

AMERICAN BILTRITE INC
Form 10-Q
August 14, 2008

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 June 30, 2008

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 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

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 August 8, 2008
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Common Stock

3,441,551 shares

FORWARD LOOKING STATEMENTS

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

AMERICAN BILTRITE INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	June 30,	December 31,	June	December 31,	June 30,	December 31,	June 30,	December 31,
	2008	2007	30,	2007	2008	2007	2008	2007
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Assets								
Current Assets:								
Cash and cash equivalents	\$ 29,049	\$ 30,185			\$ 26,474	\$ 26,327	\$ 2,575	\$ 3,858
Restricted cash	29,373	6,501			29,373	6,501		
Accounts receivable, net	43,968	41,345	\$ (433)	\$ (316)	17,120	14,162	27,281	27,499
Inventories	83,552	78,401	(123)	(125)	40,979	35,182	42,696	43,344
Deferred income taxes	961	961					961	961
Prepaid expense & other current assets	6,228	20,001			3,301	13,138	2,927	6,863
Total current assets	193,131	177,394	(556)	(441)	117,247	95,310	76,440	82,525
Property, plant & equipment, net	93,709	99,153			58,391	61,993	35,318	37,160
Other assets:								
Insurance for asbestos-related liabilities	11,140	11,140					11,140	11,140
Goodwill, net	11,605	11,605					11,605	11,605
Other assets	18,809	19,014	(117)	(126)	11,741	11,909	7,185	7,231
	41,554	41,759	(117)	(126)	11,741	11,909	29,930	29,976
Total assets	\$ 328,394	\$ 318,306	\$ (673)	\$ (567)	\$ 187,379	\$ 169,212	\$ 141,688	\$ 149,661

See accompanying notes to consolidating condensed financial statements.

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

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2008 (Unaudited)	December 31, 2007
Liabilities								
Current liabilities:								
Accounts payable	\$ 18,211	\$ 22,570	\$ (433)	\$ (316)	\$ 8,687	\$ 10,715	\$ 9,957	\$ 12,171
Accrued expenses	34,106	37,035			17,400	20,742	16,706	16,293
Asbestos-related liabilities	45,647	31,207			45,647	31,207		
Deferred income taxes	7,725	7,725			7,725	7,725		
Notes payable	32,336	30,309			17,436	10,551	14,900	19,758
Current portion of long-term debt	2,207	2,376					2,207	2,376
Liabilities subject to compromise	4,997	4,997			4,997	4,997		
Total current liabilities	145,229	136,219	(433)	(316)	101,892	85,937	43,770	50,598
Long-term debt, less current portion								
Asbestos-related liabilities	12,840	12,600					12,840	12,600
Other liabilities	12,685	12,195					12,685	12,195
Noncontrolling interests	895	1,093					895	1,093
Liabilities subject to compromise	129,926	129,605	(117)	(126)	130,043	129,731		
Total liabilities	307,810	298,437	(550)	(442)	231,935	215,668	76,425	83,211
Stockholders' equity								
Common stock	46	46	(93)	(93)	93	93	46	46
Additional paid-in capital	19,651	19,607	(49,377)	(49,368)	49,377	49,368	19,651	19,607
Retained earnings	31,746	30,835	35,423	35,413	(63,526)	(65,417)	59,849	60,839
Accumulated other comprehensive loss	(15,727)	(15,487)	6,111	6,110	(22,687)	(22,687)	849	1,090
Less treasury shares	(15,132)	(15,132)	7,813	7,813	(7,813)	(7,813)	(15,132)	(15,132)
	20,584	19,869	(123)	(125)	(44,556)	(46,456)	65,263	66,450

Total stockholders' equity									
Total liabilities and stockholders' equity	\$ 328,394	\$ 318,306	\$ (673)	\$ (567)	\$ 187,379	\$ 169,212	\$ 141,688	\$ 149,661	

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited)
For the Three Months Ended June 30, 2008 and 2007
(In thousands of dollars, except number of shares and per share amounts)

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	2008	2007	2008	2007	2008	2007	2008	2007
Net sales	\$ 101,239	\$ 115,558	\$ -	\$ -	\$ 47,166	\$ 57,541	\$ 54,073	\$ 58,017
Cost of products sold	77,677	86,058	(400)	(371)	37,277	43,797	40,800	42,632
Selling, general & administrative expenses	23,576	24,975			9,238	9,963	14,338	15,012
(Loss) income from operations	(14)	4,525	400	371	651	3,781	(1,065)	373
Other income (expense)								
Interest income	212	180			64	130	148	50
Interest expense	(611)	(3,687)			-	(3,077)	(611)	(610)
Other (expense) income	(146)	196	(407)	(368)	(350)	8	611	556
	(545)	(3,311)	(407)	(368)	(286)	(2,939)	148	(4)
(Loss) income before taxes and other items	(559)	1,214	(7)	3	365	842	(917)	369
Provision for income taxes	563	63			153	7	410	56
Noncontrolling interests	27	(20)					27	(20)
(Loss) income from continuing operations	(1,095)	1,131	(7)	3	212	835	(1,300)	293
Discontinued operation	1,025	-					1,025	-
Net (loss) income	\$ (70)	\$ 1,131	\$ (7)	\$ 3	\$ 212	\$ 835	\$ (275)	\$ 293
		Basic			Diluted			
	2008	2007	2008	2007	2008	2007		
(Loss) income per common share from continuing operations	\$ (0.32)	\$ 0.33	\$ (0.32)	\$ 0.33	\$ (0.32)	\$ 0.33		
Discontinued operation	0.30	-	0.30	-				
	\$ (0.02)	\$ 0.33	\$ (0.02)	\$ 0.33	\$ (0.02)	\$ 0.33		

Net (loss) income per
common share

Weighted average
number of common
and equivalent shares
outstanding

3,441,551

3,441,551

3,441,551

3,442,346

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
(In thousands of dollars, except number of shares and per share amounts)

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	2008	2007	2008	2007	2008	2007	2008	2007
Net sales	\$ 196,996	\$ 215,589	\$ -	\$ -	\$ 94,863	\$ 106,856	\$ 102,133	\$ 108,733
Cost of products sold	150,270	160,253	(700)	(554)	74,101	81,113	76,869	79,694
Selling, general & administrative expenses	45,965	48,229			18,370	19,414	27,595	28,815
Income (loss) from operations	761	7,107	700	554	2,392	6,329	(2,331)	224
Other income (expense)								
Interest income	1,363	336			1,192	254	171	82
Interest expense	(1,319)	(7,235)			(197)	(6,058)	(1,122)	(1,177)
Other income (expense)	87	148	(699)	(549)	(414)	(34)	1,200	731
	131	(6,751)	(699)	(549)	581	(5,838)	249	(364)
Income (loss) before taxes and other items	892	356	1	5	2,973	491	(2,082)	(140)
Provision for (benefit from) income taxes	1,082	(59)			1,082	7	-	(66)
Noncontrolling interests	67	(25)					67	(25)
(Loss) income from continuing operations	(123)	390	1	5	1,891	484	(2,015)	(99)
Discontinued operation	1,025	-					1,025	-
Net income (loss)	\$ 902	\$ 390	\$ 1	\$ 5	\$ 1,891	\$ 484	\$ (990)	\$ (99)
	Basic				Diluted			
	2008	2007	2008	2007	2008	2007		
(Loss) income per common share from continuing operations	\$ (0.04)	\$ 0.11	\$ (0.04)	\$ 0.11	\$ (0.04)	\$ 0.11		
Discontinued operation	0.30	-	0.30	-				

Net income per common share	\$	0.26	\$	0.11	\$	0.26	\$	0.11
Weighted average number of common and equivalent shares outstanding		3,441,551		3,441,551		3,441,551		3,442,326

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS – OPERATING ACTIVITIES (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
(In thousands of dollars)

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	2008	2007	2008	2007	2008	2007	2008	2007
Operating activities								
Net income (loss)	\$ 902	\$ 390	\$ 1	\$ 5	\$ 1,891	\$ 484	\$ (990)	\$ (99)
Net income from discontinued operation	(1,025)	-					(1,025)	-
Income (loss) from continuing operations	(123)	390	1	5	1,891	484	(2,015)	(99)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:								
Depreciation and amortization	7,915	8,130			5,299	5,393	2,616	2,737
Stock compensation expense	53	10			9	10	44	-
Change in operating assets and liabilities:								
Accounts and notes receivable	(2,335)	(5,091)	108	402	(2,958)	(504)	515	(4,989)
Inventories	(5,039)	(1,387)	(1)	(5)	(5,797)	(1,329)	759	(53)
Prepaid expenses and other assets	593	2,770			669	2,805	(76)	(35)
Proceeds from legal fees disgorgement	9,168	-			9,168	-		
Accounts payable and accrued expenses	(7,330)	8,027	(108)	(402)	(6,456)	7,683	(766)	746
Asbestos-related expenses	(8,472)	(7,783)			(8,472)	(7,783)		
Noncontrolling interests	(198)	(51)					(198)	(51)
Other	1,690	(1,460)			1,373	(1,041)	317	(419)
Net cash (used) provided by operating activities of continuing operations	\$ (4,078)	\$ 3,555	\$ -	\$ -	\$ (5,274)	\$ 5,718	\$ 1,196	\$ (2,163)

See accompanying notes to consolidating condensed financial statements.

AMERICAN BILTRITE INC. AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS – INVESTING & FINANCING
ACTIVITIES (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
(In thousands of dollars)

	ABI Consolidated		Eliminations		Congoleum		American Biltrite	
	2008	2007	2008	2007	2008	2007	2008	2007
Investing activities								
Investments in property, plant and equipment	\$ (2,274)	\$ (2,034)	\$ -	\$ -	\$ (1,504)	\$ (1,073)	\$ (770)	\$ (961)
Net cash used by investing activities of continuing operations	(2,274)	(2,034)	-	-	(1,504)	(1,073)	(770)	(961)
Financing activities								
Net short-term borrowings (repayments)	2,173	4,488			6,885	800	(4,712)	3,688
Payments on long-term debt	(662)	(663)					(662)	(663)
Collection on Janus note receivable	4,034	-					4,034	-
Net change in restricted cash	40	(41)			40	(41)		
Net cash provided (used) by financing activities of continuing operations	5,585	3,784	-	-	6,925	759	(1,340)	3,025
Effect of foreign exchange rate changes on cash	(369)	(602)					(369)	(602)
Net (decrease) increase in cash	(1,136)	4,703	-	-	147	5,404	(1,283)	(701)
Cash and cash equivalents at beginning of period	30,185	21,180			26,327	18,591	3,858	2,589
Cash and cash equivalents at end of period	\$ 29,049	\$ 25,883	\$ -	\$ -	\$ 26,474	\$ 23,995	\$ 2,575	\$ 1,888

See accompanying notes to consolidating condensed financial statements.

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

June 30, 2008

(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., referred to herein as "ABI", "American Biltrite" or the "Company") as well as entities over which it has voting control have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, provisions for discontinued operations and provisions to effect 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 and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for future periods, including the year ending December 31, 2008. 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, 2007.

The consolidating balance sheet at December 31, 2007 has been derived from the audited financial statements as of that date but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements.

During 2003, the Company decided to discontinue the operations of its Janus Flooring Corporation subsidiary ("Janus"), a manufacturer of pre-finished hardwood flooring, and sell the related assets. Historical financial results were restated to reflect the classification of Janus as a discontinued operation in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. Results of Janus, including charges resulting from the shutdown, are being reported as a discontinued operation. In April 2006, the Company completed the sale of Janus' remaining building and land (see Note C). As a result of the sale of property, the discontinued operation was effectively dissolved during 2006. As of December 31, 2006, the Company merged Janus with and into American Biltrite Inc.'s subsidiary, American Biltrite (Canada) Ltd. ("AB Canada"), primarily for the purposes of utilizing Janus' prior years' net operating losses against future taxable income.

Note A - Basis of Presentation (continued)

As discussed more fully below and elsewhere in these notes to consolidating condensed financial statements, the Company's subsidiary Congoleum filed for bankruptcy protection on December 31, 2003 in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). The accompanying consolidated financial statements include the results for Congoleum for all periods presented. Congoleum's results include losses (including other comprehensive losses) of \$44.6 million and \$46.5 million in excess of the value of ABI's investment in Congoleum at June 30, 2008 and December 31, 2007, respectively. ABI owns a majority of the voting stock of Congoleum, and expects to continue doing so until Congoleum's reorganization proceedings are concluded, at which time ABI expects its ownership interests in Congoleum will be eliminated. 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, which may be more meaningful for certain analyses.

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

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 K, 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 Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code ("SOP 90-7"), provides financial reporting guidance for entities that are reorganizing under the Bankruptcy Code. Congoleum has implemented this guidance in its consolidated financial statements for periods commencing after December 31, 2003. Pursuant to SOP 90-7, companies in reorganization under the Bankruptcy Code are required to segregate pre-petition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Liabilities for asbestos claims are recorded based upon the minimum amount Congoleum expects to spend for its contribution to, and costs to settle asbestos liabilities through, the Plan Trust (as defined in Note K). Obligations arising post-petition and pre-petition obligations that are secured or that the Bankruptcy Court has authorized Congoleum to pay, are not classified as liabilities subject to compromise. Other pre-petition claims (which would be classified as liabilities subject to compromise) may arise due to the rejection by Congoleum of executory contracts or unexpired leases pursuant to the Bankruptcy Code or as a result of the allowance by the Bankruptcy Court of contingent or disputed claims related to pre-petition matters.

Note A - Basis of Presentation (continued)

Recently Issued Accounting Principles

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 provides a common fair value hierarchy for companies to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such fair value measurements were developed. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that the marketplace would use when pricing an asset or liability, rather than company-specific data. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued Staff Position 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, this Staff Position defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 157 for its non-financial assets and liabilities, effective January 1, 2009, will have a material impact to the consolidated financial statements. The Company adopted SFAS No. 157 effective January 1, 2008 for its financial assets and liabilities. The adoption did not have a material impact to the consolidated financial statements (See Notes E and F).

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("FAS 109"). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007. As a result of the adoption, the Company determined that no cumulative effect adjustment was necessary to the opening balance of retained earnings as of January 1, 2007. The Company's unrecognized tax benefits as of January 1, 2007 were immaterial, and recognition of such tax benefits is not expected to have a material impact on the Company's income tax provision in future periods. Changes in the Company's unrecognized tax benefits during the six months ended June 30, 2008 were immaterial. Furthermore, the Company does not expect such changes in the next twelve months to be material to the Company's financial position or results of operation.

Note A - Basis of Presentation (continued)

For tax return purposes, ABI and Congoleum are not part of a consolidated group and, consequently, file separate federal and state tax returns. ABI's and Congoleum's federal income tax returns are open and subject to examination from the 2004 and 2003 tax return years and forward, respectively. ABI's and Congoleum's various state income tax returns are generally open from the 2002 and later tax return years based on individual state statute of limitations. Congoleum's tax return net operating loss carryforwards are significant. The tax years in which losses arose may be subject to audit when such carryforwards are utilized to offset taxable income in future periods. AB Canada's federal and provincial tax returns are open and subject to examination from 2002 and later.

For the six months ended June 30, 2008, the Company did not record a tax benefit for American Biltrite's year-to-date loss due to uncertainty in the future benefit and utilization of net operating losses. Income tax expense was recorded for the three months ended June 30, 2008 as a result of the reversal of a tax benefit recorded in the first quarter. Congoleum recorded a tax provision of \$153 thousand and \$1.1 million for the three and six months ended June 30, 2008, respectively, based on its expected effective tax rate for the year. Income tax provision and benefit recorded by American Biltrite and Congoleum for the three and six months ended June 30, 2007 were not significant.

The Company records tax penalties and interest as a component of income tax expense.

Note B - Inventories

Inventories at June 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Finished goods	\$ 59,667	\$ 55,478
Work-in-process	12,749	10,327
Raw materials and supplies	11,136	12,596
	\$ 83,552	\$ 78,401

Note C - Sale of Property

In April 2006, the Company completed the sale of a building and land owned by Janus, a discontinued operation (see Note A). The building and land were sold for \$5.0 million Canadian dollars ("C\$"). The Company received C\$1.0 million in cash and a C\$4.0 million note. The note was paid in full in May 2008 subsequent to the receipt of an environmental certification on the land sold. The Company recognized a gain of approximately C\$1.0 million on the sale of the building and land in May 2008. The gain has been recorded as a gain from the discontinued operation.

Note D – Accrued Expenses

Accrued Expenses at June 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Accrued advertising and sales promotions	\$ 14,644	\$ 20,906
Employee compensation and related benefits	9,401	7,581
Interest	460	7
Environmental matters	849	849
Royalties	721	828
Income taxes	1,827	477
Other	6,204	6,387
	\$ 34,106	\$ 37,035

See Note H for Liabilities Subject to Compromise.

Note E – Financing Arrangements

American Biltrite Inc.'s primary source of borrowings are the revolving credit facility (the "Revolver") and the term loan ("Term Loan") it has with Bank of America, National Association ("BofA") and BofA acting through its Canada branch (the "Canadian Lender") pursuant to an amended and restated credit agreement (the "Credit Agreement"). The Credit Agreement provides American Biltrite Inc. and its subsidiary K&M Associates L.P. ("K&M") with (i) a \$30.0 million commitment under the Revolver with a \$12.0 million borrowing sublimit (the "Canadian Revolver") for American Biltrite Inc.'s subsidiary AB Canada and (ii) the \$10.0 million Term Loan. The Credit Agreement also provides for domestic and Canadian letter of credit facilities with availability of up to \$5.0 million and \$1.5 million, respectively, subject to availability under the Revolver and the Canadian Revolver, respectively.

On August 14, 2008, American Biltrite Inc. and its subsidiaries, K&M and AB Canada, entered into an amendment, effective as of June 30, 2008, to the Credit Agreement with BofA and BofA acting through its Canada branch, each in their respective capacities as lenders and administrative agents under the Credit Agreement. The amendment permits the Company to include the principal proceeds it received from the payoff of a note (see Note C) to its Consolidated Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), as determined under the Credit Agreement, for the periods ending June 30, 2008, September 30, 2008 and December 31, 2008. The Credit Agreement includes a financial covenant that requires the Company's Consolidated Adjusted EBITDA for the four consecutive fiscal quarters then ending to exceed 100% of the Company's Consolidated Fixed Charges for the 12-month period ending on such date, as determined under the Credit Agreement (the "Fixed Charge Covenant"). Further, under

Note E – Financing Arrangements (continued)

the amendment, the lenders waived defaults that may have otherwise existed as of June 30, 2008 with respect to the Fixed Charges covenant. ABI paid BofA a fee of \$50 thousand in connection with this amendment. On March 12, 2008, the same parties entered into an amendment to the Credit Agreement to revise a financial covenant to remove the financial covenant that required the Company not to have any consecutive quarterly net losses from continuing operations (reporting Congoleum on the equity method of accounting). In addition, for purposes of determining the Company's compliance with the financial covenant requiring its Consolidated Adjusted EBITDA to exceed 100% of the Company's Consolidated Fixed Charges (in each case, as determined under the Credit Agreement), the amendment permits the Company to add certain amounts to its Consolidated Adjusted EBITDA to the extent those amounts are deducted in determining the Company's Consolidated Net Income (as determined under the Credit Agreement). Further, under the amendment, the lenders waived defaults that may have otherwise existed as of December 31, 2007 with respect to the financial covenants that were amended by the amendment. ABI paid BofA a fee of \$50 thousand in connection with this amendment. On May 14, 2007, the same parties entered into an amendment, effective as of March 31, 2007, to the Credit Agreement to revise a financial covenant to provide that for each of the two consecutive fiscal quarters of the Company ending December 31, 2006 and March 31, 2007, the Company may not have a quarterly net loss from continuing operations in excess of \$400 thousand. As a result of the amendments, the Company was in compliance with the Credit Agreement as of each quarter end for the year ended December 31, 2007 and the six months ended June 30, 2008.

On September 29, 2006, American Biltrite Inc. entered into swap agreements to convert the interest rates on the Term Loan and \$6.0 million of borrowings under the Revolver from floating rates to fixed rates of interest. The swap agreement for the Term Loan (the "Term Loan Swap") has a five year term with the same quarterly payment dates as the Term Loan and reduces proportionately in line with the amortization of the Term Loan. The swap agreement for the \$6.0 million outstanding under the Revolver (the "Revolver Swap") has a three year term with quarterly settlement dates beginning December 31, 2006. The Company expects its borrowings under the Revolver to remain above \$6.0 million through September 29, 2009, the termination date of the Revolver Swap and the Revolver. The Term Loan Swap and the Revolver Swap are carried at fair value. Changes in the fair value of the swap agreements are recorded in Other Income (Expense). For the three and six months ended June 30, 2008, the Company recorded a gain and a loss of \$180 thousand and \$80 thousand, respectively, for the adjustment of the fair values of the swap agreements. For the three and six months ended June 30, 2007, the Company recorded a gain of \$134 thousand and \$90 thousand, respectively.

Note F – Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

§ Level 1 – Quoted prices in active markets for identical assets or liabilities.

§ Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

§ Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's only financial assets or liabilities subject to SFAS No. 157 are its interest rate swap agreements (see Note E). Prior to the adoption of SFAS No. 157, the Company recorded the swap agreements at fair value. The fair value of the swap agreements is based on quoted prices for similar assets or liabilities in active markets (Level 2). As of June 30, 2008, the Company had recorded an unrealized loss of \$408 thousand for its interest rate swap agreements.

Note G – Other Liabilities

Other Liabilities at June 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Pension benefits	\$ 3,055	\$ 2,817
Environmental remediation and product related liabilities	5,576	5,336
Deferred income taxes	1,528	1,337
Other	2,526	2,705
	\$ 12,685	\$ 12,195

See Note H for Liabilities Subject to Compromise.

Note H – Liabilities Subject to Compromise

As a result of Congoleum's Chapter 11 filing (see Notes A and K), pursuant to SOP 90-7, 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. In addition, Congoleum's accrued but unpaid interest expense on its 8 5/8% Senior Notes Due 2008 is also recorded in liabilities subject to compromise. See Notes A and K for further discussion of Congoleum's asbestos liability and its pending Chapter 11 case. Liabilities subject to compromise at June 30, 2008 and December 31, 2007 and included in ABI's consolidated balance sheet at each such date were as follows (in thousands):

	June 30, 2008	December 31, 2007
Current liability		
Pre-petition other payables and accrued interest	\$ 4,997	\$ 4,997
Non-current		
Debt (at face value)	100,000	100,000
Pension liability	11,209	10,772
Other post-retirement benefit obligation	9,572	9,337
Pre-petition other liabilities	9,262	9,622
	130,043	129,731
Elimination – Payable to American Biltrite	(117)	(126)
Total non-current liability	129,926	129,605
Total liabilities subject to compromise	\$ 134,923	\$ 134,602

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 Bankruptcy Court of contingent or disputed claims.

Note I – Pension Plans

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

The table below summarizes the components of the net periodic benefit cost for the Company's and Congoleum's pension and other benefit plans during the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,			
	2008		2007	
	Pension	Other Benefits	Pension	Other Benefits
Service cost	\$ 642	\$ 56	\$ 611	\$ 53
Interest cost	1,652	144	1,606	142
Expected return on plan assets	(1,719)	-	(1,614)	-
Recognized net actuarial loss	384	15	337	18
Amortization of prior service cost	31	-	28	3
Net periodic benefit cost	\$ 990	\$ 215	\$ 968	\$ 216

	Six Months Ended June 30,			
	2008		2007	
	Pension	Other Benefits	Pension	Other Benefits
Service cost	\$ 1,284	\$ 112	\$ 1,214	\$ 106
Interest cost	3,304	288	3,201	284
Expected return on plan assets	(3,438)	-	(3,211)	-
Recognized net actuarial loss	768	30	675	36
Amortization of prior service cost	62	-	54	6
Net periodic benefit cost	\$ 1,980	\$ 430	\$ 1,933	\$ 432

Note I – Pension Plans (continued)

The weighted average assumptions used to determine net periodic benefit cost for the six months ended June 30, 2008 and 2007 were as follows:

	2008		2007	
	Pension	Other Benefits	Pension	Other Benefits
Discount rate	5.50% - 6.00%		5.20% - 6.00%	6.00%
Expected long-term return on plan assets	7.00% - 7.50%	—	7.00% - 7.50%	—
Rate of compensation increase	4.00% - 5.00%	—	4.00% - 5.00%	—

Note J - Commitments and Contingencies

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

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

Note J - Commitments and Contingencies (continued)

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

American Biltrite Inc.

ABI is a co-defendant with many other manufacturers and distributors of asbestos containing products in approximately 1,339 pending claims involving approximately 1,894 individuals as of June 30, 2008. The claimants allege personal injury or death from exposure to asbestos or asbestos-containing products. Activity related to ABI's asbestos claims is as follows:

	Six Months	
	Ended	Year Ended
	June 30,	December 31,
	2008	2007
Beginning claims	1,360	1,332
New claims	261	523
Settlements	(8)	(20)
Dismissals	(274)	(475)
Ending claims	1,339	1,360

The total indemnity costs incurred to settle claims during the six months ended June 30, 2008 and the year ended December 31, 2007 were \$0.6 million and \$2.2 million, respectively, all of which were paid by ABI's insurance carriers pursuant to a February 1996 coverage-in-place agreement with ABI's applicable primary layer insurance carriers, as were the related defense costs. In June 2008, ABI's primary layer insurance carriers advised ABI that coverage limits under the February 1996 coverage-in-place agreement had exhausted. ABI's first-layer umbrella carriers are providing defense and indemnity coverage pursuant to an umbrella/first-layer excess policies arrangement (the "Umbrella Coverage") between ABI and the applicable insurance carriers. The Umbrella Coverage addresses defense and indemnity obligations, allocation of claims to specific policies, and other matters.

Note J - Commitments and Contingencies (continued)

In addition to coverage available under the Umbrella Coverage, ABI has additional excess liability insurance policies that should provide further coverage if and when limits of certain policies within the Umbrella Coverage exhaust. While ABI expects the Umbrella Coverage will result in the substantial majority of defense and indemnity 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 to defend and resolve current and reasonably anticipated future asbestos-related claims (not including claims asserted against Congoleum) based upon a strategy to actively defend against or strategically seek settlement for 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 incidence of past and recent claims, the number of cases pending against it and asbestos litigation developments that may impact the exposure of the Company were considered in performing these estimates. In 2007, the Company utilized an actuarial study to assist it in developing estimates of the Company's potential liability for resolving present and possible future asbestos claims. At December 31, 2007, the estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2013 was \$12.6 million to \$41.4 million. The Company believed no amount within this range is more likely than any other, and accordingly, recorded the minimum liability estimate of \$12.6 million in its consolidated financial statements at December 31, 2007. At June 30, 2008, the Company has recorded \$12.8 million for the estimated minimum liability. The Company has also recorded, based on this minimum liability estimate, an estimate of the amount of insurance probable of recovery is \$11.1 million at June 30, 2008 and December 31, 2007, which has been included in other assets in the Company's consolidated balance sheet. 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 and a number of assumptions made prior to the completion of the umbrella/first-layer excess policies arrangement. The Company intends to engage an actuary to estimate the amount

Note J - Commitments and Contingencies (continued)

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

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

There have been no material developments relating to the environmental sites or the other environmental matters described in ABI's Annual Report on Form 10-K during the six month period ended June 30, 2008.

Congoleum

Congoleum is a defendant in a large number of asbestos-related lawsuits and on December 31, 2003, filed a petition commencing a voluntary reorganization case under Chapter 11 of the Bankruptcy Code for purposes of resolving its asbestos-related liabilities. See Note K.

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

Note J - Commitments and Contingencies (continued)

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

Congoleum filed a motion before the Bankruptcy Court seeking authorization and approval of the consent decree and related settlement agreements for the Galaxy/Spectron Superfund Site, as well as authorization for Liberty Mutual Insurance Company and Congoleum to make certain payments that have been invoiced to Congoleum with respect to the consent decree and related settlement agreements. An order authorizing and approving consent decree and settlement agreements was issued by the Bankruptcy Court in August 2006.

Congoleum also accrues remediation costs for certain of Congoleum's owned facilities on an undiscounted basis. Congoleum has entered into an administrative consent order with the New Jersey Department of Environmental Protection and has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. Estimated total clean-up costs of \$1.3 million for Congoleum's expected portion of those remediation funding obligations, including capital outlays and future maintenance costs for soil and groundwater remediation, are primarily based on engineering studies. Of this amount, \$300 thousand was included in current liabilities subject to compromise and \$1.0 million was included in non-current liabilities subject to compromise in ABI's consolidated balance sheet as of June 30, 2008 and December 31, 2007.

Note J - Commitments and Contingencies (continued)

At June 30, 2008 and December 31, 2007, Congoleum recorded a total of \$4.4 million for estimated environmental liabilities, which liabilities were not reduced by the amount of expected insurance recoveries. At June 30, 2008 and December 31, 2007, such estimated insurance recoveries are approximately \$2.2 million. Receivables for expected insurance recoveries are recorded if the related carriers are solvent and paying claims under a reservation of rights or under an obligation pursuant to coverage in place or a settlement agreement. Substantially all of Congoleum's recorded insurance assets for environmental matters are collectible from a single carrier.

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

Other

In addition to the matters referenced above and in Note K, in the ordinary course of their businesses, the Company and Congoleum become involved in lawsuits and administrative proceedings in connection with 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.

Note K – Congoleum Asbestos Liabilities and Reorganization

On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the Asbestos Claimants' Committee (the "ACC"), the Future Claimants' Representative (the "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 Bondholders' Committee also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in global mediation discussions. Numerous mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 (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.

Note K – Congoleum Asbestos Liabilities and Reorganization (continued)

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 plan of reorganization (the "Joint Plan"). The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and on May 12, 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. On June 6, 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing on June 26, 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008.

Although the Joint Plan was ruled not legally confirmable, the following description of the terms of the Joint Plan is provided as it may be useful to the reader. Under the terms of the Joint Plan, a trust would have been created upon consummation of the Joint Plan, which trust would have assumed the liability for Congoleum's current and future asbestos claims (the "Plan Trust"). That trust would have received the proceeds of various settlements Congoleum has reached with a number of insurance carriers, and would have been assigned Congoleum's rights under its remaining policies covering asbestos product liability. The trust would also have received 50.1% of the newly issued common stock of reorganized Congoleum when the plan took effect (the "Trust Shares"), which Trust Shares would have been subject to the Put/Call Agreement described below.

Holders of Congoleum's \$100 million in 8.625% Senior Notes due in August 2008 would have received when the plan took effect on a pro rata basis \$80 million principal amount of new 9.75% senior secured notes that matured five years from issuance. The new senior secured notes would have been subordinated to the working capital facility providing Congoleum's financing upon exiting reorganization. In addition, holders of the \$100 million 8.625% Senior Notes due in August 2008 would have received 49.9% of the newly issued common stock of reorganized Congoleum when the plan took effect. Congoleum's obligations for the \$100 million in 8.625% senior notes due in August 2008, including accrued pre-petition interest (which amounted to \$3.6 million) would have been satisfied by the new senior secured notes and the common stock issued when the Joint Plan took effect.

Under the terms of the Joint Plan, existing shares of Class A and Class B common stock of Congoleum would have been eliminated when the plan took effect and holders of those shares, including ABI, would not have received anything on account of their eliminated shares. ABI expects its ownership interest in Congoleum would be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case.

Note K – Congoleum Asbestos Liabilities and Reorganization (continued)

In connection with the Joint Plan, Congoleum and certain parties have entered into an agreement (the "Put/Call Agreement"). Pursuant to the Put/Call Agreement, for the first 60 days after the date the Joint Plan was effective (the "Effective Date"), the Plan Trust could have, at its sole option, elected to cause participating holders of Senior Notes (the "Backstop Participants") to purchase all, but not less than all, of the Trust Shares for an aggregate purchase price equal to \$5.25 million. Similarly, for the first 90 days after the Effective Date, the Backstop Participants would have had the right to cause the Plan Trust to sell all, but not less than all, of the Trust Shares to the Backstop Participants for an aggregate purchase price equal to \$7.5 million. The Put/Call Agreement expired by its terms as of June 30, 2008.

The Joint Plan also included certain terms that would have governed an intercompany settlement among ABI and its non-debtor subsidiaries and Congoleum and ongoing intercompany arrangements among American Biltrite and its subsidiaries and reorganized Congoleum which would have been effective when the Joint Plan took effect and would have had a term of two years. Those intercompany arrangements included the provision of management services by American Biltrite to reorganized Congoleum and other business relationships substantially consistent with their traditional relationships. The Joint Plan provided 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 FCR, the official committee of bondholders, the ACC and American Biltrite. 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. The existing arrangements currently in effect among ABI and its non-debtor subsidiaries and Congoleum expire September 30, 2008 unless renewed.

There can be no assurance that any plan of reorganization will subsequently be proposed or, if proposed, will receive the acceptances necessary for confirmation, that any plan will not be modified further, that any other plan will receive necessary court approvals from the Bankruptcy Court and the United States District Court for the District of New Jersey (the "District Court"), or 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 continue to earn sufficient funds to pay for continued litigation over any plan of reorganization and the state court insurance coverage litigation. It also is unclear whether any other person might successfully propose a plan that gets confirmed or what any such plan, when confirmed, would ultimately provide, and whether the Bankruptcy Court would approve such a plan. Any plan of reorganization pursued by Congoleum will be subject to numerous conditions, approvals and other requirements, including Bankruptcy Court and District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained.

Note K – Congoleum Asbestos Liabilities and Reorganization (continued)

In anticipation of Congoleum's commencement of the Chapter 11 cases, Congoleum entered into a settlement agreement (the "Claimant Agreement"), which provides for an aggregate settlement value of at least \$466 million as well as an additional number of individually negotiated trial listed settlements with an aggregate value of approximately \$25 million, for total settlements in excess of \$491 million. As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing a trust (the "Collateral Trust") to distribute funds in accordance with the terms of the Claimant Agreement and granting the Collateral Trust a security interest in Congoleum's rights under its applicable insurance coverage and payments from Congoleum's insurers for asbestos claims. In December 2005, Congoleum commenced certain adversary proceedings (the "Avoidance Actions") seeking to void the security interest granted to the Collateral Trust and such pre-petition settlements. Following summary judgment hearings, the Bankruptcy Court has rendered decisions that the grant of the security interest was not valid but denying motions to avoid the pre-petition settlements; certain of these decisions are under appeal. The terms of the Joint Plan provided for a settlement of litigation related to the Avoidance Actions, but it is not possible to determine if any future plan will include such a settlement or how any such plan-based settlement of the Avoidance Actions may affect the nominal liability of Congoleum under the pre-petition settlements. In connection with soliciting acceptance of the Joint Plan, the voting agent distributed ballots to approximately 146 thousand personal injury claimants, which included holders of claims under the Claimant Agreement and the individual trial listed settlements discussed above, as well as holders of additional alleged claims. Approximately 71 thousand valid ballots were returned indicating claims with a value of \$1.46 billion based on the settlement values applicable under the Joint Plan. It is also likely that additional new claims will be asserted in connection with solicitation of acceptances of any future plan. Congoleum does not believe it can reasonably estimate the liability associated with claims that may be pending.

During the first six months of 2008, Congoleum paid \$8.5 million (before recoveries) in fees and expenses related to implementation of its planned reorganization under Chapter 11 of the Bankruptcy Code and insurance coverage litigation. Congoleum has made provision in its financial statements for the minimum estimated cost to effect its plan to settle asbestos liabilities through confirmation of a plan that complies with section 524(g) of the Bankruptcy Code. Congoleum recorded charges aggregating approximately \$51.3 million in years prior to 1997. In the fourth quarter of 2007 Congoleum recorded an additional \$41.3 million charge based upon the terms of the then-pending Joint Plan. Of this charge, \$14.9 million related to the write-off of certain insurance litigation costs receivable that would not be collected under the terms of the Joint Plan and \$26.4 million was an additional provision for estimated costs for the reorganization proceedings and the state court insurance coverage litigation. In the fourth quarter of 2007, Congoleum also recorded a \$41.0 million interest expense credit to reverse post-petition interest accrued on its \$100 million 8.625% Senior Notes due in August 2008. Terms of previous reorganization plans had provided, among other things, for the payment of post-petition interest on the Senior Notes and therefore Congoleum had continued to accrue such interest. Under the terms of the Joint Plan, the holders of the Senior Note would not have received any post-petition interest. Congoleum has ceased to accrue interest on its Senior Notes. Congoleum may record further charges based on the terms and expected timing of any future proposed plan of reorganization.

Note K – Congoleum Asbestos Liabilities and Reorganization (continued)

In February 2006, the Bankruptcy Court ordered Congoleum's former counsel, Gilbert, Heintz & Randolph LLP (currently known as Gilbert Randolph LLP) ("GHR") to disgorge all fees and certain expenses it was paid by Congoleum. In October 2006, Congoleum and GHR entered into a settlement pursuant to which GHR was to pay Congoleum approximately \$9.2 million plus accruing 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 with GHR in April 2007. Congoleum received \$9.2 million plus \$1.0 million of accrued interest in full satisfaction of that settlement in March 2008.

Note L - Comprehensive Income (Loss)

The following table presents total comprehensive income for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net (loss) income	\$ (70)	\$ 1,131	\$ 902	\$ 390
Foreign currency translation adjustments	243	1,473	(240)	1,708
Total comprehensive income	\$ 173	\$ 2,604	\$ 662	\$ 2,098

Note M - Earnings (Loss) Per Share

Basic and diluted earnings per share are computed in accordance with FASB Statement No. 128, Earnings per Share ("SFAS 128"). SFAS 128 requires both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding and all dilutive potential common share equivalents outstanding. The dilutive effect of options is determined under the treasury stock method using the average market price for the period. Common equivalent shares are included in the per share calculations when the effect of their inclusion would be dilutive.

Note N - Industry Segments

Description of Products and Services

The Company has four reportable segments: 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 commercial and 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.

Net sales by segment for the three and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales to external customers:				
Flooring products	\$ 47,166	\$ 57,541	\$ 94,863	\$ 106,856
Tape products	26,042	25,804	48,485	49,922
Jewelry	12,709	17,143	24,456	30,733
Canadian division	15,322	15,070	29,192	28,078
Total net sales to external customers	101,239	115,558	196,996	215,589
Intersegment net sales:				
Flooring products	-	-	-	-
Tape products	-	-	-	-
Jewelry	-	-	-	-
Canadian division	995	1,334	2,216	2,599
Total intersegment net sales	995	1,334	2,216	2,599
Reconciling items	-	-	-	-
Intersegment net sales	(995)	(1,334)	(2,216)	(2,599)
Total consolidated net sales	\$ 101,239	\$ 115,558	\$ 196,996	\$ 215,589

Note N - Industry Segments

Segment profit or loss is before income tax expense or benefit, noncontrolling interests, and net income (loss) from discontinued operations. Profit (loss) by segment for the three and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Segment profit (loss)				
Flooring products	\$ 365	\$ 842	\$ 2,973	\$ 491
Tape products	(642)	(242)	(231)	(663)
Jewelry	(625)	774	(1,956)	536
Canadian division	454	295	556	382
Total segment profit	(448)	1,669	1,342	746
Reconciling items				
Corporate expenses	(105)	(458)	(452)	(395)
Intercompany profit	(6)	3	2	5
Total consolidated (loss) income before income taxes and other items	\$ (559)	\$ 1,214	\$ 892	\$ 356

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

	June 30, 2008	December 31, 2007
Segment assets		
Flooring products	\$ 187,379	\$ 169,212
Tape products	60,348	52,287
Jewelry	31,782	38,046
Canadian division	34,656	37,907
Total segment assets	314,165	297,452
Reconciling items		
Corporate items	31,676	31,523
Intersegment accounts receivable	(17,206)	(10,417)
Intersegment profit in inventory	(124)	(126)
Intersegment other asset	(117)	(126)
Consolidated assets	\$ 328,394	\$ 318,306

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

American Biltrite's consolidated financial statements include its majority-owned subsidiary, Congoleum. However, under the terms of the Joint Plan, ABI's ownership interest in Congoleum would have been eliminated and ABI expects its ownership interest in Congoleum to be eliminated under any alternate plan or outcome in Congoleum's Chapter 11 case. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed joint plan of reorganization and disclosure statement with the Bankruptcy Court. From that filing through 2007, several subsequent plans were negotiated with representatives of the ACC, the FCR and other asbestos claimant representatives. In addition, an insurance company, CNA, filed a plan of reorganization and the Bondholders' Committee also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered the principal parties in interest in Congoleum's reorganization proceedings to participate in global mediation discussions. Numerous mediation sessions took place during 2006, culminating in two competing plans, one which Congoleum filed jointly with the ACC in September 2006 and the other filed by CNA, both of which the Bankruptcy Court subsequently ruled were not confirmable as a matter of law. In March 2007, Congoleum resumed global plan mediation discussions with the various parties seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. In July 2007, the FCR filed a plan of reorganization and proposed disclosure statement. After extensive further mediation sessions, on February 5, 2008, the FCR, the ACC, the Bondholders' Committee and Congoleum jointly filed the Joint Plan. The Bankruptcy Court approved the disclosure statement for the Joint Plan in February 2008, and the Joint Plan was solicited in accordance with court-approved voting procedures. Various objections to the Joint Plan were filed, and on May 12, 2008 the Bankruptcy Court heard oral argument on summary judgment motions relating to certain of those objections. On June 6, 2008, the Bankruptcy Court issued a ruling that the Joint Plan was not legally confirmable, and issued an Order to Show Cause why the case should not be converted or dismissed pursuant to 11 U.S.C. § 1112. Following a further hearing on June 26, 2008, the Bankruptcy Court issued an opinion that vacated the Order to Show Cause and instructed the parties to submit a confirmable plan by the end of calendar year 2008.

There can be no assurance that any plan of reorganization will subsequently be proposed or, if proposed, will receive the acceptances necessary for confirmation, that any plan will not be modified further, that any other plan will receive necessary court approvals from the Bankruptcy Court and the District Court, or 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 continue to earn sufficient funds to pay for continued litigation over any plan of reorganization and the state court insurance coverage litigation. It also is unclear whether any other person might successfully propose a plan that gets confirmed or what any such plan, when confirmed, would ultimately provide, and whether the Bankruptcy Court would approve such a plan. Any plan of reorganization pursued by Congoleum will be subject to numerous conditions, approvals and other requirements, including Bankruptcy Court and District Court approvals, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained.

ABI estimates that it will spend \$400 thousand for legal fees in 2008, which it has accrued, in connection with Congoleum's reorganization plan. Actual costs for pursuing and implementing any plan of reorganization could be materially higher, and Congoleum and the Company may record significant additional charges should the 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 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 accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the Company's financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies, upon which its financial condition depends and which involve the most complex or subjective decisions or assessments, are those described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, 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 June 30				Six Months Ended June 30				
	2008		2007		2008		2007		
	(In thousands)								
Net sales	\$	54,073	\$	58,017	\$	102,133	\$	108,733	
Cost of sales		40,800		42,632		76,869		79,694	
Gross profit		13,273	24.5%	15,385	26.5%	25,264	24.7%	29,039	26.7%
Selling, general & administrative expenses		14,338	26.5%	15,012	25.9%	27,595	27.0%	28,815	26.5%
Operating (loss) income		(1,065)		373		(2,331)		224	
Interest expense, net		(463)		(560)		(951)		(1,084)	
Other income, net		611		556		1,200		731	
(Loss) income before taxes and other items		(917)		369		(2,082)		(140)	
Provision for (benefit from) income taxes		410		56		-		(66)	
Noncontrolling interests		27		(20)		67		(25)	
(Loss) income from continuing operations		(1,300)		293		(2,015)		(99)	
Discontinued operation		1,025		-		1,025		-	
Net (loss) income	\$	(275)	\$	293	\$	(990)	\$	(99)	

Net sales in the second quarter of 2008 were \$54.1 million compared to \$58.0 million in the second quarter of 2007, a decrease of \$3.9 million or 6.8%. This sales decrease was due to lower jewelry sales, which were down \$4.4 million or 25.8% in the second quarter of 2008 compared with the second quarter of 2007. Retail demand for jewelry through mass merchandisers under current economic conditions is weak and anticipated to remain so until general conditions improve.

Net sales for the first six months of 2008 decreased \$6.6 million (6.1%) to \$102.1 million from \$108.7 million for the first half of 2007. This decrease was primarily due to the lower sales of jewelry in the first half of 2008, which were down \$6.3 million or 20.4% over the same period in 2007. Lower Tape division sales in the first quarter of 2008 compared to the first quarter of 2007 of paper, film, HVAC and electrical products in the U.S. also contributed to the decrease.

Gross profit decreased from 26.5% of net sales for the second quarter of 2007 to 24.5% for the second quarter of 2008. The decline in gross profit as a percent of sales was primarily due to lower gross profit margins in the jewelry segment, which experienced increased merchandise costs and price allowances, as well as the impact of a lower proportion of jewelry sales, which have higher profit margins than other segment sales, on the overall sales mix. Gross profit margins were also slightly lower at the Tape and Canadian divisions, due to inflation on raw materials and energy.

Gross profit for the six months ended June 30, 2008 was 24.7% compared to 26.7% for the first six months of 2007. The decline in gross profit as a percent of sales was primarily due to lower gross profit margins in the jewelry segment, which experienced increased merchandise costs and price allowances, as well as the impact of a lower proportion of jewelry sales, which have higher profit margins than other segment sales, on the overall sales mix. Gross profit margins were also slightly lower at the Tape division, due to inflation on raw materials and energy and lower production volumes. Gross profit margins at the Canadian division for the six months ended June 30, 2008 improved slightly over the year earlier period as cost reductions and pricing exceeded inflation.

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