

AMERICAN BILTRITE INC  
Form 10-Q  
May 17, 2010

FORM 10-Q  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended March 31, 2010

Commission File Number 1-4773

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

57 River Street  
Wellesley Hills, Massachusetts 02481-2097  
(Address of Principal Executive Offices)  
(781) 237-6655  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

| Class        | Outstanding at May 17, 2010 |
|--------------|-----------------------------|
| Common Stock | 3,441,419 shares            |

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## FORWARD LOOKING STATEMENTS

Some of the information presented in or incorporated by reference in this report constitutes "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks, uncertainties and assumptions. These forward-looking statements are based on American Biltrite's expectations, and American Biltrite's understanding of Congoleum's expectations, as of the date of this release, of future events. American Biltrite undertakes no obligation to update any of these forward looking statements, except as may be required by the federal securities laws. Although American Biltrite believes that these expectations are based on reasonable assumptions, within the bounds of its knowledge of its business and experience, there can be no assurance that actual results will not differ materially from expectations. Any or all of these expectations may turn out to be incorrect and any forward-looking statements made in this report speak only as of the date of this report. Readers are cautioned not to place undue reliance on any forward-looking statements. Actual results could differ significantly as a result of various factors. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Any forward-looking statements made in this report speak only as of the date of this report unless the statement indicates that another date applies. It is not possible to predict or identify all factors that could potentially cause actual results to differ materially from expected and historical results.

Factors that could cause actual results to differ from expectations include: (i) American Biltrite's and Congoleum's ability to comply with the covenants imposed on them under their respective credit agreements and the availability of borrowings under their credit facilities and their ability to generate sufficient operating cash flows to fund their respective businesses and operations; (ii) the future cost and timing of payments associated with and availability of insurance coverage for environmental and non-asbestos related product and general liability claims; (iii) increases in raw material prices and availability of raw materials; (iv) increased competitive activity from competitors, some of which have greater resources and broader distribution channels; (v) unfavorable developments in various markets for American Biltrite's or its subsidiaries' products or in the national or global economy in general; (vi) shipment delays, depletion of inventory and increased production costs resulting from unforeseen disruptions of operations at any of American Biltrite's or its subsidiaries' facilities or distributors; (vii) the incurrence of product warranty costs; (viii) changes in customers for American Biltrite's or its subsidiaries' products or the failure of customers to timely pay for product purchased; (ix) any discontinuation of American Biltrite's intercompany arrangements with Congoleum on terms substantially consistent with those currently in effect, which agreements are contemplated to be revised under the currently proposed plan of reorganization for Congoleum, and the expected terms of such proposed amendments have been previously referred to by American Biltrite in its prior periodic filings with the Securities and Exchange Commission; (x) the failure of distributors or sales representatives to adequately perform; and (xi) the loss of any key executives.

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American Biltrite and Congoleum have significant asbestos related liabilities. On December 31, 2003, 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 United States Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. On August 17, 2009, the United States District Court for the District of New Jersey withdrew reference to Congoleum's Chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. Congoleum's Chapter 11 case is pending. Some additional factors that could cause actual results to differ from Congoleum's and American Biltrite's objectives 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 asbestos-related claims, including insurance coverage and reimbursement for asbestos claimants under any proposed plan of reorganization for Congoleum, which certain insurers have objected to in the applicable courts adjudicating Congoleum's Chapter 11 case and are litigating in New Jersey state court; (iii) the costs relating to the execution and implementation of any plan of reorganization for 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 and Congoleum's outstanding debt instruments, and amendment or waiver of those outstanding debt instruments, as necessary, to permit Congoleum and American Biltrite to satisfy their obligations under any plan of reorganization for Congoleum; (vi) the response from time-to-time of the lenders, customers, suppliers, holders of Congoleum's Senior Notes and their representatives, and other creditors and constituencies to the Chapter 11 process and related developments arising from the strategy to resolve 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 (including the results of any relevant appeals) of any reorganization plan for Congoleum and the court overruling any objections to the plan that may be filed; (ix) costs of, developments in, and the outcome of insurance coverage litigation pending in New Jersey state court involving Congoleum and certain insurers; (x) the impact any adopted federal legislation addressing asbestos claims may have on American Biltrite's and Congoleum's businesses, results of operations or financial conditions; (xi) compliance with the United States Bankruptcy Code, including section 524(g); and (xii) the possible adoption of another party's plan of reorganization, which may prove to be unfeasible.

In addition, in view of American Biltrite's relationships with Congoleum, American Biltrite 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 a Chapter 11 plan of reorganization would have a material adverse effect on Congoleum's business, results of operations or financial condition and could have a material adverse effect on American Biltrite's business, results of operations or financial condition. Other factors that could cause or contribute to American Biltrite Inc.'s actual results differing from its expectations include those factors discussed in Item 1A of Part II of this Quarterly Report on Form 10-Q and in American Biltrite Inc.'s other filings with the Securities and Exchange Commission.

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AMERICAN BILTRITE INC.

INDEX

PART I. FINANCIAL INFORMATION

|         |  |    |
|---------|--|----|
| Item 1. | Financial Statements:  |    |
|         | Consolidating Condensed Balance Sheets – Assets as of March 31, 2010 (Unaudited) and December 31, 2009   | 1  |
|         | Consolidating Condensed Balance Sheets – Liabilities and Stockholders’ Equity (Deficit) as of March 31, 2010 (Unaudited) and December 31, 2009 | 2  |
|         | Consolidating Condensed Statements of Operations (Unaudited) For the Three Months Ended March 31, 2010 and 2009                                | 3  |
|         | Consolidating Condensed Statements of Cash Flows (Unaudited) For the Three Months Ended March 31, 2010 and 2009                                | 4  |
|         | Notes to Unaudited Consolidating Condensed Financial Statements  | 5  |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations  | 27 |
| Item 4. | Controls and Procedures  | 42 |

PART II. OTHER INFORMATION

|          |                                 |    |
|----------|---------------------------------|----|
| Item 1.  | Legal Proceedings               | 43 |
| Item 1A. | Risk Factors                    | 43 |
| Item 3.  | Defaults Upon Senior Securities | 54 |
| Item 5.  | Other Information               | 54 |
| Item 6.  | Exhibits                        | 55 |

|           |  |    |
|-----------|--|----|
| Signature |  | 59 |
|-----------|--|----|

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | ABI Consolidated                 |                      | Eliminations                     |                      | Congoleum                        |                      | American Biltrite                |                      |
|--|----------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------|
|  | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 |
| Assets                                     |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Current assets:                            |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Cash and cash equivalents                  | \$ 13,619                        | \$ 16,467            |                                  |                      | \$ 12,660                        | \$ 16,065            | \$ 959                           | \$ 402               |
| Restricted cash                            | 33,656                           | 31,580               |                                  |                      | 33,656                           | 31,580               |                                  |                      |
| Short-term investments                     | 2,400                            | 2,400                |                                  |                      |                                  |                      | 2,400                            | 2,400                |
| Accounts receivable, net                   | 37,717                           | 30,780               | \$(1,065 )                       | \$( 105 )            | 16,260                           | 11,699               | 22,522                           | 19,186               |
| Inventories                                | 64,396                           | 61,853               | (220 )                           | (41 )                | 32,952                           | 28,883               | 31,664                           | 33,011               |
| Taxes receivable                           | 306                              | 287                  |                                  |                      |                                  |                      | 306                              | 287                  |
| Prepaid expense & other current assets     | 7,820                            | 6,001                |                                  |                      | 3,344                            | 3,868                | 4,476                            | 2,133                |
| Total current assets                       | 159,914                          | 149,368              | (1,285 )                         | (146 )               | 98,872                           | 92,095               | 62,327                           | 57,419               |
| Property, plant & equipment, net           | 78,273                           | 80,541               |                                  |                      | 47,324                           | 49,250               | 30,949                           | 31,291               |
| Other assets:                              |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Insurance for asbestos-related liabilities | 17,646                           | 17,646               |                                  |                      |                                  |                      | 17,646                           | 17,646               |
| Other assets                               | 29,884                           | 30,067               | (109 )                           | (109 )               | 22,331                           | 22,331               | 7,662                            | 7,845                |
|  | 47,530                           | 47,713               | (109 )                           | (109 )               | 22,331                           | 22,331               | 25,308                           | 25,491               |
| Total assets                               | \$ 285,717                       | \$ 277,622           | \$(1,394 )                       | \$( 255 )            | \$ 168,527                       | \$ 163,676           | \$ 118,584                       | \$ 114,201           |

See accompanying notes to consolidating condensed financial statements.

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

|   | ABI Consolidated                 |                      | Eliminations                     |                      | Congoleum                        |                      | American Biltrite                |                      |
|---|----------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------|
|   | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 | March 31,<br>2010<br>(Unaudited) | December 31,<br>2009 |
| <b>Liabilities</b>                          |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| <b>Current liabilities:</b>                 |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Accounts payable                            | \$17,105                         | \$ 14,462            | \$(1,065 )                       | \$( 105 )            | \$9,219                          | \$ 7,740             | \$8,951                          | \$ 6,827             |
| Accrued expenses                            | 30,018                           | 32,235               |                                  |                      | 13,536                           | 16,188               | 16,482                           | 16,047               |
| Asbestos-related liabilities                | 47,900                           | 48,458               |                                  |                      | 47,900                           | 48,458               |                                  |                      |
| Deferred income taxes                       | 12,724                           | 12,724               |                                  |                      | 12,724                           | 12,724               |                                  |                      |
| Notes payable                               | 26,158                           | 18,231               |                                  |                      | 20,128                           | 14,180               | 6,030                            | 4,051                |
| Current portion of long-term debt           | 1,458                            | 1,448                |                                  |                      |                                  |                      | 1,458                            | 1,448                |
| Liabilities subject to compromise           | 4,997                            | 4,997                |                                  |                      | 4,997                            | 4,997                |                                  |                      |
| <b>Total current liabilities</b>            | <b>140,360</b>                   | <b>132,555</b>       | <b>(1,065 )</b>                  | <b>(105 )</b>        | <b>108,504</b>                   | <b>104,287</b>       | <b>32,921</b>                    | <b>28,373</b>        |
| <b>Long-term debt, less current portion</b> |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Asbestos-related liabilities                | 6,716                            | 7,134                |                                  |                      |                                  |                      | 6,716                            | 7,134                |
| Other liabilities                           | 17,700                           | 17,700               |                                  |                      |                                  |                      | 17,700                           | 17,700               |
| Liabilities subject to compromise           | 14,565                           | 14,656               |                                  |                      |                                  |                      | 14,565                           | 14,656               |
| <b>Total liabilities</b>                    | <b>150,338</b>                   | <b>149,562</b>       | <b>(109 )</b>                    | <b>(109 )</b>        | <b>150,447</b>                   | <b>149,671</b>       | <b>71,902</b>                    | <b>67,863</b>        |
| <b>Stockholders' equity (deficit)</b>       |                                  |                      |                                  |                      |                                  |                      |                                  |                      |
| Common stock                                | 46                               | 46                   | (93 )                            | (93 )                | 93                               | 93                   | 46                               | 46                   |
| Additional paid-in capital                  | 20,000                           | 19,950               | (49,395)                         | (49,395 )            | 49,395                           | 49,395               | 20,000                           | 19,950               |
| Less cost of shares in treasury             | (15,132 )                        | (15,132 )            | 7,813                            | 7,813                | (7,813 )                         | (7,813 )             | (15,132 )                        | (15,132 )            |
| Retained earnings (deficit)                 | (11,126 )                        | (10,400 )            | 42,225                           | 42,340               | (95,349 )                        | (95,207 )            | 41,998                           | 42,467               |
| Accumulated other comprehensive loss        | (38,234 )                        | (39,088 )            | (377 )                           | (377 )               | (36,750 )                        | (36,750 )            | (1,107 )                         | (1,961 )             |

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|   |           |            |            |           |           |            |           |            |
|---|-----------|------------|------------|-----------|-----------|------------|-----------|------------|
| Total stockholders' equity (deficit) of controlling interests | (44,446 ) | (44,624 )  | 173        | 288       | (90,424 ) | (90,282 )  | 45,805    | 45,370     |
| Noncontrolling interests                                      | 484       | 639        | (393 )     | (329 )    |           |            | 877       | 968        |
| Total stockholders' equity (deficit)                          | (43,962 ) | (43,985 )  | (220 )     | (41 )     | (90,424 ) | (90,282 )  | 46,682    | 46,338     |
| Total liabilities and stockholders' equity (deficit)          | \$285,717 | \$ 277,622 | \$(1,394 ) | \$( 255 ) | \$168,527 | \$ 163,676 | \$118,584 | \$ 114,201 |

See accompanying notes to consolidating condensed financial statements.



AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited)  
For the Three Months Ended March 31, 2010 and 2009  
(In thousands of dollars, except share and per share amounts)

|   | ABI Consolidated |            | Eliminations |          | Congoleum |            | American Biltrite |            |
|---|------------------|------------|--------------|----------|-----------|------------|-------------------|------------|
|   | 2010             | 2009       | 2010         | 2009     | 2010      | 2009       | 2010              | 2009       |
| Net sales   | \$ 80,682        | \$ 70,061  |              |          | \$ 34,051 | \$ 30,106  | \$ 46,631         | \$ 39,955  |
| Cost of products sold   | 61,165           | 56,337     | \$ (112)     | \$ (309) | 27,357    | 26,136     | 33,920            | 30,510     |
| Selling, general & administrative expenses                          | 19,480           | 20,510     |              |          | 6,910     | 8,250      | 12,570            | 12,260     |
| Income (loss) from operations                                       | 37               | (6,786)    | 112          | 309      | (216)     | (4,280)    | 141               | (2,815)    |
| Other income (expense)  |                  |            |              |          |           |            |                   |            |
| Interest income   | 3                | 7          |              |          | -         | 2          | 3                 | 5          |
| Interest expense  | (331)            | (345)      |              |          | (49)      | (108)      | (282)             | (237)      |
| Other (expense) income  | (465)            | (323)      | (291)        | (293)    | 135       | 294        | (309)             | (324)      |
|   | (793)            | (661)      | (291)        | (293)    | 86        | 188        | (588)             | (556)      |
| Loss before income taxes  | (756)            | (7,447)    | (179)        | 16       | (130)     | (4,092)    | (447)             | (3,371)    |
| Provision for (benefit from) income taxes                           | 27               | (53)       |              |          | 12        | 15         | 15                | (68)       |
| Net loss  | (783)            | (7,394)    | (179)        | 16       | (142)     | (4,107)    | (462)             | (3,303)    |
| Noncontrolling interests  | 57               | 1,897      | 64           | 1,847    |           |            | (7)               | 50         |
| Net loss attributable to controlling interests                      | \$ (726)         | \$ (5,497) | \$ (115)     | \$ 1,863 | \$ (142)  | \$ (4,107) | \$ (469)          | \$ (3,253) |
|   | 2010             | 2009       |              |          |           |            |                   |            |
| Net loss attributable to controlling interests per share            |                  |            |              |          |           |            |                   |            |
| Basic   | \$ (0.21)        | \$ (1.60)  |              |          |           |            |                   |            |
| Diluted   | (0.21)           | (1.60)     |              |          |           |            |                   |            |
| Weighted average number of common and equivalent shares outstanding |                  |            |              |          |           |            |                   |            |

|         |           |           |
|---------|-----------|-----------|
| Basic   | 3,441,531 | 3,441,551 |
| Diluted | 3,441,531 | 3,441,551 |

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)  
For the Three Months Ended March 31, 2010 and 2009  
(In thousands of dollars)

|   | ABI Consolidated |             | Eliminations |       | Congoleum |             | American Biltrite |             |
|---|------------------|-------------|--------------|-------|-----------|-------------|-------------------|-------------|
|   | 2010             | 2009        | 2010         | 2009  | 2010      | 2009        | 2010              | 2009        |
| Operating activities  |                  |             |              |       |           |             |                   |             |
| Net loss  | \$ (783 )        | \$ (7,394 ) | \$ (179 )    | \$ 16 | \$ (142 ) | \$ (4,107 ) | \$ (462 )         | \$ (3,303 ) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                  |             |              |       |           |             |                   |             |
| Depreciation and amortization   | 3,468            | 3,443       |              |       | 2,332     | 2,432       | 1,136             | 1,011       |
| Stock compensation expense  | 50               | 52          |              |       | —         | 2           | 50                | 50          |
| Change in operating assets and liabilities:                                 |                  |             |              |       |           |             |                   |             |
| Accounts and notes receivable   | (7,017 )         | (1,275 )    | 960          | (92 ) | (4,561 )  | (2,059 )    | (3,416 )          | 876         |
| Inventories   | (3,720 )         | 727         | 179          | (16 ) | (4,069 )  | (2,328 )    | 170               | 3,071       |
| Prepaid expenses and other assets   | 285              | 449         |              |       | 524       | 556         | (239 )            | (107 )      |
| Accounts payable and accrued expenses                                       | 1,647            | (5,349 )    | (960 )       | 92    | 845       | (3,369 )    | 1,762             | (2,072 )    |
| Asbestos-related expenses   | (2,635 )         | (1,292 )    |              |       | (2,635 )  | (1,292 )    |                   |             |
| Other   | 594              | 558         |              |       | 790       | 682         | (196 )            | (124 )      |
| Net cash used by operating activities                                       | (8,111 )         | (10,081 )   | —            | —     | (6,916 )  | (9,483 )    | (1,195 )          | (598 )      |
| Investing activities  |                  |             |              |       |           |             |                   |             |
| Investments in property, plant and equipment                                | (727 )           | (1,177 )    |              |       | (406 )    | (859 )      | (321 )            | (318 )      |
| Purchase of short-term investments  | (2,400 )         | (1,000 )    |              |       |           |             | (2,400 )          | (1,000 )    |
| Proceeds from sale of short-term investments                                | 2,400            | —           |              |       |           |             | 2,400             | —           |
| Net cash used by investing activities                                       | (727 )           | (2,177 )    | —            | —     | (406 )    | (859 )      | (321 )            | (1,318 )    |
| Financing activities  |                  |             |              |       |           |             |                   |             |
| Net short-term borrowings   | 7,938            | 3,776       |              |       | 5,993     | 2,972       | 1,945             | 804         |

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|  |           |          |      |      |           |          |        |          |
|--|-----------|----------|------|------|-----------|----------|--------|----------|
| Payments on long-term debt                       | (408 )    | (584 )   |      |      |           |          | (408 ) | (584 )   |
| Net change in restricted cash                    | (2,076 )  | (28 )    |      |      | (2,076 )  | (28 )    |        |          |
| Net cash provided by financing activities        | 5,454     | 3,164    | —    | —    | 3,917     | 2,944    | 1,537  | 220      |
| Effect of foreign exchange rate changes on cash  | 536       | 379      |      |      |           |          | 536    | 379      |
| Net (decrease) increase in cash                  | (2,848 )  | (8,715 ) | —    | —    | (3,405 )  | (7,398 ) | 557    | (1,317)  |
| Cash and cash equivalents at beginning of period | 16,467    | 18,072   |      |      | 16,065    | 15,077   | 402    | 2,995    |
| Cash and cash equivalents at end of period       | \$ 13,619 | \$ 9,357 | \$ — | \$ — | \$ 12,660 | \$ 7,679 | \$ 959 | \$ 1,678 |

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATING CONDENSED  
FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

Note A - Basis of Presentation

The accompanying unaudited consolidating condensed financial statements which include the accounts of American Biltrite Inc. and its wholly owned subsidiaries (and including, unless the context otherwise indicates, its majority-owned subsidiary K&M Associates L.P., are referred to herein as "ABI", "American Biltrite" or the "Company") as well as entities over which it has voting control have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and provisions to effect a plan of reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") of Congoleum Corporation ("Congoleum"), a majority-owned subsidiary of the Company, to settle asbestos liabilities) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for future periods, including the year ending December 31, 2010. For further information, refer to the consolidating financial statements and the notes to those financial statements included in American Biltrite Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009.

The consolidating condensed balance sheet at December 31, 2009 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

As discussed more fully below and elsewhere in these notes to consolidating condensed financial statements, the Company's subsidiary Congoleum filed for bankruptcy protection on December 31, 2003 in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"), and on August 17, 2009, the United States District Court for the District of New Jersey (the "District Court") withdrew the reference of Congoleum's Chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. The accompanying consolidated financial statements include the results for Congoleum for all periods presented. Congoleum's results include losses (including other comprehensive losses) of \$90.0 million in excess of the value of ABI's investment in Congoleum at March 31, 2010 and December 31, 2009. ABI owns a majority of the voting stock of Congoleum, and expects to continue doing so until Congoleum's Chapter 11 reorganization is completed. Upon effectiveness of any plan of reorganization for Congoleum, ABI expects that its ownership interests in Congoleum will be cancelled, at which time ABI would no longer include Congoleum's results in the consolidated results of the Company. The Company has elected to continue to consolidate the financial statements of Congoleum in its consolidated results because it believes that is the appropriate presentation given its current voting control of Congoleum. However, the accompanying financial statements also present the details of consolidation to separately show the financial condition, operating results and cash flows of ABI (including its non-debtor subsidiaries) and Congoleum (and its debtor subsidiaries), which may be more meaningful for certain analyses.

Note A - Basis of Presentation (continued)

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

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. In light of Congoleum's substantial asbestos liabilities, which are further described in Note I, there is substantial doubt about Congoleum's ability to continue as a going concern unless it obtains relief from those liabilities through a successful reorganization under Chapter 11 of the Bankruptcy Code.

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

## Note A - Basis of Presentation (continued)

## Recently Issued Accounting Principles

In May 2009, the FASB issued new accounting guidance that establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new accounting guidance was effective for interim and annual periods ending after June 15, 2009. In particular, the new accounting guidance established (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of the new accounting guidance did not have a material effect on the Company's financial condition or results of operations. There were no events subsequent to March 31, 2010 and through our financial statement issuance date requiring disclosure.

## Note B - Inventories

Inventories at March 31, 2010 and December 31, 2009 consisted of the following (in thousands):

|                            | March 31,<br>2010 | December 31,<br>2009 |
|----------------------------|-------------------|----------------------|
| Finished goods             | \$ 43,462         | \$ 43,789            |
| Work-in-process            | 11,178            | 9,335                |
| Raw materials and supplies | 9,756             | 8,729                |
|                            | \$ 64,396         | \$ 61,853            |

## Note C – Accrued Expenses

Accrued expenses at March 31, 2010 and December 31, 2009 consisted of the following (in thousands):

|  | March 31,<br>2010 | December 31,<br>2009 |
|--|-------------------|----------------------|
| Accrued advertising and sales promotions   | \$ 14,386         | \$ 16,981            |
| Employee compensation and related benefits | 7,930             | 6,954                |
| Environmental matters                      | 1,159             | 1,118                |
| Royalties                                  | 592               | 639                  |
| Income taxes                               | 201               | 166                  |
| Other                                      | 5,750             | 6,377                |
|  | \$ 30,018         | \$ 32,235            |

See Note F for Liabilities Subject to Compromise.

## Note D – Financing Arrangements

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

The Credit Agreement provides American Biltrite Inc. and its subsidiaries with (i) a \$30.0 million commitment under the Revolver (including a \$12.0 million Canadian revolving credit facility sublimit) and (ii) an \$8.0 million Term Loan. The Credit Agreement also provides letter of credit facilities with availability of up to \$6.0 million (including a \$3.0 million Canadian letter of credit facility sublimit) subject to availability under the Revolver. The Revolver expires on June 30, 2012, and all indebtedness under the Credit Agreement other than the Term Loan, matures on that date. The Term Loan principal is payable in 72 monthly installments of \$111 thousand beginning August 1, 2009 and ending on July 1, 2015. The maximum amount available for revolving debt borrowings is reduced to the amount of the borrowing base if that amount is lower. The borrowing base is based upon eligible assets of the Company, including accounts receivables and inventory. The Company's obligations under the Credit Agreement are secured by a lien on the assets of the Company and its subsidiaries. At March 31, 2010, the Company had \$6.0 million and \$7.0 million outstanding under the Revolver and Term Loan, respectively, and \$11.0 million of additional unused borrowing capacity available under the Revolver.



Note D – Financing Arrangements (continued)

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

The Credit Agreement contains customary bank covenants, including limitations on incurrence of debt and liens or other encumbrances on assets or properties, sale of assets, making of loans or investments, including paying dividends and redemptions of capital stock, the formation or acquisition of subsidiaries and transactions with affiliates. The Credit Agreement requires the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum fixed charge coverage ratio of 1.0:1.0. The Credit Agreement also requires that the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum amount of earnings before interest, taxes, depreciation, and amortization, as determined under the Credit Agreement.

In March 2010, the Company and Wachovia entered into an amendment of the Credit Agreement. The amendment reduced the minimum required levels of earnings before interest, taxes, depreciation, and amortization under the Credit Agreement, and further provided that meeting such minimums would not be required for any monthly test period during which the Company's unused available credit under the Credit Agreement was at least \$6.0 million on every day for 30 consecutive days. The Company paid a fee of \$30 thousand to Wachovia in connection with this amendment.

The Company currently anticipates it will be able to comply with these covenants as revised by the recent amendment. However, the Company had to receive covenant waivers on several occasions under its prior credit agreement or enter amendments to that agreement to address failures to satisfy covenants under that prior credit agreement, and it is possible that, in the future, the Company may need to obtain waivers for failures to satisfy its covenants under the Credit Agreement or enter amendments to the Credit Agreement to address any such failures or obtain replacement financing as a result. There can be no assurance the Company would be successful in obtaining any such waiver, entering any such amendment or obtaining any such replacement financing.

## Note D – Financing Arrangements (continued)

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

On June 30, 2009, the Company also entered into accounts receivable financing agreements (the "FGI Financing Agreements") with Faunus Group International ("FGI"). The FGI Financing Agreements were intended to provide up to a maximum amount outstanding at any time of \$4.0 million in net amounts funded based upon an 80% advance rate. Fees under the FGI Financing Agreements included a monthly collateral management fee equal to 0.66% of the average monthly balance of accounts purchased by FGI as well as interest on the daily net funds employed at a rate equal to the greater of (i) 7.0% or (ii) 2.5% above FGI's prime rate, and were subject to certain minimum monthly amounts. ABI's ability to borrow funds under the FGI Financing agreements during 2009 was less than anticipated; at December 31, 2009, the Company had \$803 thousand payable to FGI. In January 2010, the Company terminated the FGI Financing Agreement, repaid the outstanding balance, and paid an \$80 thousand early termination fee.

## Note E – Other Liabilities

Other Liabilities at March 31, 2010 and December 31, 2009 consisted of the following (in thousands):

|   | March 31,<br>2010 | December 31,<br>2009 |
|---|-------------------|----------------------|
| Pension benefits  | \$ 5,976          | \$ 5,871             |
| Environmental remediation<br>and product related<br>liabilities | 5,570             | 5,570                |
| Income taxes payable  | 609               | 352                  |
| Deferred income taxes   | 312               | 312                  |
| Other   | 2,098             | 2,551                |
|   | \$ 14,565         | \$ 14,656            |

See Note F for Liabilities Subject to Compromise.

## Note F – Liabilities Subject to Compromise

As a result of Congoleum's Chapter 11 filing (see Notes A and I), Congoleum is required to segregate pre-petition liabilities that are subject to compromise and report them separately on the consolidated balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of Congoleum's pre-petition debt is recorded at face value and is classified within liabilities subject to compromise. Additional pre-petition claims (which would be classified as liabilities subject to compromise) may arise due to the rejection by Congoleum of executory contracts or unexpired leases pursuant to the Bankruptcy Code, or as a result of the allowance by the District Court of contingent or disputed claims. Liabilities subject to compromise at March 31, 2010 and December 31, 2009 and included in ABI's consolidated balance sheet at each such date were as follows (in thousands):

|   | March 31,<br>2010 | December 31,<br>2009 |
|---|-------------------|----------------------|
| Current liability                                   |                   |                      |
| Pre-petition other payables<br>and accrued interest | \$ 4,997          | \$ 4,997             |
| Non-current   |                   |                      |
| Debt (at face value)                                | 100,000           | 100,000              |
| Pension liability                                   | 26,890            | 26,286               |
| Other post-retirement<br>benefit obligation         | 11,201            | 11,117               |
| Pre-petition other liabilities                      | 12,356            | 12,268               |
|   | 150,447           | 149,671              |
| Elimination – Payable to<br>American Biltrite       | (109 )            | (109 )               |
| Total non-current liability                         | 150,338           | 149,562              |
| Total liabilities subject to<br>compromise          | \$ 155,335        | \$ 154,559           |

## Note G – Pension Plans

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

The table below summarizes the components of the net periodic benefit cost for the Company's and Congoleum's pension and other benefit plans during the three months ended March 31, 2010 and 2009 (in thousands):

|                                    | Three Months Ended March 31, |                |          |                |
|------------------------------------|------------------------------|----------------|----------|----------------|
|                                    | 2010                         |                | 2009     |                |
|                                    | Pension                      | Other Benefits | Pension  | Other Benefits |
| Service cost                       | \$535                        | \$51           | \$494    | \$57           |
| Interest cost                      | 1,738                        | 150            | 1,646    | 161            |
| Expected return on plan assets     | (1,436 )                     | -              | (1,192 ) | -              |
| Recognized net actuarial loss      | 717                          | 12             | 1,102    | 16             |
| Amortization of prior service cost | 23                           | -              | 27       | -              |
| Net periodic benefit cost          | \$1,577                      | \$213          | \$2,077  | \$234          |

The weighted average assumptions used to determine net periodic benefit cost for the three months ended March 31, 2010 and 2009 were as follows:

|  | 2010             |                | 2009             |                |
|--|------------------|----------------|------------------|----------------|
|  | Pension          | Other Benefits | Pension          | Other Benefits |
| Discount rate                            | 6.00% -<br>6.25% | 6.00%          | 5.75% -<br>7.50% | 5.75%          |
| Expected long-term return on plan assets | 7.00%            | —              | 7.00%            | —              |
| Rate of compensation increase            | 3.00% -<br>3.50% | —              | 3.00% -<br>4.00% | —              |

Note H - Commitments and Contingencies

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

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

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

## Note H - Commitments and Contingencies (continued)

## American Biltrite Inc.

ABI is a co-defendant with many other manufacturers and distributors of asbestos containing products in approximately 1,215 pending claims involving approximately 1,770 individuals as of March 31, 2010. These claims relate to products of ABI's former Tile Division, which ABI contributed to Congoleum in 1993. The claimants allege personal injury or death from exposure to asbestos or asbestos-containing products. Activity related to asbestos claims during the three months ended March 31, 2010 and year ended December 31, 2009 was as follows:

|                  | Three Months<br>Ended<br>March 31,<br>2010 | Year Ended<br>December 31,<br>2009 |
|------------------|--|------------------------------------|
| Beginning claims | 1,193                                      | 1,269                              |
| New claims       | 62   | 240                                |
| Settlements      | (6 )                                       | (25 )                              |
| Dismissals       | (34 )                                      | (291 )                             |
| Ending claims    | 1,215                                      | 1,193                              |

ABI has multiple excess layers of insurance coverage for asbestos claims. The total indemnity costs incurred to settle claims during the three months ended March 31, 2010 and the year ended December 31, 2009 were \$415 thousand and \$5.7 million, respectively, all of which were paid by ABI's first-layer excess umbrella insurance carriers, as were the related defense costs.

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

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

## Note H - Commitments and Contingencies (continued)

and reasonably anticipated future asbestos-related claims (not including claims asserted against Congoleum), based upon a strategy to vigorously defend against and strategically settle those claims on a case-by-case basis in the normal course of business. Factors such as recent and historical settlement and trial results, the court dismissal rate of claims, the incidence of past and recent claims, the number of cases pending against it and asbestos litigation developments that may impact the exposure of the Company were considered in performing these estimates. Changes in factors could have a material impact on the Company's liability. The estimate is sensitive to changes in the mesothelioma acceptance rate. For example, if the calibration window is shifted by one year to the 2004 to 2008 calibration period, the mesothelioma acceptance rate decreases by 1.2% to 4.6%, and this reduces the liability in the low estimate by about 20% (assuming all other variables remain constant).

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

The estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2015 was \$17.7 million to \$62.0 million as of December 31, 2009. The Company believes no amount within this range is more likely than any other, and accordingly has recorded a liability of \$17.7 million in its financial statements which represents a probable and reasonably estimable amount for the future liability at the present time. The Company also believes that based on this liability estimate, the corresponding amount of insurance probable of recovery is \$17.6 million at March 31, 2010 and December 31, 2009, which has been included in other assets. The same factors that affect developing forecasts of potential indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include the financial viability of some of the insurance companies, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, how legal and other loss handling costs will be covered by the insurance policies, and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. These amounts were based on currently known facts by ABI and a number of assumptions. However, projecting future events, such as the

Note H - Commitments and Contingencies (continued)

number of new claims to be filed each year, the average cost of disposing of each such claim, and the continuing solvency of various insurance companies, as well as numerous uncertainties surrounding asbestos legislation in the United States, could cause the actual liability and insurance recoveries for the Company to be higher or lower than those projected or recorded.

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

In the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company disclosed various legal proceedings. Material developments relating to those matters during the three month period ended on March 31, 2010 include those mentioned in the immediately following paragraph.

As reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company has been named as a Potentially Responsible Party ("PRP") within the meaning of that term under the Federal Comprehensive Environmental Response Compensation and Liability Act, as amended, with respect to seven sites located in six separate states. One of those sites relates to the Ward Transformer Superfund Site in Raleigh, North Carolina (the "Ward Site"). With respect to the Ward Site, four companies have entered into a settlement agreement with the United States Environmental Protection Agency ("EPA") agreeing to fund and carry out a time critical remedial action (the "Ward Performing Parties"). The Ward Performing Parties previously notified the Company that it is a potential responsible party of a claim at the Ward Site. The Company was advised by the Ward Performing Parties that legal issues raised by a small group of current PRPs against the Environmental Protection Agency trying to apply the Burlington N. & S.F.R. Co v. United States, No. 07-1601 (May 4, 2009) decision to this Site were rejected by the Court that heard those arguments. The Ward Performing Parties expect that the EPA will eventually issue a Unilateral Administrative Order to a small group of current PRPs (the "Selected PRPs"). If, or when, that occurs, the Ward Performing Parties would then expect that the Selected PRPs would assert claims against all of the other PRPs. At that point in time, the Company would expect to receive a settlement offer for its share of the clean-up costs. If a settlement offer is made and not agreed to, the Company then expects that Selected PRPs will commence litigation against the Company seeking indemnification from the Company for those costs.

As of March 31, 2010 and December 31, 2009, ABI recorded a reserve of \$6.5 million, which represent probable and reasonably estimable amounts to cover the anticipated remediation costs described above based on facts and circumstances known to the Company. The Company has also recorded a receivable of \$2.5 million as of March 31, 2010 and December 31, 2009, for ABI's



Note H - Commitments and Contingencies (continued)

estimable and probable recoveries for the contingencies described above. These projects tend to be long-term in nature, and these assumptions are subject to refinement as facts change. As such, it is possible that the Company may need to revise its recorded liabilities and receivables for environmental costs in future periods, resulting in potentially material adjustments to the Company's earnings in future periods. The Company closely monitors existing and potential environmental matters to consider the reasonableness of its estimates and assumptions.

There have been no other material developments relating to the environmental sites or the other environmental or other legal matters relating to ABI that were disclosed in ABI's Annual Report on Form 10-K for the year ended December 31, 2009, during the three month period ended March 31, 2010.

Congoleum

Congoleum is a defendant in a large number of asbestos-related lawsuits and has commenced proceedings under Chapter 11 of the Bankruptcy Code for purposes of resolving its asbestos-related liabilities (see Note I).

Congoleum records a liability for environmental remediation claims when a cleanup program or claim payment becomes probable and the costs can be reasonably estimated. As assessments and cleanup programs progress, these liabilities are adjusted based upon the progress in determining the timing and extent of remedial actions and the related costs and damages. The recorded liabilities, totaling \$4.6 million at March 31, 2010 and December 31, 2009, are not reduced by the amount of estimated insurance recoveries. Such estimated insurance recoveries approximated \$2.1 million at March 31, 2010 and December 31, 2009, and are reflected in other non-current 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. Substantially all of Congoleum's recorded insurance asset for environmental matters is collectible from a single carrier.

There have been no other material developments relating to the environmental sites or the other environmental matters relating to Congoleum that were disclosed in ABI's Annual Report on Form 10-K for the year ended December 31, 2009, during the three month period ended March 31, 2010.

Other

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

## Note I – Congoleum Asbestos Liabilities and Planned Reorganization

On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the Asbestos Claimants' Committee ("ACC"), the Future Claimants' Representative ("FCR") and other asbestos claimant representatives. In addition, an insurance company, Continental Casualty Company, and its affiliate, Continental Insurance Company (collectively, "CNA"), filed a plan of reorganization and the Official Committee of Bondholders ("Bondholders' Committee") (representing holders of Congoleum's 8 5/8% Senior Notes due August 1, 2008) also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in reorganization plan mediation discussions. Several mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 (the "Tenth Plan") and the other filed by CNA, both of which the Bankruptcy Court subsequently ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, on February 5, 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed a joint plan of reorganization (the "Joint Plan"). The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures.

Various objections to the Joint Plan were filed, and in May 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. In June 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing in June 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008. Following further negotiations, the Bondholders' Committee, the ACC, the FCR, representatives of holders of pre-petition settlements and Congoleum reached an agreement in principle and on a term sheet describing the proposed material terms of a contemplated new plan of reorganization and a settlement of avoidance litigation with respect to pre-petition claim settlements (the "Litigation Settlement") was entered into by those parties and was filed with the Bankruptcy Court in August 2008. Certain insurers and a large bondholder filed objections to the Litigation Settlement and/or reserved their rights to object to confirmation of the contemplated new plan of reorganization. The Bankruptcy Court approved the Litigation Settlement following a hearing in October 2008, but the court reserved certain issues, including whether any plan of reorganization embodying the settlement meets the standards required for confirmation of a plan of reorganization. In November 2008, Congoleum, the ACC and the Bondholders' Committee filed an amended joint plan of reorganization for

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

Congoleum, et al. with the Bankruptcy Court (the “Amended Joint Plan”). In January 2009, an insurer filed a motion for summary judgment seeking denial of confirmation of the Amended Joint Plan. A hearing was held in February 2009 and the Bankruptcy Court granted the insurer’s motion, finding certain provisions of the Amended Joint Plan unconfirmable as a matter of law (the “Summary Judgment Ruling”) and denying confirmation of the Amended Joint Plan. Pursuant to the ruling, the Bankruptcy Court entered an order dismissing Congoleum’s bankruptcy case (the “Order of Dismissal”). In March 2009, an order was entered by the Bankruptcy Court granting a stay of the Bankruptcy Court’s Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal.

In February 2009, Congoleum, the Bondholders’ Committee and the ACC appealed the Order of Dismissal and the Summary Judgment Ruling to the District Court. In August 2009, the District Court issued an opinion and order (the “District Court Order”) reversing the Order of Dismissal. With respect to the plan of reorganization, the District Court ruled that a settlement with certain asbestos claimants was not an impediment to confirmation while another plan provision would require a minor modification. The decision also provided specific guidance about the plan and directed the parties in the case to provide briefings in preparation for a confirmation hearing. In addition, the District Court withdrew the reference of Congoleum’s chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings from the Bankruptcy Court. Certain insurers have filed notices of appeal with respect to the District Court Order with the Third Circuit. Congoleum, the Bondholders’ Committee and the ACC have moved to dismiss the appeals, and such motion is pending. As a result of the Multi-Insurer Settlement, discussed below, the insurers’ appeal before the United States Third Circuit Court of Appeals (the “Third Circuit”) has been terminated.

Following additional negotiations, in October 2009, the ACC, the Bondholders’ Committee and Congoleum jointly filed a revised plan of reorganization (the “Second Amended Joint Plan”) and disclosure statement with the District Court. In late 2009 and early 2010, negotiations among Congoleum, the Bondholders’ Committee, the FCR, the ACC, other asbestos claimant representatives, and various insurers and New Jersey insurance guaranty organizations culminated in a \$100 million settlement with nine insurance groups and the New Jersey insurance guaranty associations (the “Multi-Insurer Settlement”). Subject to various requirements set forth in the Multi-Insurer Settlement, the insurance companies and guaranty associations will pay \$100 million to settle certain policies issued to Congoleum and such amount will be paid to the plan trust that would be established upon effectiveness of the currently proposed plan of reorganization on file with the District Court, should the District Court confirm such a plan pursuant to section 524(g) of the Bankruptcy Code (the “Plan Trust”), in accordance with the terms of that plan of reorganization. Of that amount, \$97 million would be available for the payment of asbestos claims. The Multi-Insurer Settlement was approved by the District Court in February 2010. On February 19, 2010, the District Court also approved a settlement between Congoleum and St. Paul Travelers, which provides that St. Paul Travelers will pay \$25.0 million in two installments to the Plan Trust. On March 15, 2010, the FCR filed a notice of appeal before the Third Circuit with respect to such settlement agreement, which notice was amended on March 23, 2010, and such appeal is pending.

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

On February 12, 2010, Congoleum, the Bondholders' Committee, the FCR and the ACC jointly filed a revised plan of reorganization (the "Third Amended Joint Plan") and disclosure statement with the District Court. In order to address comments received on the Third Amended Joint Plan from various parties, a further revised plan of reorganization and disclosure statement was filed on March 11, 2010 by Congoleum, the Bondholders' Committee, the FCR and the ACC (the "Fourth Amended Joint Plan"). The terms of the Third Amended Plan and Fourth Amended Joint Plan are substantially similar to those of the Second Amended Joint Plan. On March 12, 2010, the District Court approved the adequacy of the disclosure statement and voting procedures for the Fourth Amended Joint Plan and a confirmation hearing with regard to that plan is scheduled to commence on June 7, 2010.

On April 16, 2010, Congoleum filed a motion to approve a settlement agreement among Congoleum and the Chartis Companies (formerly, the AIG Companies), which provides, subject to various requirements, that the Chartis Companies pay the Plan Trust \$40 million over a period of six years. The District Court approved this settlement on May 3, 2010. Including the settlements with the Chartis Companies and St. Paul Travelers, insurance settlements providing for payments to the Plan Trust totaling approximately \$248 million have been agreed to among Congoleum and its insurance carriers.

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

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

Under the terms of the Fourth Amended Joint Plan, holders of Congoleum's \$100 million in 8.625% Senior Notes due in August 2008 would receive upon the effective date of the plan on a pro rata basis \$33 million in aggregate principal of new 9% senior secured notes (the "New Senior Notes") maturing December 31, 2017. The New Senior Notes would not accrue or earn interest for the first six months after the effective date of the Fourth Amended Joint Plan, after which time they would accrue interest at the rate of 9% per annum payable semi-annually in cash. During the period beginning with the interest payment due 12 months after the effective date of the Fourth Amended Joint Plan to and including the interest payment due 30 months after the effective date of the Fourth Amended Joint Plan, at Congoleum's option, interest may be paid in kind by the issuance of additional New Senior Notes in an aggregate principal amount equal to the amount of interest then due and payable on each such payment date, in which case the interest rate applicable during the period for which the payment applies would be 11% per annum.

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

The indenture governing the New Senior Notes also would provide for the annual issuance of additional New Senior Notes (“Additional Notes”), with the aggregate principal amount of Additional Notes to be issued being determined as of the end of Congoleum’s fiscal year ending December 31, 2011, and on an annual basis at the end of each of the succeeding five years (each such date, a “Determination Date”), according to the following procedure. As soon as practicable after each Determination Date, reorganized Congoleum’s average earnings before interest, taxes, depreciation and amortization for reorganized Congoleum for the two-year period ending on the Determination Date shall be calculated. An assumed net debt capacity (“Net Debt Capacity”) shall then be determined as of each such Determination Date by multiplying this two-year average annual earnings before interest, taxes, depreciation and amortization for reorganized Congoleum by four. Additional Notes shall be issuable to holders of New Senior Notes with respect to a Determination Date to the extent that the Net Debt Capacity as of such Determination Date, plus any cash amount on Congoleum’s balance sheet as of such Determination Date, exceeds the sum of (i) the amount of the outstanding balance of Reorganized Congoleum’s working capital loan (determined as the daily average outstanding amounts under such loan for the year ending on such Determination Date); (ii) the \$33 million aggregate principal amount of New Senior Notes to be issued on the effective date of the Fourth Amended Joint Plan; (iii) the aggregate principal amount of Additional Notes issued with respect to all prior Determination Dates; and (iv) the aggregate principal amount of other interest-bearing debt outstanding as of such Determination Date. The calculation of the principal amount of Additional Notes to be issued shall take place within three months after each Determination Date, and the issuance of such Additional Notes shall be deemed to have occurred as of the first day of the fiscal year following the Determination Date. The indenture governing the New Senior Notes will provide that in no event will the cumulative principal amount of Additional Notes issued under the procedures described in this paragraph exceed \$37 million.

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

The Fourth Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among American Biltrite and its subsidiaries and reorganized Congoleum, which would be effective if and when the Fourth Amended Joint Plan takes effect and would have a term of two years. Those intercompany arrangements include the provision of management services by American Biltrite to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The Fourth Amended Joint Plan provides that the final terms of the intercompany arrangements among American Biltrite and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and American Biltrite in form and substance mutually agreeable to the Bondholders’ Committee, the ACC, the FCR and ABI. Expiration or termination of these existing arrangements, failure to reach definitive agreement on final terms of future arrangements or failure to consummate such arrangements in connection

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

with the effectiveness of a plan of reorganization for Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

There can be no assurance that the Fourth Amended Joint Plan or any other plan of reorganization, if proposed, will receive the acceptances necessary for confirmation, that the Fourth Amended Joint Plan will not be modified further, that any plan will receive necessary court approvals from the District Court, that such approvals will be received in a timely fashion, that any plan, if confirmed, will become effective, or that there will be sufficient funds to pay for continued proceedings with respect to any plan of reorganization. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it.

It also is unclear whether any other person might successfully propose and confirm a plan or what any such plan, if and when confirmed, would ultimately provide, and whether the District Court would approve such a plan. Any plan of reorganization pursued by the Company will be subject to numerous conditions, approvals and other requirements, including District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained.

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

During the first quarter of 2010, Congoleum paid \$2.6 million in fees and expenses related to implementation of its planned reorganization under Chapter 11 of the Bankruptcy Code and litigation with certain insurance companies. Given the terms of the Fourth Amended Joint Plan, Congoleum has made provision in its financial statements for the minimum estimated cost to effect its plan to settle asbestos liabilities through confirmation of a plan that complies with section 524(g) of the Bankruptcy Code.

## Note J – Stockholders’ (Deficit) Equity

The following table reconciles stockholders’ (deficit) equity for the year ended December 31, 2009 and the three months ended March 31, 2010 (in thousands):

|  | Stockholders’<br>(Deficit) Equity<br>of Controlling<br>Interests | Non-<br>Controlling<br>Interests | Total<br>Equity |
|--|--|----------------------------------|-----------------|
| December 31, 2008                                  | \$ (46,784 )   | \$ 835                           | \$ (45,949)     |
| Net loss for the year ended December 31, 2009      | (12,208 )  | (6,737 )                         | (18,945)        |
| Foreign currency translation adjustments           | 2,699  | —                                | 2,699           |
| Defined benefit plans adjustment                   | 11,463   | 6,487                            | 17,950          |
| Stock compensation expense                         | 201  | —                                | 201             |
| Effect of Congoleum stock compensation             | 5  | 4                                | 9               |
| Taxes payable adjustment for controlling interests | —  | 50                               | 50              |
| December 31, 2009                                  | (44,624 )  | 639                              | (43,985)        |
| Net loss for the three months ended March 31, 2010 | (726 )   | (57 )                            | (783 )          |
| Stock compensation expense                         | 50   | —                                | 50              |
| Foreign currency translation adjustments           | 854  | —                                | 854             |
| K&M distribution                                   | —  | (98 )                            | (98 )           |
| March 31, 2010                                     | \$ (44,446 )   | \$ 484                           | \$ (43,962)     |

American Biltrite Inc. owns 55% of Congoleum’s outstanding shares of Class A and Class B common stock as of March 31, 2010. The noncontrolling interests recorded in American Biltrite’s consolidated financial statements include the 45% of outstanding shares of Congoleum Class A and Class B common stock not owned by American Biltrite Inc. Prior to January 1, 2009, American Biltrite Inc. reported in its consolidated results 100% of Congoleum’s losses from the period Congoleum incurred a deficit in earnings during 2002 through December 31, 2008, in accordance with accounting rules in effect through December 31, 2008. Effective January 1, 2009, the Company adopted the FASB’s new accounting standard for the accounting of noncontrolling interests. Under the new standard, 45% of Congoleum’s income or loss is attributed to the noncontrolling interests even if the attribution of a loss results in a negative balance for noncontrolling interest.

In March 2010, a distribution of \$1.8 million was made from K&M Associates in accordance with its partnership agreement. The distribution made to the minority partner (5.5%) was \$98 thousand, which reduced noncontrolling interests.

## Note K - Comprehensive Income (Loss)

The following table presents total comprehensive income for the three months ended March 31, 2010 and 2009 (in thousands):

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2010               | 2009       |
| Net loss attributable to ABI                          | \$ (726 )          | \$ (5,497) |
| Foreign currency translation adjustments              | 854                | (184 )     |
| Total comprehensive income (loss) attributable to ABI | \$ 128             | \$ (5,681) |

## Note L - Income (Loss) Per Share

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

## Note M - Industry Segments

## Description of Products and Services

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



## Note M - Industry Segments (continued)

Net sales by segment for the three months ended March 31, 2010 and 2009 were as follows (in thousands):

|                                       | 2010      | 2009      |
|---------------------------------------|-----------|-----------|
| Net sales to external customers:      |           |           |
| Flooring products                     | \$ 34,051 | \$ 30,106 |
| Tape products                         | 22,288    | 16,469    |
| Jewelry                               | 10,974    | 11,565    |
| Canadian division                     | 13,369    | 11,921    |
| Total net sales to external customers | 80,682    | 70,061    |
| Intersegment net sales:               |           |           |
| Flooring products                     | —         | —         |
| Tape products                         | —         | —         |
| Jewelry                               | —         | —         |
| Canadian division                     | 1,831     | 800       |
| Total intersegment net sales          | 1,831     | 800       |
| Reconciling items                     | —         | —         |
| Intersegment net sales                | (1,831 )  | (800 )    |
| Total consolidated net sales          | \$ 80,682 | \$ 70,061 |

Segment profit or loss is before income tax expense or benefit and noncontrolling interests. Profit (loss) by segment for the three months ended March 31, 2010 and 2009 was as follows (in thousands):

| Segment (loss)  | Three Months Ended |            |
|---|--------------------|------------|
|   | 2010               | 2009       |
| profit  |                    |            |
| Flooring products   | \$ (130 )          | \$ (4,092) |
| Tape products   | (457 )             | (2,533)    |
| Jewelry   | (291 )             | (838 )     |
| Canadian division   | 301                | 75         |
| Total segment loss  | (577 )             | (7,388)    |
| Reconciling items   |                    |            |
| Corporate expenses  | —                  | (75 )      |
| Intercompany profit   | (179 )             | 16         |
| Total consolidated loss before income taxes and other items | \$ (756 )          | \$ (7,447) |

## Note M - Industry Segments

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

|                                     | March 31,<br>2010 | December<br>31,<br>2009 |
|-------------------------------------|-------------------|-------------------------|
| Segment assets                      |                   |                         |
| Flooring products                   | \$ 168,527        | \$ 163,676              |
| Tape products                       | 46,496            | 42,279                  |
| Jewelry                             | 13,625            | 16,316                  |
| Canadian division                   | 31,317            | 28,656                  |
| Total segment assets                | 259,965           | 250,927                 |
| Reconciling items                   |                   |                         |
| Corporate items                     | 32,326            | 29,611                  |
| Intersegment accounts<br>receivable | (6,244 )          | (2,765 )                |
| Intersegment profit in<br>inventory | (221 )            | (42 )                   |
| Intersegment other asset            | (109 )            | (109 )                  |
| Consolidated assets                 | \$ 285,717        | \$ 277,622              |

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

Economic conditions in the United States have been challenging, including in the industries in which the Company and Congoleum conduct business. Although the United States economy and the Company's and Congoleum's businesses have experienced a recent upturn in activity, the current level of activity remains well below 2007 levels, prior to when the recent United States and global recession is understood to have begun. The downturn in the housing industry has resulted in reduced demand for the Company's and Congoleum's products. The slowdown in manufacturing, including in the automotive and industrial sectors, has resulted in reduced demand for the Tape division's products. In addition, the decline in consumer and retailer spending has resulted in reduced demand for K&M's products. Forecasts generally call for a continued gradual economic recovery, with some risk of a "double-dip" recession, in the United States, including in the industries in which the Company and Congoleum conduct business. The Company expects the current and forecasted economic conditions to continue to negatively impact or restrain the Company's and Congoleum's businesses and operations and that the extent of that impact or restraint will depend on the speed, extent and sustainability of the global economic recovery.

In addition, raw material and energy costs have increased sharply in the past, particularly during the first half of 2008, continue to be volatile and remain at higher historic levels, which has negatively impacted the Company's and Congoleum's businesses and operating results. Although raw material and energy costs declined in late 2008 and most of 2009, they have since reverted to generally increasing price levels. In light of the current and forecasted economic conditions in the United States and the industries in which the Company and Congoleum conduct business, the Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers.

Although the Company and Congoleum have recently implemented reductions in their expenses, there can be no assurance that they will be able to sustain those expense reductions.

American Biltrite's consolidated financial statements include its majority-owned subsidiary, Congoleum. However, under the terms of the Fourth Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects its ownership interest in Congoleum to be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

Congoleum is a defendant in a large number of asbestos-related lawsuits. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the ACC, the FCR and other asbestos claimant representatives. In addition, two affiliated insurance companies, together referred to as CNA, filed a plan of reorganization and the Bondholders' Committee also filed a

plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in reorganization plan mediation discussions. Several mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 (the Tenth Plan) and the other filed by CNA, both of which the Bankruptcy Court subsequently ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, in February 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed a plan of reorganization (the Joint Plan). The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and in May 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. In June 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing in June 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008. Following further negotiations, the Bondholders' Committee, the ACC, the FCR, representatives of holders of pre-petition settlements and Congoleum reached an agreement in principle and on a term sheet describing the proposed material terms of a contemplated new plan of reorganization and a settlement of avoidance litigation with respect to pre-petition claim settlements (the Litigation Settlement) was entered into by those parties and was filed with the Bankruptcy Court in August 2008. Certain insurers and a large bondholder filed objections to the Litigation Settlement and/or reserved their rights to object to confirmation of the contemplated new plan of reorganization. The Bankruptcy Court approved the Litigation Settlement following a hearing in October 2008, but the court reserved certain issues, including whether any plan of reorganization embodying the settlement meets the standards required for confirmation of a plan of reorganization. In November 2008, Congoleum, the ACC and the Bondholders' Committee filed the Amended Joint Plan. In January 2009, an insurer filed a motion for summary judgment seeking denial of confirmation of the Amended Joint Plan. A hearing was held in February 2009 and the Bankruptcy Court granted the insurer's motion finding certain provisions of the Amended Joint Plan unconfirmable as a matter of law (the Summary Judgment Ruling) and denying confirmation of the Amended Joint Plan. Pursuant to the ruling, the Bankruptcy Court entered an order dismissing Congoleum's bankruptcy case (the Order of Dismissal). In March 2009, an order was entered by the Bankruptcy Court granting a stay of the Bankruptcy Court's Order of Dismissal pending a final non-appealable decision affirming the Order of Dismissal.

In February 2009, Congoleum, the Bondholders' Committee and the ACC appealed the Order of Dismissal and the Summary Judgment Ruling to the District Court. In August 2009, the District Court issued the District Court Order reversing the Order of Dismissal. With respect to the plan of reorganization, the District Court ruled that a settlement with certain asbestos claimants was not an impediment to confirmation while another plan provision would require a minor modification. The decision also provided specific guidance about the plan and directed the parties in the case to provide briefings in preparation for a confirmation hearing. In addition, the

District Court withdrew the reference of Congoleum's chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. Certain insurers have filed notices of appeal with respect to the District Court Order with the Third Circuit. Congoleum, the Bondholders' Committee and the ACC have moved to dismiss the appeals, and such motion is pending. As a result of the Multi-Insurer Settlement, discussed below, the insurers' appeal before the Third Circuit has been terminated.

Following additional negotiations, in October 2009, the ACC, the Bondholders' Committee and Congoleum jointly filed a revised plan of reorganization (the Second Amended Joint Plan) and disclosure statement with the District Court. In late 2009 and early 2010, negotiations among Congoleum, the Bondholders' Committee, the FCR, the ACC, other asbestos claimant representatives, and various insurers and New Jersey insurance guaranty organizations culminated in a \$100 million settlement with nine insurance groups and the New Jersey insurance guaranty associations (the Multi-Insurer Settlement). Subject to various requirements set forth in the Multi-Insurer Settlement, the insurance companies and guaranty associations will pay \$100 million to settle certain policies issued to Congoleum and such amount will be paid to the Plan Trust of which amount \$97 million would be available for the payment of asbestos claims. The Multi-Insurer Settlement was approved by the District Court in February 2010. On February 19, 2010, the District Court also approved a settlement between Congoleum and St. Paul Travelers, which provides that St. Paul Travelers will pay \$25.0 million in two installments to the Plan Trust. On March 15, 2010, the FCR filed a notice of appeal before the Third Circuit with respect to such settlement agreement, which notice was amended on March 23, 2010, and such appeal is pending.

On February 12, 2010, Congoleum, the Bondholders' Committee, the FCR and the ACC jointly filed the Third Amended Joint Plan and disclosure statement with the District Court. In order to address comments received on the Third Amended Joint Plan from various parties, a further revised plan of reorganization and disclosure statement, the Fourth Amended Joint Plan, was filed with the District Court on March 11, 2010 by Congoleum, the Bondholders' Committee, the FCR and the ACC. The terms of the Third Amended Joint Plan and Fourth Amended Joint Plan are substantially similar to those of the Second Amended Joint Plan. On March 12, 2010, the District Court approved the adequacy of the disclosure statement and voting procedures for the Fourth Amended Joint Plan and a confirmation hearing with regard to that plan is scheduled to commence on June 7, 2010.

On April 16, 2010, Congoleum filed a motion to approve a settlement agreement among Congoleum and the Chartis Companies (formerly, the AIG Companies), which provides, subject to various requirements, that the Chartis Companies pay the Plan Trust \$40 million over a period of six years. The District Court approved this settlement on May 3, 2010. Including the settlements with the Chartis Companies and St. Paul Travelers, insurance settlements providing for payments to the Plan Trust totaling approximately \$248 million have been agreed to among Congoleum and its insurance carriers.

ABI has certain intercompany claims against and arrangements with Congoleum. The Fourth Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among American Biltrite and its subsidiaries and reorganized Congoleum, which would be effective if and when the Fourth Amended Joint Plan takes effect and would have a term of two years. Those intercompany arrangements include the provision of management services by American Biltrite to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The Fourth Amended Joint Plan provides that the final terms of the intercompany arrangements among American Biltrite and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and American Biltrite in form and substance mutually agreeable to the Bondholders' Committee, the ACC, the FCR and ABI. The existing arrangements currently in effect among ABI and its non-debtor subsidiaries and Congoleum expire on June 30, 2010, or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, unless renewed. Congoleum and ABI have agreed to an amendment providing a further extension of these arrangements until the earlier of September 30, 2010 or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, and that amendment is pending District Court approval. In addition, under the terms of the Fourth Amended Joint Plan, ABI's rights and claims to indemnification from Congoleum under the existing joint venture agreement between ABI and Congoleum that relate to ABI's contribution to Congoleum in 1993 of ABI's tile division, and the joint venture agreement itself, would be deemed rejected and disallowed upon the effective date of the Fourth Amended Joint Plan, and therefore eliminated. The Fourth Amended Joint Plan's proposed rejection and disallowance of the joint venture agreement and ABI's claims thereunder would include any unfunded indemnification claims ABI may have had under the joint venture agreement prepetition and during the pendency of Congoleum's Chapter 11 case, as well as any such claims ABI might otherwise have been entitled to assert after the Fourth Amended Joint Plan became effective. There can be no assurance that the Fourth Amended Plan will be confirmed and result in the effectiveness of the agreements it contains pertaining to the terms of management services to be provided by ABI to reorganized Congoleum and other proposed business relationships among ABI and its affiliates and reorganized Congoleum. Any plan of reorganization for Congoleum that may be confirmed may have terms that differ significantly from the terms of the Fourth Amended Joint Plan, including with respect to any management services that may be provided by ABI to reorganized Congoleum and ABI's claims and interests and other business relationships with reorganized Congoleum. Expiration or termination of these existing arrangements, failure to reach definitive agreement on final terms of future arrangements or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

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

There can be no assurance that the Fourth Amended Joint Plan or any other plan of reorganization, if proposed, will receive the acceptances necessary for confirmation, that the Fourth Amended Joint Plan will not be modified further, that any plan will receive necessary court approvals from the District Court, that such approvals will be received in a timely fashion, that any plan will be confirmed, that any plan, if confirmed, will become effective, or that there will be sufficient funds to pay for continued proceedings with respect to any plan of reorganization. It also is unclear whether any other person might successfully propose and confirm a plan or what any such plan, if and when confirmed, would ultimately provide, and whether the District Court would approve such a plan. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it.

Any plan of reorganization pursued by the Company will be subject to numerous conditions, approvals and other requirements, including District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it.

ABI estimates that it will spend an additional \$225 thousand for legal fees in 2010, which it has accrued, in connection with Congoleum's reorganization plan. Actual costs for pursuing and implementing the Fourth Amended Joint Plan or any plan of reorganization could be materially higher, and Congoleum and the Company may record significant additional charges should the minimum estimated cost increase.

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

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

## Application of Critical Accounting Policies and Estimates

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

Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies, upon which its financial condition depends and which involve the most complex or subjective decisions or assessments, are those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, 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 March 31 |       |             |       |
|--|-----------------------------|-------|-------------|-------|
|  | 2010                        |       | 2009        |       |
|  | (In thousands of dollars)   |       |             |       |
| Net sales                                  | \$ 46,631                   |       | \$ 39,955   |       |
| Cost of sales                              | 33,920                      |       | 30,510      |       |
| Gross profit                               | 12,711                      | 27.3% | 9,445       | 23.6% |
| Selling, general & administrative expenses | 12,570                      | 27.0% | 12,260      | 30.7% |
| Operating income (loss)                    | 141                         |       | (2,815 )    |       |
| Interest expense, net                      | (279 )                      |       | (232 )      |       |
| Other expense, net                         | (309 )                      |       | (324 )      |       |
| Loss before taxes and other items          | (447 )                      |       | (3,371 )    |       |
| Provision for (benefit from) income taxes  | 15                          |       | (68 )       |       |
| Noncontrolling interests                   | (7 )                        |       | 50          |       |
| Net loss                                   | \$ (469 )                   |       | \$ (3,253 ) |       |



Net sales in the first quarter of 2010 were \$46.6 million compared to \$40.0 million in the first quarter of 2009, an increase of \$6.7 million or 16.7%. Tape division sales increased by \$5.8 million or 35.3% as demand recovered from year ago levels for automotive and other protective films and products for the sign and graphic arts industry. Canadian division sales increased \$1.4 million or 12.1% from the first quarter of 2009 to the first quarter of 2010 primarily due to the currency translation effect of the higher value of the Canadian dollar in the first quarter of 2010. Jewelry sales declined \$591 thousand or 5.1% compared to sales during the first quarter of 2009 due to lower sales through mass merchandisers and mid-tier retailers as a result of a decreased level of new product programs in the first quarter of 2010.

Gross profit margin percentage increased from 23.6% of net sales for the first quarter of 2009 to 27.3% of net sales for the first quarter of 2010. Gross margins as a percent of net sales for the Tape division improved by 4.0 percentage points due to higher production volume available to absorb fixed factory overhead as well as cost reduction steps taken during 2009, partly offset by higher raw material costs. Canadian division gross margins improved by 2.4 percentage points due to higher production volumes and a more profitable sales mix. Jewelry gross margins improved by 2.3 percentage points due to lower markdown and allowance costs, partly offset by higher product costs.

The Company includes the cost of purchasing and finished goods inspection in selling, general and administrative (“SG&A”) expenses. Some companies also record such costs in operating expenses while others record them in cost of goods sold. Consequently, the Company’s gross profit margins may not be comparable to other companies. Had the Company recorded these expenses in cost of sales, the gross profit margins for the quarter ended March 31, 2010 and 2009 would have been 26.8% and 22.9%, respectively.

SG&A expenses in the first quarter of 2010 increased by \$310 thousand or 2.5% compared to the first quarter of 2009, due to the currency translation effect of the higher value of the Canadian dollar in the first quarter of 2010 and higher freight and commissions in connection with the increased sales, partly offset by cost reduction steps taken during 2009.1

Net interest expense for the first quarter of 2010 was higher than the first quarter of 2009 primarily due to a higher weighted average effective interest rate on the Company’s borrowings partly offset by lower borrowing levels.

The effective tax rate was (3.4)% in the first quarter of 2010 and 2.0% in the first quarter of 2009. Substantially all of the Company’s losses were not reduced by applicable statutory tax rates due to uncertainty in the Company’s ability to generate sufficient taxable income in future periods to realize tax benefits from current year losses.

Other expense consists primarily of realized foreign exchange losses for the first quarter of 2010 and 2009.

## Congoleum

|  | Three Months Ended March 31 |        |       |    |             |
|--|-----------------------------|--------|-------|----|-------------|
|  | 2010                        |        | 2009  |    |             |
|  | (In thousands of dollars)   |        |       |    |             |
| Net sales                                  | \$                          | 34,051 |       | \$ | 30,106      |
| Cost of sales                              |                             | 27,357 |       |    | 26,136      |
| Gross profit                               |                             | 6,694  | 19.7% |    | 3,970 13.2% |
| Selling, general & administrative expenses |                             | 6,910  | 20.3% |    | 8,250 27.4% |
| Operating loss                             |                             | (216 ) |       |    | (4,280 )    |
| Interest expense, net                      |                             | (49 )  |       |    | (106 )      |
| Other income, net                          |                             | 135    |       |    | 294         |
| Loss before taxes                          |                             | (130 ) |       |    | (4,092 )    |
| Provision for income taxes                 |                             | 12     |       |    | 15          |
| Net loss                                   | \$                          | (142 ) |       | \$ | (4,107 )    |

Net sales for the three months ended March 31, 2010 were \$34.1 million as compared to \$30.1 million for the three months ended March 31, 2009, an increase of \$3.9 million or 13.1%. The sales increase was primarily a result of improved sales to the manufactured housing industry and sales gains from new product introductions.

Gross profit for the three months ended March 31, 2010 totaled \$6.7 million, or 19.7% of net sales, compared to \$4.0 million, or 13.2% of net sales, for the same period last year. The increase in gross profit dollars resulted from the higher sales levels coupled with the impact of cost reduction programs while the increased gross profit margin percentage reflects the impact of cost reductions which have lowered manufacturing overhead coupled with efficiencies achieved through the higher production levels.

SG&A expenses were \$6.9 million for the three months ended March 31, 2010 as compared to \$8.3 million for the three months ended March 31, 2009. The decrease reflects cost reduction measures instituted late in the first quarter of 2009, including headcount and expense reductions, coupled with lower pension expense in 2010.

The loss from operations was \$0.2 million for the three months ended March 31, 2010 compared to a loss of \$4.3 million for three months ended March 31, 2009, reflecting the higher sales and gross margins experienced in the first three months of 2010, coupled with the reduction in operating expenses referred to above.

Due to the inability to recognize any tax benefits associated with operating losses, Congoleum expects its effective tax rate for 2010 will be negligible. Congoleum recorded a provision of \$12 thousand for income taxes for the three months ended March 31, 2010.

## Liquidity and Capital Resources

### ABI & Non-Debtor Subsidiaries

Cash, cash equivalents, and short-term investments (consisting of bank certificates of deposit with original maturity greater than three months), increased \$557 thousand in the three months ended March 31, 2010 to \$3.4 million. During the three months ended March 31, 2010, \$1.9 million of the Company's borrowings during that period under the Company's revolving credit facility were used to fund seasonal working capital increases and capital expenditures of \$321 thousand. Working capital at March 31, 2010 was \$29.4 million compared to \$29.0 million at December 31, 2009. The ratio of current assets to current liabilities at March 31, 2010 was 1.89 compared to 2.02 at December 31, 2009. Net cash used by operating activities was \$1.2 million for the three months ended March 31, 2010, compared to net cash used by operating activities of \$598 thousand for the three months ended March 31, 2009.

Capital expenditures in the first three months of 2010 were \$321 thousand compared to \$318 thousand for the first three months of 2009. It is currently anticipated that capital spending for the full year 2010 will be approximately \$2.0 million.

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

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

The Credit Agreement provides American Biltrite Inc. and its subsidiaries with (i) a \$30.0 million commitment under the Revolver (including a \$12 million Canadian revolving credit facility sublimit) and (ii) an \$8.0 million Term Loan. The Credit Agreement also provides letter of credit facilities with availability of up to \$6.0 million (including a \$3 million Canadian letters of credit facility sublimit) subject to availability under the Revolver. The maximum amount available for revolving debt borrowings is reduced to the amount of the borrowing base if that amount is lower. The borrowing base is based upon eligible assets of the Company, including accounts receivables and inventory. The Company's obligations under the Credit Agreement are secured by assets of the Company and its subsidiaries. At March 31, 2010, the Company had \$6.0 million and \$7.0 million outstanding under the Revolver and Term Loan, respectively, and \$11.0 million of additional unused borrowing capacity available under the Revolver.

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

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

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

The Credit Agreement contains customary bank covenants, including limitations on incurrence of debt and liens or other encumbrances on assets or properties, sale of assets, making of loans or investments, including paying dividends and redemptions of capital stock, the formation or acquisition of subsidiaries and transactions with affiliates. The Credit Agreement requires the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum fixed charge coverage ratio of 1.0:1.0. The Credit Agreement also requires that the Company and the other borrowers and the guarantors to maintain, on a consolidated basis, a minimum amount of earnings before interest, taxes, depreciation, and amortization, as determined under the Credit Agreement.

In March 2010, the Company and Wachovia entered into an amendment of the Credit Agreement. The amendment reduced the minimum required levels of earnings before interest, taxes, depreciation, and amortization under the Credit Agreement, and further provided that meeting the minimum level of earnings before interest, taxes, depreciation, and amortization and the minimum fixed charge coverage ratio would not be required for any monthly test period during which the Company's unused available credit under the Credit Agreement was at least \$6.0 million for 30 consecutive days. The Company paid a fee of \$30 thousand to Wachovia in connection with this amendment.

The Company currently anticipates it will be able to comply with these covenants as revised by the recent amendment. However, the Company had to receive covenant waivers on several occasions under its prior credit agreement or enter amendments to that agreement to address failures to satisfy covenants under that prior credit agreement, and it is possible that, in the future, the Company may need to obtain waivers for failures to satisfy its covenants under the Credit Agreement or enter amendments to the Credit Agreement to address any such failures or obtain replacement financing as a result. There can be no assurance the Company would be successful in obtaining any such waiver, entering any such amendment or obtaining any such replacement financing.

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

On June 30, 2009, the Company also entered into accounts receivable financing agreements (the "FGI Financing Agreements") with Faunus Group International ("FGI"). The FGI Financing Agreements were intended to provide up to a maximum amount outstanding at any time of \$4.0 million in net amounts funded based upon an 80% advance rate. Fees under the FGI Financing Agreements included a monthly collateral management fee equal to 0.66% of the average monthly balance of accounts purchased by FGI as well as interest on the daily net funds employed at a rate equal to the greater of (i) 7.0% or (ii) 2.5% above FGI's prime rate, and were subject to certain minimum monthly amounts. ABI's ability to borrow funds under the FGI Financing Agreements during 2009 was less than anticipated; at December 31, 2009, the Company had \$803 thousand payable to FGI. In January 2010, the Company terminated the FGI Financing Agreement, repaid the outstanding balance, and paid an \$80 thousand early termination fee.

Under the terms of the Fourth Amended Joint Plan, ABI's ownership interest in Congoleum would be eliminated. ABI expects that its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case. While the Company does not believe the loss of the value of its equity interest in Congoleum would have a direct material adverse effect on ABI's liquidity, the loss of a controlling interest could have a material adverse impact on the business relationships between ABI and Congoleum, which in turn could have a material adverse impact on ABI's business, operations and financial condition. In connection with Congoleum's plan of reorganization, ABI expects to spend \$225 thousand for legal fees in 2010, which is not expected to have a material adverse effect on ABI's working capital or cash flow.

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

The Company has recorded what it believes are adequate provisions for environmental remediation and product-related liabilities (including asbestos-related claims). The Company is subject to federal, state and local environmental laws and regulations and certain legal and administrative claims are pending or have been asserted against the Company. Among these claims, the Company is a named party in several actions associated with waste disposal sites (more fully discussed in Note H to the Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2009). These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of the Company's previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future cost and timing of payments are indeterminable due to such unknown factors as the magnitude of cleanup costs, the timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other potentially responsible parties, and the extent to which costs may be recoverable from insurance. The Company has recorded provisions in its financial statements for the estimated probable loss associated with all known general and environmental contingencies. While the Company believes its estimate of the future amount of these liabilities is reasonable, and that they will be paid over a period of five to twenty-five years, the timing and amount of such payments may differ significantly from the Company's assumptions. In addition, legislation and regulation regarding climate change, including greenhouse gas emissions, and other environmental matters may be adopted or administered and enforced differently in the future, which could require the Company to expend significant amounts. Although the effect of future government regulations could have a significant effect on the Company's costs, the Company is not aware of any pending legislation that would have a material adverse effect on its consolidated results of operations or financial position. There can be no assurances that the costs of any future government regulations could be passed along to the Company's customers. Estimated insurance and third party recoveries related to these liabilities are reflected in other non-current assets.

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

## Congoleum

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

On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court (Case No. 03-51524) seeking relief under the Bankruptcy Code, and on August 17, 2009, the District Court withdrew the reference of Congoleum's Chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. See Notes A and I of the Notes to Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a discussion of Congoleum's bankruptcy proceedings. These matters continue to have a material adverse impact on Congoleum's liquidity and capital resources. During the first quarter of 2010, Congoleum paid \$2.6 million in fees and expenses related to reorganization proceedings under the Bankruptcy Code and Congoleum's insurance coverage litigation against certain insurers in New Jersey state court. Furthermore, at December 31, 2009, Congoleum had incurred but not paid approximately \$9.5 million in additional fees and expenses for services rendered through that date.

Based on its reorganization plans, Congoleum has made provision in its financial statements for the minimum estimated cost to effect its plan to settle asbestos liabilities through confirmation of a plan that complies with section 524(g) of the Bankruptcy Code. Congoleum recorded charges aggregating approximately \$82.6 million in years prior to 2008. Based on developments affecting the expected timing of its reorganization plans, Congoleum recorded an additional charge of \$11.5 million in the third quarter of 2008 and \$5.2 million in the fourth quarter of 2009 for costs to effect its reorganization.

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

Unrestricted cash and cash equivalents, including short-term investments at March 31, 2010, were \$12.7 million, a decrease of \$3.4 million from December 31, 2009. Restricted cash of \$33.7 million at March 31, 2010 consists of insurance settlement proceeds, the disposition of which is subject to court order. Congoleum expects to contribute these funds, less any amounts withheld pursuant to reimbursement arrangements, to the Plan Trust should the Bankruptcy Court confirm a plan pursuant to section 524(g) of the Bankruptcy Code. Net working capital was a negative \$9.6 million at March 31, 2010 and a negative \$12.2 million at December 31, 2009.

The ratio of current assets to current liabilities was 0.9 to 1.0 at March 31, 2010 and December 31, 2009. Net cash used in operations during the three months ended March 31, 2010 was \$6.9 million, as compared to net cash used in operations of \$9.5 million during the three months ended March 31, 2009.

Capital expenditures for the three months ended March 31, 2010 totaled \$0.4 million. Congoleum is currently planning capital expenditures of approximately \$3.5 million in 2010 and between \$3 million and \$5 million in 2011, primarily for maintenance and improvement of plants and equipment, which it expects to fund with cash from operations and borrowings under its 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 or the District Court to date) provides a revolving credit facility expiring on the earlier of (i) June 30, 2010 and (ii) the date the plan of reorganization in Congoleum's bankruptcy cases becomes effective. Congoleum expects that it will need to have the term of the debtor-in-possession financing agreement extended. This financing agreement contains certain covenants, which include the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA"). The financing agreement also includes restrictions on the incurrence of additional debt and limitations on capital expenditures. The covenants and conditions under this financing agreement must be met in order for Congoleum to borrow from the facility. Congoleum was not in compliance with the minimum EBITDA covenant under its credit facility for the period ended December 31, 2008, and obtained a waiver of that covenant as well as an amendment of the covenant levels for the remaining term of the facility to make them less restrictive. The interest rate was increased to 1.75% above the prime rate in connection with that amendment. During the second quarter of 2009, Congoleum received an extension of the existing financing facility to December 31, 2009. Congoleum paid a covenant modification and extension fee of \$25 thousand in connection with that extension, plus a monthly extension fee of \$15 thousand per month. In connection with the amendment for the period ending December 31, 2009, minimum EBITDA covenants were set for the months ending until December 31, 2009. Borrowings under this facility are collateralized by Congoleum's inventory and receivables. At March 31, 2010, based on the level of receivables and inventory, \$28.2 million was available under the facility, of which \$2.0 million was utilized for outstanding letters of credit and \$20.1 million was utilized by the revolving loan. In November 2009, Congoleum and its debtor-in-possession lender agreed to a further modification of the credit facility that extends the facility until the earlier of June 30, 2010 and the date the plan of reorganization in Congoleum's bankruptcy cases becomes effective. The amendment also provided an additional \$5 million of availability under the revolver secured by



certain real estate. The \$5 million loan availability against real estate reduces by \$69 thousand per month beginning December 1, 2009. In connection with the amendment, Congoleum has granted a first lien on its properties on East State Street in Trenton, NJ and in Marcus Hook, PA. The amendment was approved by the District Court. A \$60 thousand amendment fee was paid by Congoleum and a \$15 thousand monthly fee is payable by Congoleum in connection with this amendment.

There can be no assurances that Congoleum will continue to be in compliance with the required covenants under this facility or that the debtor-in-possession facility will be renewed prior to its expiration if a plan of reorganization is not confirmed before that time. Congoleum was in compliance with the terms of the debtor-in-possession financing at March 31, 2010, as the excess borrowing availability it maintained under the revolving line of credit exceeded the threshold at which it was required to meet minimum EBITDA levels. Congoleum anticipates that its debtor-in-possession financing facility (including anticipated extensions thereof) together with cash from operations will provide it with sufficient liquidity to operate during 2010 while under Chapter 11 protection. For a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. There can be no assurances Congoleum will be able to obtain such exit financing or under what terms it might be obtained.

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 (see Note I to the Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2009). 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 twenty-five years, the timing and amount of such payments may differ significantly from Congoleum's assumptions. In addition, legislation and regulation regarding climate change, including greenhouse gas emissions, and other environmental matters may be adopted or administered and enforced differently in the future, which could require Congoleum to expend significant amounts. Although the effect of future government regulation could have a significant effect on Congoleum's costs, Congoleum is not aware of any pending legislation that would have a material adverse effect on its results of operations or financial position. There can be no assurances that the costs of any future government regulations could be passed along to its customers. Estimated insurance recoveries related to these liabilities are reflected in other non-current assets.

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

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

#### Item 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, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.
- (b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

As more fully set forth in Notes A and I of the Notes to Unaudited Consolidating Condensed Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, the Company and Congoleum have significant liability and funding exposure for asbestos personal injury claims. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. On August 17, 2009, the District Court withdrew the reference of Congoleum's Chapter 11 case from the Bankruptcy Court and assumed authority over the proceedings. Congoleum's Chapter 11 case remains pending.

An amended joint plan of reorganization for Congoleum proposed by Congoleum, the ACC, the Bondholders' Committee and the FCR was filed in the District Court, which plan is referred to elsewhere in this Quarterly Report on Form 10-Q as the "Fourth Amended Joint Plan." While Congoleum believes that the Fourth Amended Joint Plan has sufficient creditor support to be confirmed, there can be no assurance that the Fourth Amended Joint Plan or any other plan of reorganization for Congoleum, if proposed, will receive the acceptances necessary for confirmation, that the Fourth Amended Joint Plan will not be modified further, that any plan will receive necessary court approvals from the District Court, that such approvals will be received in a timely fashion, that any plan will be confirmed, that any plan, if confirmed, will become

effective, or that Congoleum will have sufficient funds to pay for continued proceedings with respect to any plan of reorganization. In addition, certain insurers have filed notices of appeal with respect to the District Court Order with the Third Circuit. Although those insurers have agreed to cause that appeal to be dismissed with prejudice within three business days of the District Court's order approving the Multi-Insurer Settlement becoming a final order, there can be no assurance that such order will become a final order, that such appeal will be dismissed or that the District Court Order will not be reversed by the Third Circuit or other court having authority over the matter.

It also is unclear whether any other person might successfully propose and confirm a plan or what any such plan, if and when confirmed, would ultimately provide, and whether the District Court would approve such a plan. Any plan of reorganization pursued by the Company will be subject to numerous conditions, approvals and other requirements, including District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained. In addition, for a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success obtaining it.

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

ABI has certain intercompany claims against and arrangements with Congoleum. The Fourth Amended Joint Plan would govern an intercompany settlement and ongoing intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum, which would be effective if and when the Fourth Amended Joint Plan takes effect and would have a term of two years. Those intercompany arrangements include the provision of management services by ABI to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The Fourth Amended Joint Plan provides that the final terms of the intercompany arrangements among ABI and its subsidiaries and reorganized Congoleum would be memorialized in a new agreement to be entered into by reorganized Congoleum and American Biltrite in form and substance mutually agreeable to the Bondholders' Committee, the ACC, the FCR and ABI. The existing arrangements currently in effect among ABI and its non-debtor subsidiaries and Congoleum expire on June 30, 2010, or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, unless renewed. Congoleum and ABI have agreed to an amendment providing a further extension of these arrangements until the earlier of September 30, 2010 or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, and that amendment is pending District Court approval. In addition, under the terms of the Fourth Amended Joint Plan, ABI's rights and claims to indemnification from Congoleum under the existing joint venture agreement between ABI and Congoleum that relate to ABI's contribution to Congoleum in 1993 of ABI's tile division, and the joint venture agreement itself, would be deemed rejected and disallowed upon the effective date of the Fourth Amended Joint Plan, and therefore eliminated. The Fourth Amended Joint Plan's proposed rejection and disallowance of the joint venture agreement and ABI's claims thereunder would include any unfunded indemnification claims ABI may have had under the joint venture agreement prepetition and during the pendency of Congoleum's Chapter 11 case as well as any such claims ABI might

otherwise have been entitled to assert after the Fourth Amended Joint Plan became effective. There can be no assurance that ABI, Congoleum and other applicable Congoleum constituencies will be able to reach agreement on the terms of any management services proposed to be provided by ABI to reorganized Congoleum or any other proposed business relationships among ABI and its affiliates and reorganized Congoleum. Any plan of reorganization for Congoleum that may be confirmed may have terms that differ significantly from the terms contemplated by the Fourth Amended Joint Plan, including with respect to any management services that may be provided by ABI to reorganized Congoleum and ABI's claims and interests and other business relationships with reorganized Congoleum. Expiration or termination of these existing arrangements, failure to reach definitive agreement on final terms of future arrangements or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

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

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

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

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

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

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

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

ABI provides management services to Congoleum, sells and purchases products to and from Congoleum, and receives royalties from Congoleum. Agreements for these current intercompany arrangements expire on June 30, 2010, or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, unless renewed. Congoleum and ABI have agreed to an amendment providing a further extension of these arrangements until the earlier of September 30, 2010 or upon the effectiveness of a plan of reorganization for Congoleum, whichever comes first, and that amendment is pending District Court approval. However, it is not known whether the other parties in interest will agree to extend the term of these arrangements, and if so, for how long any extension would last or what the terms of any such extension and related intercompany arrangements would be. The terms of the Fourth Amended Joint Plan provide for certain intercompany arrangements continuing for a two year period ending on the second anniversary of the effective date of the Fourth Amended Joint Plan pursuant to a new agreement to be entered into by ABI and reorganized Congoleum on the effective date of the Fourth Amended Joint Plan. The Fourth Amended Joint Plan provides that the new agreement would be in form and substance mutually agreeable to the Bondholders' Committee, the ACC, the FCR and ABI. Pursuant to the new agreement, ABI's current chief executive officer would serve as a director and the chief executive officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum substantially all of his time during normal working hours on an annual basis, ABI would have to make available to reorganized Congoleum approximately 25% of the time of ABI's current president and chief operating officer during normal working hours and on an annual basis, and ABI's current chief financial officer would serve as the chief financial officer of reorganized Congoleum and ABI would have to make available to reorganized Congoleum approximately 50%

of his time during normal working hours and on an annual basis. Expiration or termination of such intercompany arrangements, failure to reach definitive agreement on final terms of future arrangements between ABI and reorganized Congoleum, or failure to consummate such arrangements in connection with the effectiveness of a plan of reorganization for Congoleum or otherwise could have a material adverse impact on the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition.

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

The Company relies on borrowings under its revolving and letter of credit facilities to fund its working capital requirements and operations. The credit agreement governing that credit facility requires the Company to satisfy certain financial and other covenants. In the past, the Company has had to amend its debt agreements in order to avoid defaulting under those agreements as a result of failing to satisfy certain financial covenants contained in those agreements. Most recently, the Company amended the credit agreement in March 2010 to reduce the minimum required levels of earnings before interest, taxes, depreciation, and amortization under the credit agreement, and further provide that meeting the minimum level of earnings before interest, taxes, depreciation, and amortization and the minimum fixed charge coverage ratio would not be required for any monthly test period during which the Company's unused available credit under the credit agreement was at least \$6 million for 30 consecutive days. Although the Company currently anticipates it will be able to comply with its covenants under its credit agreement, as amended, due to economic or other conditions or reasons, the Company may in the future fail to comply with its covenants. If that were to occur, the Company would likely need to obtain a waiver of such covenant breach from the lenders or enter into an amendment to the credit agreement to address the covenant breach. There can be no assurance that the Company would be successful in obtaining any such waiver or entering into any such amendment.

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

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

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

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

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

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

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



The Company and its majority-owned subsidiary Congoleum may incur substantial liability or be required to expend significant amounts for environmental claims and compliance matters, including possible climate change related matters.

Due to the nature of the Company's and its majority-owned subsidiary Congoleum's businesses and certain of the substances which are or have been used, produced or discharged by them, the Company's and Congoleum's operations and facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with releases of hazardous substances at Company and Congoleum facilities and off-site disposal locations. The Company and Congoleum have historically expended substantial amounts for compliance with existing environmental laws or regulations, including environmental remediation costs at both third-party sites and Company and Congoleum-owned sites. The Company and Congoleum will continue to be required to expend amounts in the future because of the nature of their prior activities at their facilities, in order to comply with existing environmental laws, and those amounts may be substantial. In addition, legislation and regulation regarding climate change, including greenhouse gas emissions, and other environmental matters may be adopted or administered and enforced differently in the future, which could require the Company and Congoleum to expend significant amounts. Further, legislation and regulations that limit carbon emissions may cause the Company's and Congoleum's energy costs at their facilities to increase. Although the Company and Congoleum believe that those amounts should not have a material adverse effect on their respective results of operations or financial positions, there is no certainty 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. For instance, such an effect could occur in connection with those matters disclosed in Item 3 (Legal Proceedings) and Note 8 to the Notes to Consolidated Financial Statements set forth in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as such matters may be updated by this Quarterly Report on Form 10-Q, including as set forth in Note H to the Notes to Unaudited Consolidating Condensed Financial Statements set forth in Part I, Item 1 and as set forth in Part II, Item 1

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

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

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

The Company and its majority-owned subsidiary Congoleum generally design and engineer their own products. Most of the raw materials required by the Company for its manufacturing operations are available from multiple sources; however, the Company does purchase some of its raw materials from a single source or supplier. Any significant delay in or disruption of the supply of raw materials could substantially increase the Company's cost of materials, require product reformulation or require qualification of new suppliers, any one or more of which could materially adversely affect the Company's business, results of operations or financial condition. The Company's majority-owned subsidiary Congoleum does not have readily available alternative sources of supply for specific designs of transfer print paper, which are produced utilizing print cylinders engraved to Congoleum's specifications. Although Congoleum does not anticipate any loss of this source of supply, replacement could take a considerable period of time and interrupt production of certain products, which could have a material adverse affect on the Company's business, results of operations or financial condition. The Company and Congoleum have occasionally experienced significant price increases for some of its raw materials. Although the Company has been able to obtain sufficient supplies of raw materials, there can be no assurances that it may not experience difficulty in the future, particularly if global supply conditions deteriorate, which could have a material adverse effect on profit margins. In addition, raw material and energy costs have been volatile, including over the past few years during which historic highs for these costs have been experienced, particularly during the first half of 2008, which has negatively impacted the Company's and Congoleum's businesses and operating results. Although raw material and energy costs have recently declined from those historic high levels, they have generally increased recently and remain volatile. In addition to supply and demand issues affecting raw material and energy costs, the adoption of new, or any heightened administration and enforcement of existing, legislation and regulations that impact those costs, such as legislation or regulations regarding climate change, including greenhouse gas emissions, may result in increased raw material and energy costs for the Company and Congoleum. In light of the current and forecasted economic conditions in the United States and the industries in which the Company and Congoleum conduct business, the Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers.

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

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

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

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

Economic conditions in the United States have been challenging, including in the industries in which the Company and Congoleum conduct business. Although the United States economy and the Company's and Congoleum's businesses have experienced a recent upturn in activity, the current level of activity remains well below 2007 levels, prior to when the recent United States and global recession is understood to have begun. The downturn in the housing industry has resulted in reduced demand for the Company's and Congoleum's products. The slowdown in manufacturing, including in the automotive and industrial sectors, has resulted in reduced demand for the Tape division's products. In addition, the decline in consumer and retailer spending has resulted in reduced demand for K&M's products. Forecasts generally call for a continued gradual recovery, with some risk of a "double-dip" recession, in the United States, including in the industries in which the Company and Congoleum conduct business.

The Company expects economic conditions may continue to negatively impact the Company's and Congoleum's businesses and operations and that the extent of that impact will depend on the speed, extent and sustainability of any economic recovery.

In addition, raw material and energy costs have been volatile, including over the past few years during which historic highs for these costs have been experienced, particularly during the first half of 2008, which has negatively impacted the Company's and Congoleum's businesses and operating results. Although raw material and energy costs have recently declined from those historic high levels, they have generally increased recently and remain volatile. In addition to supply and demand issues affecting raw material and energy costs, the adoption of new, or any heightened administration and enforcement of existing, legislation and regulations that impact those costs, such as legislation or regulations regarding climate change, including greenhouse gas emissions, may result in increased raw material and energy costs for the Company and Congoleum. In light of the current and forecasted economic conditions in the United States and the industries in which the Company and Congoleum conduct business, the Company and Congoleum may be unable to pass increased raw material and energy costs on to their respective customers.

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

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

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

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

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

The Company's Tape Division principally sells its products through distributors. Sales to five unaffiliated customers accounted for approximately 22% of the Company's Tape Division's net sales for the year ended December 31, 2009. The loss of the largest unaffiliated customer and/or two or more of the other four unaffiliated customers could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company's Canadian Division sells its products through distributors and a direct sales force. Sales to five unaffiliated customers accounted for approximately 25% of the Canadian Division's net sales for the year ended December 31, 2009. The loss of the largest unaffiliated customer and/or two or more of the other four 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 material 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 60% of Congoleum's net sales for the year ended December 31, 2009. The loss of one or both of these customers would have a material adverse effect on Congoleum's business, results of operations and financial condition and would likely have a material adverse effect on the Company's consolidated results of operations.

The Company's subsidiary K&M sells its products through its own direct sales force and, indirectly, through a wholly owned subsidiary and through third-party sales representatives. Three of K&M's customers accounted for approximately 52% of its net sales for the year ended December 31, 2009. The loss of the largest of these customers would have a material adverse effect on K&M's business, results of operations and financial condition and would likely have a material adverse effect on the Company's business, results of operations or financial condition.

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

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

Item 3. Defaults Upon Senior Securities

On August 3, 1998, Congoleum issued \$100 million 8 5/8% Senior Notes due August 1, 2008 priced at 99.505% to yield 8.70%. The commencement of Congoleum's Chapter 11 proceedings constituted an event of default under the indenture governing the Senior Notes. During 2003, Congoleum and the trustee under the indenture governing the Senior Notes amended the indenture, and sufficient note holders consented, to explicitly permit Congoleum to take steps in connection with preparing and filing its prepackaged plan of reorganization under Chapter 11 of the Bankruptcy Code. The amount of accrued interest on the Senior Notes that was not paid as of the bankruptcy filing on December 31, 2003 was approximately \$3.6 million. The accrued pre-petition interest and the principal amount of the Senior Notes are included in "Liabilities Subject to Compromise" as of March 31, 2010 (see Note F to the Notes to the Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q). During 2007, Congoleum reversed all accrued post-petition interest on the Senior Notes to reflect the terms of the Joint Plan.

Item 5. Other Information

On May 14, 2010, the Company issued a press release announcing its financial results for the three months ended March 31, 2010. A copy of that press release is being furnished to the Securities and Exchange Commission pursuant to this Part II, Item 5 of Form 10-Q and is attached hereto as Exhibit 99.26.

Item 6. Exhibits

Exhibit No. Description

- 3.1 I Restated Certificate of Incorporation
- 3.2 II By-Laws, amended and restated as of November 7, 2007
- 10.1 III Second Amendment to the Loan and Security Agreement dated as of March 15, 2010
- 10.2 IV Eighth Amendment to Personal Services Agreement, dated as of February 9, 2010, by and between American Biltrite Inc. and Congoleum Corporation
- 10.3 IV Fourth Amendment to the Business Relations Agreement, dated as of February 9, 2010, by and between American Biltrite Inc. and Congoleum Corporation
- 31.1 Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
- 31.2 Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
- 32 Certification of the Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Amended and Restated Settlement Agreement and Release, dated as of March 11, 2010, by and among Congoleum Corporation and Federal Insurance Company
- 99.2 Settlement Agreement, dated as of April 20, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and the Chartis Companies
- 99.3 IV Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, the Asbestos Claimants' Committee, the Bondholders' Committee and the Future Claimants' Representative, dated as of March 11, 2010
- 99.4 IV Amended Settlement Agreement and Release, dated as of October 4, 2006, by, between and among Congoleum Corporation and Federal Insurance Company

Exhibit No. Description

- 99.5 IV Letter Agreement, dated as of January 28, 2010, amending the Settlement and Policy Buyback Agreement and Release, dated as of April 25, 2006, by and among Congoleum Corporation, the Plan Trust, American Biltrite Inc., Travelers Casualty and Surety Co., and St. Paul Fire and Marine Insurance Company
- 99.6 IV Settlement Agreement, dated as of January 20, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and the Hartford Parties (First State Insurance Company and Twin City Fire Insurance Company)
- 99.7 IV Settlement Agreement, dated as of January 25, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Continental Casualty Company and The Continental Insurance Company
- 99.8 IV Settlement Agreement, dated as of January 26, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Nationwide Indemnity Company acting on behalf of Employers Insurance Company of Wausau f/k/a Employers Insurance of Wausau, a Mutual Company and/or f/k/a Employers Mutual Liability Insurance Company of Wisconsin
- 99.9 IV Settlement Agreement, dated as of January 25, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and OneBeacon America Insurance Company f/k/a Employers Commercial Union Insurance Company
- 99.10 IV Settlement Agreement, dated as of January 25, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Munich Reinsurance America, Inc., f/k/a American Re-Insurance Company
- 99.11 IV Settlement Agreement, dated as of January 25, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Mutual Marine Office, Inc., as general agent and attorney-in-fact for Employers Mutual Casualty Company
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| 99.14 IV    | Settlement Agreement, dated as of January 20, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Westport Insurance Corporation, as successor in interest to Puritan Insurance Company                             |
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| 99.17 IV    | Settlement Agreement, dated as of January 25, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Stonewall Insurance Company   |
| 99.18 IV    | Settlement Agreement, dated as of January 26, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and Colonia Insurance Company, United Reinsurance Corporation of New York, and Navigators Insurance Company           |
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| 99.20 IV    | Settlement Agreement, dated as of January 28, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and New Jersey Property-Liability Insurance Guaranty Association and New Jersey Surplus Lines Insurance Guaranty Fund |
| 99.21 IV    | Settlement and Policy Buyback Agreement and Release, dated as of January 29, 2010, by and between Congoleum Corporation and Seaton Insurance Company  |
| 99.22 IV    | Litigation Settlement Agreement, dated as of September 10, 2008, by and between Congoleum Corporation and Arthur J. Pergament, as the Collateral Trustee of the Collateral Trust, et al   |

Exhibit No. Description

- 99.23 IV First Amendment to Litigation Settlement Agreement, dated as of October 22, 2009, by and between Congoleum Corporation and Arthur J. Pergament, as the Collateral Trustee of the Collateral Trust, et al
- 99.24 IV Proposed Disclosure Statement with respect to the Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, the ACC, the Bondholders' Committee and the FCR, dated as of March 11, 2010
- 99.25 Form of Management Services and Commercial Agreement, which is Exhibit I to the Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of the Debtors, the Official Asbestos Claimants' Committee, the Official Committee of Bondholders for Congoleum Corporation, et al., and the Future's Representative, dated as of May 11, 2010
- 99.26 Press release dated May 14, 2010

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- I Incorporated by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and filed with the Securities and Exchange Commission on March 27, 1997 (1-4773)
- II Incorporated by reference to the exhibits filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and filed with the Securities and Exchange Commission on November 14, 2007
- III Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2010
- IV Incorporated by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and filed with the Securities and Exchange Commission on March 31, 2010

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.

(Registrant)

Date: May 17, 2010

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

INDEX OF EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 3.1 I       | Restated Certificate of Incorporation  |
| 3.2 II      | By-Laws, amended and restated as of November 7, 2007   |
| 10.1 III    | Second Amendment to the Loan and Security Agreement dated as of March 15, 2010   |
| 10.2 IV     | Eighth Amendment to Personal Services Agreement, dated as of February 9, 2010, by and between American Biltrite Inc. and Congoleum Corporation   |
| 10.3 IV     | Fourth Amendment to the Business Relations Agreement, dated as of February 9, 2010, by and between American Biltrite Inc. and Congoleum Corporation  |
| 31.1        | Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended  |
| 31.2        | Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended  |
| 32          | Certification of the Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 99.1        | Amended and Restated Settlement Agreement and Release, dated as of March 11, 2010, by and among Congoleum Corporation and Federal Insurance Company  |
| 99.2        | Settlement Agreement, dated as of April 20, 2010, by and among Congoleum Corporation, the Asbestos Claimants' Committee, the Claimants' Representatives and the Chartis Companies  |
| 99.3 IV     | Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, the Asbestos Claimants' Committee, the Bondholders' Committee and the Future Claimants' Representative, dated as of March 11, 2010 |
| 99.4 IV     | Amended Settlement Agreement and Release, dated as of October 4, 2006, by, between and among Congoleum Corporation and Federal Insurance Company   |

Exhibit No. Description

- 99.5 IV Letter Agreement, dated as of January 28, 2010, amending the Settlement and Policy Buyback Agreement and Release, dated as of April 25, 2006, by and among Congoleum Corporation, the Plan Trust, American Biltrite Inc., Travelers Casualty and Surety Co., and St. Paul Fire and Marine Insurance Company
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