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AMERICAN BILTRITE INC  
Form 10-Q  
August 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended June 30, 2002

Commission File Number 1-4773

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-1701350  
(IRS Employer Identification No.)

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

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

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

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

| Title of Each Class<br>----- | Outstanding at August 5, 2002<br>----- |
|------------------------------|--|
| Common                       | 3,441,551 shares                       |

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PART I. Item 1. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(In thousands of dollars)

|                           | June 30,<br>2002<br>-----<br>(Unaudited) | December 31,<br>2001<br>-----<br>(Note A) |
|---------------------------|--|---|
| ASSETS                    |  |   |
| CURRENT ASSETS            |  |   |
| Cash and cash equivalents | \$ 19,042                                | \$ 16,804                                 |

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|  |           |           |
|--|-----------|-----------|
| Short-term investments                     |           | 1,416     |
| Accounts receivable, net                   | 55,921    | 39,768    |
| Inventories                                | 94,806    | 93,923    |
| Prepaid expenses & other current assets    | 13,806    | 19,368    |
|  | -----     | -----     |
| TOTAL CURRENT ASSETS                       | 183,575   | 171,279   |
| Insurance for asbestos-related liabilities | 59,508    | 60,787    |
| Goodwill, net                              | 11,300    | 23,773    |
| Other assets                               | 18,523    | 17,420    |
| Property, plant and equipment, net         | 150,197   | 150,659   |
|  | -----     | -----     |
| TOTAL ASSETS                               | \$423,103 | \$423,918 |
|  | =====     | =====     |
| LIABILITIES AND STOCKHOLDERS' EQUITY       |           |           |
| CURRENT LIABILITIES                        |           |           |
| Accounts payable                           | \$ 27,909 | \$ 28,501 |
| Accrued expenses                           | 57,151    | 48,253    |
| Notes payable                              | 16,211    | 11,646    |
| Current portion of long-term debt          | 1,092     | 1,038     |
|  | -----     | -----     |
| TOTAL CURRENT LIABILITIES                  | 102,363   | 89,438    |
| Long-term debt                             | 124,822   | 125,123   |
| Asbestos-related liabilities               | 68,627    | 68,627    |
| Other liabilities                          | 49,968    | 51,530    |
| Noncontrolling interests                   | 7,133     | 11,952    |
| STOCKHOLDERS' EQUITY                       |           |           |
| Common stock, par value \$0.01-authorized  |           |           |
| 15,000,000 shares, issued 4,607,902 shares | 46        | 46        |
| Additional paid-in capital                 | 19,548    | 19,548    |
| Retained earnings                          | 73,020    | 80,752    |
| Accumulated other comprehensive loss       | (7,292)   | (7,966)   |
| Less cost of shares in treasury            | (15,132)  | (15,132)  |
|  | -----     | -----     |
|  | 70,190    | 77,248    |
|  | -----     | -----     |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$423,103 | \$423,918 |
|  | =====     | =====     |

See accompanying notes to consolidated condensed financial statements.

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

| Three Months Ended |      | Six Months Ended |      |
|--------------------|------|------------------|------|
| June 30,           |      | June 30,         |      |
| 2002               | 2001 | 2002             | 2001 |
| -----              |      |                  |      |

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|   |            |           |            |            |
|---|------------|-----------|------------|------------|
| Net sales   | \$ 121,315 | \$ 97,662 | \$ 223,735 | \$ 195,015 |
| Interest and other income   | 1,917      | 948       | 2,707      | 1,269      |
|   | -----      | -----     | -----      | -----      |
|   | 123,232    | 98,610    | 226,442    | 196,284    |
|   | -----      | -----     | -----      | -----      |
| Costs and expenses:   |            |           |            |            |
| Cost of products sold   | 87,901     | 72,065    | 162,703    | 145,706    |
| Selling, general and administrative expenses  | 29,090     | 24,730    | 56,474     | 51,946     |
| Interest expense  | 2,852      | 2,730     | 5,558      | 5,244      |
|   | -----      | -----     | -----      | -----      |
|   | 119,843    | 99,525    | 224,735    | 202,896    |
|   | -----      | -----     | -----      | -----      |
| EARNINGS (LOSS) BEFORE INCOME TAXES AND OTHER ITEMS   | 3,389      | (915)     | 1,707      | (6,612)    |
| Income tax (benefit)  | 1,288      | (316)     | 649        | (2,381)    |
| Noncontrolling interests  | (456)      | (81)      | (188)      | 1,560      |
|   | -----      | -----     | -----      | -----      |
| EARNINGS (LOSS) BEFORE ACCOUNTING CHANGE  | 1,645      | (680)     | 870        | (2,671)    |
| Cumulative effect of accounting change  |            |           | (7,742)    |            |
|   | -----      | -----     | -----      | -----      |
| Net earnings (loss)   | \$ 1,645   | \$ (680)  | \$ (6,872) | \$ (2,671) |
|   | =====      | =====     | =====      | =====      |
| Net earnings (loss) per common share before cumulative effect of accounting change, basic and diluted | \$ .48     | \$ (.20)  | \$ .25     | \$ (.77)   |
| Cumulative effect of accounting change  |            |           | (2.25)     |            |
|   | -----      | -----     | -----      | -----      |
| Net earnings (loss) per common share, basic and diluted   | \$ .48     | \$ (.20)  | \$ (2.00)  | \$ (.77)   |
|   | =====      | =====     | =====      | =====      |
| Weighted average number of common and equivalent shares outstanding                                   | 3,442      | 3,449     | 3,442      | 3,469      |
|   | =====      | =====     | =====      | =====      |
| Dividends declared per common share   | \$ .125    | \$ .125   | \$ .25     | \$ .25     |

See accompanying notes to consolidated condensed financial statements.

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

Six Months Ended  
 June 30,  
 2002                      2001

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|  |            |            |
|--|------------|------------|
| OPERATING ACTIVITIES   |            |            |
| Net loss .....   | \$ (6,872) | \$ (2,671) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: |            |            |
| Depreciation and amortization .....  | 8,731      | 9,843      |
| Deferred income taxes .....  | 2,119      | (1,832)    |
| Cumulative effect of accounting change .....   | 7,742      |            |
| Changes in operating assets and liabilities:   |            |            |
| Accounts receivable .....  | (15,676)   | 5,244      |
| Inventories .....  | 199        | (8,376)    |
| Prepaid expenses and other assets .....  | 3,519      | 2,342      |
| Accounts payable and accrued expenses .....  | 7,971      | (8,293)    |
| Noncontrolling interests .....   | 188        | (1,560)    |
| Other liabilities .....  | (1,886)    | (1,117)    |
|  | -----      | -----      |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES .....                                 | 6,035      | (6,420)    |
| INVESTING ACTIVITIES   |            |            |
| Purchase of short-term investments .....   |            | (1,471)    |
| Proceeds from sales of short-term investments .....                                    | 1,416      | 12,097     |
| Investments in property, plant and equipment .....                                     | (7,045)    | (15,389)   |
| Proceeds from sale of property, plant and equipment .....                              |            | 648        |
| Purchase of additional partnership interests in K&M .....                              |            | (2,066)    |
|  | -----      | -----      |
| NET CASH USED BY INVESTING ACTIVITIES .....  | (5,629)    | (6,181)    |
| FINANCING ACTIVITIES   |            |            |
| Net short-term borrowings .....  | 4,217      | 19,284     |
| Payments on long-term debt .....   | (519)      | (4,642)    |
| Purchase of treasury shares .....  |            | (1,066)    |
| Dividends paid .....   | (860)      | (866)      |
|  | -----      | -----      |
| NET CASH PROVIDED BY FINANCING ACTIVITIES .....  | 2,838      | 12,710     |
| Effect of foreign exchange rate changes on cash .....                                  | (1,006)    | 528        |
|  | -----      | -----      |
| INCREASE IN CASH AND CASH EQUIVALENTS .....  | 2,238      | 637        |
| Cash and cash equivalents at beginning of period .....                                 | 16,804     | 16,859     |
|  | -----      | -----      |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD .....                                       | \$ 19,042  | \$ 17,496  |
|  | =====      | =====      |

See accompanying notes to consolidated condensed financial statements

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The accompanying unaudited consolidated condensed financial statements which include the accounts of American Biltrite Inc. and its wholly-owned subsidiaries ("ABI" or "American Biltrite") as well as entities over which it has voting control have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and the cumulative effect of the change in accounting for goodwill) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Certain amounts appearing in the prior year's consolidated condensed financial statements have been reclassified to conform to the current year's presentations.

### Note B - Changes in Accounting Principles

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 applies to all business combinations completed after June 30, 2001 and requires the use of the purchase method of accounting. SFAS No. 141 also establishes new criteria for determining whether intangible assets should be recognized separately from goodwill. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will not be amortized, but rather will be tested for impairment on an annual basis. Adoption of SFAS No. 141 did not have an impact on the consolidated results of operations or financial position of the Company. SFAS No. 142 was effective for the Company as of January 1, 2002. During the first quarter of 2002, the Company performed an impairment test of goodwill and concluded that there was impairment of goodwill related to both Congoleum and Janus Flooring. The Company compared the implied fair value of their goodwill to the carrying value of goodwill. It was determined that based on the fair value of both Congoleum and Janus Flooring, there should be no goodwill recorded.

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PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
June 30, 2002

### Note B - Changes in Accounting Principles (continued)

Congoleum recorded an impairment loss of \$10.5 million during the first quarter of 2002 based on this change in accounting principle. American Biltrite's share,

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55%, in this impairment loss resulted in a charge of \$5.8 million plus a charge of \$1.9 million for an impairment loss related to Janus Flooring goodwill for a total charge of \$7.7 million during the first quarter of 2002.

The following table reflects consolidated results adjusted as though the Company's adoption of SFAS No. 142 occurred as of January 1, 2001 (in thousands, except per share amounts):

|  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |            |
|--|--------------------------------|----------|------------------------------|------------|
|  | 2002                           | 2001     | 2002                         | 2001       |
|  | ----                           | ----     | ----                         | ----       |
| Net earnings (loss) before cumulative effect of accounting change:             |                                |          |                              |            |
| As reported  | \$1,645                        | \$ (680) | \$ 870                       | \$ (2,671) |
| Goodwill amortization  |                                | 351      |                              | 728        |
|  | -----                          | -----    | -----                        | -----      |
| As adjusted  | \$1,645                        | \$ (329) | \$ 870                       | \$ (1,943) |
|  | =====                          | =====    | =====                        | =====      |
| Basic earnings (loss) per share before cumulative effect of accounting change: |                                |          |                              |            |
| As reported  | \$ .48                         | \$ (.20) | \$ .25                       | \$ (.77)   |
| Goodwill amortization  |                                | .10      |                              | .21        |
|  | -----                          | -----    | -----                        | -----      |
| As adjusted  | \$ .48                         | \$ (.10) | \$ .25                       | \$ (.56)   |
|  | =====                          | =====    | =====                        | =====      |

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") was issued. The Company adopted SFAS No. 144 effective January 1, 2002. Among other things, SFAS No. 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Adoption of this pronouncement did not have an effect on the Company's consolidated financial position or results of operations.

In November 2001, Emerging Issues Task Force (EITF) issue 01-09, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products" ("EITF 01-09"), was issued. The Company adopted EITF 01-09 effective January 1, 2002 as required. This issue addresses the manner in which companies account for sales incentives to their customers. The Company's current accounting policies for the recognition of costs related to these programs, which is to accrue for costs as benefits are earned by the Company's customers, are already in accordance with the consensus reached in this issue. The Company has reclassified amounts previously recorded in selling, general and administrative expense as a reduction in sales. The impact for the

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PART I. FINANCIAL INFORMATION  
 AMERICAN BILTRITE INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
 June 30, 2002

Note B - Changes in Accounting Principles (continued)

six months ended June 30, 2002 and 2001 was a reduction of sales and selling, general and administrative expenses of \$2.1 million and \$2.7 million,

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respectively.

Note C - Inventories

Inventories at June 30, 2002 and December 31, 2001 consisted of the following (in thousands):

|                            | June 30,<br>2002 | December 31,<br>2001 |
|----------------------------|------------------|----------------------|
|                            | -----            | -----                |
| Finished goods             | \$67,900         | \$69,527             |
| Work-in-process            | 11,575           | 11,382               |
| Raw materials and supplies | 15,331           | 13,014               |
|                            | -----            | -----                |
|                            | \$94,806         | \$93,923             |
|                            | =====            | =====                |

Note D - Commitments and Contingencies

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

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

Liabilities of Congoleum comprise the substantial majority of the environmental and other liabilities reported on the Company's balance sheet as shown in the following table. Due to the relative magnitude and wide range of estimates of these liabilities and due to the fact that recourse related to these liabilities is limited to Congoleum, these matters are discussed separately following matters for which American Biltrite has actual or potential direct liability.

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PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
June 30, 2002

Note D - Commitments and Contingencies (continued)

ABI is a co-defendant with many other manufacturers and distributors of asbestos-containing products in approximately 535 pending claims involving approximately 1,471 individuals as of June 30, 2002. The claimants allege personal injury from exposure to asbestos or asbestos-containing products. Activity related to asbestos claims was as follows:

| Six Months Ended | Year Ended |
|------------------|------------|
|------------------|------------|

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|                   | June 30, 2002 | December 31, 2001 |
|-------------------|---------------|-------------------|
|                   | -----         | -----             |
| Beginning claims  | 464           | 330               |
| New claims        | 94            | 189               |
| Settlements       | (4)           | (15)              |
| Dismissals        | (19)          | (40)              |
|                   | ---           | ---               |
| <br>Ending claims | <br>535       | <br>464           |
|                   | ===           | ===               |

ABI estimates that its range of probable and estimable undiscounted losses for asbestos related claims is \$15.6 million to \$27.8 million before considering insurance recoveries, which ABI expects will fully cover the liability. ABI has concluded that no amount within this range is more likely than any other, and has recorded a \$15.6 million liability for asbestos related claims and a \$15.6 million asset for expected insurance coverage.

ABI reported in its December 31, 2001 Form 10-K that it has been named as a Potentially Responsible Party ("PRP") within the meaning of the federal Comprehensive Environmental Response Compensation and Liability Act, as amended, with respect to two sites in two separate states. There have been no new developments relating to these sites during the six month period ended June 30, 2002. ABI also received notice by the present owner of a former ABI plant with regard to notice by the Maine Department of Environmental Protection ("MDEP") to clean up a dumpsite. ABI has submitted a Site Investigation Work Plan to the MDEP.

With regard to the Olin Corporation ("Olin") site in Wilmington, MA, including the six month period ending June 30, 2002, ABI has made periodic payments of \$1.9 million for reimbursement of response costs incurred by Olin with regard to the site and reimbursement for Olin's internal costs since January 1, 1999, each as provided under the settlement agreement. These periodic payments are in addition to the \$2.5 million payment made by ABI that was due at the time ABI entered into the settlement agreement and related to ABI's share of alleged past response costs incurred by Olin through December 31, 1998 with regard to the site. Olin has estimated that the response cost for all of 2002 will be approximately \$2.5 million with ABI's allocated share being

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PART I. FINANCIAL INFORMATION  
 AMERICAN BILTRITE INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
 June 30, 2002

Note D - Commitments and Contingencies (continued)

\$340,000. ABI has estimated that beyond 2002 the total response costs will be in the range of \$16.3 million to \$28.5 million. As of June 30, 2002, ABI has estimated its share of potential further liability for the Olin site to be in the range of \$2.3 million to \$4 million before any recoveries from insurance.

ABI has been named by the United States Environmental Protection Agency ("EPA") as a PRP along with seven other PRPs with respect to three neighborhood sites ("Sites") in Atlanta, Georgia where properties within the boundaries of the Sites contain lead in the surface soil in concentrations that exceed EPA's residential lead screening level. The EPA has requested that ABI sign an



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administrative consent order. ABI is reviewing the EPA notification letter and the administrative consent order while assessing its responsibility with respect to the Sites.

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

The most significant exposure to which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland. The PRP group at this site is made up of 51 companies, substantially all of which are financially solvent. Two removal actions were substantially complete as of December 31, 1998; however the groundwater remediation phase has not begun and the remedial investigation/feasibility study related to the groundwater remediation has not been approved. The PRPs group estimates that future costs of groundwater remediation, based on engineering and consultant studies conducted, would be approximately \$26 million. Congoleum's proportionate share, based on waste disposed at the site, was estimated to be approximately 6.1%.

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PART I. FINANCIAL INFORMATION  
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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
June 30, 2002

Note D - Commitments and Contingencies (continued)

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

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

Congoleum is one of many defendants in approximately 10,994 pending claims (including workers' compensation cases) involving approximately 32,885 individuals as of June 30, 2002, alleging personal injury from exposure to asbestos or asbestos-containing products. There were 6,563 claims at December 31, 2001 that involved approximately 23,139 individuals. Activity related to asbestos claims was as follows:

Six Months Ended

Year Ended

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|                  | June 30, 2002<br>----- | December 31, 2001<br>----- |
|------------------|------------------------|----------------------------|
| Beginning claims | 6,563                  | 1,754                      |
| New claims       | 4,843                  | 5,048                      |
| Settlements      | (42)                   | (40)                       |
| Dismissals       | (370)                  | (199)                      |
|                  | -----                  | -----                      |
| Ending claims    | 10,994<br>=====        | 6,563<br>=====             |

The total indemnity costs incurred to settle claims during the six months ended June 30, 2002 and twelve months ended December 31, 2001 were \$1.0 million and \$1.1 million, respectively, which were paid by Congoleum's insurance carriers, as were the related defense costs. Costs per claim vary depending on a number of factors, including the nature of the alleged exposure and the jurisdiction where the claim was litigated. As of June 30, 2002, Congoleum has incurred asbestos-related claims of \$12.6 million, to resolve claims of over 33,700 claimants, substantially all of which have been paid by Congoleum's insurance carriers. The average indemnity cost per resolved claimant is \$374. Over 99% of claims incurred by Congoleum have settled, on average, for amounts less than \$105 per claimant.

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

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PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
June 30, 2002

Note D - Commitments and Contingencies (continued)

Congoleum discontinued the manufacture of asbestos-containing sheet vinyl products in 1983 and asbestos-containing tile products in 1974. In general, governmental authorities have determined that asbestos-containing sheet and tile products are nonfriable (i.e., cannot be crumbled by hand pressure) because the asbestos was encapsulated in the products during the manufacturing process. Thus, governmental authorities have concluded that these products do not pose a health risk when they are properly maintained in place or properly removed so that they remain nonfriable. Congoleum has issued warnings not to remove asbestos-containing flooring by sanding or other methods that may cause the product to become friable.

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

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of forecasting the numerous variables that can affect the range of the liability.

During the fourth quarter of fiscal 2001, Congoleum updated its evaluation of the range of potential defense and indemnity costs for asbestos-related liabilities and the insurance coverage in place to cover these costs. As a result of Congoleum's analysis, Congoleum has determined that its range of probable and estimable undiscounted losses for asbestos-related claims through the year 2049 is \$53.3 million to \$195.6 million before considering insurance recoveries. As discussed previously, it is very difficult to forecast a liability for Congoleum's ultimate exposure for asbestos-related claims as there are multiple variables that can affect the timing, severity, and quantity of claims. Therefore, Congoleum has concluded that no amount within that range is more likely than any other, and therefore has determined that the amount of the gross liability it should record for asbestos-related claims is equal to \$53.3 million in accordance with accounting principles generally accepted in the United States. Of this amount, \$53 million has been reflected in the balance sheet as a long-term liability and \$0.3 million in accrued expenses as of December 31, 2001 and June 30, 2002.

During the period that Congoleum produced asbestos-containing products, Congoleum purchased primary and excess insurance policies providing in excess of \$1 billion coverage for bodily injury asbestos claims. To date, substantially all claims and defense costs have been paid through primary insurance coverage. At June 30, 2002, Congoleum had \$0.5 million in remaining primary insurance coverage for bodily injury asbestos claims. Once all primary coverage is exhausted, Congoleum expects defense and indemnity costs to be covered by its excess insurance policies. However, it is likely that Congoleum will share in these costs. The first layer of excess insurance policies provides for \$135 million in coverage. Of this layer, approximately 25% to 33% (depending on the method used to allocate losses) was underwritten by carriers who are presently insolvent. Congoleum anticipates that it will have to pay some or all of the portion of costs for resolving

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PART I. FINANCIAL INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)  
June 30, 2002

Note D - Commitments and Contingencies (continued)

asbestos-related claims that are allocable to such insolvent carriers, and that it may, in turn, be able to recover a portion of such payments from the estates or insurance guaranty funds responsible for the obligations of these carriers.

The same factors that affect developing forecasts of potential defense and indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include 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. Congoleum has filed suit regarding insurance coverage issues against certain of its primary insurance carriers, the carriers comprising its first layer of excess insurance, state guaranty funds

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representing insolvent carriers, and its insurance brokers and has begun settlement negotiations with several of these parties.

Congoleum has determined, based on its review of its insurance policies and the advice of legal counsel, that approximately \$45.2 million at December 31, 2001 and \$43.9 million at June 30, 2002 of the estimated \$53.3 million gross liability is probable of recovery. This determination was made after considering the terms of the available insurance coverage, the financial viability of the insurance companies and the status of negotiations with its carriers. This insurance receivable has been recorded in other long-term assets as of December 31, 2001 and June 30, 2002.

Since many uncertainties exist surrounding asbestos litigation, Congoleum will continue to evaluate its asbestos-related estimated liability and corresponding estimated insurance assets as well as the underlying assumptions used to derive these amounts. It is reasonably possible that Congoleum's total exposure to asbestos-related claims may be greater than the recorded liability and that insurance recoveries may be less than the recorded asset. These uncertainties may result in Congoleum incurring future charges to income to adjust the carrying value of recorded liabilities

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and assets. Additionally, since Congoleum has recorded an amount representing the low end of the range of exposure for asbestos-related claims, it is possible that over time another amount within the range will be a better estimate of the actual losses. Although the resolution of these claims is anticipated to take decades, amounts recorded for the liability are not discounted, and the effect on results of operations in any given year from a revision to these estimates could be material.

Note E - Comprehensive Income (Loss)

The following table presents total comprehensive income (loss) for the three and six month periods ended June 30, 2002 and 2001 (in thousands):

|  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |           |
|--|--------------------------------|---------|------------------------------|-----------|
|  | 2002                           | 2001    | 2002                         | 2001      |
|  | ----                           | ----    | ----                         | ----      |
| Net earnings (loss)                      | \$1,645                        | \$(680) | \$(6,872)                    | \$(2,671) |
| Foreign currency translation adjustments | 810                            | 839     | 674                          | (169)     |
|  | -----                          | -----   | -----                        | -----     |
| Total comprehensive income (loss)        | \$2,455                        | \$ 159  | \$(6,198)                    | \$(2,840) |
|  | =====                          | =====   | =====                        | =====     |

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### Note F - Earnings (Loss) Per Share

Earnings (loss) per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding.

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### Note G - Industry Segments

#### Description of Products and Services

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

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

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--|--------------------------------|-----------|------------------------------|------------|
|  | 2002                           | 2001      | 2002                         | 2001       |
| <b>Revenues</b>                          |                                |           |                              |            |
| <b>Revenues from external customers:</b> |                                |           |                              |            |
| Flooring products                        | \$ 69,865                      | \$ 56,085 | \$ 129,756                   | \$ 109,249 |
| Tape products                            | 22,447                         | 21,491    | 41,717                       | 44,126     |
| Jewelry                                  | 18,650                         | 9,678     | 33,098                       | 19,691     |
| Canadian division                        | 10,353                         | 10,408    | 19,164                       | 21,949     |
|  | -----                          | -----     | -----                        | -----      |
| Total revenues from external customers   | 121,315                        | 97,662    | 223,735                      | 195,015    |
|  | -----                          | -----     | -----                        | -----      |
| <b>Intersegment revenues:</b>            |                                |           |                              |            |
| Flooring products                        | 70                             | 78        | 160                          | 189        |
| Tape products                            | 38                             | 42        | 76                           | 70         |
| Jewelry                                  |                                |           |                              |            |
| Canadian division                        | 2,941                          | 2,285     | 5,946                        | 4,110      |
|  | -----                          | -----     | -----                        | -----      |

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|                             |            |           |            |            |
|-----------------------------|------------|-----------|------------|------------|
| Total intersegment revenues | 3,049      | 2,405     | 6,182      | 4,369      |
|                             | -----      | -----     | -----      | -----      |
|                             | 124,364    | 100,067   | 229,917    | 199,384    |
| Reconciling items           |            |           |            |            |
| Intersegment revenues       | (3,049)    | (2,405)   | (6,182)    | (4,369)    |
|                             | -----      | -----     | -----      | -----      |
| Total consolidated revenues | \$ 121,315 | \$ 97,662 | \$ 223,735 | \$ 195,015 |
|                             | =====      | =====     | =====      | =====      |

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PART I. FINANCIAL INFORMATION  
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Note G - Industry Segments (continued)

| (In thousands)   | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           |            | June 30,         |            |
|  | 2002               | 2001       | 2002             | 2001       |
|  | -----              | -----      | -----            | -----      |
| Segment profit (loss)  |                    |            |                  |            |
| Flooring products  | \$ 883             | \$ 62      | \$ (645)         | \$ (6,036) |
| Tape products  | 1,088              | (70)       | 1,133            | 551        |
| Jewelry  | 1,697              | (99)       | 1,843            | (216)      |
| Canadian division  | 322                | (93)       | 518              | 480        |
|  | -----              | -----      | -----            | -----      |
| Total segment profit (loss)  | 3,990              | (200)      | 2,849            | (5,221)    |
| Reconciling items  |                    |            |                  |            |
| Corporate items  | (593)              | (604)      | (1,100)          | (1,280)    |
| Intercompany profit  | (8)                | (111)      | (42)             | (111)      |
|  | -----              | -----      | -----            | -----      |
| Total consolidated profit<br>(loss) before income taxes<br>and other items | \$ 3,389           | \$ (915)   | \$ 1,707         | \$ (6,612) |
|  | =====              | =====      | =====            | =====      |
|  | June 30,           | Dec. 31,   |                  |            |
|  | 2002               | 2001       |                  |            |
|  | ----               | ----       |                  |            |
| Segment assets   |                    |            |                  |            |
| Flooring products  | \$ 285,867         | \$ 291,989 |                  |            |
| Tape products  | 59,581             | 57,417     |                  |            |
| Jewelry  | 39,489             | 39,109     |                  |            |
| Canadian division  | 34,893             | 32,660     |                  |            |
|  | -----              | -----      |                  |            |
| Total segment assets   | 419,830            | 421,175    |                  |            |
| Reconciling items  |                    |            |                  |            |
| Corporate items  | 20,124             | 16,793     |                  |            |
| Intersegment accounts receivable   | (16,618)           | (13,859)   |                  |            |
|  | -----              | -----      |                  |            |
| Intersegment profit in inventory   | (233)              | (191)      |                  |            |
|  | -----              | -----      |                  |            |
| Total consolidated assets  | \$ 423,103         | \$ 423,918 |                  |            |

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Certain amounts at December 31, 2001 have been reclassified to conform to the current year's presentation.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
June 30, 2002

## Results of Operations

Net sales for the second quarter of 2002 were \$121.3 million compared to \$97.7 million in the second quarter of 2001, an increase of \$23.6 million or 24.2%. Net sales for the first six months of 2002 were \$223.7 million, up \$28.7 million or 14.7% from the first half of 2001. Second quarter sales improved over prior year in all segments, with most of the increase coming from flooring and jewelry. Flooring sales increased due to new product introductions, higher sales of remodel and builder products, and an increase in inventory by a major distributor to improve product availability. Jewelry sales increased due to an earlier and larger back-to-school program, expansion of other programs with a leading mass merchandiser and sales of licensed product lines acquired in July 2001. The year-to-date sales increase is due to the higher second quarter sales, as well as first quarter sales increases in flooring (initial stock shipments to a major retailer) and jewelry (sales of licensed product lines).

Cost of products sold as a percentage of net sales was 72.5% in the second quarter of 2002 versus 73.8% in the second quarter of 2001. For the six months ended June 30, 2002, cost of products sold as a percentage of net sales were 72.7% compared with 74.7% during the same period one year earlier. This improvement is primarily due to a greater proportion of higher margin jewelry sales in the overall mix and increased volume in the flooring segment.

Selling, general and administrative expenses as a percentage of sales were 24.0% in the second quarter of 2002 compared to 25.3% in the second quarter of 2001. For the six months ended June 30, 2002, selling, general and administrative expenses as a percentage of sales were 25.2%, down from 26.6% in the first half of 2001. The decrease from corresponding prior year periods in these costs as a percentage of sales is primarily due to the increase in sales together with ongoing cost reduction efforts and the elimination of goodwill amortization expense in 2002.

Interest and other income for the three and six months ended June 30, 2002 increased from comparable year earlier periods primarily due to higher service income in the jewelry segment.

For the three months ended June 30, 2002, the Company had net earnings of \$1.6 million versus a loss of \$0.7 million in the same period one year earlier. All segments reported income this year versus losses last year. For the first six months of 2002, net income (before a required accounting change) was \$0.9 million versus a net loss of \$2.7 million in the year earlier period. This reflects improved results in all segments versus last year, with the largest improvements in flooring and jewelry.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2002

Liquidity and Capital Resources

Cash and cash equivalents, including short term investments, increased \$0.8 million in the first six months of 2002 to \$19.0 million, compared with a decline of \$10.0 million in the first six months of 2001. The generation of cash versus utilization one year earlier was primarily due to reduced inventory requirements, lower capital spending, slower settlement of accrued liabilities, and improved operating results, partly offset by higher receivables. Working capital at June 30, 2002 was \$81.2 million, down slightly from \$81.8 million at December 31, 2001. The ratio of current assets to current liabilities at June 30, 2002 was 1.8, down slightly from 1.9 at December 31, 2001.

Capital expenditures in the first half of 2002 were \$7 million. It is anticipated that capital spending for the full year 2002 will be in the range of \$15 - \$17 million.

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its consolidated financial condition or results of operations. The Company invests primarily in highly liquid debt instruments with strong credit ratings and short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities.



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Substantially all of the Company's outstanding long-term debt as of June 30, 2002 consisted of indebtedness with a fixed rate of interest, which is not subject to change based upon changes in prevailing market interest rates.

The Company operates internationally, principally in Canada, Europe and the Far East, giving rise to exposure to market risks from changes in foreign exchange rates. Foreign currency exchange rate movements also affect the Company's competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors. For foreign currency exposures existing at June 30, 2002, a 10% unfavorable movement in currency exchange rates in the near term would not materially affect ABI's consolidated operating results, financial position or cash flow.

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

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PART II. OTHER INFORMATION  
AMERICAN BILTRITE INC. AND SUBSIDIARIES  
June 30, 2002

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

At the Annual Meeting of Stockholders held on May 8, 2002, the following action was taken:

Four nominees were elected as Class III Directors who will hold office until the Annual Meeting of Stockholders in 2005 and until their successors are duly elected and qualify.

| Name                  | Votes For | Withheld From<br>All Nominees |
|-----------------------|-----------|-------------------------------|
| ----                  | -----     | -----                         |
| Mark N. Kaplan        | 3,023,734 | 85,846                        |
| Natalie S. Marcus     | 3,023,534 | 86,046                        |
| William M. Marcus     | 3,021,934 | 87,646                        |
| Kenneth I. Watchmaker | 3,023,734 | 85,846                        |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(99) Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

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There were no reports on Form 8-K filed for the three months ended June 30, 2002.

SIGNATURE

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

AMERICAN BILTRITE INC.  
-----

(Registrant)

Date: August 12, 2002

BY: /s/ Howard N. Feist III  
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Howard N. Feist III  
Vice President-Finance