

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

AMERICAN BILTRITE INC
Form 10-Q
November 13, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended September 29, 2001

Commission File Number 1-4773

AMERICAN BILTRITE INC.

(Exact name of registrant as specified in its charter)

Delaware

04-1701350

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

57 River Street
Wellesley Hills, Massachusetts 02481-2097
(Address of Principal Executive Offices)
(781) 237-6655

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year if changed
since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Title of Each Class	Outstanding at November 6, 2001
Common	3,441,585 shares

FORM 10-Q

PART I.

Item 1. FINANCIAL INFORMATION

AMERICAN BILTRITE INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In thousands of dollars)

	September 29, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,098	\$ 16,859
Short-term investments	2,704	12,097
Accounts receivable, net	56,533	45,378

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

Inventories	93,458	87,175
Prepaid expenses & other current assets	13,875	12,891
	-----	-----
TOTAL CURRENT ASSETS	174,668	174,400
Goodwill, net	24,013	23,431
Other assets	21,761	22,374
Property, plant and equipment, net	150,080	144,197
	-----	-----
TOTAL ASSETS	\$370,522	\$364,402
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 29,370	\$ 31,101
Accrued expenses	45,893	55,891
Notes payable	20,725	11,698
Current portion of long-term debt	98	3,713
	-----	-----
TOTAL CURRENT LIABILITIES	96,086	102,403
Long-term debt	126,139	108,425
Other liabilities	59,209	59,868
Noncontrolling interests	12,670	14,159
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01-authorized		
15,000,000 shares, issued 4,607,902 shares	46	46
Additional paid-in capital	19,521	19,521
Retained earnings	78,398	79,663
Accumulated other comprehensive loss	(6,415)	(5,514)
Less cost of shares in treasury	(15,132)	(14,169)
	-----	-----
	76,418	79,547
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$370,522	\$364,402
	=====	=====

See accompanying notes to consolidated condensed financial statements.

2

FORM 10-Q

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

	Three Months Ended		
	September 29, 2001	September 30, 2000	Septem 2
	-----		-----
Net sales	\$111,010	\$112,685	\$30

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

Interest and other income	1,069	603	
	-----	-----	-----
	112,079	113,288	31
	-----	-----	-----
Costs and expenses:			
Cost of products sold	77,633	79,676	22
Selling, general and administrative expenses	26,339	24,610	8
Interest	2,831	2,361	
	-----	-----	-----
	106,803	106,647	31
	-----	-----	-----
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	5,276	6,641	(
Provision (credit) for income taxes	1,894	2,408	
Noncontrolling interests	(680)	(1,142)	
	-----	-----	-----
NET EARNINGS	\$ 2,702	\$ 3,091	\$
	=====	=====	=====
Earnings per share:			
Basic	\$.79	\$.88	\$
Diluted	\$.79	\$.87	\$
Dividends declared per common share	\$.125	\$.125	\$

See accompanying notes to consolidated condensed financial statements.

3

FORM 10-Q

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

	Nine Months Ended	
	September 29, 2001	September 30, 2000
	-----	-----
OPERATING ACTIVITIES		
Net earnings	\$ 31	\$ 4,425
Adjustments to reconcile net earnings to net cash Provided (used) by operating activities:		
Depreciation and amortization	14,433	12,945
Accounts and notes receivable	(9,866)	(16,169)
Inventories	(3,851)	1,323
Prepaid expenses and other current assets	1,397	1,879

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

Deferred Taxes	(1,166)	(1,128)
Accounts payable and accrued expenses	(11,528)	(9,210)
Noncontrolling interests	(880)	(797)
Other	(1,540)	(190)
	-----	-----
NET CASH USED BY OPERATING ACTIVITIES	(12,970)	(6,922)
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(20,412)	(15,889)
Purchase of short-term investments	(4,175)	(17,535)
Maturities of short-term investments	13,568	25,534
Proceeds from sale of property, plant and equipment	648	
Purchase of assets from Swank, Inc.	(4,646)	
Purchase of additional partnership interest in K&M	(2,066)	(1,407)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(17,083)	(9,297)
FINANCING ACTIVITIES		
Long-term borrowings	24,749	
Payments on long-term debt	(10,676)	(3,059)
Net short-term borrowings	9,027	15,600
Purchase of treasury shares	(1,066)	(467)
Dividends paid	(1,296)	(1,319)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,738	10,755
Effect of foreign exchange	554	720
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(8,761)	(4,744)
Cash and cash equivalents at beginning of period	16,859	27,285
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 8,098	\$ 22,541
	=====	=====

See accompanying notes to consolidated condensed financial statements.

4

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note A - Basis of Presentation

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

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

considered necessary for a fair presentation have been included. Operating results for the three month period ended September 29, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Note B - Pending Adoption of Financial Accounting Standards

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

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") was issued. The Company will adopt SFAS No. 144 effective January 1, 2002 when adoption is mandatory. Among other things, SFAS No. 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. This statement supersedes Statement of Financial Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the provisions of Accounting Principles Board Opinion 30, "Reporting the Results of

5

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 29, 2001

Note B - Pending Adoption of Financial Accounting Standards (continued)

Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" that relate to reporting the effects of a disposal of a segment of a business. The Company is currently assessing the impact of adopting SFAS No. 144 on its consolidated financial statements.

Note C - Changes in Accounting Principles

In June 1998, FASB issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133, as amended by SFAS 138), which requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company adopted SFAS 133 in the first quarter of fiscal 2001.

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

Adoption of this pronouncement had no effect on the Company's consolidated financial position or results of operations.

Note D- Inventories

Inventories at September 29, 2001 and December 31, 2000 consisted of the following (in thousands):

	September 29, 2001	December 31, 2000
Finished goods	\$66,619	\$63,810
Work-in-process	12,075	9,764
Raw materials and supplies	14,764	13,601
	-----	-----
	\$93,458	\$87,175
	=====	=====

Note E - Distributor Transition Costs

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

6

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 29, 2001

Note E - Distributor Transition Costs (continued)

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

Congoleum provided right-of-return provisions to LDBrinkman in the termination agreement whereby LDBrinkman could return certain unsold inventory purchased from Congoleum that met minimum size and quality requirements. Therefore, Congoleum deferred the recognition of revenue for its estimate of returns of inventory under this right-of-return agreement. All of Congoleum's obligations under this provision have been satisfied as of September 29, 2001, and the final resolution of this matter did not have a material impact on the Company's

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

results of operations for the three or the nine months ended September 29, 2001.

Note F - Commitments and Contingencies

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

American Biltrite Inc.

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

ABI is a co-defendant with many other manufacturers and distributors of asbestos-containing products in approximately 463 pending claims involving approximately 1,410 individuals as of September 29, 2001. The claimants allege personal injury from exposure to asbestos or asbestos-containing products. Activity related to asbestos claims was as follows:

7

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note F - Commitments and Contingencies (continued)

	Nine Months Ended September 29, 2001	Year Ended December 31, 2000
	-----	-----
Beginning claims	330	63
New claims	169	298
Settlements	(13)	(11)
Dismissals	(23)	(20)
	---	---
Ending claims	463	330
	===	===

ABI reported in its December 31, 2000 Form 10-K that it has been named as a Potentially Responsible Party ("PRP") within the meaning of the Federal Comprehensive Environmental Response Compensation and Liability Act, as amended, with respect to two sites in two separate states. There have been no new developments relating to these sites during the three and nine month period ended September 29, 2001.

With regard to the Olin Corporation ("Olin") site in Wilmington, MA, during the nine month period ending September 29, 2001, ABI has paid Olin \$483,000 for the

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

period from June 1, 2000 to December 31, 2000 and \$272,000 for the period January 1, 2001 to March 31, 2001 and ABI has been invoiced by Olin \$281,000 for the period April 1, 2001 to June 1, 2001. Olin has estimated that the response cost for all of 2001 will be \$6 million with ABI's allocated share being \$814,000. ABI, in discussion with Olin, has estimated that beyond 2001 the response costs will be in the range of \$16.3 million to \$29 million. As of September 29, 2001, ABI has estimated its share of potential liability for Olin to be in the range of \$3.3 million to \$5 million before any recoveries from insurance.

Congoleum Corporation

Congoleum is subject to federal, state and local environmental laws and regulations, and certain legal and administrative claims are pending or have been asserted against Congoleum. Among these claims, Congoleum is a named party in several actions associated with waste disposal sites, asbestos-related claims and general liability claims. These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of Congoleum's owned and previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future costs and timing of payments are indeterminable due to such unknown factors as the

8

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 29, 2001

Note F - Commitments and Contingencies (continued)

magnitude of clean-up costs, the timing and extent of the remedial actions that may be required, the determination of Congoleum's liability in proportion to other potentially responsible parties and the extent to which costs may be recoverable from insurance.

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

Congoleum is named, together with a large number (in most cases, hundreds) of other companies, as a 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

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

factors, including the volume of material contributed to the site, the number of other PRP's and their financial viability, the remediation methods and technology to be used and the extent to which costs may be recoverable from insurance. However, under CERCLA, and certain other laws, as a PRP, Congoleum can be held jointly and severally liable for all environmental costs associated with a site.

The most significant exposure to which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland. Two removal actions were substantially complete as of December 31, 1998, however the groundwater remediation phase has not begun and the remedial investigation/feasibility study related to the groundwater remediation has not been approved. The PRP group is comprised of approximately 50 companies, substantially all of which are financially solvent. This group has estimated that future costs of groundwater remediation would be approximately \$26 million. Based on waste allocations amongst members of the PRP group in proportion to waste disposed at the site, Congoleum's share was estimated to be approximately

9

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note F - Commitments and Contingencies (continued)

5.5%. At September 29, 2001, Congoleum believes its probable liability, which has been recorded in other liabilities, based on present facts and circumstances, to be approximately \$1.5 million. A corresponding insurance receivable of \$1.2 million has been recorded in other noncurrent assets. No other PRP sites are material on an individual basis.

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 the Company.

Congoleum is one of many defendants in approximately 4,792 pending claims (including workers' compensation cases) involving approximately 20,502 individuals as of September 29, 2001, alleging personal injury from exposure to asbestos or asbestos-containing products. There were 1,754 claims at December 31, 2000 that involved approximately 12,079 individuals. Activity related to asbestos claims was as follows:

	Nine Months Ended September 29, 2001 -----	Year ended December 31, 2000 -----
Beginning claims	1,754	670
New claims	3,216	1,302
Settlements	(42)	(76)
Dismissals	(136)	(142)

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

	-----	-----
Ending claims	4,792	1,754
	=====	=====

The total indemnity costs incurred to settle claims during the nine months ending September 29, 2001 and twelve months ending December 31, 2000 were \$1.0 million and \$3.9 million, respectively, which were paid by Congoleum's insurance carriers, as were the related defense costs. Costs per claim vary depending on a number of factors, including the nature of the alleged exposure and the jurisdiction where the claim was litigated. As of September 29, 2001, Congoleum has incurred asbestos-related claims of \$11.3 million, to resolve claims of over 33,000 claimants, all of which have been paid by Congoleum's insurance carriers. The average indemnity cost per resolved claimant is \$338. Over 99% of claims incurred by Congoleum have settled, on average, for amounts less than \$93 per claimant.

10

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note F - Commitments and Contingencies (continued)

Nearly all claims allege that various diseases were caused by exposure to asbestos-containing products, including sheet vinyl and resilient tile manufactured by Congoleum (or, in the workers' compensation cases, exposure to asbestos in the course of employment with Congoleum). Congoleum discontinued the manufacture of asbestos-containing sheet vinyl products in 1983 and asbestos-containing tile products in 1974. In general, governmental authorities have determined that asbestos-containing sheet and tile products are nonfriable (i.e., cannot be crumbled by hand pressure) because the asbestos was encapsulated in the products during the manufacturing process. Thus, governmental authorities have concluded that these products do not pose a health risk when they are properly maintained in place or properly removed so that they remain nonfriable. Congoleum has issued warnings not to remove asbestos-containing flooring by sanding or other methods that may cause the product to become friable.

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

During the fourth quarter of fiscal 2000, Congoleum updated its evaluation of the range of potential defense and indemnity costs for asbestos-related liabilities and the insurance coverage in place to cover these costs. As a result of Congoleum's analysis, Congoleum has determined that its range of probable and estimable losses for asbestos-related claims through the year 2049 is \$35.1 million to \$161.3 million before considering the effects of insurance

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

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

For a majority of the period that Congoleum produced asbestos-containing products, Congoleum purchased primary and excess insurance policies that cover bodily injury asbestos claims.

11

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 29, 2001

Note F - Commitments and Contingencies (continued)

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

The same factors that affect developing forecasts of potential defense and indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include possible uncertainties regarding the legal sufficiency of insurance claims or solvency of insurance carriers, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, and how legal and other loss handling costs will be covered by the insurance policies.

Congoleum has determined, based on its review of its insurance policies and the advice of legal counsel, that approximately \$20 million of the estimated \$35 million gross liability is highly probable of recovery. This determination was made after considering the terms of the available insurance coverage and the financial viability of the insurance companies. Congoleum believes that the criteria to offset the estimated gross liability with this probable insurance recovery, as defined by accounting principles generally accepted in the United States, have been met. The balance of the estimated gross liability of \$15 million has been reflected in the balance sheet as a long-term liability as of December 31, 2000 and September 29, 2001. Congoleum has also recorded in the balance sheet an insurance receivable of \$7 million that represents an estimate of probable insurance recoveries that do not qualify for offsetting against the gross liability. This insurance receivable has been recorded in other long-term assets as of December 31, 2000 and September 29, 2001.

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

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

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

12

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note G - Long-Term Debt

During the third quarter of 2001, ABI entered into a Note Purchase and Private Shelf Agreement with Prudential Insurance Company ("Pru Agreement"). Under the terms of this agreement, ABI borrowed \$20 million and used the proceeds to retire existing long-term and revolving debt. The new notes bear interest at 8.16%, reducing to 7.91% if certain improvements in debt to EBITDA, (as defined) ratios are attained. Principal is repayable in five annual \$4,000,000 installments beginning August 28, 2006. The Pru Agreement contains certain covenants which include maintenance of minimum current ratio and fixed charge coverage ratios and net worth levels and maximum debt levels and debt to EBITDA ratios. It also includes restrictions on certain payments including dividends, as defined.

During the third quarter of 2001, the Company also entered into a new revolving credit agreement. This agreement provides for borrowings of up to \$30 million through September 28, 2004, with interest varying based upon the Company's leverage ratio (as defined). This agreement provides for a commitment fee based on the average daily unused portion of the commitment which varies depending on the leverage ratio. This agreement also requires meeting certain tests with respect to debt to EBITDA, fixed charge coverage, current ratio, and net worth levels, and includes restrictions on certain payments including dividends and limitations on capital expenditures.

Note H - Comprehensive Income

The following table presents total comprehensive income for the three months and nine months ended September 29, 2001 and September 30, 2000 (in thousands):

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
	----	----	----	----
Net earnings	\$2,702	\$3,091	\$ 31	\$4,425
Foreign currency translation adjustments	(732)	(298)	(901)	(791)
	-----	-----	-----	-----
Total comprehensive income (loss)	\$1,970	\$2,793	\$(870)	\$3,634
	=====	=====	=====	=====

13

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

FORM 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note I - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months and nine months ended September 29, 2001 and September 30, 2000 (in thousands, except per share amounts):

	Three Months Ended		Nine Months
	September 29, 2001	September 30, 2000	September 29, 2001
	----	----	----
Numerator:			
Net income	\$2,702	\$3,091	\$ 31
	=====	=====	=====
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares	3,442	3,517	3,460
Denominator for diluted earnings per share:			
Dilutive employee stock options		21	

Weighted-average shares and Assumed conversions	3,442	3,538	3,460
	=====	=====	=====
Basic earnings per share	\$.79	\$.88	\$.01
	=====	=====	=====
Diluted earnings per share	\$.79	\$.87	\$.01
	=====	=====	=====

Note J - Industry Segments

Description of Products and Services

The Company has four reportable segments: flooring products, tape products, jewelry and a Canadian division which produces flooring and rubber products. Congoleum, which manufactures vinyl and vinyl composition floor coverings with distribution primarily through floor covering distributors, retailers and contractors for commercial and residential use, represents the majority of the Company's flooring products segment. During 2000, the Company acquired Janus Flooring Corporation, which has been included in the flooring products segment

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

PART I. FINANCIAL INFORMATION
 AMERICAN BILTRITE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 September 29, 2001

Note J - Industry Segments (continued)

effective October 12, 2000. The tape products segment consists of two production facilities in the United States and finishing and sales facilities in Belgium, Singapore and Italy. The tape products segment manufactures paper, film, HVAC, electrical, shoe and other tape products for use in industrial and automotive markets. The jewelry segment reflects the results of K&M Associates L.P., a national costume jewelry supplier to mass merchandiser 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		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
	----	----	----	----
Revenues				
Revenues from external customers:				
Flooring products	\$ 59,173	\$ 60,891	\$171,164	\$172,816
Tape products	20,508	24,053	64,634	71,843
Jewelry	21,894	15,061	41,585	35,265
Canadian division	9,435	12,680	31,384	37,604
	-----	-----	-----	-----
Total revenues from external Customers	111,010	112,685	308,767	317,528
	-----	-----	-----	-----
Intersegment revenues:				
Flooring products	70	88	259	293
Tape products	24	22	94	107
Jewelry				
Canadian division	1,662	1,210	5,772	4,292
	-----	-----	-----	-----
Total intersegment revenues	1,756	1,320	6,125	4,692
	-----	-----	-----	-----
	112,766	114,005	314,892	322,220
Reconciling items				
Intersegment revenues	(1,756)	(1,320)	(6,125)	(4,692)
	-----	-----	-----	-----
Total consolidated revenues	\$111,010	\$112,685	\$308,767	\$317,528
	=====	=====	=====	=====

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

(In thousands)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001 ----	Sept. 30, 2000 ----	Sept. 29, 2001 ----	Sept. 30, 2000 ----
Segment profit (loss)				
Flooring products	\$1,452	\$2,651	\$ (4,584)	\$ (3,310)
Tape products	542	1,591	1,093	5,178
Jewelry	3,750	1,797	3,534	1,747
Canadian division	(97)	989	383	3,245
	-----	-----	-----	-----
Total segment profit	5,647	7,028	426	6,860
Reconciling items				
Corporate office loss	(394)	(419)	(1,674)	(1,214)
	-----	-----	-----	-----
Intercompany profit	23	32	(88)	46
Total consolidated earnings (loss) before income taxes and other items	\$5,276	\$6,641	\$ (1,336)	\$ 5,692
	=====	=====	=====	=====

	September 29, 2001 ----	December 31, 2000 ----
Segment assets		
Flooring products	\$228,283	\$244,574
Tape products	66,388	53,724
Jewelry	33,386	19,193
Canadian division	32,486	29,858
	-----	-----
Total segment assets	360,543	347,349
Reconciling items		
Corporate office assets	33,028	30,163
Intersegment accounts receivable	(22,842)	(12,991)
Intersegment profit in inventory	(207)	(119)
	-----	-----
Total consolidated assets	\$370,522	\$364,402
	=====	=====

Tape product segment assets increased from \$53,724 to \$66,388 due to capital expenditures and seasonal increases in inventories and intersegment accounts. Jewelry product segment assets increased from \$19,193 to \$33,386 due to seasonal increases in accounts receivable and inventories and the acquisition of Swank, Inc. assets.

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

Note K - Acquisition

On July 23, 2001, the Company's K&M Associates L.P. operation acquired certain inventory and receivables from the women's costume jewelry business of Swank, Inc. for a purchase price of \$4.6 million. The Company also entered into or assumed license agreements with Anne Klein, Anne Klein II and Guess? associated with the product lines acquired.

17

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 29, 2001

Results of Operations

Net sales for the third quarter of 2001 were \$111.0 million compared to \$112.7 million in the third quarter of 2000, a decrease of \$1.7 million or 1.5%. Net sales for the first nine months of 2001 were \$308.8 million, down \$8.7 million or 2.8% from the first nine months of 2000. Weak economic conditions have resulted in lower revenues in all segments except jewelry. Approximately half the increase in jewelry segment revenues for the quarter and year-to-date are due to sales of women's costume jewelry product lines acquired in July 2001, while the balance of the increase reflects sales of new product designs. The decrease in flooring product sales was partially offset by the acquisition of Janus Flooring in the fourth quarter of 2001; excluding Janus, flooring revenues declined 4.9% for the quarter and 3.8% for the first nine months of 2001.

Gross profits as a percentage of net sales was 30.1% in the third quarter of 2001 versus 29.3% in the third quarter of 2000. This increase was due to the higher proportion of jewelry segment revenues in the sales mix, which have relatively higher gross profit margins, together with improvements in manufacturing efficiency in the flooring segment. These factors more than offset the lower gross profit margins in the remaining segments resulting from lower sales and production levels. Gross profits as a percentage of net sales for the first nine months of 2001 were 27.7% compared to 28.3% in the first nine months of 2000. This is due to lower manufacturing volumes and the competitive pricing environment experienced in the first half of the year.

Selling, general and administrative expenses as a percentage of net sales were 23.7% in the third quarter of 2001 compared to 21.8% in the third quarter of 2000. For the first nine months of 2001, selling, general and administrative expenses as a percentage of net sales were 26.2% versus 25.1% for the first nine months of 2000. The increase for the three and nine month periods is due to lower sales, higher expenses for marketing, and a greater proportion of jewelry in the sales mix.

Interest expense for the three and nine months ended September 29, 2001 was above comparable year earlier levels due to higher borrowings, primarily related to the Janus acquisition, and a decrease in the portion of interest expense capitalized in connection with capital projects.

For the three months ended September 29, 2001, the Company had net earnings of \$2.7 million compared with net earnings of \$3.1 million in the same period one year earlier. Profitability decreased in all segments except jewelry, with the Canadian division showing a small loss. For the first nine months of 2001 net

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

earnings were \$31 thousand versus \$4.4 million in the first nine months of 2000. Flooring products loss increased, and Tape and Canadian profit declined, more than offsetting the improved profitability in jewelry.

18

FORM 10-Q

PART I. FINANCIAL INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 29, 2001

Liquidity and Capital Resources

Cash and cash equivalents, including short term investments, declined \$18.2 million in the first nine months of 2001 to \$10.8 million, compared with a decline of \$12.7 million in the first nine months of 2000. In addition, the Company borrowed \$23.1 million (net of repayments) in the first nine months of 2001, compared with \$12.5 million in the first nine months of 2000. The higher use of cash in 2001 was due to increased capital expenditures, lower net income, increased working capital, and the acquisition of the inventory and receivables of Swank, Inc.'s women's costume jewelry business.

Working capital at September 29, 2001 was \$78.6 million, up from \$72.0 million at December 31, 2000. The ratio of current assets to current liabilities at September 29, 2001 was 1.8, up from 1.7 at December 31, 2000.

Capital expenditures in the first nine months of 2001 were \$20.4 million. It is anticipated that capital spending for the full year 2001 will be in the range of \$26 - \$27 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 financial position of the Company and that they will be paid over a period of three to ten years, the actual timing and amount of such payments may differ significantly from the Company's assumptions. Although the effect of future government regulation could have a significant effect on the Company's costs, the Company is not aware of any pending legislation which could have a material adverse effect on its results of operations or financial position. There can be no assurances that such costs could be passed along to its customers.

Cash requirements for capital expenditures, working capital, debt service and the current authorization to repurchase \$3.0 million of ABI's Common Stock and \$5.3 million of Congoleum's Common Stock are expected to be financed from operating activities and borrowings under existing bank lines of credit, which at ABI are presently \$36.5 million and at Congoleum are \$20.0 million. During the first nine months of 2001, ABI repurchased \$1.1 million of its Common Stock.

19

FORM 10-Q

PART I. FINANCIAL INFORMATION

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

AMERICAN BILTRITE INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 29, 2001

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in highly liquid debt instruments with strong credit ratings and short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Substantially all of the Company's outstanding long-term debt as of September 29, 2001 consisted of indebtedness with a fixed rate of interest, which is not subject to change based upon changes in prevailing market interest rates.

The Company operates internationally, principally in Canada, Europe and the Far East, giving rise to exposure to market risks from changes in foreign exchange rates. Foreign currency exchange rate movements also affect the Company's competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors. For foreign currency exposures existing at September 29, 2001, a 10% unfavorable movement in currency exchange rates in the near term would not materially affect ABI's consolidated operating results, financial position or cash flows.

20

FORM 10-Q

PART II. OTHER INFORMATION
AMERICAN BILTRITE INC. AND SUBSIDIARIES
September 29, 2001

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Any instrument defining the rights of holders of unregistered long-term debt of American Biltrite Inc. that does not authorize the issuance of debt securities in excess of 10 percent of the total assets of American Biltrite Inc. and its subsidiaries on a consolidated basis is not filed as an exhibit to this Report. American Biltrite Inc. agrees to furnish a copy of each such instrument to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed for the three months ended September 29, 2001.

SIGNATURE

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

AMERICAN BILTRITE INC.

Edgar Filing: AMERICAN BILTRITE INC - Form 10-Q

(Registrant)

Date: November 9, 2001

BY: /s/ Howard N. Feist III

Howard N. Feist III
Vice President-Finance