility of up to \$20 million and a \$12 million borrowing sublimit for AB Canada. The amount of domestic borrowings available from time to time under the Credit Facility for the Company may not exceed the lesser of (a) \$20 million less the then outstanding amount of borrowings by AB Canada under the Canadian sublimit facility and (b) the applicable borrowing base. The formula used for determining the borrowing base is based upon inventory, receivables and fixed assets of the Company and certain of its subsidiaries (not including, among others, AB Canada and Congoleum), reduced by amounts outstanding under the Note Agreement (as defined below). American Biltrite Inc. and K&M Associates L.P. may also obtain letters of credit in an aggregate amount at any time outstanding of up to \$4 million, subject to the Credit Facility's maximum borrowing availability limit discussed above.

Interest is payable quarterly on domestic revolving loans borrowed by American Biltrite Inc. and K&M Associates L.P. under the Credit Facility periodically at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, (b) if a fixed rate is in effect, at a rate between the fixed rate plus 1.0% to a fixed rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, and (c) for loans not based on a LIBOR or fixed rate, the higher of Fleet's applicable prime rate and 0.50% plus the federal funds rate, as determined under the Credit Facility. Under the Credit Facility, the Company may generally determine whether interest on domestic revolving loans will be calculated based on a LIBOR based rate, and if Fleet elects to make a fixed rate option available, whether interest on revolving loans will be calculated based on a fixed rate.

The amount of borrowings available from time to time for AB Canada under the Canadian sublimit facility under the Credit Facility is limited to the lesser of (a) \$12 million, (b) AB Canada's borrowing base amount, which is based upon a percentage of AB Canada's accounts receivable, inventory and fixed assets, and (c) \$20 million less the amount of domestic borrowings outstanding under the Credit Facility on behalf the Company and K&M Associates L.P. The Canadian sublimit facility also allows AB Canada to obtain letters of credit in an aggregate amount at any time outstanding of up to \$1 million, subject to the Canadian sublimit facility's maximum borrowing availability limit discussed above. AB Canada may borrow amounts under the Canadian sublimit facility in United States or Canadian dollar denominations; however, solely for purposes of determining amounts outstanding and borrowing availability under the Credit Facility, all Canadian dollar denominated amounts will be converted into United States dollars in the manner provided in the Credit Facility.

Interest is payable quarterly on revolving loans under the Canadian sublimit facility periodically at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Agreement, and (b) if a LIBOR based rate is not in effect, for outstanding revolving loans denominated in Canadian dollars, the higher of 0.50% plus the applicable 30-day average bankers' acceptance rate as quoted on Reuters CDOR page and the Canadian Lender's applicable prime rate for loans made in Canadian dollars to Canadian customers, and for outstanding revolving loans denominated in United States dollars, the higher of 0.50% plus the federal funds rate as calculated under the Credit Agreement and the applicable rate announced by the Canadian Lender as its reference rate for commercial loans denominated in United States dollars made to a person in Canada. Under the Credit Agreement, AB Canada may generally determine whether interest on revolving loans will be calculated based on a LIBOR based rate.

The Credit Facility expires on September 30, 2006.

The second principal debt agreement that American Biltrite Inc. is a party to (the "Note Agreement") is with The Prudential Insurance Company of America ("Prudential"). Under the Note Agreement, the Company previously issued notes in an aggregate principal amount of \$20 million (the "Notes"). The Notes generally bear interest at a rate of 7.91% per annum, and the Company is obligated to pay Prudential an additional fee on each interest payment date if the Company's and certain of its subsidiaries' ratio of debt to EBITDA, as defined under the Note Agreement, exceeds certain levels. The amount of those fees that may be payable by the Company varies depending on the extent the Company's and certain of its subsidiaries' debt exceeds EBITDA, as determined under the Note Agreement, and is capped at 2% of the outstanding principal amount of the Series A Notes. During 2004 and for the first quarter of 2005, the Company was obligated to pay the full 2% of that fee. For the second quarter of 2005, the fee was 1%, and for the third quarter of 2005 it was 0.5%. Principal on the Notes is repayable in five annual installments of \$4.0 million beginning on August 28, 2006.

The Credit Facility and the Note Agreement contain certain covenants that the Company must satisfy. The covenants included in the Credit Facility and the Note Agreement include certain financial tests, restrictions on the ability of the Company to incur additional indebtedness or to grant liens on its assets and restrictions on the ability of the Company to pay dividends on its capital stock. In addition, the Credit Facility includes a financial covenant that requires the Company's consolidated adjusted EBITDA for the four consecutive fiscal quarters ending June 30, 2006 to exceed 150% of the Company's consolidated pro forma fixed charges for the 12-month period beginning immediately after June 30, 2006, as determined under the Credit Facility (the "Pro Forma Financial Covenant"). The financial tests are required to be calculated based on the Company accounting for its majority-owned subsidiary Congoleum Corporation on the equity method and include a maximum ratio of total liabilities to tangible net worth, a minimum ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA") less certain cash payments for taxes, debt service, and dividends to interest expense, a minimum level of tangible net worth, a requirement that there be no consecutive quarterly losses from continuing operations, and a maximum level of capital spending. In addition, beginning on September 30, 2006, the Note Agreement requires the Company to satisfy a different set of financial covenants, including a minimum ratio of current assets to current liabilities, a minimum ratio of adjusted EBITDA to fixed charges, a cap on the amount of debt as a percentage (45%) of

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tangible net worth, a cap on the amount of priority debt (generally, debt of a Company subsidiary (not including Congoleum) that is not a guarantor under the Note Agreement plus secured debt of the Company) as a percentage (15%) of tangible net worth, a minimum leverage ratio, and a minimum amount of tangible net worth.

Pursuant to the Credit Facility and the Note Agreement, the Company and certain of its subsidiaries granted Fleet, the Canadian Lenders and Prudential a security interest in most of the Company's and its subsidiaries' assets. The security interest granted does not include the shares of capital stock of the Company's majority-owned subsidiary Congoleum Corporation or the assets of Congoleum Corporation. In addition, pursuant to the Credit Facility and the Note Agreement, certain of the Company's subsidiaries have agreed to guarantee the Company's obligations (excluding AB Canada's obligations) under the Credit Facility and the Note Agreement.

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. In January 2004, the Credit Facility and the Note Agreement were amended to remove a former lender under the Credit Facility, reduce the credit line to \$20 million, and to modify the tangible net worth, adjusted EBITDA to interest expense and consecutive quarterly loss covenants. Fees of \$83 thousand were paid to the lenders in connection with those amendments. In April 2004, the Credit Facility and the Note Agreement were amended to permit AB Canada the ability to grant a security interest in certain assets under a credit agreement that AB Canada was a party to. In November 2004, the Credit Facility was amended to extend the term of the Credit Facility to January 1, 2006, to modify the treatment of tax refunds in covenant calculations, and to modify the measurement levels for the adjusted EBITDA to interest expense and current assets to current liabilities covenants for the remainder of the extended term of the Credit Facility. A fee of \$50 thousand was paid in connection with that amendment.

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On May 20, 2005, the Company entered into amendments and restatements of its Credit Facility and Note Agreement. The amendment to the Credit Facility extended the maturity date of the Credit Facility to September 30, 2006, added the Pro Forma Financial Covenant and added the \$12 million Canadian sublimit facility for AB Canada. Pursuant to the amended Credit Facility, AB Canada granted a security interest in all of its personal property to the Canadian Lender. During the second quarter of 2005, AB Canada repaid all amounts outstanding under its previous credit agreement with another lender from the proceeds of borrowings under the Credit Facility.

The amendment to the Note Agreement in May 2005 generally removed the application of the financial covenants under the Note Agreement for any measurement period prior to March 31, 2005, which effectively cured the Company's preexisting failure to satisfy the adjusted EBITDA to interest expense covenant (as determined under the Note Agreement) as of December 31, 2004. In addition, the amendments modified the financial covenants for 2005 under the Note Agreement to make them comparable to the financial covenants for 2005 under the Credit Facility. The amendment also requires the Company to enter into a definitive commitment to replace or refinance the \$20 million borrowing limit under the Credit Facility by June 30, 2006 and to consummate the replacement or refinancing by September 30, 2006.

Fees and expenses incurred for the amendments to the Credit Facility and Note Agreement in May 2005 were approximately \$425 thousand.

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There can be no assurance that the Company will not need to obtain additional amendments or waivers of covenants under its debt agreements in 2005 or subsequent years. If it fails to satisfy those covenants it will be in default under the respective debt agreements.

Certain defaults under the Note Agreement, such as defaults resulting from certain bankruptcy, insolvency and receivership matters of the Company or certain of its subsidiaries (not including Congoleum), automatically cause all amounts owing with respect to the Notes then outstanding under the Note Agreement to become immediately due and payable. A default in the payment of principal or interest under the Notes would allow each individual noteholder to cause all amounts owed with respect to the Notes held by such holder to become immediately due and payable. In addition, with respect to all other defaults under the Note Agreement, holders of at least 51% of the aggregate principal amount of the Notes then outstanding could cause all amounts then owing with respect to the Notes to become immediately due and payable. The Company understands that Prudential is the only holder of the Notes and, as such, any decision to cause the acceleration of amounts owed with respect to the Notes would be made at Prudential's discretion.

Certain events of default under the Credit Facility, such as defaults resulting from certain bankruptcy, insolvency and receivership matters of the Company or certain of its subsidiaries (not including Congoleum) automatically terminate Fleet's and the Canadian Lender's obligations to make borrowings available under the Credit Facility and causes all amounts outstanding under the Credit Facility to become immediately due and payable. With respect to all other events of default under the Credit Facility, Fleet and the Canadian Lender may terminate their obligations to make borrowings available under the Credit Facility and cause all amounts outstanding under the Credit Facility to become immediately due and payable.

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Pursuant to the terms of the Credit Facility and the Note Agreement, a default by the Company under one of those agreements triggers a cross-default under the other agreement. If a default occurs, Fleet and the Canadian Lender and Prudential could respectively require the Company to repay all amounts outstanding under the respective debt agreements. If a default occurs and the Company is unable to obtain a waiver from the applicable lender and the Company is required to repay all amounts outstanding under those agreements, the Company would need to obtain funding from another source. Otherwise, the Company would likely be unable to repay those outstanding amounts, in which case, Fleet as administrative agent over the collateral securing the amounts outstanding under the Credit Facility and the Note Agreement, might exercise Fleet's and the Canadian Lender's and Prudential's rights over that collateral. Any default by the Company under the Credit Facility or the Note Agreement that results in the Company being required to immediately repay outstanding amounts under its debt agreements, and for which suitable replacement financing is not timely obtained, would have a material adverse effect on the Company's business, results of operations and financial condition.

As noted above, the Credit Facility and the Note Agreement restrict the Company's ability to obtain additional financing. Moreover, since the Company and most of 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. The Company currently believes that its cash flow from operations, expected proceeds from the sale of the Janus Flooring assets and borrowings available under its existing credit facilities will be adequate for its expected capital expenditure, working capital and debt service needs, subject to compliance with the covenants contained in its debt agreements and the ability

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of the Company to replace or refinance its existing credit facility that is scheduled to expire on September 30, 2006 on satisfactory terms. However, if circumstances change, the inability of the Company to obtain any necessary additional debt financing would likely have a material adverse effect on its business, operations and financial condition.

Congoleum is presently in negotiations with asbestos claimants, as well as other constituencies, to determine the modifications of its Sixth Plan of reorganization and other steps that may be appropriate for the implementation of a plan. The Bankruptcy Court has given Congoleum permission to file a new amended plan and disclosure statement by December 2, 2005. On November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

Although the terms of a new amended plan have not been determined, Congoleum is negotiating amendments and modifications with reference to the terms of the Sixth Plan. Any descriptions of the Sixth Plan provided in this discussion are provided to assist the reader in understanding the basis from which any further amended plan may be negotiated. There can be no assurance that terms of any new amended plan will not materially differ from the terms of the Sixth Plan, including terms governing ABI's rights, obligations, and contribution.

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Under the Sixth Plan, it is expected that certain rights that the Company may have to receive indemnification for claims under the Sixth Plan or the joint venture agreement relating to the contribution by ABI to Congoleum in 1993 of the Company's tile division (the "Joint Venture Agreement"), subject to certain exceptions, will not be paid to the Company for so long as any obligations owed to the Plan Trust under the promissory note expected to be contributed by Congoleum to the Plan Trust remain outstanding. Instead, those amounts will be held in escrow by the Plan Trust and be pledged by the Company as collateral securing Congoleum's obligations under that promissory note until released from such escrow and paid to the Company pursuant to the terms of the Sixth Plan, the promissory note and the pledge agreement expected to be entered into by the Company with regard to the collateral expected to be pledged by the Company to secure Congoleum's obligations under the promissory note. To the extent the amounts that are subject to that escrow are material, that could have a material adverse effect on the Company's liquidity and capital resources since those escrowed amounts represent amounts that would have already been paid by the Company but not yet reimbursed to the Company to the extent they remain in escrow.

Pursuant to the terms of the Sixth Plan, ABI will also pledge the shares of Congoleum stock it owns as collateral securing Congoleum's obligations under that promissory note expected to be contributed by Congoleum to the Plan Trust. The original principal amount of that note is expected to be approximately \$2.7 million and will be subject to increase as of the last trading day of the 90 consecutive trading day period commencing on the first anniversary of the effective date of Congoleum's plan of reorganization (the "Principal Adjustment Date") in an amount equal to the excess, if any, of the amount by which 51% of Congoleum's market capitalization, based on the average closing prices of Congoleum's Class A common stock over that 90 trading day period, exceeds approximately \$2.7 million. This adjustment amount could result in the principal amount of the note increasing materially. For example, if the adjustment amount were calculated based on the excess of 51% of the equity value of Congoleum over \$2.7 million during the 90 consecutive trading day period ended September 30,

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2005, the resulting adjustment amount would be approximately \$14.9 million. Although the scheduled repayment date for this note does not occur until its tenth anniversary of issuance, it is expected that the terms of the note will require Congoleum to make regularly scheduled interest payments prior to the note's maturity date. Any default by Congoleum under that note could have a material adverse effect on the Company's liquidity and capital resources.

The Sixth Plan also provides for a possible additional contribution by ABI to the Plan Trust in the event ABI sells its interest in Congoleum during the three-year period beginning on the Principal Adjustment Date. The expected amount of any additional contribution by ABI would be equal to 50% of any amount by which 51% of the equity value of Congoleum implied by ABI's sale of its interest in Congoleum exceeds the aggregate principal amount of the note contributed by Congoleum to the Plan Trust outstanding as of the Principal Adjustment Date, after taking into account any increase in the principal amount of that note as of the Principal Adjustment Date.

In addition, the terms of the Sixth Plan provide that the Company will no longer have certain other rights to receive indemnification under the Joint Venture Agreement or the Sixth Plan for asbestos-related property damage claims. To the extent that the Company pays material amounts for asbestos-related property damage claims that the Company would have been entitled to be reimbursed for by Congoleum absent the provisions of the Sixth Plan, that could have a material adverse effect on the Company's liquidity and capital resources. Furthermore, to the extent that the amount of any of the Company's indemnity claims against the Plan Trust are reduced pursuant to the distribution procedures under the Sixth Plan to an amount less than the corresponding amount paid by the Company, that could have a material adverse effect on the Company's liquidity and capital resources.

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In addition, under the terms of the Sixth Plan, ABI expects to contribute \$250 thousand in cash to the Plan Trust upon confirmation of Congoleum's plan of reorganization.

At September 30, 2005, \$9.0 million was outstanding under revolving credit lines and \$0.8 million was outstanding under letters of credit. An additional \$10.2 million was available for borrowing by the Company under the Credit Facility. The Company believes that its cash flow from operations, expected proceeds from the sale of the Janus Flooring assets and borrowings available under the Credit Facility will be adequate for its expected capital expenditure, working capital, and debt service needs, subject to compliance with the covenants contained in its debt agreements referred to above and the ability of the Company to replace or refinance its existing credit facility that is scheduled to expire on September 30, 2006 on satisfactory terms.

The Company has not declared a dividend subsequent to the third quarter of 2003. Future dividends, if any, will be determined by the Company's board of directors based upon the financial performance and capital requirements of the Company, among other considerations. Under the Credit Facility, aggregate dividend payments (since June 30, 2003) are generally limited to 50% of cumulative consolidated net income (computed treating Congoleum under the equity method of accounting), as determined under the Credit Facility, earned from June 30, 2003. Under the Note Agreement, aggregate dividend payments (since December 31, 2000) generally may not exceed the sum of \$6 million plus 50% of cumulative consolidated net income (accounting for Congoleum under the equity method of accounting), as determined under the Note Agreement, earned after December 31, 2000.

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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, the unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should Congoleum be unable to continue as a going concern. As described more fully 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 its substantial asbestos 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. See Notes A and J of the Notes to the Unaudited Consolidating Condensed Financial Statements, which are contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a discussion of Congoleum's bankruptcy proceedings. These matters will have a material adverse impact on liquidity and capital resources. During the third quarter of 2005, Congoleum paid \$7.9 million in fees and expenses related to implementation of its planned reorganization under Chapter 11 and litigation with certain insurance companies, bringing the total year to date spending in connection with these matters to \$20.8 million. Pursuant to terms of the Claimant Agreement and related documents, Congoleum is entitled to reimbursement for certain expenses it incurs for claims processing costs and expenses in connection with pursuit of insurance coverage. At September 30, 2005, Congoleum had \$11.6 million recorded as a receivable for such reimbursements. The amount and timing of reimbursements that will be received

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will depend on when the trust receives funds from insurance settlements or other sources and whether the insurance proceeds exceed \$375 million, which is the required threshold for reimbursement of the first \$7.3 million spent by Congoleum relating to these reimbursable costs and expenses. Congoleum believes this threshold will eventually be met, although there can be no assurances to that effect. Congoleum expects to spend a further \$12.7 million at a minimum in fees, expenses, and trust contributions in connection with obtaining confirmation of its plan, which amount is recorded in its reserve for asbestos-related liabilities (in addition to the \$8.7 million insurance settlement being held as restricted cash). It also expects to spend a further \$11.6 million at a minimum in connection with pursuit of insurance coverage, for which it expects to be reimbursed as discussed above. Congoleum currently holds \$3.7 million in restricted cash that may be available to offset future costs incurred pursuing insurance coverage, subject to approval by the Bankruptcy Court. Required expenditures could be materially higher than these estimates.

Due to the Chapter 11 proceedings, Congoleum has been precluded from making the interest payments on its outstanding 8 5/8% Senior Notes due 2008 (the "Senior Notes") since January 1, 2004. The amount of accrued interest that is due but has not been paid on the Senior Notes during this period is approximately \$18.6 million, including interest on the unpaid interest due. Pursuant to the terms of the Sixth Plan, payment of such accrued interest would be required for such plan to go effective.

While Congoleum is not yet able to determine the effect, if any, that the terms of any new amended plan of reorganization may have on its liquidity and capital resources, it is Congoleum's intent to seek plan terms that would not have a materially different impact on its liquidity and capital resources than the terms of the Sixth Plan, although there can be no assurances to that effect. On

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November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

As part of the Sixth Plan, Congoleum expects that it will issue a promissory note (the "Congoleum Note") to the Plan Trust. Under the terms of the Sixth Plan, the original principal amount of Congoleum Note will be approximately \$2.7 million and will be subject to increase as of the last trading day of the 90 consecutive trading day period commencing on the first anniversary of the effective date of Congoleum's plan of reorganization in an amount equal to the excess, if any, of the amount by which 51% of Congoleum's market capitalization as of that date exceeds approximately \$2.7 million, as determined in accordance

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with the terms of the Sixth Plan. This adjustment amount could result in the principal amount of the note increasing materially. For example, if the adjustment amount were calculated for the period ended September 30, 2005, the resulting adjustment amount would be \$14.9 million. Although the scheduled repayment date for this note does not occur until its tenth anniversary of issuance, this debt may affect Congoleum's ability to obtain other sources of financing or refinance existing obligations. In addition, it is expected that the terms of the Note will require Congoleum to make regularly scheduled interest payments prior to such note's maturity date.

The Sixth Plan would obligate Congoleum, together with the Plan Trust, to indemnify certain asbestos claimant representatives for all costs and liabilities (including attorneys' fees) relating to the negotiation of the modification of the Sixth Plan and certain prior proposed plans and the collateral trust made on or after April 1, 2005. Congoleum's indemnification obligations in this regard are capped under the Sixth Plan and Plan Trust agreement at \$3.0 million. In addition, the Sixth Plan would further obligate Congoleum to fund any actual costs in excess of \$2.0 million incurred by such asbestos claimant representatives in connection with the confirmation of the Sixth Plan, subject to Bankruptcy Court approval of those costs.

Unrestricted cash and cash equivalents, including short-term investments at September 30, 2005, were \$17.7 million, a decrease of \$12.1 million from December 31, 2004. Net cash used by operations during the first nine months of 2005 was \$10.1 million, as compared to \$31.0 million of cash provided by operations in the first nine months of 2004. The increase in cash used by operations in the first nine months of 2005 versus the first nine months of 2004 was primarily due to higher receivables, higher asbestos related payments, higher payments of accrued liabilities, and lower accounts payable. Under the terms of its revolving credit agreement, payments on Congoleum's accounts receivable are deposited in an account assigned by Congoleum to its lender and the funds in that account are used by the lender to pay down any loan balance. Funds deposited in this account but not yet applied to the loan balance, which amounted to \$2.6 million and \$1.2 million at September 30, 2005 and December 31, 2004, respectively, are recorded as restricted cash. Additionally, \$8.7 million of a \$14.5 million settlement received in August 2004 from an insurance carrier, which is subject to the lien of the Collateral Trust, is included as restricted cash at September 30, 2005. Congoleum expects to contribute these funds, less any amounts withheld pursuant to reimbursement arrangements, to the Plan Trust upon confirmation of its plan of reorganization. Working capital was \$23.8 million at September 30, 2005, down from \$35.3 million at December 31, 2004. The ratio of current assets to current liabilities at September 30, 2005 was 1.3

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versus 1.4 at December 31, 2004.

Capital expenditures for the nine months ended September 30, 2005 totaled \$3.6 million. Congoleum is currently planning capital expenditures of approximately \$5.5 million in 2005 and between \$6 million and \$7 million in 2006, 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

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December 31, 2005 with borrowings up to \$30.0 million. A further amendment extending the term to December 31, 2006 has been executed and is subject to Bankruptcy Court approval. Interest is based on 0.75% above the prime rate. This financing agreement contains certain covenants, which include the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA"). It 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 in compliance with these covenants at September 30, 2005. Borrowings under this facility are collateralized by inventory and receivables. At September 30, 2005, based on the level of receivables and inventory, \$27.0 million was available under the facility, of which \$4.4 million was utilized for outstanding letters of credit and \$12.6 million was utilized by the revolving loan. Congoleum anticipates that its debtor-in-possession financing facility will be replaced with a revolving credit facility on substantially similar terms upon confirmation of any new amended plan of reorganization. While Congoleum expects the facilities discussed above will provide it with sufficient liquidity, there can be no assurances that it will continue to be in compliance with the required covenants, that Congoleum will be able to obtain a similar or sufficient facility upon exit from bankruptcy, or that the debtor-in-possession facility (as extended) will be renewed prior to that facility's expiration.

Congoleum's principal sources of capital are net cash provided by operating activities and borrowings under its financing agreement. Although Congoleum did not generate net cash from operations in the first nine months of 2005, Congoleum anticipates that it will generate net cash from operations during the balance of 2005. Congoleum believes that net cash provided by operating activities and borrowings under its financing agreement will be adequate to fund working capital requirements, debt service payments, and planned capital expenditures for the foreseeable future, plus its current estimates for costs to settle and resolve its asbestos liabilities through its Sixth Plan. Congoleum's inability to obtain confirmation of an amended plan in a timely manner would have a material adverse effect on Congoleum's ability to fund its operating, investing and financing requirements. Congoleum also anticipates it will be able to obtain suitable exit financing upon confirmation of an amended plan although there can be no assurance that such financing will be obtained. Such financing will be required to replace its debtor-in-possession credit facility and permit Congoleum to pay accrued interest on its Senior Notes and other obligations needed to be satisfied in connection with the confirmation of an amended plan of reorganization. If Congoleum's cash flow from operations is materially less than anticipated, and/or if the costs in connection with seeking confirmation of an amended plan of reorganization or in connection with the insurance coverage litigation are materially more than anticipated, or if sufficient funds from

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insurance proceeds are not available at confirmation to reimburse coverage litigation costs as expected, the contemplated exit financing, when combined with net cash provided from operating activities, may not provide sufficient funds and Congoleum may not be able to obtain confirmation of and go effective with an amended plan of reorganization.

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 I to the Unaudited

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Consolidating Condensed Financial Statements). 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.

Risk Factors That May Affect Future Results

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.

As more fully set forth in Notes A, I and J of the Notes to Unaudited Consolidating Condensed Financial Statements, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q, the Company and its majority-owned subsidiary Congoleum have significant liability and funding exposure for asbestos claims. Congoleum has entered into settlement agreements with various asbestos claimants totaling at least \$491 million and is aware of additional unsettled claims with a proposed settlement value of approximately \$512 million. Satisfaction of this obligation pursuant to the terms of an amended plan of reorganization is dependent on, among other things, a determination by the Bankruptcy Court that the plan has satisfied certain criteria under the Bankruptcy Code, among other things.

There can be no assurance that Congoleum will finalize the terms of a new amended plan by December 2, 2005, the current deadline for Congoleum to submit a new amended plan and disclosure statement, that Congoleum will receive the acceptances necessary for confirmation of a new amended plan of reorganization, that a new amended plan will not be modified further, that a new amended plan will receive necessary court approvals from the Bankruptcy Court or the Federal

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District Court, or that such approvals will be received in a timely fashion, that a new amended plan will be confirmed, or that a new amended plan, if confirmed, will become effective. On November 7, 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. The Bankruptcy Court ruled that other parties may file proposed reorganization plans by December 2, 2005. It is unclear whether any person other than Congoleum will attempt to propose a plan or what any such plan would provide or propose.

A new amended plan of reorganization and any alternative plan of reorganization pursued by Congoleum or confirmed by the Bankruptcy Court and the Federal District Court could materially differ from the terms of the Sixth Plan. Furthermore, the estimated costs and contributions to effect an amended plan of reorganization or an alternative plan could be significantly greater than currently estimated. Any plan of reorganization pursued by Congoleum will be subject to numerous conditions, approvals and other requirements, including Bankruptcy Court and Federal District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained.

Confirmation of a plan of reorganization will depend on Congoleum obtaining exit financing to provide it with sufficient liquidity to pay accrued interest and other obligations upon the plan going effective. If Congoleum's cash flow from operations is materially less than anticipated, and/or if the costs in connection with seeking confirmation of an amended plan of reorganization or in connection with the insurance coverage litigation are materially more than anticipated, or if sufficient funds from insurance proceeds are not available at confirmation to reimburse coverage litigation costs as expected, Congoleum may be unable to obtain sufficient exit financing, when combined with net cash provided from operating activities, to provide Congoleum with sufficient funds for its operations and Congoleum may not be able to obtain confirmation and effectiveness of an amended plan of reorganization.

As part of Congoleum's plan of reorganization, Congoleum would contribute to the Plan Trust certain of Congoleum's rights to receive insurance proceeds for asbestos liabilities under its applicable insurance policies. Congoleum is currently involved in litigation with certain of its insurance carriers related to disputed insurance coverage for asbestos-related liabilities, and certain insurance carriers have filed various objections to Congoleum's previously filed plan of reorganization and related matters. It is expected that these insurers will continue to vigorously contest their obligations to provide Congoleum with insurance coverage for Congoleum's asbestos liabilities and seek to prevent any contribution by Congoleum of its rights to receive insurance for asbestos matters to the Plan Trust. The first phase of the insurance coverage trial began August 2, 2005 and will address all issues and claims relating to whether the insurers are obligated to provide coverage under the policies at issue in this litigation for the global Claimant Agreement entered into by Congoleum, including all issues and claims relating to both Congoleum's decision and conduct in entering into the Claimant Agreement and filing a pre-packaged bankruptcy and the insurance company defendants' decisions and conduct in

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opposing the Claimant Agreement and Congoleum's pre-packaged bankruptcy, the reasonableness and good faith of the Claimant Agreement, whether the Claimant Agreement breached any insurance policies and, if so, whether the insurance companies suffered any prejudice, and whether the insurance companies' opposition to the Claimant Agreement and bankruptcy and various other conduct by the insurers constituted a breach of their duties of good faith and fair dealing such that they are precluded from asserting that Congoleum's decision to enter

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into the Claimant Agreement constitutes any breach on the part of Congoleum. The second phase of the trial will address all coverage issues, including but not limited to trigger and allocation. The final phase of the trial will address bad faith punitive damages, if appropriate. Congoleum believes, however, that even if the insurers were to succeed in the first phase of the coverage action, such result would not deprive individual claimants of the right to seek payment from the affected insurance policies nor would such result preclude Congoleum from amending the Claimant Agreement and seeking recovery under the Claimant Agreement, as amended; moreover, Congoleum does not believe that it would be deprived of coverage-in-place insurance for future obligations of or demands upon the insurers under the applicable insurance policies. However, there can be no assurances of the outcome of these matters or their potential effect on Congoleum's ability to obtain approval of its plan of reorganization.

The Company has its own direct asbestos liability as well. The Company's strategy remains to vigorously defend 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 its asbestos liabilities for the foreseeable future. If, however, it were not able to receive such coverage from its insurers for the Company's asbestos liabilities and expenses that would likely have a material adverse effect on the Company's business, results of operations and financial position.

Some additional factors that could cause actual results to differ from Congoleum's and the Company's goals for resolving asbestos liability include: (i) the future cost and timing of estimated asbestos liabilities and payments; (ii) the availability of insurance coverage and reimbursement from insurance companies that underwrote the applicable insurance policies for Congoleum and American Biltrite Inc. for asbestos-related claims, including insurance coverage and reimbursement for asbestos claimants under the proposed Congoleum reorganization plan, which certain insurers have objected to in Bankruptcy Court and are litigating in New Jersey State Court; (iii) the costs relating to the execution and implementation of any plan of reorganization pursued by Congoleum; (iv) timely reaching agreement with other creditors, or classes of creditors, that exist or may emerge; (v) satisfaction of the conditions and obligations under American Biltrite Inc.'s and Congoleum's respective outstanding debt instruments, and amendment of those outstanding debt instruments, as necessary, to permit Congoleum and American Biltrite Inc. to satisfy their obligations under Congoleum's plan of reorganization and to make certain financial covenants in those debt instruments less restrictive; (vi) the response from time to time of American Biltrite Inc.'s and Congoleum's lenders, customers, suppliers and other constituencies to the Chapter 11 process and related developments arising from the strategy to settle asbestos liability; (vii) Congoleum's ability to maintain debtor-in-possession financing sufficient to provide it with funding that may be needed during the pendency of its Chapter 11 case and to obtain exit financing sufficient to provide it with funding that may be needed for its operations after emerging from the bankruptcy process, in each case, on reasonable terms; (viii) timely obtaining sufficient creditor and court approval

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of any reorganization plan; (ix) costs of, developments in and the outcome of insurance coverage litigation pending in New Jersey State Court involving

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Congoleum and certain insurers; (x) the extent to which Congoleum is able to obtain reimbursement for costs it incurs in connection with the insurance coverage litigation; and (xi) compliance with the Bankruptcy Code, including Section 524(g). In addition, in view of American Biltrite Inc.'s relationships with Congoleum, American Biltrite Inc. could be affected by Congoleum's negotiations regarding its pursuit of a 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 its anticipated 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 American Biltrite Inc.'s business, results of operations or financial condition.

In addition, there has been federal legislation proposed that, if adopted, 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. Due to the uncertainties involved with the pending legislation, the Company does not know the effects that any such legislation, if adopted, may have upon its or Congoleum's businesses, results of operations or financial conditions, or upon any plan that may be proposed in the future. To date, Congoleum has expended significant amounts pursuant to resolving its asbestos liability relating to its proposed Chapter 11 plan of reorganization. To the extent any federal legislation is enacted, which does not credit Congoleum for amounts paid by Congoleum pursuant to its plan of reorganization or requires the Company or Congoleum to pay significant amounts to any national trust or otherwise, such legislation could have a material adverse effect on the Company's or Congoleum's businesses, results of operations and financial conditions.

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.

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, I and J of the Notes to Unaudited Consolidating Condensed Financial Statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company relies on debt financing to help fund its operations and other general corporate purposes and any default by it under its credit facilities or inability to obtain any necessary debt financing would likely have a material adverse effect on its business, operations and financial condition.

The Company relies on borrowings under its existing credit facilities to help finance, among other things, its operations, working capital and capital expenditures. The Company and most of its domestic and Canadian subsidiaries have granted a security interest to the lenders under the Company's primary credit facilities in most of the Company's and its domestic and Canadian subsidiaries' assets. The collateral that is subject to this security interest

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does not include the shares of capital stock of Congoleum or assets of Congoleum.

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Pursuant to the terms of the Note Agreement and the Credit Facility, a default by the Company under one of those agreements triggers a cross-default under the other agreement. If such a default occurs, the lenders under the respective agreements could respectively require the Company to repay all amounts outstanding under the respective debt agreements. If a default occurs and the Company is unable to obtain a waiver from the respective lenders and the Company is required to repay all amounts outstanding under those agreements, the Company would need to obtain funding from another source. Otherwise, the Company would likely be unable to repay those outstanding amounts, in which case, Fleet as administrative agent over the collateral securing the amounts outstanding under the Credit Facility and the Note Agreement, might exercise the lenders' rights over that collateral. Any default by the Company under the Credit Facility or the Note Agreement that results in the Company being required to immediately repay outstanding amounts under its debt agreements, and for which suitable replacement financing is not timely obtained, would have a material adverse effect on the Company's business, results of operations and financial condition.

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. There can be no assurance that the Company will not need to obtain additional amendments or waivers of covenants under its debt agreements in 2005 or subsequent years. If it fails to satisfy those covenants it will be in default under the respective debt agreements.

The Credit Facility expires on September 30, 2006. Although the Company expects that the Credit Facility will be extended or replaced by that date, there can be no assurances in this regard. If the Company has outstanding borrowings under the Credit Facility at that date and the Credit Facility's term has not been extended beyond that date, such failure would result in a breach of the Note Agreement, which could have a material adverse effect on the Company's business, results of operations and financial condition.

Under the terms of the Company's debt agreements, the Company's ability to obtain additional debt financing is limited. Moreover, since the Company and most of 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.

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

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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 those 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 can be no assurance that these amounts will not have such an effect 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 and 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 and 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 (including 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 their raw materials. In particular, industry supply conditions for specialty resins used in flooring have been very tight, despite significant price increases, in part due to a fire

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at a large resin plant in 2004. Although the Company and Congoleum have not experienced any significant difficulties obtaining specialty resin, there can be no assurances that they may not have difficulty in the future, particularly if global supply conditions deteriorate. Raw material prices in 2004 increased significantly and are expected to remain high in 2005 and until additional capacity becomes available.

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 United States 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.

The Company and its majority-owned subsidiary Congoleum are subject to the effects of general economic conditions. A sustained general economic slowdown could have serious negative consequences for the Company's business, results of operations and financial condition. Moreover, their businesses are affected by the economic factors that affect their respective industries.

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

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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 21% of the Company's tape division's net sales for the year ended December 31, 2004. The loss of the largest unaffiliated customer and/or two or more of the other unaffiliated customers could 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 could have a materially adverse impact on the Company's business, results of operations, or financial condition. Congoleum derives a significant percentage of its sales from two of its distributors. These two distributors accounted for approximately 70% of Congoleum's net sales for the year ended December 31, 2004.

The Company's subsidiary K&M Associates L.P. 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 Associates L.P.'s customers accounted for approximately 59% of its net sales for the year ended December 31, 2004. The loss of K&M Associates L.P.'s largest customer 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.

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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 adequately perform in his current position, could have a material adverse effect on the Company's business, results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company and Congoleum are exposed to changes in prevailing market interest rates affecting the return on their investments. The Company and Congoleum invest primarily in highly liquid debt instruments with strong credit ratings and short-term (less than one year) maturities. If market interest rates were to increase by 10% from levels at December 31, 2004 and September 30, 2005, the fair value of our investments as of each such respective date would decline by an immaterial amount. The carrying amount of these investments approximates fair value due to the short-term maturities. The substantial majority of the Company's outstanding consolidated long-term debt as of December 31, 2004 and September 30, 2005 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, Asia and Central America, giving rise to exposure to market risks from changes in foreign exchange rates. To a certain extent, 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 December 31, 2004 and September 30, 2005, a 10% unfavorable movement in currency exchange rates in the near term would not materially affect the Company's consolidated operating results, financial position or cash flows as of each respective date.

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Under their current policies, neither the Company nor Congoleum currently use derivative financial instruments, derivative commodity instruments or other financial instruments to manage their exposure to changes in interest rates, foreign currency exchange rates, commodity prices or equity prices and do not hold any instruments for trading purposes.

Item 4: 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, 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 (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's Chief Executive Officer and Chief Financial Officer by others within those

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entities, particularly during the period in which this report was being prepared, and (2) 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.

- (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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in Note I "Commitments and Contingencies" and Note J "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, and the information included in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors That May Affect Future Results - 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," included in Part I, Item 2 of this Quarterly Report on Form 10-Q, are incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

The commencement of the Chapter 11 proceedings by Congoleum constituted an event of default under the indenture governing Congoleum's 8 5/8% Senior Notes Due 2008. In addition, due to the Chapter 11 proceedings, Congoleum was not permitted to make the interest payments due February 1, 2004, August 1, 2004, February 1, 2005, and August 1, 2005 on the Senior Notes. As of September 30, 2005, the aggregate amount of the interest payments that was not paid on the Senior Notes with respect to those interest payment due dates is approximately \$17.3 million, and the aggregate outstanding principal amount of the Senior Notes is approximately \$100 million. These amounts, plus approximately \$1.4 million of aggregate accrued interest on the unpaid interest that was due on February 1, 2004, August 1, 2004, February 1, 2005 and August 1, 2005 with respect to the Senior Notes, are included in the line item "Liabilities Subject to Compromise" in the Company's consolidating balance sheet included in this report.

Item 5. Other Information

On November 10, 2005, the Compensation Committee of the Board of Directors of the Company approved the vesting of all outstanding and unvested options held by directors, officers and employees under the Company's 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997 (the "1993 Plan"), and 1999 Stock Option Plan for Non-Employee Directors (the "1999 Plan"). As a result of the acceleration of vesting, options to acquire 195,600 shares of the Company's common stock, which otherwise would have vested from time to time over the next four years, became immediately exercisable in full. This action was taken to eliminate, to the extent permitted, the transition expense that the Company otherwise would incur in connection with the adoption of Statement of

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Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"). The exercise prices of all of the unvested options were lower than the closing trading price of the Company's common stock on the modification date. Under the accounting guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, the accelerated vesting resulted in a charge for stock-based compensation of approximately \$23,000. The charge was recognized by the Company in November 2005. The Company's pro forma disclosure for 2005 will include the aggregate effect of the accelerated vesting of \$799,000, as calculated under SFAS No. 123, Accounting for Stock-Based Compensation. The remaining unvested portion would have otherwise been recognized in the Company's consolidating statements of operations over the next four fiscal years, upon the adoption of SFAS No. 123(R) on January 1, 2006.

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Attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q is a form of stock option agreement in connection with the 1993 Plan. A copy of the 1993 Plan was previously filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, which report was filed with the Securities and Exchange Commission on March 27, 1997.

Attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q is a form of stock option agreement in connection with the 1999 Plan. A copy of the 1999 Plan was previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, which report was filed with the Securities and Exchange Commission on August 12, 1999.

Pursuant to the terms of the 1999 Plan, options to purchase 500 shares of the Company's common stock at an exercise price of \$9.30 per share were granted on July 1, 2005 to each of the Company's non-employee directors, Leo R. Breitman, Gilbert K. Gailius, John C. Garrels III, Frederick H. Joseph, Mark N. Kaplan, James S. Marcus, Natalie S. Marcus and Kenneth I. Watchmaker. Pursuant to the terms of the 1999 Plan and the related stock option agreements, each of those options were scheduled to vest and become fully exercisable on January 1, 2006; however, as a result of the Compensation Committee's decision on November 10, 2005 to accelerate the vesting of all the then outstanding options to purchase the Company's common stock granted under the 1993 Plan and the 1999 Plan, those options became fully vested and exercisable as of that date.

Item 6. Exhibits

Exhibit No.	Description
3.1 I	Restated Certificate of Incorporation
3.2 II	By-Laws, amended and restated as of September 11, 2004
10.1	Form of Stock Option Agreement for American Biltrite Inc.'s 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997
10.2	Form of Stock Option Agreement for American Biltrite Inc.'s 1999 Stock Option Plan for Non-Employee Directors
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and

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Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

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Exhibit No.	Description
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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1 III	Sixth Modified Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, et al., dated as of July 22, 2005
99.2 III	Proposed Disclosure Statement with respect to the Sixth Modified Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, et al., dated as of July 22, 2005
99.3 IV	Amendment, dated July 29, 2005, to the Confidential Settlement Agreement and Release, among Congoleum Corporation, the Plan Trust and certain underwriters at Lloyd's, London
99.4	Settlement Agreement and Release dated August 3, 2005 by, between and among Congoleum Corporation and Federal Insurance Company
99.5	Confidential Settlement Agreement and Release dated September 30, 2005 among Congoleum Corporation, the Plan Trust and Mt. McKinley Insurance Company and Everest Reinsurance Company

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I	Incorporated by reference to the exhibits to 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 of the Company's Annual Report on Form 10-K filed for the year ended December 31, 2004 and filed with the Securities and Exchange Commission on March 30, 2005
III	Incorporated by reference to the exhibits of the Company's

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Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2005

IV Incorporated by reference to the exhibits of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 and filed with the Securities and Exchange Commission on August 15, 2005

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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 14, 2005

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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