

INFINERA CORP
Form 4
May 01, 2014

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Welch David F

(Last) (First) (Middle)

C/O INFINERA CORPORATION, 140 CASPIAN COURT

(Street)

SUNNYVALE, CA 94089

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
INFINERA CORP [INFN]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
President

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	
Common Stock						D	
Common Stock	04/29/2014		S ⁽¹³⁾	10,000	D	\$ 9 739,493	I See Footnote (1)
Common Stock						I	See Footnote (2)
Common Stock						I	See Footnote

Common Stock	500,000	I	(3) See Footnote (4)
Common Stock	2,500	I	See Footnote (5)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. F. Derivative Securities (Instr. 3 and 4)	
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	\$ 2					(6) 08/08/2016	Common Stock	50,000	
Employee Stock Option (Right to Buy)	\$ 2					(6) 08/08/2016	Common Stock	137,500	
Employee Stock Option (Right to Buy)	\$ 8.19					(6) 11/23/2016	Common Stock	75,000	
Employee Stock Option	\$ 7.61					(6) 06/06/2017	Common Stock	29,214	

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(Right to Buy)					
Employee Stock Option (Right to Buy)	\$ 7.61	<u>(6)</u>	06/06/2017	Common Stock	101,342
Employee Stock Option (Right to Buy)	\$ 7.61	<u>(6)</u>	02/28/2018	Common Stock	2,817
Employee Stock Option (Right to Buy)	\$ 7.61	<u>(6)</u>	02/28/2018	Common Stock	81,683
Employee Stock Option (Right to Buy)	\$ 7.11	<u>(6)</u>	02/10/2019	Common Stock	100,000
Employee Stock Option (Right to Buy)	\$ 7.45	<u>(6)</u>	08/10/2019	Common Stock	150,000
Employee Stock Option (Right to Buy)	\$ 8.58	<u>(6)</u>	02/10/2021	Common Stock	20,250
Employee Stock Option (Right to Buy)	\$ 8.58	<u>(6)</u>	02/10/2021	Common Stock	60,750
Employee Stock Option (Right to Buy)	\$ 8.58	<u>(6)</u>	02/10/2021	Common Stock	39,465
Employee Stock Option (Right to Buy)	\$ 8.58	<u>(6)</u>	02/10/2021	Common Stock	41,535

Buy)

Restricted Stock Units	<u>(7)</u>	<u>(8)</u>	<u>(8)</u>	Common Stock	26,333
Restricted Stock Units	<u>(7)</u>	<u>(9)</u>	<u>(9)</u>	Common Stock	71,250
Restricted Stock Units	<u>(7)</u>	<u>(10)</u>	<u>(10)</u>	Common Stock	40,000
Restricted Stock Units	<u>(7)</u>	<u>(11)</u>	<u>(11)</u>	Common Stock	48,000
Restricted Stock Units	<u>(7)</u>	<u>(12)</u>	<u>(12)</u>	Common Stock	62,770

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Welch David F C/O INFINERA CORPORATION 140 CASPIAN COURT SUNNYVALE, CA 94089	X		President	

Signatures

/s/ Alastair A. Short, by Power of
Attorney

05/01/2014

__Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Shares held directly by LRFA, LLC of which the Reporting Person is the sole managing member.
- (2) Shares held directly by the Welch Family Trust dated 4/3/96.
- (3) Shares held directly by SEI Private Trust Company, Trustee of the Welch Family Heritage Trust I u/I dated 9/24/01.
- (4) Shares held directly by Welch Group, L.P. of which the Reporting Person is the general partner.
Shares held directly by the Reporting Person as a trustee for his minor children. The Reporting Person disclaims beneficial ownership of the shares held in trust for his minor children, and this report shall not be deemed an admission that the Reporting Person is the beneficial owner of the shares held in trust for his minor children for purposes of Section 16 or for any other purpose.
- (5) The option is fully vested.
- (6) Each restricted stock unit ("RSU") represents a contingent right to receive one share of INFN common stock.
- (7) The RSUs vest in three annual installments beginning on February 5, 2013.
- (8)

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- (9) The RSUs fully vest on December 31, 2014.
- (10) The RSUs vest in three annual installments beginning on February 5, 2014.
- (11) The RSUs vest in four annual installments beginning on August 5, 2014.
- (12) The RSUs vest in three annual installments beginning on May 5, 2015.
- (13) This sale was made in connection with the Reporting Person's Rule 10b5-1 Trading Plan, which was adopted on May 24, 2013.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n agreement with other creditors, or classes of creditors, that exist or may emerge; (v) satisfaction of the conditions and obligations under the Company's and Congoleum's respective outstanding debt instruments, and amendment of those outstanding debt instruments, as necessary, to permit Congoleum and the Company to satisfy their obligations under Congoleum's proposed plan of reorganization; (vi) the response from time-to-time of the Company's and Congoleum's lenders, customers, suppliers and other constituencies to the Chapter 11 process and related developments arising from the strategy to settle asbestos liability; (vii) Congoleum's ability to maintain debtor-in-possession financing sufficient to provide it with funding that may be needed during the pendency of its Chapter 11 case and to obtain exit financing sufficient to provide it with funding that may be needed for its operations after emerging from the bankruptcy process, in each case, on reasonable terms; (viii) timely obtaining sufficient creditor and court approval of any reorganization plan and the court overruling any objections to the plan that may be filed; (ix) developments in costs associated with and the outcome of insurance coverage litigation pending in New Jersey State Court involving Congoleum and certain insurers; (x) the extent to which Congoleum is able to obtain reimbursement for costs it incurs in connection with the insurance coverage litigation; (xi) compliance with the Bankruptcy Code, including section 524(g); and (xii) the possible adoption of another party in 10 interest's proposed plan of reorganization which may prove to be unfeasible. In addition, in view of American Biltrite's relationships with Congoleum, American Biltrite could be affected by Congoleum's negotiations, and there can be no assurance as to what that impact, positive or negative, might be. In any event, the failure of Congoleum to obtain confirmation and consummation of its anticipated Chapter 11 plan of reorganization would have a material adverse effect on Congoleum's business, results of operations or financial condition and could have a material adverse effect on American Biltrite's business, results of operations or financial condition. In addition, there has been federal legislation proposed that, if adopted, would establish a national trust to provide compensation to victims of asbestos-related injuries and channel all current and future asbestos-related personal injury claims to that trust. Due to the uncertainties of this legislation, the Company does not know what effects any such legislation, if adopted, may have upon its or Congoleum's businesses, results of operations or financial conditions, or upon any plan of reorganization Congoleum may decide to pursue. To date, Congoleum has expended significant amounts to resolve its asbestos liability pursuant to a Chapter 11 plan of reorganization. To the extent any federal legislation is enacted which does not credit Congoleum for amounts paid by Congoleum pursuant to its plan of reorganization strategy or requires the Company or Congoleum to pay significant amounts to any national trust or otherwise, such legislation could have a material adverse effect on the Company or Congoleum's businesses, results of operations or financial conditions. As a result of Congoleum's significant liability and funding exposure for asbestos claims, there can be no assurance that if Congoleum were to incur any unforecasted or unexpected liability or disruption to its business or operations it would be able to withstand that liability or disruption and continue as an operating company. Any significant increase of the Company's asbestos liability and funding exposure would likely have a material adverse effect on the Company's business, operations and financial condition and possibly its ability to continue as a going concern. For further information regarding the Company's and Congoleum's asbestos liability, insurance coverage and strategies to resolve that asbestos liability, please see Notes 1, 8 and 9 of the Notes to Consolidated Financial Statements, which are included in this report. Any plan of reorganization for Congoleum will likely result in substantial dilution of Congoleum's equity holders, including the Company. Under the terms of the Eighth Plan, on the effective date of that plan, reorganized Congoleum would issue 3.8 million shares of its Class A common stock, which based on the number of shares of Congoleum Class A and Class B common stock outstanding as of March 17, 2006, would represent 31.5% of Congoleum's outstanding common stock and 22.8% of Congoleum's outstanding voting equity interests, and would reduce the Company's equity ownership in Congoleum to 37.7% and voting equity interest in Congoleum to 53.6%, in each case, after giving effect to the stock issuance. On a fully diluted basis, the Company's equity ownership

would be reduced to 35.2% with a voting equity interest of 51.0%. 11 In addition, under the Eighth Plan, Congoleum would issue a new convertible security to the Plan Trust on the effective date of the plan. The liquidation preference or principal amount of that convertible security, as applicable, is expected to be approximately \$2.7 million and subject to possible future increase. Under the terms of the Eighth Plan, the convertible security would be convertible into 5.7 million shares of reorganized Congoleum Class A common stock (or the equivalent thereof on a fully diluted basis) upon a specified default of the obligation to pay dividends or interest, as applicable, on the convertible security and a failure to cure such default within any cure period, which, when combined with the 3.8 million newly issued shares of reorganized Congoleum Class A common stock to be contributed to the Plan Trust on the effective date of the plan, would result in the Plan Trust owning 51% of the voting common stock on a fully diluted basis. If this further additional issuance were to occur, based on the number of shares of Congoleum Class A and Class B common stock outstanding as of March 17, 2006, the Company's equity ownership and voting equity interest in Congoleum would be reduced to 24.4%, resulting in a loss of voting control of Congoleum by ABI. In addition, any proposed plans of reorganization proposed for Congoleum by other parties in interest may provide for even greater dilution of the Congoleum equity interests than that contemplated by the Eighth Plan. There can be no assurance as to how the equity interests in Congoleum, including ABI's Congoleum equity interests, will be treated under any plan of reorganization for Congoleum that may be confirmed by the Bankruptcy Court and consummated. A substantial portion of the Company's debt must be amended or refinanced and the Company's ability to obtain additional financing may be limited. The credit agreement governing the Company's credit facility with Bank of America ("BofA") includes a covenant that takes effect for periods after June 30, 2006 that the Company does not anticipate it will meet, and the Company also does not anticipate it will meet certain covenants under the note agreement governing its outstanding \$20 million aggregate principal amount notes that take effect September 30, 2006. In addition, pursuant to the terms of those agreements, a default by the Company under one of those agreements triggers a cross-default under the other agreement. If such a default occurs, the lenders under those agreements could respectively require the Company to repay all amounts outstanding under the respective debt agreements. If a default occurs and the Company is unable to obtain a waiver from the lenders under those agreements and the Company is required to repay all amounts outstanding under those agreements, the Company would need to obtain funding from another source. Otherwise, the Company would likely be unable to repay those outstanding amounts, in which case, the administrative agent over the collateral securing the amounts outstanding under those agreements might exercise the lenders' rights over that collateral. Any default by the Company under those agreements that results in the Company being required to immediately repay outstanding amounts under its debt agreements, and for which suitable replacement financing is not timely obtained, would have a material adverse effect on the Company's business, results of operations and financial condition. The credit facility expires on September 30, 2006. Although the Company expects that its credit facility will be extended or replaced by that date, and that it will obtain a modification or waiver of covenants as needed prior to such extension or replacement, as well as a modification of the covenants under the note agreement governing its outstanding \$20 million aggregate principal amount notes, there can be no assurances in this regard. If the Company has outstanding borrowings under its existing credit facility at that date and the term of the credit facility has not been extended beyond that date, such failure would result in a breach of the note agreement governing its outstanding \$20 million aggregate principal amount notes, which for the reasons discussed in the preceding paragraph, could have a material adverse effect on the Company's business, results of operations or financial condition. 12 Under the terms of the Company's debt agreements, the Company's ability to obtain additional debt financing is limited. Moreover, since the Company and most of its domestic subsidiaries have already granted security interests in most of their assets, the Company's ability to obtain any additional debt financing may be limited. The Company and its majority-owned subsidiary Congoleum may incur substantial liability for environmental claims and compliance matters. Due to the nature of the Company's and its majority-owned subsidiary Congoleum's businesses and certain of the substances which are or have been used, produced or discharged by them, the Company's and Congoleum's operations and facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with releases of hazardous substances at Company and Congoleum facilities and off-site disposal locations. The Company and Congoleum have historically expended substantial amounts for compliance with existing environmental laws or regulations, including environmental remediation costs at both third-party sites and Company and Congoleum-owned

sites. The Company and Congoleum will continue to be required to expend amounts in the future because of the nature of their prior activities at their facilities, in order to comply with existing environmental laws, and those amounts may be substantial. Although the Company and Congoleum believe that those amounts should not have a material adverse effect on their respective financial positions, there is no certainty that these amounts will not have a material adverse effect on their respective financial positions because, as a result of environmental requirements becoming increasingly strict, neither the Company nor Congoleum is able to determine the ultimate cost of compliance with environmental laws and enforcement policies. Moreover, in addition to potentially having to pay substantial amounts for compliance, future environmental laws or regulations may require or cause the Company or Congoleum to modify or curtail their operations, which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company and its majority-owned subsidiary Congoleum, may incur substantial liability for other product and general liability claims. In the ordinary course of their businesses, the Company and its majority-owned subsidiary Congoleum become involved in lawsuits, administrative proceedings, product liability claims and other matters. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts and the matters may remain unresolved for several years. These matters could have a material adverse effect on the Company's business, results of operations or financial condition if the Company or Congoleum, as applicable, is unable to successfully defend against or settle these matters, and its insurance coverage is insufficient to satisfy any judgments against it or settlements relating to these matters, or the Company or Congoleum, as applicable, is unable to collect insurance proceeds relating to these matters. 13 The Company and its majority-owned subsidiary Congoleum are dependent upon a continuous supply of raw materials from third party suppliers and would be harmed if there were a significant, prolonged disruption in supply or increase in its raw material costs. The Company and its majority-owned subsidiary Congoleum generally design and engineer their own products. Most of the raw materials required by the Company for its manufacturing operations are available from multiple sources; however, the Company does purchase some of its raw materials from a single source or supplier. Any significant delay in or disruption of the supply of raw materials could substantially increase the Company's cost of materials, require product reformulation or require qualification of new suppliers, any one or more of which could materially adversely affect the Company's business, results of operations or financial condition. The Company's majority-owned subsidiary Congoleum, does not have readily available alternative sources of supply for specific designs of transfer print paper, which are produced utilizing print cylinders engraved to Congoleum's specifications. Although Congoleum does not anticipate any loss of this source of supply, replacement could take a considerable period of time and interrupt production of certain products, which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company and Congoleum have occasionally experienced significant price increases for some of its raw materials. In particular, industry supply conditions for specialty resins used in flooring have been very tight, despite significant price increases, due to several factors, including an explosion at a large resin plant in 2004 that destroyed the plant, the decision by another major supplier to exit the business, and the effect of hurricanes in 2005. Although the Company has been able to obtain sufficient supplies of specialty resin and other raw materials, there can be no assurances that it may not experience difficulty in the future, particularly if global supply conditions deteriorate, which could have a material adverse effect on profit margins. Raw material prices in 2005 increased significantly and may remain high in 2006 and until additional capacity becomes available. The Company and its majority-owned subsidiary Congoleum operate in highly competitive markets and some of their competitors have greater resources, and in order to be successful, the Company and Congoleum must keep pace with and anticipate changing customer preferences. The market for the Company's and its majority-owned subsidiary Congoleum's products and services is highly competitive. Some of their respective competitors have greater financial and other resources and access to capital. Furthermore, to the extent any of the Company's or Congoleum's competitors make a filing under Chapter 11 of the United States Bankruptcy Code and emerge from bankruptcy as continuing operating companies that have shed much of their pre-filing liabilities, those competitors could have a cost competitive advantage over Congoleum. In addition, in order to maintain their competitive positions, the Company and Congoleum may need to make substantial investments in their businesses, including, as applicable, product development, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for their products and in the loss of market share for their products. Moreover, due to the competitive nature of their industries, they may be commercially restricted from raising or even maintaining the sales prices of their products, which could result in the incurrence of

significant operating losses if their expenses were to increase or otherwise represent an increased percentage of sales.

14 The markets in which the Company and Congoleum compete are characterized by frequent new product introductions and changing customer preferences. There can be no assurance that the Company's and Congoleum's existing products and services will be properly positioned in the market or that the Company and Congoleum will be able to introduce new or enhanced products or services into their respective markets on a timely basis, or at all, or that those new or enhanced products or services will receive customer acceptance. The Company's and Congoleum's failure to introduce new or enhanced products or services on a timely basis, keep pace with industry or market changes or effectively manage the transitions to new products, technologies or services could have a material adverse effect on the Company's business, results of operations or financial condition. The Company and its majority-owned subsidiary Congoleum are subject to general economic conditions and conditions specific to their respective industries. The Company and its majority-owned subsidiary Congoleum are subject to the effects of general economic conditions. A sustained general economic slowdown could have serious negative consequences for the Company's business, results of operations and financial condition. Moreover, their businesses are affected by the economic factors that affect their respective industries. The Company and its majority-owned subsidiary Congoleum could realize shipment delays, depletion of inventory and increased production costs resulting from unexpected disruptions of operations at any of the Company's or Congoleum's facilities. The Company's and its majority-owned subsidiary Congoleum's businesses depend upon their ability to timely manufacture and deliver products that meet the needs of their customers and the end users of their products. If the Company or Congoleum were to realize an unexpected, significant and prolonged disruption of its operations at any of its facilities, including disruptions in its manufacturing operations, it could result in shipment delays of its products, depletion of its inventory as a result of reduced production and increased production costs as a result of taking actions in an attempt to cure the disruption or carry on its business while the disruption remains. Any resulting delay, depletion or increased production cost could result in increased costs, lower revenues and damaged customer and product end user relations, which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company and its majority-owned subsidiary Congoleum offer limited warranties on their products which could result in the Company or Congoleum incurring significant costs as a result of warranty claims. The Company and its majority-owned subsidiary Congoleum offer a limited warranty on many of their products against manufacturing defects. In addition, as a part of its efforts to differentiate mid- and high-end products through color, design and other attributes, Congoleum offers enhanced warranties with respect to wear, moisture discoloration and other performance characteristics which generally increase with the price of such products. If the Company or Congoleum were to incur a significant number of warranty claims, the resulting warranty costs could be substantial.

15 The Company and its majority-owned subsidiary Congoleum rely on a small number of customers and distributors for a significant portion of their sales or to sell their products. The Company's tape division principally sells its products through distributors. Sales to five unaffiliated customers accounted for approximately 23% of the Company's Tape Division's net sales for the year ended December 31, 2005 and 21% of its net sales for the year ended December 31, 2004. The loss of the largest unaffiliated customer and/or two or more of the other three unaffiliated customers could have a material adverse effect on the Company's business, results of operations or financial condition. The Company's majority-owned subsidiary Congoleum principally sells its products through distributors. Although Congoleum has more than one distributor in some of its distribution territories and actively manages its credit exposure to its distributors, the loss of a major distributor could have a materially adverse impact on the Company's business, results of operations, or financial condition. Congoleum derives a significant percentage of its sales from two of its distributors. These two distributors accounted for approximately 67% of Congoleum's net sales for the year ended December 31, 2005 and 70% of Congoleum's net sales for the year ended December 31, 2004. The Company's subsidiary K&M Associates L.P. ("K&M") sells its products through its own direct sales force and, indirectly, through a wholly owned subsidiary and through third-party sales representatives. Three of K&M's customers accounted for approximately 58% of its net sales for the year ended December 31, 2005 and 59% of its net sales for the year ended December 31, 2004. The loss of the largest of these customers would have a material adverse effect on K&M's business, results of operations and financial condition and would likely have a material adverse effect on the Company's business, results of operations or financial condition. The Company and its majority-owned subsidiary Congoleum depend on key executives to run their businesses, and the loss of any of these executives would likely harm the Company's business. The Company and its majority-owned subsidiary Congoleum depend on key executives to run their businesses. In particular, three of the persons that serve

as key executives at the Company also serve as key executives at Congoleum. The Company's future success will depend largely upon the continued service of these key executives, all of whom have no employment contract with the Company or Congoleum, as applicable, and may terminate their employment at any time without notice. Although certain key executives of the Company and Congoleum are, directly or indirectly, large shareholders of the Company or Congoleum, and thus are less likely to terminate their employment, the loss of any key executive, or the failure by the key executive to perform in his current position, could have a material adverse effect on the Company's business, results of operations or financial condition. Item 1B. UNRESOLVED STAFF COMMENTS Not applicable. 16 ITEM 2. PROPERTIES At December 31, 2005, ABI and its subsidiaries owned ten manufacturing plants and a jewelry distribution center and leased additional office and warehousing space as follows: Owned Industry Segment Or For Which Location Square Feet Leased Properties Used

----- Trenton, NJ 1,050,000
Owned Flooring products Marcus Hook, PA 1,000,000 Owned Flooring products Trenton, NJ 282,000 Owned Flooring products Finksburg, MD 107,000 Owned Flooring products Mercerville, NJ 56,000 Leased Flooring products Sherbrooke, Quebec 379,000 Owned Canadian division Moorestown, NJ 226,000 Owned Tape products Lowell, MA 57,000 Owned Tape products Billerica, MA 30,000 Leased Tape products Renaix, Belgium 84,000 Owned Tape products Singapore 32,000 Owned Tape products Providence, RI 103,000 Owned Jewelry products New York, NY, Qingdao, China, Orlando, FL and Bentonville, AK 27,200 Leased Jewelry products Toronto, Ontario 152,000 Owned Discontinued operation ABI knows of no material defect in the titles to any such properties or material encumbrances thereon other than mortgages on the owned properties in Renaix, Belgium, and Singapore securing outstanding debt in amounts equal to approximately 25% and 55% of the original cost of the property, respectively, and under the terms of the Company's principal debt agreements, pursuant to which the Company has granted a security interest in the properties in Moorestown, NJ, Lowell, MA and Providence, RI. ABI believes that all of its and its subsidiaries' properties are in good condition and have been well maintained. 17 It is estimated that during 2005, ABI's and its subsidiaries' plants for the manufacture of floor covering products operated at approximately 77% of aggregate capacity, its plants for the manufacture of tape products operated at approximately 93% of aggregate capacity and the Canadian division operated at approximately 80% of aggregate capacity. All estimates of aggregate capacity have been made on the basis of a five-day, three-shift operation. ITEM 3. LEGAL PROCEEDINGS ABI has been named by the Environmental Protection Agency as a Potentially Responsible Party ("PRP") within the meaning of the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, as to five sites in four separate states. In addition, at one of the sites, ABI has entered into a settlement agreement that resolved one environmental lawsuit. In addition, ABI has been named a PRP by the State of Maine's Department of Environmental Protection with regard to two sites in Maine. See Note 8 of Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information about these matters. In accordance with SFAS No. 5, Accounting for Contingencies, ABI has recorded a reserve of approximately \$3.4 million, which represents a probable and reasonably estimable amount to cover the anticipated remediation costs at all sites, net of recoveries, based on facts and circumstances known to the Company at the present time. ABI is a co-defendant with many other manufacturers and distributors of asbestos-containing products in approximately 1,703 pending claims involving approximately 2,495 individuals as of December 31, 2005. These claims relate to products of the Company's former Tile Division, which was previously acquired by Congoleum. The claimants allege personal injury from exposure to asbestos or asbestos-containing products. The Company utilizes an actuarial study to assist it in developing estimates of the Company's potential liability for resolving present and possible future asbestos claims. Projecting future asbestos claims costs requires estimating numerous variables that are extremely difficult to predict, including the incidence of claims, the disease that may be alleged by future claimants, future settlement and trial results, future court dismissal rates for claims, and possible asbestos legislation developments. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, and based upon consultations with third party advisors, the Company believes that five years is the most reasonable period over which to include future claims that may be brought against the Company for recognizing a reserve for future costs. The Company believes that costs for claims that might be brought after that period are not reasonably estimable. The estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2011 was \$9.5 million to \$18.8 million as of December 31, 2005. The Company believes no amount within this range is more likely than any other and, accordingly, has recorded a liability

of \$9.5 million in its financial statements, which represents the minimum probable and reasonably estimable amount for the future liability at the present time. The Company also believes that based on this liability estimate, the corresponding amount of insurance probable of recovery is \$9.0 million at December 31, 2005, which has been included in other assets. The estimated amount of insurance that is probable of recovery depends on the liability estimate as well as a number of additional factors, including 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. The recorded liability and related insurance asset do not include any related defense costs, which are typically paid in addition to the indemnity limits under the primary layer insurance policies. Defense costs historically paid by ABI's carriers have been approximately 156% of the related indemnity costs. The recorded amounts were based on currently known facts and a number of assumptions. However, projecting future events, such as the number of new claims to be filed each year, the average cost of disposing of each such claim, the allocation of claims to specific insurance policies, and the continuing solvency of various insurance companies, as well as numerous uncertainties surrounding asbestos legislation in the United States, could cause the actual liability and insurance recoveries for the Company to be higher or lower than those projected or recorded. There can be no assurance that the Company's actual asbestos-related settlement and defense costs will not exceed its accrued asbestos liabilities, or that its accrued insurance recoveries will be realized. It is reasonably possible that the Company will incur charges for resolution of asbestos claims in the future, which could exceed the Company's existing reserves. The Company will continue to vigorously defend itself and believes it has substantial insurance coverage to mitigate future costs related to this matter. See Note 8 of Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information about these claims. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. In November 2004, Congoleum filed a modified plan of reorganization and related documents with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the modified plan. In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the Plan Trust. In July 2005, Congoleum filed the Sixth Plan and related documents with the Bankruptcy Court which reflected the agreed upon modifications as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan and the Sixth Plan was subsequently withdrawn. In November 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. In February 2006, Congoleum filed the Seventh Plan. On February 27, 2006, Congoleum announced its intention to make additional changes to its plan of reorganization, and on March 17, 2006 it filed the Eighth Plan. In addition, an insurance company has filed the CNA Plan and the Official Committee of Bondholders has filed the Bondholder Plan. The Bankruptcy Court has scheduled a hearing to consider the adequacy of the disclosure statements with respect to these plans for April 27, 2006. See Notes 1 and 9 of the Notes to Consolidated Financial Statements, which is included in Item 8 of this Annual Report on Form 10-K. There can be no assurance that Congoleum will obtain approval to solicit acceptances for the Eighth Plan, that Congoleum will receive the acceptances necessary for confirmation of the Eighth Plan, that the Eighth Plan will not be modified further, that

the Eighth Plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court, or that such approvals will be received in a timely fashion, that the Eighth Plan will be confirmed, or that the Eighth Plan, if confirmed, will become effective. Furthermore, the Eighth Plan, if confirmed and effective, will result in significant dilution of ABI's ownership of Congoleum. Congoleum, pursuant to administrative consent orders signed in 1986 and in connection with a prior restructuring, is in the process of implementing cleanup measures at its Trenton sheet facility. ABI had also signed a similar consent order with regard to its former Trenton tile facility. Congoleum agreed to be financially responsible for the clean-up of the Trenton tile facility as part of the acquisition of ABI's former Tile Division. See Note 8 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information about these matters. Together with a large number (in most cases, hundreds) of other companies, Congoleum is named as a PRP in pending proceedings under CERCLA and similar state laws. See Note 8 of Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information about these matters. Congoleum also accrues remediation costs for certain of its 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. In the ordinary course of its business, ABI and its consolidated entities become involved in lawsuits, administrative proceedings, product liability 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. Notes 1, 8 and 9 of Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, to the extent addressing matters reportable under this Item 3, are incorporated by reference herein.

20 ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS Not applicable. PART II ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS The registrant's Common Stock, par value \$.01 per share, is traded on the American Stock Exchange (ticker symbol: ABL). At the close of business on March 15, 2006, the closing price of ABI's Common Stock was \$11.49 per share and the approximate number of record holders was 305. High and low stock prices for the last two years were:

		2005		2004	
		High	Low	High	Low
----- Quarter Ended					
-----	March 31	\$12.47	\$11.00	\$12.49	\$7.80
-----	June 30	11.17	8.90	11.70	8.85
-----	September 30	12.35	9.00	12.75	9.20
-----	December 31	13.09	9.90	13.70	11.20

No dividends were issued during 2005 and 2004. Debt agreements to which the Company and Congoleum are separately parties restrict the ability of the Company and Congoleum to declare and pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - ABI and Non-Debtor Subsidiaries" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Congoleum" in Item 7 below. In addition, Congoleum would not be able to declare and pay dividends during the pendency of its Chapter 11 case prior to consummation of its plan of reorganization.

21 EQUITY COMPENSATION PLAN INFORMATION The following table sets forth information regarding the Company's equity compensation plans as of December 31, 2005. Number of Securities Remaining Number of Available for Securities to Be Weighted- Future Issuance Issued Upon Average Exercise Under Equity Exercise of Price of Compensation Outstanding Outstanding Plans (excluding Options, Options, securities Warrants and Warrants and reflected in Plan Category Rights Rights Column (a)) -----

		(a)	(b)	(c)
-----	Equity Compensation Plans Approved by Security Holders	455,500	\$15.58	77,520
-----	Equity Compensation Plans Not Submitted to Security Holders for Approval	27,500	12.86	22,500
-----	Total	483,000	15.42	100,020(1)

===== (1) Includes 77,520 shares of Common Stock available for issuance under the Company's 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997. In addition to stock options, awards under the Company's 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997, may take the form of stock appreciation rights (SARs), limited SARs, restricted stock units and other stock awards specified in the Plan. If such awards are granted, they will reduce the number of shares of Common Stock available for issuance pursuant to future stock option awards. On July 1, 1999 the Company established its 1999 Stock Option Plan for Non-Employee Directors (as amended, the "1999 Plan"), under which non-employee directors may be granted non-qualified options (the "Options") to purchase up to 50,000 shares of Common Stock. The 1999 Plan was not submitted to stockholders for approval. The options granted under the 1999 Plan have ten-year terms and fully vest 6 months from the grant date. The exercise price for each Option is 100% of the fair market value on the date of

the grant. As of December 31, 2005 an aggregate of 27,500 shares of common stock were issuable upon the exercise of outstanding Options. Congoleum maintains separate equity compensation plans. 22 ITEM 6. SELECTED FINANCIAL DATA Years Ended December 31 2005 2004 2003 2002 2001

----- (In thousands, except per share amounts) Financial Position

Total assets	\$ 356,844	\$ 355,285	\$ 318,933	\$ 361,870	\$ 423,918	Long-term debt(1)	122,414	124,201	124,915
125,271	126,161	Total stockholders' equity	18,485	38,072	32,979	47,538	77,248	Summary of Operations	Net sales
445,172	\$ 433,869	\$ 416,569	\$ 434,495	\$ 403,509	(Loss) income before income taxes and other items	(18,294)	808	(9,946)	(11,813)
5,961	(Benefit from) provision for income taxes	(1,534)	(1,681)	(3,323)	1,248	2,345	Noncontrolling interests	(636)	(107)
(174)	6,221	435	(Loss) income from continuing operations	(17,396)	2,382	(6,797)	(6,840)	4,051	Discontinued operation
(2)	(237)	(429)	(7,361)	(2,073)	(1,235)	Cumulative effect of accounting change	(3)	-- -- --	(7,742)
--	Net (loss) income	(17,633)	1,953	(14,158)	(16,655)	2,816	(Loss) earnings per share	Basic	\$ (5.12)
\$ 0.57	\$ (4.11)	\$ (4.84)	\$ 0.82	Diluted(4)	(5.12)	0.54	(4.11)	(4.84)	0.82
Cash dividends per common share	-- --	0.1875	0.50	0.50	Number of shares used in computing (loss) earnings per share:	Basic	3,442	3,442	3,442
3,442	3,458	3,442	3,442	3,455	-----	(1) Long-term debt includes Congoleum's \$100,000 8 5/8% Senior Notes due 2008. At December 31, 2005 and 2004, these notes were classified as a liability subject to compromise as a result of Congoleum's Chapter 11 filing. See Notes 5 and 9 of the Notes to Consolidated Financial Statements, which is contained in Item 8 of this Annual Report on Form 10-K. (2) Historical financial results have been restated to reflect the classification of Janus as a discontinued operation in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. (3) Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). In accordance with the provisions of SFAS No. 142, the Company recorded a transitional goodwill impairment charge of \$7.7 million. (4) Diluted earnings per share for the year ended December 31, 2004 includes the dilutive effect of Congoleum's stock options during the year. During the years ended December 31, 2005, 2003, 2002 and 2001, Congoleum's stock options had no effect on American Bilrite Inc.'s diluted earnings per share.			

23 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS American Bilrite's consolidated financial statements include its majority-owned subsidiary, Congoleum. 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 obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. In November 2004, Congoleum filed a modified plan of reorganization and related documents with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the modified plan. In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the Plan Trust. In July 2005, Congoleum filed the Sixth Plan and related documents with the Bankruptcy Court which reflected the agreed upon modifications as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan and the Sixth Plan was subsequently withdrawn. In November 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. In February 2006, Congoleum filed the Seventh Plan. On February 27, 2006, Congoleum announced its intention to make additional changes to its plan of reorganization, and on March 17, 2006 it filed the Eighth Plan. In addition, an insurance company has filed the CNA Plan and the Official Committee of

Bondholders has filed the Bondholder Plan. The Bankruptcy Court has scheduled a hearing to consider the adequacy of the disclosure statements with respect to these plans for April 27, 2006. There can be no assurance that Congoleum will obtain approval to solicit acceptances for the Eighth Plan, that Congoleum will receive the acceptances necessary for confirmation of the Eighth Plan, that the Eighth Plan will not be modified further, that the Eighth Plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court, or that such approvals will be received in a timely fashion, that the Eighth Plan will be confirmed, or that the Eighth Plan, if confirmed, will become effective. It is unclear whether the Bankruptcy Court will approve the CNA Plan or the Bondholder Plan or whether either of such plans, if confirmed, would be feasible. 24 Moreover, it is unclear whether any other person will attempt to propose a plan or what any such plan would provide or propose, and whether the Bankruptcy Court would approve a plan other than Congoleum's proposed plan. Furthermore, the Eighth Plan, if confirmed and effective, will result in significant dilution of ABI's ownership of Congoleum. Congoleum is presently involved in litigation with certain insurance carriers related to disputed insurance coverage for asbestos related liabilities, and certain insurance carriers filed various objections to Congoleum's previously proposed plans of reorganization and related matters and are expected to file objections to the Eighth Plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to the Eighth Plan. Congoleum expects that the terms of the Eighth Plan may be amended or modified as a result of further negotiations with various parties. The terms of the CNA Plan and the Bondholder Plan are materially different from the terms of the Eighth Plan, and these plans may also be amended, modified, or may be withdrawn. There can be no assurance that the terms of the reorganization plan that is ultimately confirmed, if any, will not materially differ from the terms of the Eighth Plan. Congoleum expects that it will take until some time in the fourth quarter of 2006 at the earliest to obtain confirmation of any plan of reorganization. In anticipation of Congoleum's commencement of the Chapter 11 cases, Congoleum entered into a settlement agreement with various asbestos personal injury claimants (the "Claimant Agreement"), which provides for an aggregate settlement value of at least \$466 million as well as an additional number of individually negotiated trial listed settlements with an aggregate value of approximately \$25 million, for total settlements in excess of \$491 million. As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing a pre-petition trust (the "Collateral Trust") to distribute funds in accordance with the terms of the Claimant Agreement and granting the Collateral Trust a security interest in Congoleum's rights under its applicable insurance coverage and payments from Congoleum's insurers for asbestos claims. In December 2005, Congoleum commenced an avoidance action seeking to void the security interest granted to the Collateral Trust. Under the terms of the Eighth Plan, asbestos personal injury claimants voting to accept the plan would irrevocably consent or would be deemed to have irrevocably consented to the forbearance of claim and any lien rights related to the Claimant Agreement. Under the terms of the Eighth Plan, after the establishment of the Plan Trust, the assets in the Collateral Trust would be transferred to the Plan Trust and any claims subject to the Claimant Agreement would be channeled to the Plan Trust and paid in accordance with the terms of the Eighth Plan. Settlement values under the Eighth Plan may differ from values under the Sixth Plan and the Claimant Agreement, which, together with the outcome of litigation regarding the enforceability of the Claimant Agreement and security interest, may materially affect the liability associated with the asbestos personal injury claims against Congoleum. As a result of tabulating ballots on Congoleum's fourth modified plan of reorganization, Congoleum is also aware of claims by claimants whose claims were not determined under the Claimant Agreement but who have submitted claims with a value of approximately \$512 million based on the settlement values applicable in the Sixth Plan. Based on the contemplated Eighth Plan, Congoleum has made provision in its financial statements for the minimum amount of the range of estimates for its contribution to effect its plan to settle asbestos liabilities through the Plan Trust. 25 Congoleum recorded charges aggregating approximately \$26 million in prior years and a further approximately \$25.3 million in 2005, to provide for the estimated minimum costs of completing its reorganization. Actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing the Eighth Plan or any other plan of reorganization could be materially higher than currently recorded. Congoleum may record significant additional charges should the minimum estimated cost increase. Delays in proposing, filing and obtaining approval of the Eighth Plan or any new amended plan of reorganization, or the continued pursuit of alternative plans of reorganization by certain insurers, the Official Committee of Bondholders or other parties in interest, could result in a proceeding that takes longer and is more costly than Congoleum has estimated. ABI estimates that it will spend an additional \$900 thousand for legal fees and its anticipated contribution to the Plan Trust (of \$250 thousand) in connection with

Congoleum's reorganization plan, which it has accrued. Actual amounts that will be contributed to the Plan Trust by Congoleum and ABI and costs for pursuing and implementing the plan of reorganization could be materially higher, and Congoleum and the Company may record significant additional charges should the minimum estimated cost increase. Under the terms of the Eighth Plan, Congoleum would issue 3.8 million new shares of Class A Common Stock that would reduce ABI's economic interest in Congoleum from approximately 55% at present to approximately 35% on a fully diluted basis. ABI's voting interest would be reduced from approximately 69% at present to approximately 51% on a fully diluted basis. Congoleum would also issue a convertible security that, upon certain events of default, would convert into 5.7 million shares of Class A Common Stock, further diluting ABI's economic interest and resulting in a loss of voting control by ABI. In addition, ABI is also a defendant in a number of asbestos-related lawsuits in addition to those brought against Congoleum. See Note 8 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference. These matters could have a material adverse impact on the Company's financial position and results of operations. During 2003, the Company decided to discontinue the operations of its Janus Flooring Corporation subsidiary, a manufacturer of pre-finished hardwood flooring, and sell the related assets. Results of Janus Flooring, including charges resulting from the shutdown, are being reported as a discontinued operation. Due to Congoleum's reorganization and separate capital structure, the Company believes that presenting ABI and its non-debtor subsidiaries separately from Congoleum is the most meaningful way to discuss and analyze its financial condition and results of operations.

	2005	2004	2003
Net sales	\$ 207,256	\$ 204,219	\$ 195,919
Cost of sales	150,705	147,456	140,839
Gross profit	56,551	56,763	55,080
Selling, general & administrative expenses	50,619	54,765	53,931
Operating income	5,932	1,998	1,149
Interest expense, net	(2,416)	(3,005)	(2,542)
Other income, net	2,238	1,440	2,083
Income before taxes and other items	5,754	433	690
Provision for income taxes	1,041	864	551
Noncontrolling interests	(636)	(107)	(174)
Income (loss) from continuing operations	\$ 4,077	\$ (538)	\$ (35)

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 Net sales for the year ended December 31, 2005 were \$207.3 million, an increase of \$3.1 million or 1.5% from sales of \$204.2 million in 2004. Tape segment sales increased 12.3% due to increased volume and selling price increases, with all product lines contributing to the increase. Canadian segment sales increased 12.7% on increased sales of flooring and industrial products coupled with the result of foreign currency translation. Jewelry segment sales declined 17.1% to the mass merchandiser channel primarily due to a product strategy change by a major customer, which resulted in lost business and additional markdowns. While the number of SKU's for this customer under its new strategy is comparable to the number of SKU's for this customer before it adopted its new strategy, it is too early to determine the effect on future sales. Lower sales to mid-tier retailers due to fewer programs also contributed to the decline. Gross profit was 27.3% of net sales in 2005 compared to 27.8% in 2004. Gross margins in the Tape segment improved 1.4 points as a percentage of net sales due to higher selling prices and increased volume, which mitigated increases in raw material costs and other expenses. Canadian segment gross margins were level with the prior year as margin increases in flooring products were offset by lower margins on industrial sales. Margins in the jewelry business declined 2.3 points as a percentage of net sales due to the effect of markdowns and higher product costs which could not be recovered in pricing. The decline in jewelry sales, which is the highest margin segment, as a percent of total sales, also contributed to the overall margin decline. The Company includes the cost of purchasing and finished goods inspection in selling, general and administrative expenses. Some companies also record such costs in operating expenses while others record them in cost of goods sold. Consequently, the Company's gross profit margins may not be comparable to other companies. Had the Company recorded these expenses in cost of sales, the gross profit margins for the years ended December 31, 2005 and 2004 have been 26.9% and 27.2%, respectively. Selling, general and administrative expenses for the year ended December 31, 2005 were \$50.6 million, down from \$54.8 million in 2004. During 2005, ABI entered into a settlement agreement with one of its insurance carriers. The settlement resolved disputes regarding the carrier's coverage obligations for environmental liability defense and indemnity costs at certain sites where ABI, as a result of activities conducted many years ago, is alleged to have damaged property. As a result of this settlement, ABI received \$2.9 million in cash, which reduced selling, general and administrative expenses and accounted for the majority of the decrease from 2004 to 2005. Also contributing to the decrease was a significant decline in professional fees in connection with the Congoleum reorganization and modification of the Company's debt agreements. Selling,

general and administrative expenses increased \$.7 million, primarily due to increased freight costs and inflation on salaries and benefits, offset by expense reduction initiatives. As a percentage of sales, selling, general and administrative expenses declined from 26.8% of net sales in 2004 to 24.4% of net sales in 2005. Net interest expense decreased from \$3.0 million in 2004 to \$2.4 million in 2005 due to a decrease in the leverage fee under the Company's note agreement governing its outstanding \$20 million aggregate principal amount notes. Interest rates on the Company's revolving credit facility were slightly higher in 2005 compared with 2004, but average borrowings were lower. Other income increased from \$1.4 million in 2004 to \$2.2 million in 2005 as a result of income from the sale of a warehouse in 2005 for \$2.3 million after expenses partly offset by a \$900 thousand decrease in management fees paid by Congoleum to ABI from 2004 to 2005. The impact of the warehouse sale on the Company's net income after taxes and non-controlling interest was \$887 thousand, or \$0.26 per share. The effective tax rate in 2005 of 18% arises primarily from the Company's ability to recognize certain tax benefits not previously recognized, coupled with the effect of combining various segments with differing statutory rates. Future effective tax rates are expected to be closer to statutory rates, but could fluctuate widely depending on the actual and relative results of individual segments, as well as other factors. Income from continuing operations was \$4.1 million in 2005, compared with a loss of \$538 thousand in 2004. This improvement was largely due to the sale of the warehouse and insurance settlement in 2005. Net income was \$3.8 million in 2005 compared with a net loss of \$1.0 million in 2004 reflecting the improved results from continuing operations. Year Ended December 31, 2004 Compared to Year Ended December 31, 2003 Net sales for the year ended December 31, 2004 were \$204.2 million, an increase of \$8.3 million or 4.2% from sales of \$195.9 million in 2003. Tape segment sales increased 5.4% as volume, and to a lesser extent product mix, improved worldwide; sales of paper, film and HVAC products were up while automotive product sales decreased. Canadian segment sales increased as a result of foreign currency translation, and higher industrial product sales offset lower flooring sales. Jewelry segment sales were essentially level as decreased sales to the mass merchandiser channel and lower service revenues were offset by growth in sales to department stores, and specialty and mid-tier retailers. 28 Gross profit was 27.8% of net sales in 2004 compared to 28.1% in 2003. Gross margins in the Tape segment declined 1.0 point as a percentage of net sales due to higher raw material costs. Canadian segment margins improved 0.5 points as a percentage of net sales as improved manufacturing performance and spending reductions more than offset higher raw material costs. Margins in the jewelry business improved 0.6 points as a percentage of net sales on a more profitable customer mix. The Company includes the cost of purchasing and finished goods inspection in selling, general and administrative expenses. Some companies also record such costs in operating expenses while others record them in cost of goods sold. Consequently, the Company's gross profit margins may not be comparable to other companies. Had the Company recorded these expenses in cost of sales, the gross profit margins for the years ended December 31, 2004 and 2003 have been 27.2% and 27.5%, respectively. Selling, general and administrative expenses for the year ended December 31, 2004 were \$54.8 million, up from \$53.9 million in 2003, as a result of higher employee benefit costs and freight and selling expense increases. As a percentage of sales, selling, general and administrative expenses declined from 27.5% of net sales in 2003 to 26.8% of net sales in 2004. Net interest expense increased from \$2.5 million in 2003 to \$3.0 million in 2004 due to higher interest rates under certain of the Company's debt agreements. The effective tax rate in 2004 of 200% arises primarily from combining profitable segments providing for taxes at higher statutory rates with unprofitable segments whose resulting tax benefits are at lower statutory rates. Furthermore, the Canadian division recorded a valuation allowance against deferred tax assets arising from its losses. Future effective tax rates are expected to be closer to statutory rates, but could fluctuate widely depending on the actual and relative results of individual segments, as well as other factors. The loss from continuing operations was \$538 thousand in 2004, compared with \$35 thousand in 2003, as improved income from operations was offset by higher interest and taxes and less favorable net foreign exchange gains/losses. The net loss was \$1.0 million in 2004 compared with a net loss of \$7.4 million in 2003 when the charges related to the closure of the Janus Flooring operations were recognized. 29 Congoleum 2005 2004 2003 ----- (In thousands of dollars) Net sales \$ 237,626 \$ 229,493 \$ 220,706 Cost of sales 183,734 167,844 166,864 ----- Gross profit 53,892 22.7% 61,649 26.9% 53,842 24.4% Selling, general & administrative expenses 43,503 18.3% 47,925 20.9% 53,206 24.1% Asbestos-related reorganization expenses 25,326 5,000 3,705 ----- Operating (loss) income (14,937) 8,724 (3,069) Interest expense, net (9,973) (9,332) (8,843) Other income, net 760 1,011 1,276 ----- (Loss) income before taxes (24,150) 403 (10,636) Benefit from income taxes (2,575) (2,545) (3,874) ----- Net (loss) income \$ (21,575) \$ 2,948 \$ (6,762) =====

===== Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 Net sales for the year ended December 31, 2005 totaled \$237.6 million as compared to \$229.5 million for the year ended December 31, 2004, an increase of \$8.1 million or 3.5%. The increase in sales resulted primarily from the impact of selling price increases instituted in late 2004 and during 2005 (7% of net sales), increased sales of residential tile (up \$7.8 million) and higher shipments to the manufactured housing industry reflecting post-hurricane demand for both manufactured housing and RV homes. This was partially offset by a sales decrease of do-it-yourself tile reflecting the loss of a major mass merchandiser customer coupled with decreased demand for residential sheet specials. Gross profit for the year ended December 31, 2005 totaled \$53.9 million, or 22.7% of net sales, compared to \$61.6 million or 26.9% of net sales for the year ended December 31, 2004. The decrease in gross margins was driven by the sharp increase in raw material pricing which increased costs by 8.4% of net sales, a less favorable product mix which reduced gross margin by 2.5% of net sales, and the negative impact of lower production volumes over which to spread fixed manufacturing overhead costs (1.7% of net sales). This was partially mitigated by price increases instituted during late 2004 and 2005 (7.0% of net sales), lower warranty claims expense (0.5% of net sales) and the favorable impact of manufacturing cost reduction programs initiated (1.0% of net sales). Selling, general and administrative expenses were \$43.5 million for the year ended December 31, 2005 as compared to \$47.9 million for the year ended December 31, 2004, a decrease of \$4.4 million. As a percent of net sales, selling, general and administrative expenses were 18.3% and 20.9% for the years ended December 2005 and 2004, respectively. Selling, general and administrative expenses were down \$4.4 million (2.9% of net sales) reflecting cost savings initiatives instituted in late 2005, including workforce reductions and related benefits (\$1.0 million) and the impact of lower unit sales volume on freight and other incentive programs (\$3.0 million). 30 Asbestos-related charges in 2005 were \$25.3 million, compared to \$5.0 million in 2004. Congoleum recorded a charge of \$9.9 million in the fourth quarter of 2005 to increase its estimated recorded liability for resolving asbestos-related claims. The recorded liability at December 31, 2005 represents the minimum estimated cost that Congoleum would incur to resolve its asbestos-related liability through the execution of Congoleum's proposed plan of reorganization. If Congoleum is not successful in obtaining confirmation of its proposed plan of reorganization in a timely manner, actual costs could be significantly higher. The Eighth Plan also would require Congoleum to make additional contributions to the Plan Trust comprised of approximately \$7.7 million in cash, 3.8 million shares of newly issued Congoleum Class A common stock and a newly issued convertible security. The redemption or principal value of the convertible security will be increased one year after confirmation of the plan to the amount, if any, by which 36% of the value of Congoleum's shares at that time exceeds approximately \$2.7 million. No provision has been made for the cost of this possible additional contribution, which could be material. Congoleum will adjust its recorded liability should its estimates change. In addition, it is expected that the terms of the convertible security will require Congoleum to make dividend or interest payments prior to such security's redemption or maturity date. Loss from operations was \$14.9 million for the year ended December 31, 2005 compared to income of \$8.7 million for the same period in the prior year, a decline of \$23.6 million. This decline in operating income reflects the charges for asbestos related claims taken in 2005, coupled with lower gross margins, partially offset by reductions in operating expenses. Interest income was \$0.4 million, which was \$0.3 million higher than the prior year reflecting higher cash balances and interest rates. Interest expense increased from \$9.4 million in 2004 to \$10.4 million in 2005, primarily reflecting the interest accrued on the unpaid interest on its Senior Notes. Due to the Chapter 11 proceedings, Congoleum was precluded from making the interest payments due February 1, 2004, August 1, 2004, February 1, 2005 and August 1, 2005 on the Senior Notes. Congoleum recorded a tax benefit of \$2.6 million on a loss before income taxes of \$24.2 million in 2005, and it also recorded a tax benefit of \$2.5 million on income before taxes of \$0.4 million in 2004. This relates primarily to anticipated tax benefits associated with certain prior year expenditures for resolving asbestos related liabilities, which Congoleum has determined may be carried back but were not previously recognized.

31 Year Ended December 31, 2004 Compared to Year Ended December 31, 2003 Net sales for the year ended December 31, 2004 totaled \$229.5 million as compared to \$220.7 million for the year ended December 31, 2003, an increase of \$8.8 million or 4%. The increase in sales resulted from the effect of selling price increases initiated during 2004 (2.5%) and higher shipments to the manufactured housing industry partially offset by declines in do-it-yourself tile sales to mass merchandisers and less demand for residential sheet specials. Gross profit for the year ended December 31, 2004 totaled \$61.6 million, or 26.9% of net sales, compared to \$53.8 million or 24.4% of net sales for the year ended December 31, 2003. The increase in gross margins were driven by the impact of the price increase (2.5% of net sales), improvement in product mix due to a high-end residential sheet introduction (1.0% of net

sales) coupled with improved manufacturing efficiencies and the impact of cost reduction programs initiated during the second half of 2003 (2.0% of net sales). These factors helped offset sharply higher raw material costs experienced during the second half of the year, which negatively impacted gross margins by 3.1% of net sales. Selling, general and administrative expenses were \$47.9 million for the year ended December 31, 2004 as compared to \$53.2 million for the year ended December 31, 2003, a decrease of \$5.3 million. As a percent of net sales, selling, general and administrative expenses were 20.9% and 24.1% for the years ended December 31, 2004 and 2003, respectively. The lower selling, general and administrative expenses reflect the impact of several cost savings initiatives instituted in the second half of 2003, including work force reductions (\$2.1 million), and reduced merchandising and sampling expenses reflecting new product launch expenses incurred in 2003 (\$4.0 million). These initiatives, coupled with further cost reduction steps taken in the fall of 2004, helped offset the inflationary cost impact of pension / medical benefits and other incentive programs (\$2.5 million). Congoleum recorded a charge of \$5.0 million during the fourth quarter of 2004 compared to \$3.7 million in 2003 to increase its estimated recorded liability for resolving asbestos-related claims. The recorded liability at December 31, 2004 represents the then minimum estimated cost that Congoleum would incur to resolve its asbestos-related liability through the execution of Congoleum's then proposed plan of reorganization. Income from operations was \$8.7 million for the year ended December 31, 2004 compared to a loss of \$3.1 million for the same period in the prior year, an improvement of \$11.8 million. This improvement in operating income reflects higher sales and margins coupled with reductions in operating expenses. Interest income was unchanged at \$0.1 million for the years ended December 31, 2004 and 2003, respectively. Interest expense increased from \$8.9 million in 2003 to \$9.4 million in 2004, primarily reflecting the interest accrued on the unpaid interest due on the Senior Notes. Due to the Chapter 11 proceedings, Congoleum was precluded from making the interest payments due February 1, 2004 and August 1, 2004 on the Senior Notes. Congoleum recorded a tax benefit of \$2.5 million on income before taxes of \$0.4 million in 2004. This relates primarily to anticipated tax benefits associated with certain prior year expenditures for resolving asbestos related liabilities, which Congoleum has determined may be carried back but were not previously recognized.

32 Liquidity and Capital Resources - ABI and Non-Debtor Subsidiaries Cash and cash equivalents, including short term investments, decreased by \$308 thousand to \$4.7 million. Net earnings, proceeds from the sale of a warehouse and proceeds from an insurance settlement provided cash that was used to fund seasonal working capital increases, capital expenditures, and payments on long-term debt. Working capital at December 31, 2005 was \$19.9 million, up from \$16.2 million at December 31, 2004. The ratio of current assets to current liabilities at December 31, 2005 was 1.33 compared to 1.27 at December 31, 2004, consistent with the increased amount of working capital at December 31, 2005. Capital expenditures for 2005 were \$2.6 million compared to \$2.4 million for 2004. During the first quarter, the Company sold a warehouse for \$2.5 million, resulting in net cash proceeds of \$2.3 million. The warehouse was owned by Tullahoma Properties L.L.C., a subsidiary in which the Company owns a 62.5% interest. During the fourth quarter, the Company received a net payment of \$2.9 million from an insurance company for the settlement of disputed claims for coverage of environmental related expenses. The Company has recorded provisions which it believes are adequate for environmental remediation, including provisions for testing and potential remediation of conditions at its own facilities, and non-asbestos product-related liabilities. While the Company believes its estimate of the future amount of these liabilities is reasonable, that most of such amounts will be paid over a period of one to ten years and that the Company expects to have sufficient resources to fund such amounts, the actual timing and amount of such payments may differ significantly from the Company's assumptions. Although the effect of future government regulation could have a significant effect on the Company's costs, the Company is not aware of any pending legislation or regulation relating to these matters that would have a material adverse effect on its consolidated results of operations or financial position. There can be no assurances that any such costs could be passed along to its customers. American Biltrite Inc. has two principal debt agreements that it is party to as borrower. The first of those agreements is a credit agreement (the "Credit Facility") with Fleet National Bank, a Bank of America company ("BofA"), and Bank of America National Association acting through its Canada branch (the "Canadian Lender"). The Credit Facility provides American Biltrite Inc. and its subsidiary K&M Associates L.P. with a revolving credit facility of up to \$20 million and a \$12 million borrowing sublimit for AB Canada. The amount of domestic borrowings available from time to time under the Credit Facility for the Company may not exceed the lesser of (a) \$20 million less the then outstanding amount of borrowings by AB Canada under the Canadian sublimit facility and (b) the applicable borrowing base. The formula used for determining the borrowing base is based upon inventory, receivables and fixed assets of the

Company and certain of its subsidiaries (not including, among others, AB Canada and Congoleum), reduced by amounts outstanding under the Note Agreement (as defined below). American Biltrite Inc. and K&M Associates L.P. may also obtain letters of credit in an aggregate amount at any time outstanding of up to \$4 million, subject to the Credit Facility's maximum borrowing availability limit discussed above. 33 Interest is payable quarterly on domestic revolving loans borrowed by American Biltrite Inc. and K&M Associates L.P. under the Credit Facility at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, (b) if a fixed rate is in effect, at a rate between the fixed rate plus 1.0% to a fixed rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, and (c) for loans not based on a LIBOR or fixed rate, the higher of BofA's applicable prime rate and 0.50% plus the federal funds rate, as determined under the Credit Facility. Under the Credit Facility, the Company may generally determine whether interest on domestic revolving loans will be calculated based on a LIBOR based rate, and if BofA elects to make a fixed rate option available, whether interest on revolving loans will be calculated based on a fixed rate. The amount of borrowings available from time to time for AB Canada under the Canadian sublimit facility under the Credit Facility is limited to the lesser of (a) \$12 million, (b) AB Canada's borrowing base amount, which is based upon a percentage of AB Canada's accounts receivable, inventory and fixed assets, and (c) \$20 million less the amount of domestic borrowings outstanding under the Credit Facility on behalf the Company and K&M Associates L.P. The Canadian sublimit facility also allows AB Canada to obtain letters of credit in an aggregate amount at any time outstanding of up to \$1 million, subject to the Canadian sublimit facility's maximum borrowing availability limit discussed above. AB Canada may borrow amounts under the Canadian sublimit facility in United States or Canadian dollar denominations; however, solely for purposes of determining amounts outstanding and borrowing availability under the Credit Facility, all Canadian dollar denominated amounts will be converted into United States dollars in the manner provided in the Credit Facility. Interest is payable quarterly on revolving loans under the Canadian sublimit facility at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Agreement, and (b) if a LIBOR based rate is not in effect, for outstanding revolving loans denominated in Canadian dollars, the higher of 0.50% plus the applicable 30-day average bankers' acceptance rate as quoted on Reuters CDOR page and the Canadian Lender's applicable prime rate for loans made in Canadian dollars to Canadian customers, and for outstanding revolving loans denominated in United States dollars, the higher of 0.50% plus the federal funds rate as calculated under the Credit Agreement and the applicable rate announced by the Canadian Lender as its reference rate for commercial loans denominated in United States dollars made to a person in Canada. Under the Credit Agreement, AB Canada may generally determine whether interest on revolving loans will be calculated based on a LIBOR based rate. The Credit Facility expires on September 30, 2006. The Company expects that it will be able to extend the maturity or obtain a replacement facility on substantially similar terms before the expiration date of the current facility, although there can be no assurances in this regard. The second principal debt agreement that American Biltrite Inc. is a party to (the "Note Agreement") is with The Prudential Insurance Company of America ("Prudential"). Under the Note Agreement, the Company previously issued notes in an aggregate principal amount of \$20 million (the "Notes"). The Notes generally bear interest at a rate of 7.91% per annum, and the Company is obligated to pay Prudential an additional fee on each interest payment date if the Company's and certain of its subsidiaries' ratio of debt to EBITDA, as defined under the Note Agreement, exceeds certain levels. The amount of those fees that may be payable by the Company varies depending on the extent the Company's and certain of its subsidiaries' debt exceeds EBITDA, as determined under the Note Agreement, and is capped at 2% of the outstanding principal amount of the Series A Notes. During 2004 and for the first quarter of 2005, the Company was obligated to pay the full 2% of that fee. For the second quarter of 2005, the fee was 1%, and for the third and fourth quarter of 2005 it was 0.5%. Principal on the Notes is repayable in five annual installments of \$4.0 million beginning on August 28, 2006. 34 The Credit Facility and the Note Agreement contain certain covenants that the Company must satisfy. The covenants included in the Credit Facility and the Note Agreement include certain financial tests, restrictions on the ability of the Company to incur additional indebtedness or to grant liens on its assets and restrictions on the ability of the Company to pay dividends on its capital stock. In addition, the Credit Facility includes a financial covenant that requires the Company's consolidated adjusted EBITDA for the four consecutive fiscal quarters ending June 30, 2006

to exceed 150% of the Company's consolidated pro forma fixed charges for the 12-month period beginning immediately after June 30, 2006, as determined under the Credit Facility (the "Pro Forma Financial Covenant"). The financial tests are required to be calculated based on the Company accounting for its majority-owned subsidiary Congoleum Corporation on the equity method and include a maximum ratio of total liabilities to tangible net worth, a minimum ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA") less certain cash payments for taxes, debt service, and dividends to interest expense, a minimum level of tangible net worth, a requirement that there be no consecutive quarterly losses from continuing operations, and a maximum level of capital spending. In addition, beginning on September 30, 2006, the Note Agreement requires the Company to satisfy a different set of financial covenants, including a minimum ratio of current assets to current liabilities, a minimum ratio of adjusted EBITDA to fixed charges, a cap on the amount of debt as a percentage (45%) of tangible net worth, a cap on the amount of priority debt (generally, debt of a Company subsidiary (not including Congoleum) that is not a guarantor under the Note Agreement plus secured debt of the Company) as a percentage (15%) of tangible net worth, a minimum leverage ratio, and a minimum amount of tangible net worth. The Company does not presently expect to meet all of the different set of financial covenants which take effect on September 30, 2006 and expects it will need to negotiate amendments to or waivers of certain covenants, although there can be no assurance it will be successful in that regard. Pursuant to the Credit Facility and the Note Agreement, the Company and certain of its subsidiaries granted BofA, the Canadian Lenders and Prudential a security interest in most of the Company's and its subsidiaries' assets. The security interest granted does not include the shares of capital stock of the Company's majority-owned subsidiary Congoleum Corporation or the assets of Congoleum Corporation. In addition, pursuant to the Credit Facility and the Note Agreement, certain of the Company's subsidiaries have agreed to guarantee the Company's obligations (excluding AB Canada's obligations) under the Credit Facility and the Note Agreement. In the past, the Company has had to amend its debt agreements in order to avoid being in default of those agreements as a result of failing to satisfy certain financial covenants contained in those agreements. In January 2004, the Credit Facility and the Note Agreement were amended to remove a former lender under the Credit Facility, reduce the credit line to \$20 million, and to modify the tangible net worth, adjusted EBITDA to interest expense and consecutive quarterly loss covenants. Fees of \$83 thousand were paid to the lenders in connection with those amendments. In April 2004, the Credit Facility and the Note Agreement were amended to permit AB Canada the ability to grant a security interest in certain assets under a credit agreement that AB Canada was a party to. In November 2004, the Credit Facility was amended to extend the term of the Credit Facility to January 1, 2006, to modify the treatment of tax refunds in covenant calculations, and to modify the measurement levels for the adjusted EBITDA to interest expense and current assets to current liabilities covenants for the remainder of the extended term of the Credit Facility. A fee of \$50 thousand was paid in connection with that amendment. 35 On May 20, 2005, the Company entered into amendments and restatements of its Credit Facility and Note Agreement. The amendment to the Credit Facility extended the maturity date of the Credit Facility to September 30, 2006, added the Pro Forma Financial Covenant and added the \$12 million Canadian sublimit facility for AB Canada. Pursuant to the amended Credit Facility, AB Canada granted a security interest in all of its personal property to the Canadian Lender. During the second quarter of 2005, AB Canada repaid all amounts outstanding under its previous credit agreement with another lender from the proceeds of borrowings under the Credit Facility. The amendment to the Note Agreement in May 2005 generally removed the application of the financial covenants under the Note Agreement for any measurement period prior to March 31, 2005, which effectively cured the Company's preexisting failure to satisfy the adjusted EBITDA to interest expense covenant (as determined under the Note Agreement) as of December 31, 2004. In addition, the amendments modified the financial covenants for 2005 under the Note Agreement to make them comparable to the financial covenants for 2005 under the Credit Facility. The amendment also requires the Company to enter into a definitive commitment to replace or refinance the \$20 million borrowing limit under the Credit Facility by June 30, 2006 and to consummate the replacement or refinancing by September 30, 2006. Fees and expenses incurred for the amendments to the Credit Facility and Note Agreement in May 2005 were approximately \$425 thousand. As indicated above, the Company will need to extend or replace the Credit Facility and expects that it will need to obtain additional amendments or waivers of covenants under the Note Agreement during 2006. There can be no assurance that the Company will be successful in doing so. Certain defaults under the Note Agreement, such as defaults resulting from certain bankruptcy, insolvency and receivership matters of the Company or certain of its subsidiaries (not including Congoleum), automatically cause all amounts owing with respect to the Notes then outstanding under the Note Agreement to become immediately due

and payable. A default in the payment of principal or interest under the Notes would allow each individual noteholder to cause all amounts owed with respect to the Notes held by such holder to become immediately due and payable. In addition, with respect to all other defaults under the Note Agreement, holders of at least 51% of the aggregate principal amount of the Notes then outstanding could cause all amounts then owing with respect to the Notes to become immediately due and payable. The Company understands that Prudential is the only holder of the Notes and, as such, any decision to cause the acceleration of amounts owed with respect to the Notes would be made at Prudential's discretion. 36 Certain events of default under the Credit Facility, such as defaults resulting from certain bankruptcy, insolvency and receivership matters of the Company or certain of its subsidiaries (not including Congoleum) automatically terminate BofA's and the Canadian Lender's obligations to make borrowings available under the Credit Facility and causes all amounts outstanding under the Credit Facility to become immediately due and payable. With respect to all other events of default under the Credit Facility, BofA and the Canadian Lender may terminate their obligations to make borrowings available under the Credit Facility and cause all amounts outstanding under the Credit Facility to become immediately due and payable. Pursuant to the terms of the Credit Facility and the Note Agreement, a default by the Company under one of those agreements triggers a cross-default under the other agreement. If a default occurs, BofA and the Canadian Lender and Prudential could respectively require the Company to repay all amounts outstanding under the respective debt agreements. If a default occurs and the Company is unable to obtain a waiver from the applicable lender and the Company is required to repay all amounts outstanding under those agreements, the Company would need to obtain funding from another source. Otherwise, the Company would likely be unable to repay those outstanding amounts, in which case, BofA as administrative agent over the collateral securing the amounts outstanding under the Credit Facility and the Note Agreement, might exercise BofA's and the Canadian Lender's and Prudential's rights over that collateral. Any default by the Company under the Credit Facility or the Note Agreement that results in the Company being required to immediately repay outstanding amounts under its debt agreements, and for which suitable replacement financing is not timely obtained, would have a material adverse effect on the Company's business, results of operations and financial condition. As noted above, the Credit Facility and the Note Agreement restrict the Company's ability to obtain additional financing. Moreover, since the Company and most of its subsidiaries have already granted security interests in most of their assets, the Company's ability to obtain any additional debt financing may be limited. The Company currently believes that its cash flow from operations, expected proceeds from the sale of the Janus Flooring assets and borrowings available under its existing credit facilities will be adequate for its expected capital expenditure, working capital and debt service needs, subject to compliance with the covenants contained in its debt agreements and the ability of the Company to replace or refinance its existing credit facility that is scheduled to expire on September 30, 2006 on satisfactory terms. However, if circumstances change, the inability of the Company to obtain any necessary additional debt financing would likely have a material adverse effect on its business, operations and financial condition. Under the terms of the Eighth Plan, ABI expects to contribute \$250 thousand in cash to the Plan Trust on the effective date of the plan. Under the terms of the Eighth Plan, unlike under the Sixth Plan, ABI would not pledge any of its assets, including shares of Congoleum stock it owns or certain rights it has to receive indemnification payments from Congoleum pursuant to a joint venture agreement that ABI and Congoleum are party to, as security for Congoleum's obligations under the new convertible security (as was contemplated, under the Sixth Plan with respect to Congoleum's obligations under the Promissory Note described in the Sixth Plan). In addition, the Eighth Plan does not, unlike the Sixth Plan, contemplate that ABI would be required to make any additional contributions to the Plan Trust if ABI were to sell its Congoleum stock under the circumstances provided under the Sixth Plan, a description of which ABI provided in previous periodic reports it filed with the SEC. 37 Under the Eighth Plan, ABI would receive certain relief as may be afforded under Section 524(g)(4) of the Bankruptcy Code from asbestos personal injury claims that derive from claims made against Congoleum, which claims are expected to be channeled to the Plan Trust. However, the Eighth Plan does not provide that any other asbestos claims that may be asserted against ABI would be channeled to the Plan Trust. To the extent that the Company pays material amounts for asbestos-related property damage claims that the Company would have been entitled to be reimbursed for by Congoleum absent the provisions of Congoleum's plan of reorganization, that could have a material adverse effect on the Company's liquidity and capital resources. Furthermore, to the extent that the amount of any of the Company's indemnity claims against the Plan Trust are reduced pursuant to the distribution procedures under Congoleum's plan of reorganization to an amount less than the corresponding amount paid by the Company, that could have a material adverse effect on the Company's liquidity and capital resources. The Company

has not declared a dividend subsequent to the third quarter of 2003. Future dividends, if any, will be determined by the Company's board of directors based upon the financial performance and capital requirements of the Company, among other considerations. Under the Credit Facility, aggregate dividend payments (since June 30, 2003) are generally limited to 50% of cumulative consolidated net income (computed treating Congoleum under the equity method of accounting), as determined under the Credit Facility, earned from June 30, 2003. Under the Note Agreement, aggregate dividend payments (since December 31, 2000) generally may not exceed the sum of \$6 million plus 50% of cumulative consolidated net income (accounting for Congoleum under the equity method of accounting), as determined under the Note Agreement, earned after December 31, 2000. The following table summarizes the Company's obligations at December 31, 2005 for future principal payments and related interest on its long-term debt (assuming any necessary amendments or waivers are obtained from its lenders), future minimum rental payments on its non-cancelable operating leases and future minimum royalty and advertising payments for licensed brand names on K&M products. Payments due by Period (In thousands) 2011 and Total 2006 2007 2008 2009 2010 Thereafter

	2011	2006	2007	2008	2009	2010	Thereafter
Long-term debt	\$22,414	\$ 4,451	\$4,491	\$4,414			
Interest	5,369	1,738	1,380	1,016	662	316	257
Operating leases	5,692	1,653	1,479	1,111	767	371	
Pension plan funding (1)	3,030	825	670	410	290	415	420
Royalty & advertising commitments	2,496	2,445	51	--	--	--	--
	\$39,001	\$11,112	\$8,071	\$6,951	\$5,801		
	\$5,187	\$1,879					

===== (1) The projected pension plans funding was actuarially determined using the following assumptions: i) current funding laws remain unchanged, ii) there are no gains or losses for 2006 and later, iii) the discount rates used for the projection are the same as the rates used for the pension valuations as of December 31, 2005 (see Note 7 of Notes to Consolidated Financial Statements, which are contained in Item 8 of this Annual Report on Form 10-K), and iv) for years after 2011, projected contributions are assumed to increase with inflation. 38 Liquidity and Capital Resources - Congoleum

The consolidated financial statements of Congoleum have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the consolidated financial statements do not include any adjustments that might be necessary should Congoleum be unable to continue as a going concern. As described more fully in the Notes to Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K, there is substantial doubt about Congoleum's ability to continue as a going concern unless it obtains relief from its substantial asbestos liabilities through a successful reorganization under Chapter 11 of the Bankruptcy Code. On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court (Case No. 03-51524) seeking relief under the Bankruptcy Code. See Notes 1 and 9 of the Notes to the Consolidated Financial Statements, which are contained in Item 8 of this Annual Report on Form 10-K, for a discussion of Congoleum's bankruptcy proceedings. These matters will have a material adverse impact on liquidity and capital resources. During 2005, Congoleum paid \$27.2 million in fees and expenses related to implementation of its planned reorganization under Chapter 11 and litigation with certain insurance companies. Pursuant to terms of the Eighth Plan and related documents, Congoleum is entitled to reimbursement for certain expenses it incurs for claims processing costs and expenses in connection with pursuit of insurance coverage. At December 31, 2005, Congoleum had \$14.8 million recorded as a receivable for such reimbursements. The amount and timing of reimbursements that will be received will depend on when Congoleum or the Plan Trust receives funds from insurance settlements or other sources. There can be no assurances that these reimbursements will be received, or that the terms providing for such reimbursements will not be modified. Congoleum expects to spend a further \$19.5 million at a minimum in fees, expenses, and trust contributions in connection with obtaining confirmation of its plan of reorganization, which amount is recorded in its reserve for asbestos-related liabilities in addition to the \$8.9 million insurance settlement being held as restricted cash. It also expects to spend a further \$11.5 million at a minimum in connection with pursuit of insurance coverage, for which it expects to be reimbursed as discussed above. Required expenditures could be materially higher than these estimates. Congoleum currently holds \$3.7 million in restricted cash that may be available to offset future costs incurred pursuing insurance coverage, subject to approval by the Bankruptcy Court. Due to the Chapter 11 proceedings, Congoleum has been precluded from making interest payments on its outstanding Senior Notes since January 1, 2004. The amount of accrued interest that is due but has not been paid on the Senior Notes at December 31, 2005 was approximately \$19.0 million, including interest on the unpaid interest due. In February 2006, the Bankruptcy Court ordered a law firm formerly representing Congoleum to disgorge all fees

and certain expenses it was paid by Congoleum. The law firm is expected to appeal from this ruling once an order embodying the ruling has been entered by the Bankruptcy Court. It is expected that the amount of the disgorgement will range from approximately \$8.2 million to \$9.8 million. Pursuant to the terms of the Eighth Plan, holders of the Senior Notes would forego \$10 million in interest accrued during the post-petition period and would receive the right to any funds (net of related 39 expenses) from the fee disgorgement and other causes of action against the law firm and one of its service providers, subject to a maximum of \$10 million plus interest at 8.625% from the effective date of the plan until the time such payment is made (the "Maximum Additional Bondholder Recovery"). There can be no assurance that the Plan, which is ultimately confirmed, will provide for such interest forgiveness. Any net recoveries in excess of the Maximum Additional Bondholder Recovery would be paid to the Plan Trust. Pursuant to the terms of the Eighth Plan Congoleum is to make a cash contribution of approximately \$7.7 million to the Plan Trust when the plan goes effective. The Eighth Plan also provides that the maturity of the Senior Notes will be extended by three years from August 2008 to August 2011. There can be no assurance that the plan which is ultimately confirmed, if any, will provide for such interest forgiveness or maturity extension. As part of the Eighth Plan, Congoleum expects that it will issue a convertible security (the "New Convertible Security") to the Plan Trust. Under the terms of the Eighth Plan, the New Convertible Security means either shares of preferred stock or convertible promissory notes to be issued by reorganized Congoleum and contributed to the Plan Trust on the effective date in satisfaction of section 524(g) of the Bankruptcy Code. If the New Convertible Security is to be shares of preferred stock of reorganized Congoleum, it shall have the following terms: (i) an initial liquidation preference equal to \$2,738,234.75 in the aggregate, such amount being subject to increase in the amount, if any, by which 36% of reorganized Congoleum's market capitalization based on average trading prices for reorganized Congoleum's Class A common stock at the close of trading for the 90 consecutive trading days beginning on the one year anniversary of the effective date of the plan of reorganization, exceeds such initial liquidation preference; (ii) an initial dividend rate equal to 9% of the liquidation preference per annum, payable semi-annually in arrears, with such dividend rate to reset at the rate of 5% of the liquidation preference per annum on the tenth anniversary of the effective date of the plan of reorganization and payable at such reset dividend rate per annum unless and until redeemed; (iii) redeemable for the liquidation preference at the option of the Plan Trust or reorganized Congoleum following the tenth anniversary of the effective date of the plan of reorganization; (iv) a mandatory redemption on the fifteenth anniversary of the effective date of the plan of reorganization if not redeemed earlier; (v) convertible into 5,700,000 shares of Congoleum Class A common stock (or the equivalent thereof on a fully diluted basis) upon a specified default of the obligation to pay dividends and a failure to cure such default within any cure period, which, when combined with the 3.8 million newly issued shares of Congoleum Class A common stock to be contributed to the Plan Trust, will result in the Plan Trust owning 51% of the voting common shares of reorganized Congoleum on a fully diluted basis; and (vi) no voting rights. If the New Convertible Security is convertible promissory notes, such notes will be on economic terms substantially equivalent to provisions (i) and (v) of the preferred stock described herein, with other terms substantially the same as the Promissory Note described in the Sixth Plan. Although the earliest redemption or repayment date for the New Convertible Security does not occur until its tenth anniversary of issuance, this obligation may affect Congoleum's ability to obtain other sources of financing or refinance existing obligations. In addition, it is expected that the terms of the New Convertible Security will require Congoleum to make regularly scheduled dividend or interest payments prior to such instrument's redemption or maturity date. 40 Unrestricted cash and cash equivalents, including short-term investments at December 31, 2005, were \$24.5 million, a decrease of \$5.2 million from December 31, 2004. Under the terms of its revolving credit agreement, payments on Congoleum's accounts receivable are deposited in an account assigned by Congoleum to its lender and the funds in that account are used by the lender to pay down any loan balance. Funds deposited in this account but not yet applied to the loan balance, which amounted to \$2.7 million and \$1.2 million at December 31, 2005 and December 31, 2004, respectively, are recorded as restricted cash. Additionally, \$8.9 million remaining from a \$14.5 million settlement received in August 2004 from an insurance carrier, which is subject to the lien of the Collateral Trust, is included as restricted cash at December 31, 2004. Congoleum expects to contribute these funds, less any amounts withheld pursuant to reimbursement arrangements, to the Plan Trust. Working capital was \$28.0 million at December 31, 2005, down from \$35.3 million one year earlier. The ratio of current assets to current liabilities at December 31, 2005 was 1.3 to 1.0, compared to 1.4 to 1.0 at December 31, 2004. The ratio of debt to total capital at December 31, 2005 was 0.48 to 1.0 compared to 0.47 to 1.0 at December 31, 2004. Net cash provided by operations during the year ended December 31, 2005 was \$1.6 million, as compared to net cash

provided by operations of \$31.1 million in 2004. Net cash from operations decreased from 2004 to 2005 due to a decline in operating results, lower accrued expenses and the non-recurrence of the one time benefit realized in 2004 from the resumption of normal trade credit which had contracted at the end of 2003. Capital expenditures in 2005 totaled \$4.3 million. Congoleum is currently planning capital expenditures of approximately \$5 million in 2006 and between \$5 million and \$7 million in 2007, primarily for maintenance and improvement of plants and equipment, which it expects to fund with cash from operations and credit facilities. In January 2004, the Bankruptcy Court authorized entry of a final order approving Congoleum's debtor-in-possession financing, which replaced its pre-petition credit facility on substantially similar terms. The debtor-in-possession financing agreement (as amended and approved by the Bankruptcy Court to date) provides a revolving credit facility expiring on December 31, 2006 with borrowings up to \$30 million. Interest is based on 0.75% above the prime rate. This financing agreement contains certain covenants, which include the maintenance of minimum earnings before interest, taxes, depreciation and amortization. It also includes restrictions on the incurrence of additional debt and limitations on capital expenditures. The covenants and conditions under this financing agreement must be met in order for Congoleum to borrow from the facility. Congoleum was in compliance with these covenants at December 31, 2005. Borrowings under this facility are collateralized by inventory and receivables. At December 31, 2005, based on the level of receivables and inventory, \$16.8 million was available under the facility, of which \$4.4 million was utilized for outstanding letters of credit and \$9.4 million was utilized by the revolving loan. Congoleum anticipates that its debtor-in-possession financing facility will be replaced with a revolving credit facility on substantially similar terms upon confirmation and effectiveness of its plan of reorganization. While Congoleum expects the facilities discussed above will provide it with sufficient liquidity, there can be no assurances that it will continue to be in compliance with the required covenants, that Congoleum will be able to obtain a similar or sufficient facility upon exit from bankruptcy, or that the debtor-in-possession facility (as extended) will be renewed prior to its expiration if Congoleum's plan of reorganization is not confirmed before that time. 41 In addition to the provision for asbestos litigation discussed previously, Congoleum has also recorded what it believes are adequate provisions for environmental remediation and product-related liabilities (other than asbestos-related claims), including provisions for testing for potential remediation of conditions at its own facilities. Congoleum is subject to federal, state and local environmental laws and regulations and certain legal and administrative claims are pending or have been asserted against Congoleum. Among these claims, Congoleum is a named party in several actions associated with waste disposal sites (more fully discussed in Note 8 to the Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K). These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of Congoleum's owned and previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future cost and timing of payments are indeterminable due to such unknown factors as the magnitude of cleanup costs, the timing and extent of the remedial actions that may be required, the determination of Congoleum's liability in proportion to other potentially responsible parties, and the extent to which costs may be recoverable from insurance. Congoleum has recorded provisions in its financial statements for the estimated probable loss associated with all known general and environmental contingencies. While Congoleum believes its estimate of the future amount of these liabilities is reasonable, and that they will be paid over a period of five to ten years, the timing and amount of such payments may differ significantly from Congoleum's assumptions. Although the effect of future government regulation could have a significant effect on Congoleum's costs, Congoleum is not aware of any pending legislation which would reasonably have such an effect. There can be no assurances that the costs of any future government regulations could be passed along to its customers. Estimated insurance recoveries related to these liabilities are reflected in other non-current assets. The outcome of these environmental matters could result in significant expenses incurred by or judgments assessed against Congoleum. Congoleum's principal sources of capital are net cash provided by operating activities and borrowings under its financing agreement. Congoleum generated \$1.6 million in cash from operations in 2005 (as more fully discussed above), which includes the benefit of \$9.9 million of accrued but unpaid interest on long-term debt. Congoleum believes these sources will be adequate to fund working capital requirements, debt service payments, and planned capital expenditures for the foreseeable future. To meet the funding obligations under the Eighth Plan, Congoleum anticipates it will need to obtain the contemplated forgiveness of interest on the Senior Notes and obtain reimbursement for any unreimbursed coverage litigation costs. Actual sources and uses of funds to consummate the effectiveness of the Eighth Plan or any other plan may differ from this description, but confirmation of any plan is

dependent on such plan demonstrating it leaves Congoleum with sufficient liquidity that further reorganization will not be needed. Congoleum's inability to obtain confirmation of the Eighth Plan in a timely manner would have a material adverse effect on Congoleum's ability to fund its operating, investing and financing requirements. 42 The following table summarizes Congoleum's contractual obligations, adjusted for terms of the Eighth Plan, for future principal and interest payments on its debt, future minimum rental payments on its non-cancelable operating leases, future minimum pension plans and other post-employment benefits ("OPEB") funding and obligations to the Plan Trust pursuant to the Eighth Plan at December 31, 2005. Congoleum does not have payment obligations under capital leases or long-term purchase contracts. Payments due by Period (In thousands) 2011 and Total 2006 2007 2008 2009 2010 Thereafter -----

Long-term debt	\$100,000								
Interest on long- term debt(1)	59,157	\$19,612	\$ 8,628	\$ 8,628	\$ 8,628	\$ 8,628	5,033		
Operating leases	11,758	2,637	2,625	2,428	2,229	1,839	--		
Pension plans funding(2)	53,591	4,848	4,923	4,993	5,132	5,285	28,410		
OPEB funding(3)	6,890	481	539	594	605	661	4,010		
Contribution to Plan Trust(4)	7,658	7,658	--	--	--	--	--		
Principal and dividend or interest for Security to Plan Trust(4)	5,198	--	246	246	246	246	4,214		
								\$244,252	\$35,236
	\$16,840	\$ 16,659	\$141,667					\$16,961	\$16,889

(1) The principal and interest payments assume Congoleum's reorganization plan is effective as of December 31, 2006 and that \$10 million of interest during the pendency of the reorganization is forgiven, and the maturity date of the Senior Notes extended by three years, as contemplated in the Eighth Plan. (2) The projected pension plans funding was actuarially determined using the following assumptions: i) current funding laws remain unchanged, ii) there are no gains or losses for 2006 and later, iii) the discount rates used for the projection are the same as the rates used for the pension valuations as of December 31, 2005 (see Note 7 of Notes to Consolidated Financial Statements, which are contained in Item 8 of this Annual Report on Form 10-K), and iv) for years after 2011, projected contributions are assumed to increase with inflation. (3) Congoleum's other post employment benefit plan is an unfunded plan. Funding requirements each year are assumed to approximate the expenses for each year (see Note 7 of Notes to Consolidated Financial Statements), which are contained in Item 8 of this Annual Report on Form 10-K. (4) Payments of cash, principal and dividend or interest to the Plan Trust assume Congoleum's Eighth Plan is effective December 31, 2006 and do not include any additional principal or dividends or interest thereon resulting from any adjustments to the New Convertible Security upon the one year anniversary of the plan effective date. 43 Contingencies ABI has recorded what it believes are adequate provisions for environmental remediation and product-related liabilities, including provisions for testing for potential remediation of conditions at its own facilities. While ABI believes its estimate of the future amount of these liabilities is reasonable and that they will be paid for the most part over a period of one to ten years, the timing and amount of such payments may differ significantly from ABI's assumptions. Although the effect of future government regulation could have a significant effect on ABI's costs, ABI is not aware of any pending legislation which could significantly affect the liabilities ABI has established for these matters. There can be no assurances that the costs of any future government regulations could be passed along by ABI to its customers. Certain legal and administrative claims are pending or have been asserted against ABI. Among these claims, ABI is a named party in several actions associated with waste disposal sites and asbestos-related claims. These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites. The exact amount of such future costs to ABI is 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 ABI's liability in proportion to other potentially responsible parties and the extent to which costs may be recoverable from insurance. ABI has recorded provisions in its consolidated financial statements for the estimated probable loss associated with all known environmental and asbestos-related contingencies. The contingencies also include claims for personal injury and/or property damage. (See Notes 1, 8 and 9 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.) During 2003, the Company decided to cease operations at its Janus Flooring division and recorded a charge of \$8.5 million in the second quarter 2003 consisting primarily of \$3.0 million to reduce inventories to net realizable value, \$0.5 million in accounts receivable allowances, a \$2.5 million asset impairment charge related to machinery and equipment and a \$1.9 million income tax provision to write off deferred tax assets deemed not probable of recovery. The Company disposed of substantially all of the assets of Janus Flooring, other than the real estate, during 2003. Future expenditures related to this discontinued operation

are not expected to be material, and the Company expects to realize approximately \$4.0 million in net future cash proceeds from the sale of the real estate. Any net sales proceeds are expected to be applied to repaying amounts outstanding under the Company's credit facilities. During 2005, the Company entered into a purchase and sale agreement for the land and building for an amount in excess of the carrying value of the property. The Company expects the sale will close in the second quarter of 2006. If the Company is unable to timely sell or otherwise dispose of the assets of Janus on terms acceptable to ABI and in accordance with applicable regulatory or other legal requirements, including Canadian regulations and laws, such inability could have a material adverse effect on the Company's business, results of operations and financial condition.

44 Application of Critical Accounting Policies and Estimates The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results and conditions may differ from these estimates and assumptions. Critical accounting policies are defined as those that entail 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 below. For a discussion on the application of these and other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Asbestos Liabilities - As discussed previously, the Company is party to a significant number of lawsuits stemming from their previous manufacture of asbestos-containing products. ABI has recorded in its consolidated balance sheet a liability and corresponding insurance receivable based on its estimates of the future costs and related insurance recoveries to settle asbestos litigation and pay for related legal and loss handling costs. These estimates are based on a number of subjective assumptions, including the anticipated costs to settle claims, the claims dismissal rate, the cost to litigate claims, the number of claims expected to be received, and the applicability and allocation of insurance coverage to these costs. Additionally, due to the numerous uncertainties related to future asbestos litigation trends and costs, the Company does not believe reasonable estimates can be developed for claim developments beyond a five year horizon. Accordingly, the Company's estimated liability is based on claims currently filed as well as claims anticipated to be filed over the next five years. A change in assumptions could have a material effect on the Company's estimated liability. For example, it is estimated that a 1% decrease in the Company's dismissal rate would result in a 38% increase in liability assuming all other variables remained constant. Due to the highly subjective nature of these assumptions, the Company has estimated a wide range of potential future costs and insurance recoveries and, because management believes that no amount within the range is more likely than any other, has recorded a liability and insurance receivable based on the low end of the range in accordance with accounting principles generally accepted in the United States. As such, the selection of a different amount within the range could have a material effect on the Company's consolidated financial statements, as could future developments, which may differ from those assumed in developing the Company's estimates. 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. The Company analyzes these estimates on an annual basis and reassesses the assumptions used as additional information becomes available over the course of time.

Congoleum is a party to a significant number of lawsuits stemming from its manufacture of asbestos-containing products. During 2005, Congoleum paid \$27.2 million in fees and expenses related to implementation of its planned reorganization under Chapter 11 of the Bankruptcy Code and litigation with certain insurance companies. Pursuant to terms of the Claimant Agreement and related documents, Congoleum is entitled to reimbursement for certain expenses it incurs for claims processing costs and expenses in connection with pursuit of insurance coverage. At December 31, 2005, Congoleum had \$14.8 million recorded as a receivable for such reimbursements. The amount and timing of reimbursements that will be received will depend on when Congoleum or the Plan Trust receives funds from insurance settlements or other sources. There can be no assurances that these

reimbursements will be received or that the terms providing for such reimbursements will not be modified. Congoleum expects to spend a further \$19.5 million at a minimum in fees, expenses, and trust contributions in connection with obtaining confirmation of its plan or reorganization, which amount is recorded in its reserve for asbestos-related liabilities (in addition to the \$8.9 million insurance settlement being held as restricted cash). It also expects to spend a further \$11.5 million at a minimum in connection with pursuit of insurance coverage, for which it expects to be reimbursed as discussed above. Congoleum currently holds \$3.7 million in restricted cash that may be available to offset future costs incurred pursuing insurance coverage, subject to approval by the Bankruptcy Court. Required expenditures could be materially higher than these estimates. Congoleum expects that insurance will provide the substantial majority of the recovery available to claimants, due to the amount of insurance coverage it purchased and the comparatively limited resources and value of Congoleum itself. Congoleum does not have the necessary financial resources to litigate and/or settle asbestos claims in the ordinary course of business. In light of its bankruptcy filing and proposed plan of reorganization, Congoleum believes the most meaningful measure of its probable loss due to asbestos litigation is the amount it will have to contribute to the Plan Trust plus the costs to effect the reorganization. Congoleum estimates the minimum remaining amount of the contributions and costs to be \$19.5 million, which it has recorded as a current liability. These amounts do not include the liability associated with a \$14.5 million insurance settlement recorded as restricted cash, which Congoleum expects to contribute, less any amounts withheld pursuant to reimbursement arrangements, to the Plan Trust. At December 31, 2005 this liability (comprised of the original settlement plus interest to date, less \$6.1 million in reimbursements approved by the bankruptcy court) amounted to \$8.9 million and is included in current asbestos-related liabilities. Congoleum is not yet able to determine the additional costs that may be required to effect a new amended plan, and actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher. Congoleum will update its estimates, if appropriate, as additional information becomes available during the reorganization process, which could result in potentially material adjustments to Congoleum's earnings in future periods.

46 Consolidation of Congoleum - The Company's subsidiary Congoleum filed for bankruptcy protection on December 31, 2003. The accompanying consolidated financial statements include the results for Congoleum for all periods presented. ABI continues to own a majority of the voting stock of Congoleum. The Company expects to continue to control Congoleum while it is in bankruptcy. Additionally, under the terms of the Eighth Plan, which remains subject to creditor acceptance, Bankruptcy Court approval, and numerous other contingencies, ABI would continue to have control through a majority of share votes. Accordingly, the Company has elected to continue to consolidate the financial statements of Congoleum in its consolidated results because it believes that is the appropriate presentation given its anticipated continuing control of Congoleum. However, the accompanying financial statements also present the details of 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. ABI's reported consolidated financial condition, operating results and cash flows consolidated results would be materially different if they did not include Congoleum.

Environmental Contingencies - As discussed previously, the Company has incurred liabilities related to environmental remediation costs at both third party sites and Company owned sites. The Company accrues for its estimate of future remediation activities when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including the extent of clean-up activities to be performed, the methods employed in the clean-up activities, the Company's relative share in costs at sites where other parties are involved, existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is more likely to occur than another, the minimum is accrued. For sites with multiple potentially responsible parties, the Company considers its likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. When future liabilities are determined to be reimbursable by insurance coverage or payment from third parties, an accrual is recorded for the potential liability and a receivable is recorded related to the expected recovery. A receivable reserve is recorded when recoveries are disputed or are not highly probable. These estimates are based on certain assumptions such as the Company's relative share in costs at sites where other parties are involved, and the ultimate insurance coverage available. These projects tend to be long-term in nature, and these assumptions are subject to refinement as facts change. As such, it is possible that the Company may need to revise its recorded liabilities and receivables for environmental costs in future periods resulting in potentially material

adjustments to the Company's earnings in future periods. The Company closely monitors existing and potential environmental matters in an effort to minimize costs. Valuation of Deferred Tax Assets - The Company provides for valuation reserves against its deferred tax assets in accordance with the requirements of SFAS 109. In evaluating the recovery of deferred tax assets, the Company makes certain assumptions as to the future reversal of existing taxable temporary differences, taxable income in prior carryback years, the feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can be affected by changes to tax laws, changes to statutory tax rates and changes to future taxable income estimates. It is possible that the facts underlying these assumptions may not materialize in future periods, which may require the Company to record additional deferred tax valuation allowances, or to reduce previously recorded valuation allowances. 47 Pension and Other Postretirement Benefits - The Company sponsors several noncontributory defined benefit pension plans covering most of the Company's employees. The Company also maintains health and life insurance programs for retirees. Benefits under the plans are based on years of service and employee compensation. The costs and obligations associated with these plans are dependent upon various actuarial assumptions used in calculating such amounts. These assumptions include the long-term rate of return on plan assets, discount rates and other factors. These assumptions are evaluated and updated annually by management in consultation with outside actuaries and investment advisors. Other assumptions used include employee demographic factors such as retirement patterns, mortality, turnover and the rate of compensation increases. To determine the expected long-term rate of return on plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. In 2005, the Company assumed that the expected long-term rate of return on plan assets will be 7.0%-7.5%. The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in pension expense. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past actuarial gains or losses affects the calculated value of plan assets and, ultimately, future pension expense. At the end of each year, the Company determines the discount rate to be used to calculate the present value of plan liabilities. The discount rate is used to determine expected future benefit payments as a present value on the measurement date, reflecting the current rate at which the pension liabilities could be effectively settled. In estimating this rate, the Company looks to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. At December 31, 2005, the Company determined this rate to be 6.0%. Allowance for Doubtful Accounts - The Company's allowance for doubtful accounts is determined based on a variety of factors that affect the potential collectibility of the related receivables, including length of time receivables are past due, customer credit ratings, financial stability of customers, specific one-time events and past customer history. In addition, in circumstances where the Company is made aware of specific customer's inability to meet its financial obligations, a specific allowance is established. The majority of accounts are individually evaluated on a regular basis and appropriate reserves are established as deemed appropriate based on the criteria previously noted. The remainder of the reserve is based on management's estimates and takes into consideration historical trends, market conditions and the composition of the Company's customer base. The risk associated with this estimate is that the Company would not become aware of potential collectibility issues related to specific accounts and thereby become exposed to potential unreserved losses. Historically, the Company's estimates and assumptions around the allowance have been reasonably accurate and the Company has processes and controls in place to closely monitor customers and potential credit issues. 48 Inventory Allowances - The Company maintains obsolescence and slow-moving allowances for inventory. Products and materials that are specifically identified as obsolete are fully reserved. The remainder of the allowance is based on management's estimates and fluctuates with market conditions, design cycles and other economic factors. Risks associated with this allowance include unforeseen changes in business cycles that could affect the marketability of certain products and an unforecasted decline in current production. Management closely monitors the market place and related inventory levels and has historically maintained reasonably accurate allowance levels. In addition, the Company values certain inventories using the last-in, first-out ("LIFO") method. Accordingly, a LIFO valuation reserve is maintained to properly value these inventories. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Market Risk The Company is exposed to changes in prevailing market interest rates affecting the return on its investments. 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. If market interest rates were to increase by

10% from levels at December 31, 2005, the fair value of our investments would decline by an immaterial amount. In addition, substantially all of the Company's outstanding long-term debt as of December 31, 2005 consisted of indebtedness with a fixed rate of interest, which is not subject to change based upon changes in prevailing market interest rates. A portion of the Company's operations consists of manufacturing and sales activities in foreign jurisdictions. The Company manufactures its products in the United States, Canada, Belgium and Singapore and sells those products in those markets as well as countries of Europe and Asia. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. The Company's operating results are exposed to changes in exchange rates between the U.S. dollar and Canadian dollar and the U.S. dollar and the Euro. When the U.S. dollar strengthens against the Canadian dollar or Euro, the U.S. dollar value of foreign currency sales decreases. When the U.S. dollar weakens, the U.S. dollar value of the foreign currency amount of sales increases. Under its current policies, the Company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates, foreign currency exchange rates, commodity prices or equity prices and does not hold any instruments for trading purposes.

49 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA American Biltrite Inc. and Subsidiaries Consolidated Balance Sheets with Consolidating Details - Assets (In thousands of dollars) December 31 Eliminations Congoleum American Biltrite 2005 2004 2005 2004 2005 2004 2005 2004

Assets																								
Current assets:																								
Cash and cash equivalents	\$ 29,184	\$ 34,691	\$ 24,511	\$ 29,710	\$ 4,673	\$ 4,981	Restricted cash	11,644	15,682	11,644	15,682													
Accounts and notes receivable, less allowances for doubtful accounts and discounts of \$2,820 in 2005 and \$2,745 in 2004	41,742	43,591	\$(455)	\$(1,036)	17,092	17,621	25,105	27,006	Inventories	77,127	76,036	(166)	(268)	34,607										
	39,623	42,686	36,681	Assets of discontinued operation	3,142	2,952	3,142	2,952	Deferred income taxes	18,036	12,636	16,735	10,678	1,301	1,958									
Prepaid expenses & other current assets	24,062	6,826	20,139	5,124	3,923	1,702	Total current assets	204,937	192,414	(621)	(1,304)	124,728	118,438	80,830	75,280									
Property, plant & equipment, net	115,336	124,070	73,207	79,550	42,129	44,520	Other assets: Insurance for asbestos-related liabilities	8,950	7,500	8,950	7,500	Goodwill, net	11,726	11,300	11,300	Other assets	15,895	20,001	(147)	(186)	9,412	14,894	6,630	5,293
	36,571	38,801	(147)	(186)	9,412	14,894	Total assets	\$356,844	\$355,285	\$(768)	\$(1,490)	\$207,347	\$212,882	\$150,265	\$143,893									

See accompanying notes. 50 American Biltrite Inc. and Subsidiaries Consolidated Balance Sheets with Consolidating Details - Liabilities and Stockholders' Equity (In thousands of dollars, except per share amounts) December 31 Eliminations Congoleum American Biltrite 2005 2004 2005 2004 2005 2004 2005 2004

Liabilities																																																																																																							
Current liabilities:																																																																																																							
Accounts payable	\$ 22,144	\$ 18,700	\$(455)	\$(57)	\$ 12,245	\$ 10,295	\$ 10,354	\$ 8,462	Accrued expenses	42,976	48,605	(979)	22,703	28,066	20,273	21,518	Asbestos-related liabilities	28,369	21,079	28,369	21,079	Liabilities of discontinued operation	200	165	200	165	Notes payable	19,062	17,036	9,404	9,500	9,658	7,536	Current portion of long-term debt	20,451	21,411	20,451	21,411	Liabilities subject to compromise	23,990	14,225	23,990	14,225																																																												
	157,192	141,221	(455)	(1,036)	96,711	83,165	60,936	59,092	Long-term debt, less current portion	1,963	2,790	1,963	2,790	Asbestos-related liabilities	9,500	10,238	--	2,738	9,500	7,500	Other liabilities	29,625	25,237	16,735	10,678	12,890	14,559	Noncontrolling interests	1,365	623	1,365	623	Liabilities subject to compromise	138,714	137,104	(147)	(186)	138,861	137,290	Total liabilities	338,359	317,213	(602)	(1,222)	252,307	233,871	86,654	84,564	Stockholders' equity	Common stock, par value \$.01, authorized 15,000,000 shares, issued 4,607,902 shares	46	46	(93)	(93)	93	93	46	46	Additional paid-in capital	19,570	19,548	(49,126)	(49,106)	49,126	49,106	19,570	19,548	Retained earnings	31,913	49,526	35,129	35,007	(65,405)	(43,830)	62,189	58,349	Accumulated other comprehensive loss	(17,912)	(15,916)	6,111	6,111	(20,961)	(18,545)	(3,062)	(3,482)	Less cost of 1,166,351 shares of common stock in treasury	(15,132)	(15,132)	7,813	7,813	(7,813)	(7,813)	(15,132)	(15,132)	Total stockholders' equity	18,485	38,072	(166)	(268)	(44,960)	(20,989)	63,611	59,329

----- Total liabilities and stockholders' equity
 \$356,844 \$355,285 \$ (768) \$ (1,490) \$207,347 \$212,882 \$150,265 \$143,893

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 See accompanying notes. 51 American Biltrite Inc. and Subsidiaries Consolidated Statements of Operations with Consolidating Details (In thousands of dollars, except per share amounts) Years Ended December 31 Eliminations
 2005 2004 2003 2005 2004 2003 ----- Net sales \$445,172 \$433,869
 \$416,569 \$ 290 \$ 157 \$(56) Cost of products sold 334,324 315,270 307,647 (115) (30) (56) Selling, general &
 administrative expenses 94,122 101,790 107,137 -- (900) -- Asbestos-related reorganization charges 25,326 5,000
 3,705 ----- (Loss) income from operations (8,600) 11,809 (1,920) 405
 1,087 -- Other income (expense) Interest income 639 128 191 Interest expense (13,028) (12,465) (11,576) Other
 income (expense) 2,695 1,336 3,359 (303) (1,115) -- ----- (9,694)
 (11,001) (8,026) (303) (1,115) -- ----- (Loss) income before taxes and
 other items (18,294) 808 (9,946) 102 (28) -- (Benefit from) provision for income taxes (1,534) (1,681) (3,323)
 Noncontrolling interests (636) (107) (174) ----- Net (loss) income from
 continuing operations (17,396) 2,382 (6,797) 102 (28) -- Discontinued operation (net of tax benefit of \$2,178 in 2003)
 (237) (429) (7,361) ----- Net (loss) income \$(17,633) \$ 1,953 \$(14,158)
 \$ 102 \$ (28) \$ -- ===== Congoleum
 American Biltrite 2005 2004 2003 2005 2004 2003 ----- Net sales
 \$237,626 \$229,493 \$220,706 \$207,256 \$204,219 \$195,919 Cost of products sold 183,734 167,844 166,864 150,705
 147,456 140,839 Selling, general & administrative expenses 43,503 47,925 53,206 50,619 54,765 53,931
 Asbestos-related reorganization charges 25,326 5,000 3,705 -----
 (Loss) income from operations (14,937) 8,724 (3,069) 5,932 1,998 1,149 Other income (expense) Interest income 438
 114 63 201 14 128 Interest expense (10,411) (9,446) (8,906) (2,617) (3,019) (2,670) Other income (expense) 760
 1,011 1,276 2,238 1,440 2,083 ----- (9,213) (8,321) (7,567) (178)
 (1,565) (459) ----- (Loss) income before taxes and other items
 (24,150) 403 (10,636) 5,754 433 690 (Benefit from) provision for income taxes (2,575) (2,545) (3,874) 1,041 864 551
 Noncontrolling interests (636) (107) (174) ----- Net (loss) income
 from continuing operations (21,575) 2,948 (6,762) 4,077 (538) (35) Discontinued operation (net of tax benefit of
 \$2,178 in 2003) (237) (429) (7,361) ----- Net (loss) income
 \$(21,575) \$ 2,948 \$ (6,762) \$ 3,840 \$ (967) \$ (7,396)

=====
 Basic Diluted 2005 2004
 2003 2005 2004 2003 ----- Net (loss) income per common share
 \$(5.05) \$ 0.69 \$ (1.97) \$(5.05) \$ 0.66 \$(1.97) from continuing operations Discontinued operation (0.07) (0.12) (2.14)
 (0.07) (0.12) (2.14) ----- Net (loss) income per common share
 \$(5.12) \$ 0.57 \$ (4.11) \$(5.12) \$ 0.54 \$(4.11) =====

=====
 Weighted average number of common and equivalent shares
 outstanding 3,442 3,442 3,442 3,442 3,458 3,442 =====

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 Dividends declared per common share \$ -- \$ -- \$0.1875

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 See accompanying notes. 52 American Biltrite Inc. and Subsidiaries Consolidated Statements of Cash Flows with Consolidating Details - Operating Activities (In thousands of dollars) (Revised, See Note 1) Years Ended December 31 Eliminations 2005 2004 2003 2005 2004 2003

----- Operating activities Net (loss) income \$(17,633) \$ 1,953 \$(14,158) \$
 102 \$ (28) \$ -- Net loss from discontinued operation 237 429 7,361 ----- Net
 (loss) income from continuing operations (17,396) 2,382 (6,797) 102 (28) -- Adjustments to reconcile net (loss)
 income to net cash provided (used) by operating activities: Depreciation and amortization 16,468 17,539 18,026
 Provision for doubtful accounts and discounts 2,922 2,631 2,691 Deferred income taxes (588) 457 (2,243)
 Asbestos-related charge 25,326 5,000 3,705 Gain on sale of property (2,303) -- -- Change in operating assets and
 liabilities: Accounts and notes receivable (1,091) (11,146) 3,470 (434) (756) -- Inventories (599) 6,620 10,722 (102)
 28 -- Prepaid expenses & other current assets (5,368) 4,733 7,495 Accounts payable and accrued expenses 8,793
 25,528 (26,373) 434 756 -- Asbestos-related liabilities (27,220) (10,754) (21,233) Asbestos-related reimbursement
 from insurance settlement 6,091 -- 2,466 Noncontrolling interests 742 107 174 Other (2,299) (3,046) (1,050)

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----- Net cash provided (used) by operating 3,478 40,051 (8,947) -- -- --
activities of continuing operations Net cash (used) provided by operating activities of discontinued operations (289)
(1,002) 1,693 ----- Net cash provided (used) by operating activities \$ 3,189
\$ 39,049 \$ (7,254) \$ -- \$ -- \$ -- =====
Congoleum American Biltrite 2005 2004 2003 2005 2004 2003 -----
Operating activities Net (loss) income \$(21,575) \$ 2,948 \$ (6,762) \$ 3,840 \$ (967) \$(7,396) Net loss from
discontinued operation 237 429 7,361 ----- Net (loss) income from
continuing operations (21,575) 2,948 (6,762) 4,077 (538) (35) Adjustments to reconcile net (loss) income to net cash
provided (used) by operating activities: Depreciation and amortization 11,002 11,428 11,761 5,466 6,111 6,265
Provision for doubtful accounts and discounts 2,922 2,631 2,691 Deferred income taxes -- -- (882) (588) 457 (1,361)
Asbestos-related charge 25,326 5,000 3,705 Gain on sale of property (2,303) -- - Change in operating assets and
liabilities: Accounts and notes receivable 529 (4,061) 3,473 (1,186) (6,329) (3) Inventories 5,016 5,372 5,730 (5,513)
1,220 4,992 Prepaid expenses & other current assets (3,160) 2,340 1,920 (2,208) 2,393 5,575 Accounts payable and
accrued expenses 7,866 21,894 (18,469) 493 2,878 (7,904) Asbestos-related liabilities (27,220) (10,754) (21,233)
Asbestos-related reimbursement from insurance settlement 6,091 -- 2,466 Noncontrolling interests 742 107 174 Other
(2,315) (3,102) (1,664) 16 56 614 ----- Net cash provided (used) by
operating activities of continuing operations 1,560 31,065 (19,955) 1,918 8,986 11,008 Net cash (used) provided by
operating activities of discontinued operations (289) (1,002) 1,693
----- Net cash provided (used) by operating activities \$ 1,560 \$
31,065 \$(19,955) \$ 1,629 \$ 7,984 \$12,701

===== See accompanying notes.

53 American Biltrite Inc. and Subsidiaries Consolidated Statements of Cash Flows with Consolidating Details -
Investing & Financing Activities (In thousands of dollars) (Revised, See Note 1) Years Ended December 31
Eliminations 2005 2004 2003 2005 2004 2003 ----- Investing activities
Investments in property, plant and equipment \$(6,885) \$(5,855) \$(7,445) Proceeds from sale of property 2,327 30 --
Acquisition (1,400) -- -- Acquisition (1,400) ----- Net cash used by investing activities of
continuing operations (5,958) (5,825) (7,445) Net cash provided by investing activities of discontinued operations -- --
369 ----- Net cash used by investing activities (5,958) (5,825) (7,076)
Financing activities Net short-term borrowings (payments) 1,742 (1,675) 2,586 Payments on long-term debt (2,748)
(941) (1,203) Net change in restricted cash (2,408) 605 (1,757) Dividends paid -- -- (645) Exercise of subsidiary stock
options 20 1 -- ----- Net cash (used) provided by financing activities of
continuing operations (3,394) (2,010) (1,019) Net cash provided by financing activities of discontinued operations --
-- 1,007 ----- Net cash (used) provided by financing activities (3,394)
(2,010) (12) Effect of foreign exchange rate changes on cash 656 (482) (1,859)
----- Net (decrease) increase in cash (5,507) 30,732 (16,201) Cash and
cash equivalents at beginning of year 34,691 3,959 20,160 ----- Cash and
cash equivalents at end of year \$29,184 \$34,691 \$ 3,959

===== Congoleum American Biltrite
2005 2004 2003 2005 2004 2003 ----- Investing activities
Investments in property, plant and equipment \$(4,274) \$(3,428) \$(4,628) \$(2,611) \$(2,427) \$(2,817) Proceeds from
sale of property -- 30 -- 2,327 -- -- Acquisition (1,400) ----- Net
cash used by investing activities of continuing operations (4,274) (3,398) (4,628) (1,684) (2,427) (2,817) Net cash
provided by investing activities of discontinued operations -- -- 369
----- Net cash used by investing activities (4,274) (3,398) (4,628)
(1,684) (2,427) (2,448) Financing activities Net short-term borrowings (payments) (97) (732) 10,232 1,839 (943)
(7,646) Payments on long-term debt (2,748) (941) (1,203) Net change in restricted cash (2,408) 605 (1,757) Dividends
paid -- -- (645) Exercise of subsidiary stock options 20 1 -- ----- Net
cash (used) provided by financing activities of continuing operations (2,485) (126) 8,475 (909) (1,884) (9,494) Net
cash provided by financing activities of discontinued operations -- -- 1,007
----- Net cash (used) provided by financing activities (2,485) (126)
8,475 (909) (1,884) (8,487) Effect of foreign exchange rate changes on cash 656 (482) (1,859)

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----- Net (decrease) increase in cash (5,199) 27,541 (16,108) (308)
 3,191 (93) Cash and cash equivalents at beginning of year 29,710 2,169 18,277 4,981 1,790 1,883
 ----- Cash and cash equivalents at end of year \$24,511 \$29,710 \$
 2,169 \$ 4,673 \$ 4,981 \$ 1,790

===== See accompanying notes.

54 American Biltrite Inc. and Subsidiaries Consolidated Statements of Stockholders' Equity (In thousands of dollars, except per share amounts) Accumulated Additional Other Total Common Paid-in Retained Comprehensive Treasury Stockholders' Stock Capital Earnings Loss Stock Equity

----- Balance at December 31, 2002 \$ 46
 \$19,548 \$ 62,376 \$(19,300) \$(15,132) \$ 47,538 Comprehensive loss: Net loss for 2003 (14,158) (14,158) Other
 comprehensive income 244 244 ----- Total comprehensive loss (13,914) Dividends declared (\$.1875 per share)
 (645) (645) ----- Balance at December 31,
 2003 46 19,548 47,573 (19,056) (15,132) 32,979 Comprehensive income: Net income for 2004 1,953 1,953 Other
 comprehensive income 3,140 3,140 ----- Total comprehensive income 5,093
 ----- Balance at December 31, 2004 46 19,548
 49,526 (15,916) (15,132) 38,072 Comprehensive loss: Net loss for 2005 (17,633) (17,633) Other comprehensive loss
 (1,996) (1,996) ----- Total comprehensive loss (19,629) Stock compensation 22 22 Effect of Congoleum stock
 option exercises 20 20 ----- Balance at
 December 31, 2005 \$ 46 \$19,570 \$ 31,913 \$(17,912) \$(15,132) \$ 18,485

See accompanying notes. 55 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements December 31, 2005 1. Significant Accounting Policies Principles of Consolidation The consolidated financial statements include the accounts of American Biltrite Inc. and its wholly-owned subsidiaries (referred to as "ABI" or the "Company"), as well as entities over which it has voting control. In 1995, ABI gained voting control over Congoleum Corporation ("Congoleum") and K&M Associates L.P. ("K&M"). Upon consolidation, intercompany accounts and transactions, including transactions with associated companies that result in intercompany profit, are eliminated. As discussed more fully below and elsewhere in these footnotes, the Company's subsidiary Congoleum filed for bankruptcy protection on December 31, 2003. The accompanying consolidated financial statements include the results for Congoleum for all periods presented. Congoleum's results include losses (including other comprehensive losses) of \$45.0 million in excess of the value of ABI's investment in Congoleum at December 31, 2005. ABI continues to own a majority of the voting stock of Congoleum. The Company expects to continue to control Congoleum while it is in bankruptcy. Additionally, under the terms of Congoleum's Eighth Plan, which remains subject to Bankruptcy Court approval and numerous other conditions, ABI would continue to maintain voting control, although its interest in Congoleum would be diluted by the issuance of additional Congoleum Class A Common Stock to the Plan Trust. Congoleum believes that its bankruptcy proceeding could be concluded during 2006. The Company has elected to continue to consolidate the financial statements of Congoleum in its consolidated results because it believes that is the appropriate presentation given its anticipated continuing control of Congoleum. However, the accompanying financial statements also present the details of 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. As more fully discussed in Notes 8 and 9 of Notes to Consolidated Financial Statements, the Company's subsidiary Congoleum is a party to a significant number of lawsuits stemming from its manufacture of asbestos-containing products and is seeking confirmation of a plan of reorganization under Chapter 11 of the United States Bankruptcy Code as part of its strategy to resolve this liability. As part of Congoleum's plan of reorganization, ABI expects that Congoleum's indemnification obligations to ABI with respect to current and future asbestos personal injury claims related to ABI's former Tile Division operations not covered by ABI insurance will be channeled to the plan trust established under section 524(g) of the Bankruptcy Code pursuant to Congoleum's Chapter 11 plan of reorganization. However, Congoleum's current plan of reorganization does not provide that any other asbestos claims that may be asserted against ABI would be channeled to the Plan Trust. 56 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) ABI and Congoleum expect to contribute, among other things, to the plan trust that would be established pursuant to Congoleum's Chapter 11 reorganization \$250 thousand in cash from ABI,

approximately \$7.7 million in cash from Congoleum's 3.8 million shares of newly issued Class A Common stock from Congoleum, and a security from Congoleum in an aggregate principal or redemption amount equal to approximately 36% of the equity value of Congoleum one year after its reorganization plan goes effective. ABI does not expect that Congoleum's contribution to the plan trust would have a material adverse effect on ABI's liquidity or capital resources. The initial principal or redemption amount of the security that Congoleum will contribute to the trust under the proposed plan is \$2.7 million but is subject to increase based upon the average equity value of Congoleum during the 90 consecutive trading days ending on the first anniversary of the effective date of Congoleum's confirmed Chapter 11 plan of reorganization, which could be materially higher. For more information regarding Congoleum's and ABI's asbestos liabilities and plans for resolving those liabilities, please refer to Notes 8 and 9 of Notes to Consolidated Financial Statements. AICPA 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. The Company implemented this guidance in consolidated financial statements for periods after December 31, 2003. Pursuant to SOP 90-7, companies 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. Substantially all of Congoleum's liabilities as of December 31, 2003 have been reclassified as liabilities subject to compromise. Obligations arising post-petition, and pre-petition obligations that are secured, are not classified as liabilities subject to compromise. Additional pre-petition claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims. Included in other assets on the accompanying balance sheets is ABI's investment in Compania Hulera Sula, S.A., a 50%-owned venture. The investment is accounted for on the cost method due to the uncertainty of the political climate and currency restrictions in Honduras. 57 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) Use of Estimates and Critical Accounting Policies The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include asbestos liabilities, environmental contingencies, valuation of deferred tax assets, and actuarial assumptions for the pension plan and post-retirement benefits. Although the Company believes it uses reasonable and appropriate estimates and assumptions in the preparation of its financial statements and in the application of accounting policies, if business conditions were different, or if the Company used different estimates and assumptions, it is possible that actual results could differ from such estimates. Concentration of Credit Risk The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses in previous years have generally been within management's expectations. For the years ended December 31, 2005, 2004 and 2003, the Company had two customers that accounted for 36%, 37%, and 35% of net sales, respectively. At December 31, 2005 and 2004, one customer accounted for 13% and 18% of trade receivables outstanding, respectively. Also at December 31, 2005 and 2004 another customer accounted for 10% and 15% of trade receivables outstanding, respectively. Cash Cash equivalents represent highly liquid investments with maturities of three months or less at the date of purchase. The carrying value of cash equivalents approximates fair value. Under the terms of Congoleum's revolving credit agreement, payments on its accounts receivable are deposited in an account assigned by Congoleum to its lender and the funds in that account are used by the lender to pay down any loan balance. Restricted cash includes funds deposited in this account but not immediately applied to the loan balance. 58 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) Allowance for Doubtful Accounts The Company's allowance for doubtful accounts is determined based on a variety of factors that affect the potential collectibility of the related receivables, including length of time receivables are past due, customer credit ratings, financial stability of customers, specific one-time events and past customer history. In addition, in circumstances where the Company is made aware of a specific customer's inability to meet its financial obligations, a specific allowance is established. The majority of accounts are individually evaluated on a regular basis and appropriate reserves are established as deemed appropriate based on the criteria previously mentioned. The remainder of the reserve is based on management's estimates and takes into consideration historical trends, market conditions and the composition of the Company's customer base. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for most of the Company's domestic inventories. The use of LIFO results in a better matching of costs and revenues. Cost is determined by the first-in, first-out (FIFO) method for the Company's foreign inventories. The Company records as a charge to cost of products sold any amounts required to reduce the carrying value of inventories to net realizable value. Inventory costs include expenses that are directly or indirectly incurred in the acquisition and production of merchandise and manufactured products for sale. Expenses include the cost of materials and supplies used in production, direct labor costs and allocated overhead costs such as depreciation, utilities, insurance, employee benefits, and indirect labor. Property, Plant and Equipment Property, plant and equipment are recorded at cost. Expenditures for improvements that increase asset values and extend useful lives are capitalized. Depreciation, which is determined using the straight-line method, is provided over the estimated useful lives (thirty to forty years for buildings and building improvements, ten to fifteen years for production equipment and heavy-duty vehicles, and three to ten years for light-duty vehicles and office furnishings and equipment). Debt Issue Costs Costs incurred in connection with the issuance of debt have been capitalized and are being amortized over the life of the related debt agreements. Debt issue costs at December 31, 2005 and 2004 amounted to \$0.8 million and \$1.2 million, respectively, net of accumulated amortization of \$2.5 million and \$2.6 million, respectively, and are included in other noncurrent assets. 59 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1.

Significant Accounting Policies (continued) Goodwill Goodwill represents the excess of acquisition costs over the estimated fair value of the net assets acquired and was amortized through year-end 2002 using the straight-line method principally over 40 years. The Company evaluates the recoverability of goodwill and indefinite-lived intangible assets annually in the fourth quarter, or more frequently if events or changes in circumstances, such as a decline in sales, earnings, or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. The Company completed its annual impairment test in the fourth quarter of 2005 and concluded that no adjustment was required to the carrying value of goodwill based on the analysis performed. During the fourth quarter of 2005, the Company acquired certain assets and assumed certain liabilities of Jay Jewelry, a Florida distributor of costume jewelry (see Note 15). Goodwill of \$426 thousand was recorded for this acquisition.

Impairment of Long-Lived Assets The Company assesses its long-lived assets other than goodwill and indefinite-lived assets for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, it projects undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets. Product Warranties The Company provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the revenue is recognized. The following table sets forth activity in the Company's warranty reserves (in thousands):

	2005	2004	2003
Beginning balance	\$3,039	\$ 3,554	\$ 3,095
Accruals	4,318	5,280	7,588
Charges	(4,814)	(5,795)	(7,129)
Ending balance	\$2,543	\$ 3,039	\$ 3,554

60 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) Environmental and Product Liabilities The Company accrues for costs associated with its environmental claims when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including the extent of clean-up activities to be performed, the methods employed in the clean-up activities, the Company's relative share in costs at sites where other parties are involved, existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is more likely to occur than another, the minimum is accrued. For sites with multiple potentially responsible parties, the Company considers its likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. When future liabilities are determined to be reimbursable by insurance coverage or other reimbursement, an accrual is recorded for the potential liability and a receivable is recorded related to the expected recovery. A receivable reserve is recorded when recoveries are disputed or are not highly probable. Legal fees associated with these claims are accrued when the Company deems that their occurrence is probable and the fees are reasonably estimable (see Notes 4, 6 and 8). Asbestos Liabilities and Congoleum Plan of Reorganization The

Company is a party to a number of lawsuits stemming from its manufacture of asbestos-containing products. The Company records a liability and a corresponding insurance receivable based on its estimates of the future costs and related insurance recoveries to settle asbestos litigation. In estimating the Company's asbestos-related exposures, the Company analyzes and considers the possibility of any uncertainties including the anticipated costs to settle claims, the claims dismissal rate, the number of claims expected to be received, the applicability and allocation of insurance coverage to these costs, and the solvency of insurance carriers. 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. 61

American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) The Company's subsidiary Congoleum is a defendant in a large number of asbestos-related lawsuits and is seeking confirmation of a plan of reorganization under Chapter 11 of the United States Bankruptcy Code as part of its strategy to resolve this liability (see Notes 8 and 9). The recorded liability for Congoleum's asbestos-related exposures is based on the minimum estimated cost to resolve these liabilities through the proposed plan of reorganization. Accounting for asbestos-related costs includes significant assumptions and estimates, and actual results could differ materially from the estimates recorded. Revenue Recognition Revenue is recognized when products are shipped and title has passed to the customer. Net sales are comprised of the total sales billed during the period less the sales value of estimated returns and sales incentives, which consist primarily of trade discounts and customers' allowances. The Company defers recognition of revenue for its estimate of potential sales returns under right-of-return agreements with its customers until the right-of-return period lapses. Selling, General and Administrative Expenses Selling, general and administrative expenses are charged to income as incurred. Expenses incurred for promoting and selling products are classified as selling expenses and include such items as advertising, sales commissions and travel. Advertising expense (including cooperative advertising) amounted to \$2.3 million, \$2.4 million and \$4.1 million for 2005, 2004 and 2003, respectively. General and administrative expenses include such items as officers' salaries, office supplies, insurance and office rental. In addition, general and administrative expenses include other operating items such as provision for doubtful accounts, professional (accounting and legal) fees, and environmental remediation costs. The Company also records shipping, handling, purchasing and finished goods inspection costs in general and administrative expenses. Shipping and handling costs for the years ended December 31, 2005, 2004 and 2003 were \$7.9 million, \$7.3 million and \$6.5 million, respectively. Purchasing and finished goods inspection costs were \$2.3 million, \$2.7 million and \$2.9 million for 2005, 2004 and 2003, respectively. Income Taxes In accordance with SFAS No. 109, Accounting for Income Taxes, the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. 62

American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) The Company reduces its deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes the Company's financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. The Company operates within multiple taxing jurisdictions and could be subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve and may cover multiple years. In the Company's opinion, adequate provisions for income taxes have been made for all years subject to audit. Stock-Based Compensation In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"). SFAS No. 123(R) replaces SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. SFAS No. 123(R) was originally effective for public companies at the beginning of the first interim or

annual period beginning after September 15, 2005. In April 2005, the Securities and Exchange Commission ("SEC") provided for a phased-in implementation process for public companies. Based on the Company's year end of December 31, the Company must adopt SFAS No. 123(R) on January 1, 2006. On November 10, 2005, the Board of Directors of the Company approved the vesting of all outstanding and unvested options held by directors, officers and employees under the Company's 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997, and 1999 Stock Option Plan for Non-Employee Directors. As a result of the acceleration of vesting, options to acquire 195,600 shares of the Company's common stock, which otherwise would have vested from time to time over the next four years, became immediately exercisable in full. This action was taken to eliminate, to the extent permitted, the transition expense that the Company otherwise would incur in connection with the adoption of SFAS No. 123(R). The exercise prices of all of the unvested options were lower than the closing trading price of the Company's common stock on the modification date. Under the accounting guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, the accelerated vesting resulted in a charge for stock-based compensation of approximately \$22.63 million. American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) thousand. The charge was recognized by the Company in November 2005. The Company's pro forma disclosure for 2005 includes the aggregate effect of the accelerated vesting of \$479 thousand, net of taxes, as calculated under SFAS No. 123, Accounting for Stock-Based Compensation. The remaining unvested portion would have otherwise been recognized in the Company's consolidating statements of operations over the next four fiscal years, upon the adoption of SFAS No. 123(R) on January 1, 2006. The Company has disclosed stock-based compensation information in accordance with FASB Statement No. 148 ("SFAS 148"), Accounting for Stock-Based Compensation--Transition and Disclosure--an Amendment of FASB Statement No. 123, and SFAS No. 123. The fair value for the ABI options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005, 2004 and 2003, respectively: risk-free interest rate of 3.96%, 4.53% and 4.31%, expected dividend yield of zero percent for 2005 and 2004 and 3.00% for 2003, volatility factor of the expected market price of the Company's common stock of .302, .347 and .286, and a weighted-average expected life of the options of seven and one-half years. The weighted-average fair value of options granted under ABI's 1999 Stock Award and Incentive Plan for Directors during 2005, 2004 and 2003 was \$3.95, \$4.58 and \$1.90, respectively. For purposes of pro forma disclosures, the estimated fair value of the ABI options is amortized to expense over the options' vesting period. The estimated pro forma compensation expense for 2005 includes the aggregate compensation expense that would have been recognized in the Company's consolidating statements of operations over the next four fiscal years, upon the adoption of SFAS No. 123(R) on January 1, 2006. This expense was eliminated because of the accelerated vesting of outstanding options in November 2005. The Company's pro forma information follows (in thousands, except per share amounts):

Years ended December 31	2005	2004	2003	-----	Net (loss) income	\$(17,633)	\$1,953	\$(14,158)
Estimated pro forma compensation expense from stock options, net of taxes	(720)	(105)	(18)					
-----					Pro forma net (loss) income	\$(18,353)	\$1,848	\$(14,176)
=====					Pro forma (loss) income per share: Basic	\$ (5.33)	\$ 0.54	\$ (4.12)
	Diluted	(5.33)	0.53	(4.12)				

64 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 1. Significant Accounting Policies (continued) Research and Development Costs Expenditures relating to the development of new products are charged to operations as incurred and amounted to \$6.3 million, \$5.8 million and \$4.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. Foreign Currency Translation The functional currency for the Company's foreign operations is the applicable local currency. Balance sheet accounts of foreign subsidiaries are translated at the current exchange rate, and income statement items are translated at the average exchange rate for the period; resulting translation adjustments are made directly to accumulated other comprehensive income (loss) in stockholders' equity. Realized exchange gains and losses (immaterial in amount) are included in current operations. Issuances of Stock by Subsidiaries The Company accounts for issuances of stock by its subsidiaries as capital transactions. Earnings Per Share Basic earnings per share have been computed based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share have been computed based upon the weighted-average number of common shares outstanding during the year, adjusted for the dilutive effect of shares issuable upon the exercise of stock options (common stock equivalent) unless their inclusion would be antidilutive. In calculating diluted earnings per share, the dilutive effect of a stock option is computed using the average market price for the period. Under its stock option plans, Congoleum grants stock options to employees

and non-employee directors. Congoleum's outstanding stock options may have a dilutive effect on American Biltrite's earnings per share. The dilutive effect of Congoleum's stock options is determined based on Congoleum's diluted earnings per share and the number of shares of Congoleum stock owned by American Biltrite.

65 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued) Recently Issued Accounting Principles In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151 Inventory Costs, an amendment of ARB No. 43, Chapter 4 ("SFAS 151"). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. In additions, SFAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 will not have a material impact on the Company's results of operations and financial position. Reclassifications Certain amounts in prior years have been reclassified to permit comparison with 2005 classifications. In 2005, the Company has separately disclosed the operating, investing and financing portions of the cash flows attributed to its discontinued operations (see Note 16), which in prior periods were reported on a combined basis as a single amount.

2. Inventories Inventories at December 31 consisted of the following (in thousands):

	2005	2004		2005	2004
Finished goods	\$50,515	\$54,597			
Work-in-process	10,370	9,207	Raw materials and supplies	16,242	12,232
				\$77,127	\$76,036

===== At December 31, 2005, domestic inventories determined by the LIFO inventory method amounted to \$44.1 million (\$47.6 million at December 31, 2004). If the FIFO inventory method, which approximates replacement cost, had been used for these inventories, they would have been \$3.8 million and \$0.9 million higher at December 31, 2005 and 2004, respectively. During 2005, 2004 and 2003, certain inventory quantities were reduced, which resulted in liquidations of LIFO inventory layers. The effect of the liquidations was to increase cost of sales by \$445 thousand for 2005, decrease cost of sales by \$109 thousand for 2004, and increase cost of sales by \$175 thousand for 2003.

66 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued)

3. Property, Plant and Equipment A summary of the major components of property, plant and equipment at December 31 is as follows (in thousands):

	2005	2004		2005	2004
Land and improvements	\$ 5,526	\$ 5,526			
Buildings	75,162	74,690	Machinery and equipment	270,203	267,620
			Construction-in-progress	5,467	2,289
				356,358	350,125
			Less accumulated depreciation	241,022	226,055
				\$115,336	\$124,070

===== Interest is capitalized in connection with the construction of major facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Capitalized interest costs were approximately \$100 thousand for 2005, \$200 thousand for 2004 and \$300 thousand for 2003. Depreciation expense amounted to \$16.0 million, \$17.0 million and \$17.4 million in 2005, 2004 and 2003, respectively. In January 2005, the Company completed the sale of a warehouse building and land located in Tullahoma, Tennessee. The building and land were owned by Tullahoma Properties, L.L.C. ("Tullahoma Properties"), a subsidiary in which ABI owns a 62.5% interest. The building was previously leased to a third party, and upon termination of the lease in 2003, Tullahoma Properties listed the property for sale. The building and land were sold for \$2.5 million in cash and a gain of approximately \$2.3 million (before non-controlling interest) was recognized and included in other income in the first quarter of 2005.

67 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued)

4. Accrued Expenses Accrued expenses at December 31 consisted of the following (in thousands):

	2005	2004		2005	2004
Accrued advertising and sales promotions	\$24,089	\$24,260	Employee compensation and related benefits	9,499	9,138
Interest	265	191	Environmental liabilities	1,124	1,000
Royalties	806	1,118	Income taxes	1,330	3,709
Other	5,863	9,189		\$42,976	\$48,605

===== As a result of Congoleum's Chapter 11 bankruptcy filing and in accordance with SOP 90-7, certain liabilities are included in liabilities subject to compromise on the balance sheet as of December 31, 2005 and 2004 (see Note 9).

5. Financing Arrangements Long-term debt at December 31 consisted of the following (in thousands):

	2005	2004		2005	2004
Note Purchase Agreement	\$20,000	\$20,000	Other Notes	2,414	4,201
				22,414	24,201
			Less current portion	20,451	21,411
				\$ 1,963	\$ 2,790

===== Note Purchase Agreement American Biltrite Inc. is a party to a debt agreement (the "Note Agreement") with The Prudential Insurance Company of America ("Prudential"). Under the Note Agreement, the Company previously issued notes in an aggregate principal amount of \$20 million (the "Notes"). The Notes generally bear interest at a rate of 7.91% per annum, and the Company is obligated to pay Prudential an additional fee on each interest payment date if the Company's and certain of its

68 American Biltrite Inc. and Subsidiaries Notes to

Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) subsidiaries' ratio of debt to EBITDA, as defined under the Note Agreement, exceeds certain levels. The amount of those fees that may be payable by the Company varies depending on the extent the Company's and certain of its subsidiaries' debt exceeds EBITDA, as determined under the Note Agreement, and is capped at 2% of the outstanding principal amount of the Series A Notes. During 2004 and for the first quarter of 2005, the Company was obligated to pay the full 2% of that fee. For the second quarter of 2005, the fee was 1%, and for the third and fourth quarters of 2005 it was 0.5%. Principal on the Notes is repayable in five annual installments of \$4.0 million beginning on August 28, 2006. The total amount of the Notes have been classified as a current obligation because the Company must extend or replace the Credit Agreement described below by September 30, 2006. A default by the Company under the Credit Agreement would result in a cross-default under the Note Agreement. The Company expects the Credit Agreement will be extended or replaced by September 30, 2006, and that it will obtain a modification or waiver of covenants as needed prior to such extension or replacement, as well as a modification of the covenants under the Note Agreement. Other Notes In 1998, the Company obtained loans from local banks in connection with the acquisition of buildings in Belgium and Singapore. The loans were for 25,000 Belgian francs (US \$681 thousand at the foreign currency exchange rate in effect when the loan was entered into) and 2,700 Singapore dollars (US \$1.5 million at the foreign currency exchange rate in effect when the loan was obtained). The loans are payable in equal installments through 2008 and 2018, respectively. The interest rates on the loans are 5.6% for the Belgian loan and 1.5% above the local bank's prime rate (5.0% at December 31, 2005) for the Singapore loan. The loans are secured by the property acquired. The Company, through a Canadian subsidiary, was party to a credit agreement (the "Canadian Credit Agreement") providing a \$7.5 million Canadian dollar (US\$4.7 million at the foreign currency exchange rate in effect when the credit agreement was obtained) capital loan and an operating loan facility of \$10.0 million Canadian dollars. At December 31, 2004, the amounts outstanding on the capital loan and operating loan facility were \$2.6 million and \$7.5 million, respectively. In May 2005, the Company repaid the borrowings under the Canadian Credit Agreement with proceeds of borrowings under the credit facility under an amended credit agreement with Fleet National Bank (see below). The Canadian Credit Agreement is no longer in effect. 69 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) Revolving Credit Agreement American Biltrite Inc. is party to a credit agreement (the "Credit Facility") with Fleet National Bank, a Bank of America company ("BofA"), and Bank of America National Association acting through its Canada branch (the "Canadian Lender"). The Credit Facility provides American Biltrite Inc. and its subsidiary K&M Associates L.P. with a revolving credit facility of up to \$20 million and a \$12 million borrowing sublimit for AB Canada. The amount of domestic borrowings available from time to time under the Credit Facility for the Company may not exceed the lesser of (a) \$20 million less the then outstanding amount of borrowings by AB Canada under the Canadian sublimit facility and (b) the applicable borrowing base. The formula used for determining the borrowing base is based upon inventory, receivables and fixed assets of the Company and certain of its subsidiaries (not including, among others, AB Canada and Congoleum), reduced by amounts outstanding under the Note Agreement. American Biltrite Inc. and K&M Associates L.P. may also obtain letters of credit in an aggregate amount at any time outstanding of up to \$4 million, subject to the Credit Facility's maximum borrowing availability limit discussed above. At December 31, 2005, \$9.7 million was outstanding under this credit facility, and outstanding letters of credit totaled \$1.4 million. Unused borrowing availability under this agreement at December 31, 2005 was \$8.9 million. Interest is payable quarterly on domestic revolving loans borrowed by American Biltrite Inc. and K&M Associates L.P. under the Credit Facility at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, (b) if a fixed rate is in effect, at a rate between the fixed rate plus 1.0% to a fixed rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Facility, and (c) for loans not based on a LIBOR or fixed rate, the higher of BofA's applicable prime rate and 0.50% plus the federal funds rate, as determined under the Credit Facility. Under the Credit Facility, the Company may generally determine whether interest on domestic revolving loans will be calculated based on a LIBOR based rate, and if BofA elects to make a fixed rate option available, whether interest on revolving loans will be calculated based on a fixed rate. The amount of borrowings available from time to time for AB Canada under the Canadian sublimit facility under the Credit Facility is limited to the lesser of (a) \$12 million, (b) AB Canada's borrowing base amount, which is based upon a percentage of AB Canada's accounts receivable, inventory and fixed assets, and (c) \$20

million less the amount of domestic borrowings outstanding under the Credit Facility on behalf the Company and K&M Associates L.P. The Canadian sublimit facility also allows AB Canada to obtain letters of credit in an aggregate amount at any time outstanding of up to \$1 million, subject to the 70 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) Canadian sublimit facility's maximum borrowing availability limit discussed above. AB Canada may borrow amounts under the Canadian sublimit facility in United States or Canadian dollar denominations; however, solely for purposes of determining amounts outstanding and borrowing availability under the Credit Facility, all Canadian dollar denominated amounts will be converted into United States dollars in the manner provided in the Credit Facility. Interest is payable quarterly on revolving loans under the Canadian sublimit facility at rates which vary depending on the applicable interest rate in effect and are generally determined based upon: (a) if a LIBOR based rate is in effect, at a rate between a LIBOR based rate plus 1.0% to a LIBOR based rate plus 2.75%, depending on the Company's leverage ratio, as determined under the Credit Agreement, and (b) if a LIBOR based rate is not in effect, for outstanding revolving loans denominated in Canadian dollars, the higher of 0.50% plus the applicable 30-day average bankers' acceptance rate as quoted on Reuters CDOR page and the Canadian Lender's applicable prime rate for loans made in Canadian dollars to Canadian customers, and for outstanding revolving loans denominated in United States dollars, the higher of 0.50% plus the federal funds rate as calculated under the Credit Agreement and the applicable rate announced by the Canadian Lender as its reference rate for commercial loans denominated in United States dollars made to a person in Canada. Under the Credit Agreement, AB Canada may generally determine whether interest on revolving loans will be calculated based on a LIBOR based rate. The Credit Facility expires on September 30, 2006. Although the Company expects that the Credit Facility will be extended or replaced by that date, and that it will obtain a modification or waiver of covenants as needed prior to such extension or replacement, as well as a modification of the covenants under the Note Agreement, there can be no assurances in this regard. Debt Covenants The Credit Facility and the Note Agreement contain certain covenants that the Company must satisfy. The covenants included in the Credit Facility and the Note Agreement include certain financial tests, restrictions on the ability of the Company to incur additional indebtedness or to grant liens on its assets and restrictions on the ability of the Company to pay dividends on its capital stock. In addition, the Credit Facility includes a financial covenant that requires the Company's consolidated adjusted EBITDA for the four consecutive fiscal quarters ending June 30, 2006 to exceed 150% of the Company's consolidated pro forma fixed charges for the 12-month period beginning immediately after June 30, 2006, as determined under the Credit Facility (the "Pro Forma Financial Covenant"). The financial tests are required to be calculated based on the Company accounting for its majority-owned subsidiary Congoleum Corporation on the equity method and include a maximum ratio of total liabilities to tangible net worth, a minimum ratio of earnings before interest, 71 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) taxes, depreciation and amortization less certain cash payments for taxes, debt service, and dividends to interest expense, a minimum level of tangible net worth, a requirement that there be no consecutive quarterly losses from continuing operations, and a maximum level of capital spending. In addition, beginning on September 30, 2006, the Note Agreement requires the Company to satisfy a different set of financial covenants, including a minimum ratio of current assets to current liabilities, a minimum ratio of adjusted EBITDA to fixed charges, a cap on the amount of debt as a percentage (45%) of tangible net worth, a cap on the amount of priority debt (generally, debt of a Company subsidiary (not including Congoleum) that is not a guarantor under the Note Agreement plus secured debt of the Company) as a percentage (15%) of tangible net worth, a minimum leverage ratio, and a minimum amount of tangible net worth. Pursuant to the Credit Facility and the Note Agreement, the Company and certain of its subsidiaries granted BofA, the Canadian Lenders and Prudential a security interest in most of the Company's and its subsidiaries' assets. The security interest granted does not include the shares of capital stock or the assets of the Company's subsidiary Congoleum. In addition, pursuant to the Credit Facility and the Note Agreement, certain of the Company's subsidiaries have agreed to guarantee the Company's obligations (excluding AB Canada's obligations) under the Credit Facility and the Note Agreement. In the past, the Company has had to amend its debt agreements in order to avoid being in default of those agreements as a result of failing to satisfy certain financial covenants contained in those agreements. In January 2004, the Credit Facility and the Note Agreement were amended to remove a former lender under the Credit Facility, reduce the credit line to \$20 million, and to modify the tangible net worth, adjusted EBITDA to interest expense and consecutive quarterly loss covenants. Fees of \$83 thousand were paid to the lenders in connection with those amendments. In April 2004, the Credit Facility and the

Note Agreement were amended to permit AB Canada the ability to grant a security interest in certain assets under a credit agreement that AB Canada was a party to. In November 2004, the Credit Facility was amended to extend the term of the Credit Facility to January 1, 2006, to modify the treatment of tax refunds in covenant calculations, and to modify the measurement levels for the adjusted EBITDA to interest expense and current assets to current liabilities covenants for the remainder of the extended term of the Credit Facility. A fee of \$50 thousand was paid in connection with that amendment. On May 20, 2005, the Company entered into amendments and restatements of its Credit Facility and Note Agreement. The amendment to the Credit Facility extended the maturity date of the Credit Facility to September 30, 2006, added the Pro Forma Financial Covenant and added the \$12 million Canadian sublimit facility for AB Canada. Pursuant to the amended Credit Facility, AB Canada 72 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) granted a security interest in all of its personal property to the Canadian Lender. During the second quarter of 2005, AB Canada repaid all amounts outstanding under its previous credit agreement with another lender from the proceeds of borrowings under the Credit Facility. The amendment to the Note Agreement in May 2005 generally removed the application of the financial covenants under the Note Agreement for any measurement period prior to March 31, 2005, which effectively cured the Company's preexisting failure to satisfy the adjusted EBITDA to interest expense covenant (as determined under the Note Agreement) as of December 31, 2004. In addition, the amendments modified the financial covenants for 2005 under the Note Agreement to make them comparable to the financial covenants for 2005 under the Credit Facility. The amendment also requires the Company to enter into a definitive commitment to replace or refinance the \$20 million borrowing limit under the Credit Facility by June 30, 2006 and to consummate the replacement or refinancing by September 30, 2006. The credit agreement governing the Company's Credit Facility includes a covenant that takes effect for periods after June 30, 2006 that the Company does not anticipate it will meet, and the Company also does not anticipate it will meet certain covenants under the Note Agreement that take effect September 30, 2006. Pursuant to the terms of those agreements, a default by the Company under one of those agreements triggers a cross-default under the other agreement. The Company expects it will obtain a modification or waiver of covenants as needed prior to an extension or replacement of the Credit Facility, as well as a modification of the covenants under the Note Agreement. In January 2004, the Bankruptcy Court authorized entry of a final order approving Congoleum's debtor-in-possession financing, which replaced its pre-petition credit facility on substantially similar terms. The debtor-in-possession financing agreement (as amended and approved by the Bankruptcy Court to date) provides a revolving credit facility expiring on December 31, 2006 with borrowings up to \$30 million. Interest is based on 0.75% above the prime rate. This financing agreement contains certain covenants, which include the maintenance of minimum earnings before interest, taxes, depreciation and amortization. It also includes restrictions on the incurrence of additional debt and limitations on capital expenditures. The covenants and conditions under this financing agreement must be met in order for Congoleum to borrow from the facility. Congoleum was in compliance with these covenants at December 31, 2005. Borrowings under this facility are collateralized by inventory and receivables. At December 31, 2005, based on the level of receivables and inventory, \$16.8 million was available under the facility, of which \$4.4 million was utilized for outstanding letters of credit and \$9.4 million was utilized by the revolving loan. Congoleum anticipates that its debtor-in-possession financing facility will be replaced with a revolving credit facility on substantially similar terms upon confirmation and effectiveness of its plan of reorganization. While 73 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) Congoleum expects the facilities discussed above will provide it with sufficient liquidity, there can be no assurances that it will continue to be in compliance with the required covenants, that Congoleum will be able to obtain a similar or sufficient facility upon exit from bankruptcy, or that the debtor-in-possession facility (as extended) will be renewed prior to its expiration if Congoleum's plan of reorganization is not confirmed before that time. The terms of certain of the Company's loan agreements include restrictions on incurring additional indebtedness, restrictions on some types of payments including dividends, and limitations on capital expenditures. Certain agreements also have covenants requiring maintenance of minimum net worth levels, current ratios, and fixed charge coverage ratios and maximum debt levels and debt to EBITDA ratios. Retained earnings, which were unrestricted as to such distributions, amounted to \$2.9 million at December 31, 2005. Interest paid on all outstanding debt amounted to \$3.2 million in 2005, \$3.3 million in 2004 and \$11.5 million in 2003. As noted above, in connection with its Chapter 11 bankruptcy proceedings, Congoleum did not pay the interest due on its \$100 million 8 5/8% Senior Notes during 2005 and 2004. Principal payments on the Company's long-term debt obligations (other than Congoleum debt classified as liability

subject to compromise) due in each of the next five years are as follows (in thousands): 2006 \$4,451 2007 4,491 2008 4,414 2009 4,082 2010 4,085 2011 and thereafter 891 The amounts above include five annual payments of \$4 million, beginning August 2006, for the \$20 million of notes outstanding under the Note Agreement. As discussed above, the total amount of the Notes has been classified as a current obligation because the Company must extend or replace the Credit Agreement by September 30, 2006.

74 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 5. Financing Arrangements (continued) 8 5/8% Senior Notes due 2008 On August 3, 1998, Congoleum issued \$100 million of 8 5/8% Senior Notes maturing August 1, 2008 priced at 99.505 to yield 8.70%. The Senior Notes are redeemable at the option of Congoleum, in whole or in part, at any time on or after August 1, 2003 at predetermined redemption prices (ranging from 104% to 100%), plus accrued and unpaid interest to date of redemption. The Indenture under which the notes were issued includes certain restrictions on additional indebtedness and uses of cash, including dividend payments. During 2003, the indenture was amended to explicitly permit Congoleum to take steps in connection with preparing and filing its prepackaged plan of reorganization under Chapter 11 of the Bankruptcy Code. In addition, due to the Chapter 11 proceedings, Congoleum was precluded from making the interest payments on the Senior Notes due in February and August of both 2005 and 2004 and February 2006. The amount of accrued interest that was not paid on the Senior Notes as of December 31, 2005 was approximately \$17.3 million (not including accrued interest on overdue interest). The amount of interest accrued at December 31, 2005 and 2004 was approximately \$19.0 million and \$12.7 million, respectively. As of December 31, 2005 and 2004, the principal amount of the Senior Notes, net of unamortized original issue discount, was \$99.9 million and \$99.8 million, respectively. These amounts, plus accrued interest, are included in liabilities subject to compromise on the balance sheet.

6. Other Liabilities Other liabilities at December 31 consisted of the following (in thousands):

2005	2004	
-----	-----	
Pension benefit obligations (less current portion)	\$ 2,557	\$ 2,615
Environmental remediation and product related liabilities	4,259	4,680
Deferred income taxes	21,343	16,531
Other	1,466	1,411
-----	-----	-----
\$29,625	\$25,237	

As a result of Congoleum's Chapter 11 bankruptcy filing and in accordance with SOP 90-7, certain liabilities are included in liabilities subject to compromise on the balance sheet as of December 31, 2005 and 2004 (see Note 9).

75 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 7. Pension Plans The Company sponsors several noncontributory defined benefit pension plans covering most of the Company's employees. Benefits under the plan are based on years of service and employee compensation. Amounts funded annually by the Company are actuarially determined using the projected unit credit and unit credit methods and are equal to or exceed the minimum required by government regulations. The Company also maintains health and life insurance programs for retirees (reflected in the table below under "Other Benefits"). The following summarizes the change in the benefit obligation, the change in plan assets, the funded status and reconciliation to the amounts recognized in the balance sheets for the pension benefits and other benefits plans. The measurement date for all items set forth below is the last day of the fiscal year presented.

Pension Benefits Other Benefits

2005	2004	2005	2004	
-----	-----	-----	-----	
(In thousands) Change in Benefit				
Obligation: Benefit obligation at beginning of year	\$ 94,957	\$ 94,037	\$ 8,542	\$ 9,177
Service cost	1,991	1,996	183	170
Interest cost	5,792	5,598	520	484
Plan participants contributions	156	168	Actuarial (gain) loss	4,242 (1,661) 212
(760) Medicare Rx subsidy --	(74)	Foreign currency exchange rate changes	391	776
Benefits paid	(5,834)	(5,957)	(469)	(455)
-----	-----	-----	-----	-----
Benefit obligation at end of year	\$101,695	\$ 94,957	\$ 8,988	\$ 8,542
=====	=====	=====	=====	=====
Change in Plan Assets: Fair				
value of plan assets at beginning of year	\$ 75,170	\$ 68,175	Actual return on plan assets	4,639
Employer contribution	5,086	5,754	Plan participants contribution	156
Plan participants contribution	156	168	Foreign currency exchange rate changes	395
Benefits paid	(5,834)	(5,957)	-----	-----
-----	-----	-----	-----	-----
Fair value of plan assets at end of year	\$ 79,612	\$ 75,170	-----	-----
=====	=====	=====	=====	=====
Unfunded status	\$(22,084)	\$(19,787)	\$(8,988)	\$(8,542)
Unrecognized net actuarial loss	21,663	18,271	118	(35)
Unrecognized transition obligations	118	(281)	47	(141)
Unamortized prior service cost	937	852	-----	-----
-----	-----	-----	-----	-----
Accrued benefit cost	\$ 634	\$(945)	\$(8,823)	\$(8,718)
-----	-----	-----	-----	-----
Accumulated benefit obligation at end of year	\$ 93,274	\$ 88,042	=====	=====

76 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 7. Pension Plans (continued) The weighted-average assumptions used to determine benefit obligation for the pension benefits as of year-end were as follows:

2005	2004
-----	-----
Discount rate	5.35% - 6.00%
Expected long-term return on plan assets	7.00% - 7.50%
Rate of compensation increase	4.00% - 5.00%

The weighted-average discount

rate used to determine the benefit obligation for the Other Benefits as of year-end was 6.00% and 6.25% for 2005 and 2004, respectively. Some of the Company's pension plans have projected benefit obligations (PBO) and accumulated benefit obligations (ABO) in excess of plan assets. The aggregate benefit obligations and fair value of plans assets for such plans as of December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
PBO greater than plan assets	\$ 88,365	\$ 84,343
Projected benefit obligation	\$ 88,365	\$ 84,343
Fair value of plan assets	66,029	62,865
ABO greater than plan assets	83,955	80,046
Accumulated benefit obligation	83,955	80,046
Fair value of plan assets	66,029	62,865

The net amount for pension and other postretirement benefits recognized in the balance sheet as of December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Pension Benefits	2005	2004
Other Benefits	2005	2004
Accrued benefit liability	\$(19,636)	\$(19,552)
Accrued expenses	(825)	(166)
Prepaid benefit obligation	--	--
Intangible asset	134	228
Deferred tax asset	--	--
Accumulated other comprehensive loss	18,213	15,797
Net amount recognized	\$ (2,114)	\$ (3,693)

77 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 7. Pension Plans (continued) The accrued pension benefit liability includes Congoleum's pension liability of \$17.1 million and \$16.9 million as of December 31, 2005 and 2004, respectively. The accrued other benefits liability is Congoleum's liabilities for post-retirement benefits. These amounts have been included in liabilities subject to compromise as of December 31, 2005 and 2004 (see Note 9). The components of net periodic benefit cost for the years ended December 31, 2005, 2004 and 2003 are as follows (in thousands):

	2005	2004	2003
Pension Benefits	2005	2004	2003
Other Benefits	2005	2004	2003
Service cost	\$ 1,991	\$ 1,996	\$ 1,854
Interest cost	5,792	5,598	5,440
Expected return on plan assets	(5,301)	(4,832)	(4,052)
Recognized net actuarial loss (gain)	1,225	1,375	1,499
Amortization of transition obligation	(99)	(114)	(111)
Amortization of prior service cost	(193)	(198)	(206)
Net periodic benefit cost	\$ 3,415	\$ 3,825	\$ 4,424

78 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 7. Pension Plans (continued) In developing the overall expected long-term return on plan assets assumption, a building block approach was used in which rates of return in excess of inflation were considered separately for equity securities, debt securities, and other assets. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term return on plan assets assumption. The Company believes this determination is consistent with SFAS 87. Assumed healthcare cost trend rates as of year-end were as follows:

	December 31 2005	2004
Healthcare cost trend rate assumed for next year	10.0%	9.0%
Ultimate healthcare cost trend rate	5.0%	5.0%
Year that the assumed rate reaches the ultimate rate	2011	2010

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare benefits. A one-percentage point change in assumed healthcare cost trend rates would have the following effects (in thousands):

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	\$ 61	\$ 55
Effect on post-retirement benefit obligation	647	591

For the pension plan, the weighted-average asset allocation at December 31, 2005 and 2004, by asset category, are as follows:

	December 31 2005	2004
Equity securities	59%	59%
Debt securities	37%	38%
Other	4%	3%
Total	100%	100%

79 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 7. Pension Plans (continued) The Company has an investment strategy for the pension plan that emphasizes total return; that is, the aggregate return from capital appreciation and dividend and interest income. The primary investment management objective for the plan's assets is long-term capital appreciation primarily through investment in equity and debt securities with an emphasis on consistent growth; specifically, growth in a manner that protects the Plan's assets from excessive volatility in market value from year to year. The investment policy takes into consideration the benefit obligations, including timing of distributions. The Company selects professional money managers whose investment policies are consistent with the Company's investment strategy and monitors their performance against appropriate benchmarks. The Company's target asset allocation is consistent with the

weighted-average allocation at December 31, 2005. Contributions Congoleum expects to contribute \$4.9 million to its pension plan and \$0.5 million to its other postretirement plan in 2006. American Biltrite expects to contribute \$0.8 million to its pension plan in 2006. Estimated Future Benefit Payments The following benefit payments, which reflect future service as appropriate, are expected to be paid. The benefit payments are based on the same assumptions used to measure the Company's benefit obligation at the end of fiscal 2005. Pension Other Benefits Benefits -----

(In thousands) 2006 \$ 6,181 \$ 481 2007 6,334 539 2008 6,440 594 2009 6,623 605 2010 6,794 661 2011 - 2015 36,445 4,010 The Company also has three 401(k) defined contribution retirement plans that cover substantially all employees. Eligible employees may contribute up to 15% to 20% of compensation with the Company partially matching contributions. Defined contribution pension expense for the Company was \$802 thousand, \$982 thousand and \$984 thousand for the years ended December 31, 2005, 2004 and 2003, respectively. 80 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies Leases The Company occupies certain warehouse and office space and uses certain equipment and motor vehicles under lease agreements expiring at various dates through 2010. The leases generally require the Company to pay for utilities, insurance, taxes and maintenance, and some contain renewal options. Total rent expense charged to operations was \$5.7 million in 2005, \$6.0 million in 2004 and \$5.9 million in 2003. Future minimum payments relating to operating leases are as follows (in thousands): 2006 \$ 4,290 2007 4,104 2008 3,539 2009 2,996 2010 2,210 Thereafter 311 ----- Total future minimum lease payments \$17,450 =====

Royalty and Advertising Commitments K&M maintains certain license arrangements for branded jewelry products. Under the terms of these arrangements, K&M must make minimum royalty and advertising payments based on defined percentages of net sales during the license terms. These arrangements also include guaranteed minimum yearly royalty and advertising payments based either on minimum levels of net sales or fixed payment amounts. At December 31, 2005, the Company's minimum royalty and advertising payments for 2006 and 2007 were \$2.4 million and \$51 thousand, respectively. No commitments have been made beyond 2007. Environmental and Other Liabilities In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings, product liability and other matters, as more fully described in the following footnote. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts, and the matters may remain unresolved for several years. 81 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) The Company records a liability for environmental remediation claims when it becomes probable that the Company will incur costs relating to a clean-up program or will have to make claim payments and the costs or payments can be reasonably estimated. As assessments are revised and clean-up programs progress, these liabilities are adjusted to reflect such revisions and progress. As of December 31, 2005 and 2004, liabilities of Congoleum comprised the substantial majority of the environmental and other liabilities reported on the Company's consolidated balance sheets as shown in the following table. As a result of Congoleum's Chapter 11 bankruptcy filing and in accordance with SOP 90-7, certain liabilities are included in liabilities subject to compromise on the balance sheet as of December 31, 2005 and 2004. Due to the relative magnitude and wide range of estimates of these liabilities and that recourse related to these liabilities is generally limited to Congoleum, these matters are discussed separately following the discussion of ABI liabilities. However, since Congoleum is included in ABI's consolidated financial statements, to the extent that Congoleum incurs a liability or expense, it will be reflected in the accompanying consolidated financial statements. Congoleum has filed a plan of reorganization under Chapter 11 of the United States Bankruptcy Code as part of a plan to resolve its asbestos-related liabilities. See Notes 1 and 9 for a discussion of this subject. The following table summarizes American Biltrite's and Congoleum's recorded assets and liabilities for environmental, asbestos and other contingencies: December 31 2005 2004 Liability Receivable Liability Receivable -----

	2005	2004	2005	2004
(In thousands) American Biltrite Environmental liabilities				
Accrued expenses	\$ 1,124	\$ 1,000	4,259	4,680
Other liabilities, non-current	5,383	1,974	5,680	2,118
Asbestos product liability	9,500	7,500	8,950	7,500
Asbestos-related liabilities, non-current	9,500	7,500	8,950	7,500
Insurance for asbestos-related liabilities	9,500	7,500	8,950	7,500
Liabilities subject to compromise, current	\$14,883	\$10,924	\$13,180	\$ 9,618

82 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) December 31 2005 2004 Liability Receivable Liability Receivable ----- (In thousands) Congoleum Environmental liabilities Liabilities subject to compromise, current

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\$ 640	\$ 640	Liabilities subject to compromise, non-current	3,630	3,956	Other assets, non-current	--	\$ 1,910	--	\$ 2,105

			4,270	1,910	4,596	2,105	Asbestos product liability	Asbestos-related	
liabilities, current	28,369	--	21,079	Asbestos-related liabilities, non-current	2,738	Other assets, current	--	14,793	--
	1,509	Other assets, non-current	--	7,300	-----				
								28,369	14,793
								23,817	8,809
Other Liabilities subject to compromise, current	55	--	854	--	Liabilities subject to compromise, non-current	1,056	--	31	
--	Other assets, non-current	--	265	--	130	-----			
								1,111	265
								885	130

								\$33,750	\$16,968
								\$29,298	\$11,044

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 Consolidated Environmental liabilities
 Accrued expenses \$ 1,124 \$ 1,000 Liabilities subject to compromise, current 640 640 Liabilities subject to compromise, non-current 3,630 3,956 Other liabilities, non-current 4,259 4,680 Other assets, non-current -- \$ 3,884 -- \$ 4,223 ----- 9,653 3,884 10,276 4,223 Asbestos product liability Asbestos-related liabilities, current 28,369 -- 21,079 Asbestos-related liabilities, non-current 9,500 -- 10,238 Other assets, current -- 14,793 -- 1,509 Insurance for asbestos-related liabilities -- 8,950 -- 7,500 Other assets, non-current -- -- 7,300 ----- 37,869 23,743 31,317 16,309 Other Liabilities subject to compromise, current 55 854 -- Liabilities subject to compromise, non-current 1,056 31 -- Other assets, non-current 265 -- 130 ----- 1,111 265 885 130 -----
 ----- \$48,633 \$27,892 \$42,478 \$20,662 =====

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 83 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) American Biltrite Inc. ABI is a co-defendant with many other manufacturers and distributors of asbestos containing products in approximately 1,703 pending claims involving approximately 2,495 individuals as of December 31, 2005. These claims relate to products of ABI's former Tile Division, which was previously acquired by Congoleum. The claimants allege personal injury or death from exposure to asbestos or asbestos-containing products. Activity related to asbestos claims during the years ended December 31 was as follows: 2005 2004 ----- Claims at January 1 1,838 1,954 New claims 621 678 Settlements (24) (20) Dismissals (732) (774) ----- Claims at December 31 1,703 1,838

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 The total indemnity costs incurred to settle claims were approximately \$1.3 million for each of the years 2005 and 2004 and \$270 thousand for 2003, all of which were paid by ABI's insurance carriers, as were the related defense costs. The average indemnity cost per resolved claim was approximately \$1.7 thousand, \$2.0 thousand and \$0.9 thousand in 2005, 2004 and 2003, respectively. In general, governmental authorities have determined that asbestos-containing sheet and tile products are nonfriable (i.e., cannot be crumbled by hand pressure) because the asbestos was encapsulated in the products during the manufacturing process. Thus, governmental authorities have concluded that these products do not pose a health risk when they are properly maintained in place or properly removed so that they remain nonfriable. The Company has issued warnings not to remove asbestos-containing flooring by sanding or other methods that may cause the product to become friable. The Company estimates its liability for indemnity to resolve current and reasonably anticipated future asbestos-related claims (not including claims asserted against Congoleum), based upon a strategy to actively defend or seek settlement for those claims in the normal course of business. Factors such as recent and historical settlement and trial results, the court dismissal rate of claims, the incidence of past and recent claims, the number of cases pending against it and asbestos litigation developments that may impact the exposure of the Company were considered in performing these estimates. Changes in factors could have a material impact on the Company's liability. For example, it is estimated that a 1% decrease in the Company's dismissal rate would result in a 38% increase in liability assuming all other variables remained constant.

84 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) The Company utilizes an actuarial study to assist it in developing estimates of the Company's potential liability for resolving present and possible future asbestos claims. Projecting future asbestos claim costs requires estimating numerous variables that are extremely difficult to predict, including the incidence of claims, the disease that may be alleged by future claimants, future settlement and trial results, future court dismissal rates for claims, and possible asbestos legislation developments. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, and based upon consultations with third party advisors, the Company believes that five years is the most reasonable period over which to include future claims that may be brought against the Company for recognizing a reserve for future costs. The Company believes that costs for claims that might be brought after that period are not

reasonably estimable. The estimated range of liability for settlement of current claims pending and claims anticipated to be filed through 2011 was \$9.5 million to \$18.8 million as of December 31, 2005. The Company believes no amount within this range is more likely than any other, and accordingly has recorded a liability of \$9.5 million in its financial statements which represents a probable and reasonably estimable amount for the future liability at the present time. The Company also believes that based on this liability estimate, the corresponding amount of insurance probable of recovery is \$9.0 million at December 31, 2005, which has been included in other assets. The same factors that affect developing forecasts of potential indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include the financial viability of some of the insurance companies, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, how legal and other loss handling costs will be covered by the insurance policies, and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. These amounts were based on currently known facts and a number of assumptions. However, projecting future events, such as the number of new claims to be filed each year, the average cost of disposing of each such claim, and the continuing solvency of various insurance companies, as well as numerous uncertainties surrounding asbestos legislation in the United States, could cause the actual liability and insurance recoveries for the Company to be higher or lower than those projected or recorded. There can be no assurance that the Company's accrued asbestos liabilities will approximate its actual asbestos-related settlement costs, or that its accrued insurance recoveries will be realized. The Company believes that it is reasonably possible that it will incur charges for resolution of asbestos claims in the future, which could exceed the Company's existing reserves. The Company will continue to vigorously defend itself and believes it has substantial insurance coverage to mitigate future costs related to this matter. 85 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) Due to the numerous variables and uncertainties, including the effect of Congoleum's Chapter 11 case and proposed plan of reorganization on the Company's liabilities, the Company does not believe that reasonable estimates can be developed of liabilities for claims beyond a five year horizon. The Company will continue to evaluate its range of future exposure, and the related insurance coverage available, and when appropriate, record future adjustments to those estimates, which could be material. ABI has been named as a Potentially Responsible Party ("PRP") within the meaning of the Federal Comprehensive Environmental Response Compensation and Liability Act, as amended ("CERCLA"), with respect to five sites located in four separate states. At one of the five sites, which is located in Southington, Connecticut, (the "Southington Site"), an ABI subsidiary ("Ideal") is also named as a PRP. At the Southington Site, the currently estimated aggregate future cost of remediation and monitoring is between \$34 million and \$55 million. In addition, the Environmental Protection Agency (the "EPA") has estimated its reimbursable costs to be approximately \$20 million. Subject to a final allocation among the PRPs, ABI's and Ideal's aggregate share of the EPA's past costs and the future remediation costs is currently estimated to be between \$619 thousand and \$860 thousand. Under an agreement, Ideal will share a percentage of this cost with the former owner of Ideal's assets. Under an agreement between ABI and The Biltrite Corporation ("TBC"), TBC is liable for 37.5% of the remediation costs incurred by ABI with respect to the Southington Site. At another site, ABI, together with a number of other PRPs, signed a consent decree and site remediation agreement (the "Agreements"), which, without admission of liability by the PRPs, requires remediation of the ILCO Superfund site located in Leeds, Alabama (the "ILCO Site"). The currently estimated aggregate future cost of remediation and associated transactional costs at the ILCO Site ranges from \$3.5 million to \$5.5 million. Pursuant to a final allocation among consent decree participants, ABI's share of the currently estimated future remediation costs range from approximately \$43 thousand to about \$95 thousand. These estimates consider commitments from de minimis and de maximus settlers, the City of Leeds and its insurers, amounts currently held in an escrow fund, a RCRA Closure Fund refund, and TBC's share, which by agreement is 37.5% of the remediation costs incurred by ABI. A substantial share of ABI's future remediation costs with respect to the ILCO site will be payable over the next one to five years. There are two EPA sites in Georgia. At one of the EPA sites, ABI has been named along with seven other PRPs with respect to three neighborhood sites ("Sites") in Atlanta, Georgia where properties within the boundaries of the Sites contain lead in the surface soil in concentrations that exceed the EPA's residential lead screening level. The EPA has requested that ABI sign an Administrative Order on Consent ("AOC"). ABI has reviewed the EPA notification letter and the AOC and is assessing its responsibility with respect to the Sites and whether it 86 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) is in its interest to sign

the consent order. The former owners have signed an AOC and will remediate the sites and seek contribution from the other PRPs. At the other site in Fulton County (together with the "Sites," the "Georgia Sites"), a former smelting and refinery site, ABI has not entered into any negotiations with other PRP's or the site owner. ABI believes, based upon current information available, that its liability at either site will not be material. Under an agreement between ABI and TBC, TBC is liable for 37.5% of the remediation costs, incurred by ABI at these Georgia Sites. A lawsuit was brought by Olin Corporation, the present owner of a former chemical plant site in Wilmington, Massachusetts (the "Olin Site"), which alleged that ABI and three defendants were liable for a portion of the site's soil and groundwater response and remediation costs at the site. A wholly-owned subsidiary of ABI owned and operated the Wilmington plant from 1959 to 1964 and for approximately one month during 1964, ABI held title to the property directly. In 2000, ABI and TBC entered into a settlement agreement with Olin that resolved all claims and counterclaims among the parties. Under the terms of the agreement, ABI and TBC together paid Olin \$4.1 million in settlement of their share of Olin's \$18.0 million of alleged past response costs incurred through December 31, 1998. ABI and TBC also agreed to reimburse Olin for 21.7% of Olin's response costs incurred at the site after January 1, 1999, plus an annual reimbursement of \$100 thousand for Olin's internal costs. Under an agreement between ABI and TBC, TBC is liable for 37.5% of the costs that may be incurred by ABI in connection with this lawsuit and 37.5% of the amounts due under the settlement agreement with Olin. Additional expenditures, principally consisting of remediation and oversight costs, will be required to remediate the site. Olin has estimated that the total response costs for 2006 will be approximately \$7.2 million. ABI has estimated total costs, including 2006, to be in the range of \$15.7 million to \$45.3 million. As of December 31, 2005, ABI has estimated its potential liability for Olin to be in the range of \$3.5 million to \$10.8 million after allocation for the annual reimbursement of \$100 thousand for Olin's internal costs and before any recoveries from insurance and TBC. Costs are expected to be paid over the next ten years. In January 2006, the EPA assumed the responsibility for the oversight of the Olin Site from the Massachusetts Department of Environmental Protection. The State of Maine Department of Environmental Protection ("Maine DEP") has put Miller Industries, Inc. ("Miller") the present owner of a former sheet vinyl plant in Lisbon Falls, Maine, on notice to clean up a dumpsite where there is exposed asbestos from sheet vinyl waste along with other hazardous substances. In September of 2005, a lawsuit was brought by Miller against ABI, which alleged that ABI and one other named defendant were liable for costs to clean up a dumpsite ("Parcel A") and a second parcel of land ("Parcel B"), which is alleged 87 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) to contain polychlorinated biphenyls ("PCB's") in the soil. The lawsuit, captioned Miller Industries, Inc. v American Biltrite Inc. et al, was filed on September 22, 2005 in the Androscoggin Superior Court of Maine. Miller was seeking indemnification or contribution from ABI for the clean-up of both parcels of land (together, the "Maine Sites"). The lawsuit was dismissed by the Superior Court of Maine on February 3, 2006 for lack of subject matter jurisdiction and failure to state a claim upon which relief can be granted. In January 2006, ABI was notified by the Maine DEP that it is a PRP as to both Parcel A and Parcel B. Prior to the commencement of the lawsuit by Miller, ABI had been investigating and reviewing the condition of the Parcel A and its potential liability for its share of any clean-up costs. ABI believes, at this time, that the cost of site investigation, remediation, maintenance and monitoring at the site will be between approximately \$1.2 million and \$1.5 million. Prior to the filing of the lawsuit, ABI was reviewing the condition of the Parcel B and its potential liability for its share of any clean-up costs. ABI cannot determine at this time the cost of site investigation, remediation, maintenance and monitoring for Parcel B. ABI has been assessing the potential availability of insurance coverage for such costs. ABI is not at this time able to determine what its potential liability will be with regard to the Maine Sites. Under an agreement between ABI and TBC, TBC is liable for 37.5% of costs incurred by ABI for the Maine Sites. ABI has made demands against its insurance carriers to provide defense and indemnity for ABI's liabilities at the CERCLA Sites and the state supervised sites in Maine and Massachusetts. An agreement was executed by ABI and its carriers regarding the payment of the defense costs for the Olin Site. ABI has reached agreements with four of its insurance carriers whereby the carriers have reimbursed the Company \$6.5 million for past and current environmental claims and 37.5% of the amount of that reimbursement was shared with TBC pursuant to the Company's agreement with TBC. Included in this insurance reimbursement is a payment of \$4.6 million by one carrier in December 2005. Another carrier has agreed to reimburse the Company for 2.5% of the Company's liabilities regarding the future environmental expenses related to the Olin Site, \$57 thousand of which was reimbursed through December 31, 2005 and 37.5% of the amount of that reimbursement was shared with TBC pursuant to the Company's agreement with

TBC. ABI and one of its insurance carriers continue to discuss ABI's remaining demands for insurance coverage for these sites. In connection with the transfer of ABI's Trenton, NJ tile plant to Congoleum in 1993, the Company signed an administrative consent order from the New Jersey Department of Environmental Protection for any environmental remediation the state may require at that location. Pursuant to the contribution in 1993 of the Company's former tile division to Congoleum, Congoleum assumed liability for the cost of cleaning up the site. Congoleum has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. The Company remains contingently liable in the event that Congoleum fails to perform or fund any required remediation relating to this site. 88 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued)

8. Commitments and Contingencies (continued) The outcome of these matters could result in significant expenses incurred by, or judgments assessed against, the Company, which could have a material adverse effect on the financial position, results of operations and cash flows of the Company. In accordance with SFAS No. 5, Accounting for Contingencies, as of December 31, 2005, ABI maintains a reserve of approximately \$5.4 million, which represents a probable and reasonably estimable amount to cover the anticipated remediation costs described above based on facts and circumstances known to the Company at the present time. The Company has also recorded a receivable of \$2.0 million for ABI's estimable and probable recoveries for the contingencies described above. These projects tend to be long-term in nature, and these assumptions are subject to refinement as facts change. As such, it is possible that the Company may need to revise its recorded liabilities and receivables for environmental costs in future periods resulting in potentially material adjustments to the Company's earnings in future periods. The Company closely monitors existing and potential environmental matters to consider the reasonableness of its estimates and assumptions.

Congoleum Congoleum is a defendant in a large number of asbestos-related lawsuits and is seeking confirmation of a plan of reorganization under Chapter 11 of the United States Bankruptcy Code. See Note 9. Congoleum is named, together with a large number (in most cases, hundreds) of other companies, as a PRP in pending proceedings under CERCLA, and similar state laws. In addition, in four other instances, although not named as a PRP, Congoleum has received a request for information. These pending proceedings 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 in connection with those sites depends on many 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, the Company can be held jointly and severally liable for all environmental costs associated with a site. The most significant exposure to which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland. The PRP group at this site is made up of 81 companies, substantially all of which are large financially solvent entities. Two removal actions were substantially complete as of December 31, 1998, and a groundwater treatment system was installed thereafter. EPA recently selected a remedy for the soil and shallow groundwater; however, the 89 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 8. Commitments and Contingencies (continued) remedial investigation/feasibility study related to the deep groundwater remediation has not been completed. The PRP group estimated that future costs of the remedy selected by the EPA based on engineering estimates would be approximately \$11 million. Congoleum's proportionate share, based on waste disposed at the site, is estimated to be approximately 5.7% or \$700 thousand. The majority of Congoleum's share of costs is presently being paid by one of its insurance carriers, whose remaining policy limits for this claim will cover approximately half this amount, with the balance to be funded by other insurance carriers and Congoleum. Congoleum also accrues remediation costs for certain of Congoleum's owned facilities on an undiscounted basis. Congoleum has entered into an administrative consent order with the New Jersey Department of Environmental Protection and has established a remediation trust fund of \$100 thousand as financial assurance for certain remediation funding obligations. Estimated total cleanup costs of \$1.6 million, including capital outlays and future maintenance costs for soil and groundwater remediation, are primarily based on engineering studies. 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 will not have a material adverse effect on Congoleum's liquidity or financial position. However, unfavorable developments in these matters could result in significant expenses or judgments that could have a material adverse effect on the financial position of Congoleum.

Other In the ordinary course of its business, ABI and Congoleum become involved in lawsuits, administrative proceedings, product liability 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. 90 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization In early 2003, Congoleum announced a strategy for resolving current and future asbestos claims liability through confirmation of a pre-packaged plan of reorganization under Chapter 11 of the Bankruptcy Code. Later in 2003, Congoleum entered into a settlement agreement with various asbestos personal injury claimants (the "Claimant Agreement"). As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing a pre-petition trust (the "Collateral Trust") to distribute funds in accordance with the terms of the Claimant Agreement and granting the Collateral Trust a security interest in Congoleum's rights under its applicable insurance coverage and payments from Congoleum's insurers for asbestos claims. The Claimant Agreement established a compensable disease valuation matrix (the "Matrix") and allowed claimants who qualified to participate in the Claimant Agreement (the "Qualifying Claimants") to settle their claims for the Matrix value, secured in part (75%) by a security interest in the collateral granted to the Collateral Trust. The Collateral Trust provides for distribution of trust assets according to various requirements that give priority (subject to aggregate distribution limits) to participating claimants who had pre-existing unfunded settlement agreements ("Pre-Existing Settlement Agreements") with Congoleum and participating claimants who qualified for payment under unfunded settlement agreements entered into by Congoleum with plaintiffs that had asbestos claims pending against Congoleum and which claims were scheduled for trial after the effective date of the Claimant Agreement but prior to the commencement of Congoleum's anticipated Chapter 11 reorganization case ("Trial-Listed Settlement Agreements"). The Claimant Agreement incorporated Pre-Existing Settlement Agreements and the settlement of certain Trial-Listed Settlement Agreement claims for a fully secured claim against the Collateral Trust, and it settled all other claims for a secured claim against the Collateral Trust equal to 75% of the claim value and an unsecured claim for the remaining 25%. In December 2005, Congoleum commenced an avoidance action seeking to void the security interest granted to the Collateral Trust. Under the terms of the Eighth Plan, asbestos personal injury claimants voting to accept the plan would irrevocably consent or would be deemed to have irrevocably consented to the forbearance of any claim and lien rights under the Claimant Agreement and related documents. Under the terms of the Eighth Plan, after the establishment of the Plan Trust, the assets in the Collateral Trust would be transferred to the Plan Trust and any claims subject to the Claimant Agreement would be channeled to the Plan Trust and paid in accordance with the terms of the Eighth Plan. 91 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) In October 2003, Congoleum began soliciting acceptances for its proposed pre-packaged plan of reorganization and Congoleum received the votes necessary for acceptance of the plan in late December 2003. On December 31, 2003, Congoleum filed a voluntary petition with the United States Bankruptcy Court for the District of New Jersey (Case No. 03-51524) seeking relief under Chapter 11 of the Bankruptcy Code. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. In November 2004, Congoleum filed a modified plan of reorganization and related documents (the "Fourth Plan") with the Bankruptcy Court reflecting the result of further negotiations with representatives of the Asbestos Claimants' Committee, the Future Claimants' Representative and other asbestos claimant representatives. The Bankruptcy Court approved the disclosure statement and plan voting procedures in December 2004 and Congoleum obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of the Fourth Plan. In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the Asbestos Claimants' Committee and the Future Claimants' Representative to make certain modifications to its proposed plan of reorganization and related documents governing the settlement and payment of asbestos-related claims against Congoleum. Under the agreed-upon modifications, asbestos claimants with claims settled under Congoleum's pre-petition settlement agreements would agree to forbear from exercising the security interest they were granted and share on a pari passu basis with all other present and future asbestos claimants in insurance proceeds and other assets of the Plan Trust. In July 2005, Congoleum filed the Sixth Plan and related documents with the Bankruptcy Court which reflected the result of these negotiations, as well as other technical modifications. The Bankruptcy Court approved the disclosure statement and voting procedures and Congoleum commenced solicitation of acceptances of the Sixth Plan in August 2005. In September 2005, Congoleum learned that certain asbestos claimants were unwilling to agree to forbear from exercising their security interest as contemplated by the Sixth Plan and subsequently withdrew the Sixth Plan. In November 2005, the Bankruptcy Court denied a request to extend Congoleum's exclusive right to file a plan of reorganization and solicit acceptances thereof. In February

2006, Congoleum filed the Seventh Plan. On February 27, 2006, Congoleum announced its intention to make additional changes to its plan of reorganization, and on March 17, 2006 it filed the Eighth Plan. In addition, an insurance company has filed the CNA Plan and the Official Committee of Bondholders has filed the Bondholder Plan. The Bankruptcy Court has scheduled a hearing to consider the adequacy of the disclosure statements of these plans for April 27, 2006. 92 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) There can be no assurance that Congoleum will obtain approval to solicit acceptances for the Eighth Plan, that Congoleum will receive the acceptances necessary for confirmation of the Eighth Plan, that the Eighth Plan will not be modified further, that the Eighth Plan will receive necessary court approvals from the Bankruptcy Court or the Federal District Court, or that such approvals will be received in a timely fashion, that the Eighth Plan will be confirmed, or that the Eighth Plan, if confirmed, will become effective. It is unclear whether the Bankruptcy Court will approve the CNA Plan or the Bondholder Plan or whether either of such plans, if confirmed, would be feasible. Moreover, it is unclear whether any other person will attempt to propose a plan or what any such plan would provide or propose, and whether the Bankruptcy Court would approve a plan other than Congoleum's proposed plan. Congoleum is presently involved in litigation with certain insurance carriers related to disputed insurance coverage for asbestos related liabilities, and certain insurance carriers filed various objections to Congoleum's previously proposed plans of reorganization and related matters and are expected to file objections to the Eighth Plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to the Eighth Plan. During 2005, Congoleum entered into a number of settlement agreements with excess insurance carriers over coverage for asbestos-related claims. In May 2005, certain AIG companies agreed to pay approximately \$103 million over ten years to the Plan Trust. This settlement resolves coverage obligations of policies with a total of \$114 million in liability limits for asbestos bodily injury claims. Payment is subject to various conditions, including without limitation, the effectiveness of a plan of reorganization that provides AIG with certain specified relief, including a channeling injunction pursuant to Section 524(g) of the Bankruptcy Code. An insurer has appealed the approval order granted by the Bankruptcy Court to the U.S. District Court, where it is pending. In June 2005, Congoleum entered into a settlement agreement with certain underwriters at Lloyd's, London, pursuant to which the certain underwriters paid approximately \$20 million into an escrow account in exchange for a release of insurance coverage obligations. The escrow agent will transfer the funds to the Plan Trust once a plan of reorganization with the Section 524(g) protection specified in the settlement agreement goes effective and the Bankruptcy Court approves the transfer of the funds. In August 2005, Congoleum entered into a settlement agreement with Federal Insurance Company pursuant to which Federal will pay \$4 million to the Plan Trust once a plan of reorganization with the Section 524(g) protection specified in the settlement agreement goes effective and the Bankruptcy Court approves the transfer of the funds. The Future Claimants' Representative has appealed the approval order granted by the Bankruptcy Court to the U.S. District Court, where it is pending. In October 2005, Congoleum entered into a settlement agreement with Mt. McKinley Insurance Company and Everest Reinsurance Company pursuant to which Mt. McKinley and Everest have paid \$21.5 million into an escrow account. The escrow agent will 93 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) transfer the funds to the Plan Trust once a plan goes effective and the Bankruptcy Court approves the transfer of the funds. An insurer and the Future Claimants' Representative have appealed the approval order granted by the Bankruptcy Court to the U.S. District Court, where it is pending. In March 2006, Congoleum entered into a settlement agreement with Harper Insurance Limited. Under the terms of this settlement, Harper will pay \$1.4 million to Congoleum or the Plan Trust once certain conditions are satisfied, including the effectiveness of a plan of reorganization containing the Section 524(g) protection specified in the settlement agreement. A motion for Bankruptcy Court approval of this settlement is pending. In addition to other uncertainties with respect to payments of the above settlements, it also is possible that a settling insurer may argue that the Eighth Plan is not substantially similar to the Sixth Plan and therefore is relieved of its settlement obligation. Congoleum expects that it will take until some time in the fourth quarter of 2006 at the earliest to obtain confirmation of the Eighth Plan. Under the Eighth Plan, Congoleum's assignment of insurance recoveries to the Plan Trust is net of costs incurred by Congoleum in connection with insurance coverage litigation. Congoleum is entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for coverage litigation costs incurred after January 1, 2003. Congoleum also paid \$1.3 million in claims processing fees in connection with claims settled under the Claimant Agreement. Under the Eighth Plan, Congoleum is entitled to withhold from

recoveries, or seek reimbursement from the Plan Trust, for the \$1.3 million claims processing fee. There can be no assurance that any future plan will provide for Congoleum to recover any coverage litigation costs or claims processing fees. There were no asbestos related property damage claims asserted against Congoleum at the time of its bankruptcy filing. The Bankruptcy Court approved an order establishing a bar date of May 3, 2004 for the filing of asbestos property damage claims. The claims agent appointed in Congoleum's bankruptcy proceeding advised Congoleum that, as of the bar date, it received 35 timely filed asbestos property damage claims asserting liquidated damages in the amount of approximately \$0.8 million plus additional unspecified amounts. Congoleum objected to certain claims on various grounds, and the Bankruptcy Court ultimately allowed 19 claims valued at \$133 thousand. The Eighth Plan will pay those claims in full from certain insurance proceeds. The Eighth Plan, would require Congoleum to contribute approximately \$7.7 million in cash, 3.8 million newly issued shares of Congoleum Class A common stock, and a new security (the "New Convertible Security") to the Plan Trust. Pursuant to the terms of the Eighth Plan, holders of the Company's 8 5/8% Senior Notes would forego \$10 million in interest accrued during the post-petition period and would receive the right to any funds (net of related expenses) from 94 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) the fee disgorgement and other causes of action against a law firm that formerly represented Congoleum and one of its service providers, subject to a maximum of \$10 million plus interest at 8.625% from the effective date of the plan until the time such payment is made (the "Maximum Additional Bondholder Recovery"). Any net recoveries in excess of the Maximum Additional Bondholder Recovery would be paid to the Plan Trust. The terms of the Eighth Plan also would extend the maturity of the Senior Notes for three years from August 2008 to August 2011. The Eighth Plan provides that on the Effective Date, Congoleum will issue the New Convertible Security in the form of either shares of preferred stock or convertible promissory notes and contribute it to the Plan Trust on the effective date of its plan of reorganization in satisfaction of section 524(g) of the Bankruptcy Code. If the New Convertible Security is to be shares of preferred stock of reorganized Congoleum, it will have the following terms: (i) an initial liquidation preference equal to \$2,738,234.75 in the aggregate, such amount being subject to increase in the amount (the "Market Reset Obligation"), if any, by which 36% of reorganized Congoleum's market capitalization based on average trading prices for reorganized Congoleum's Class A common stock at the close of trading for the 90 consecutive trading days beginning on the one year anniversary of the effective date of its plan of reorganization, exceeds such initial liquidation preference; (ii) an initial dividend rate equal to 9% of the liquidation preference per annum, payable semi-annually in arrears, with such dividend rate to reset at the rate of 5% of the liquidation preference per annum on the tenth anniversary of the effective date and payable at such reset dividend rate per annum unless and until redeemed; (iii) redeemable for the liquidation preference at the option of the Plan Trust or Reorganized Congoleum following the tenth anniversary of such effective date; (iv) a mandatory redemption on the fifteenth anniversary of such effective date if not redeemed earlier; (v) convertible into 5,700,000 shares of Congoleum Class A common stock (or the equivalent thereof on a fully diluted basis) upon a specified default of the obligation to pay dividends and a failure to cure such default within any cure period, which, when combined with the 3.8 million newly issued shares of Congoleum Class A common stock to be contributed to the Plan Trust, will result in the Plan Trust owning 51% of the voting common shares of reorganized Congoleum on a fully diluted basis; and (vi) no voting rights. If the New Convertible Security is convertible promissory notes, such notes will be on economic terms substantially equivalent to provisions (i) and (v) of the preferred stock described herein, with other terms substantially the same as the Promissory Note described in the Sixth Plan. Under the Eighth Plan and related documents, ABI has agreed to make a cash contribution in the amount of \$250 thousand to the Plan Trust upon the formation of the Plan Trust. Under the Eighth Plan, ABI would receive certain relief as may be afforded under Section 524(g)(4) of the Bankruptcy Code from personal injury asbestos claims that derive from claims made against Congoleum, which claims are expected to be channeled to the Plan Trust. However, the Eighth Plan 95 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) does not provide that any other asbestos claims that may be asserted against ABI would be channeled to the Plan Trust. Under the terms of the Eighth Plan, Congoleum's issuance of 3.8 million new shares of Class A Common Stock would reduce ABI's economic interest in Congoleum from approximately 55% at present to approximately 35% on a fully diluted basis. ABI's voting interest would be reduced from approximately 69% at present to approximately 51% on a fully diluted basis. Congoleum would also issue the New Convertible Security that, upon certain events of default, would convert into 5.7 million shares of Class A

Common Stock, further diluting ABI's economic interest and resulting in a loss of voting control by ABI. Under the terms of the Eighth Plan, unlike the terms of the Sixth Plan, ABI would not pledge any of its assets, including shares of Congoleum stock it owns or certain rights it has to receive indemnification payments from Congoleum pursuant to a joint venture agreement that ABI and Congoleum are party to, as security for Congoleum's obligations under the new convertible security (as was contemplated, under the Sixth Plan with respect to Congoleum's obligations under the Promissory Note described in the Sixth Plan). In addition, the Eighth Plan does not, unlike the Sixth Plan, contemplate that ABI would be required to make any additional contributions to the Plan Trust if ABI were to sell its Congoleum stock under the circumstances provided under the Sixth Plan, a description of which ABI provided in previous periodic reports it filed with the SEC. There are sufficient risks and uncertainties related to Congoleum's efforts to confirm a plan of reorganization such that no assurances of the outcome can be given. In addition, the remaining costs to effect the reorganization process, consisting principally of legal and advisory fees and contributions to the Plan Trust, are expected to be approximately \$19.5 million at a minimum, not including any Market Reset Obligation arising from revaluation of the New Convertible Security, and could be materially higher. Based on the Eighth Plan, Congoleum has made provision in its financial statements for the minimum amount of the range of estimates for its contribution to effect its plan to settle asbestos liabilities through the Plan Trust. Congoleum recorded charges aggregating approximately \$26 million in prior years and a further approximately \$25.3 million in 2005, to provide for the estimated minimum costs of completing its reorganization as based on the Eighth Plan. Congoleum is not yet able to determine the additional costs that may be required to effect the Eighth Plan or any other plan, and actual amounts that will be contributed to the Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher than currently recorded. Delays in proposing, filing and obtaining approval of the Eighth Plan or any new amended plan of reorganization, or the continued pursuit of the CNA Plan or the Bondholder Plan by the proponents of such plans, or the proposal of additional plans by other parties could result in a proceeding that takes longer and is more costly than Congoleum has estimated. Congoleum may record significant additional charges should the minimum estimated cost increase.

96 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 9. Congoleum Asbestos Liabilities and Planned Reorganization (continued) Liabilities Subject to Compromise 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 interest expense on its Senior Notes is also recorded in liabilities subject to compromise. Liabilities subject to compromise at December 31 were as follows (in thousands):

2005	2004		
Current Pre-petition other payables and accrued interest	\$ 23,990	\$ 14,225	
Non-current Debt (at face value)	100,000	100,000	
Pension liability	16,871	16,936	
Other post-retirement benefit obligation	8,407	8,303	
Pre-petition other liabilities	13,583	12,051	
			138,861
Elimination--Payable to American Biltrite (147) (186)			137,290
			138,714
			137,104

Total liabilities subject to compromise	\$162,704	\$151,329	=====

Additional pre-petition claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

97 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 10. Income Taxes Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2005 and 2004 were as follows (in thousands):

2005	2004
Deferred tax assets: Accruals and reserves	\$ 4,392 \$ 4,065
Environmental reserves	14,305 14,115
Postretirement benefit obligations	4,713 4,739
Net operating losses and credit carryforwards	9,564 8,037

Total deferred tax assets	32,974 30,956
Less valuation allowance	5,134 5,331

Net deferred tax assets	27,840 25,625
Deferred tax liabilities: Depreciation	16,639 18,469
Insurance receivable	10,524
Inventory	5,796
Foreign taxes	1,742 2,261
Other	958 957

Total deferred tax liabilities	31,147 29,520

Net deferred tax liability	\$ (3,307) \$ (3,895)

===== Credit carryforwards consisted primarily of alternative minimum tax credits and state tax credits. At December 31, 2005 and 2004, the Company had available federal net operating loss carry forwards of approximately \$12.7 million and \$6.6 million, respectively. These carry forwards were generated from Congoleum's losses and may be utilized to offset

Congoleum's future taxable income. The Company has determined that a partial valuation allowance is necessary to reduce the deferred tax assets to the amount expected to be realized. The federal loss carry forwards will begin to expire in 2025. The Company is subject to income taxes in the United States and certain foreign jurisdictions. Judgment is required in determining our consolidated provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are transactions and calculations where the ultimate tax determination is uncertain. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5, Accounting for Contingencies. 98 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 10. Income Taxes (continued) The Internal Revenue Service (IRS) has completed and closed its audits of American Bilrite Inc.'s income tax returns through 2003. In December 2005, the Company entered into a closing agreement with the IRS for tax years 2000 through 2003, resulting in certain adjustments to our federal income tax liability for those years. Accordingly, the Company's 2005 tax provision has been reduced by \$1.6 million as a result of reversing previously established reserves. The components of (loss) income before the provision for income taxes (and other items) for the years ended December 31 are as follows (in thousands): 2005 2004 2003

-----	Domestic	\$(17,328)	\$ 1,870	\$(12,607)	Foreign	(966)	(1,062)	2,661
-----		\$(18,294)	\$ 808	\$(9,946)	=====	Significant		

components of the (benefit from) provision for income taxes for the years ended December 31 were as follows (in thousands): 2005 2004 2003

-----	Current: Federal	\$ (998)	\$ 159	\$(1,856)	Foreign	(119)	(119)							
727	State	303	708	334	-----	Total current	(814) 748 (795)							
	Deferred: Federal	(108)	(3,525)	(2,052)	Foreign	(132)	(257) (27)							
	State	(283)	(1,657)	(449)	Valuation allowance	(197)	3,010 --							
-----	Total deferred	(720)	(2,429)	(2,528)	-----	\$(1,534)	\$(1,681)							
\$(3,323)	=====	99	American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 10. Income Taxes (continued) The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense (benefit) for the years ended December 31 was as follows: 2005 2004 2003	-----	U.S. statutory rate	(34.0)%	34.0% (34.0)%							
	State income taxes, net of federal benefits and valuation allowance	1.8 (14.8)	(1.0)	Valuation allowance	11.2	272.7 --	Benefit of net operating losses -- (496.5) --							
	Reorganization expenses	18.9 -- --	Change in tax liability reserves	(8.7) -- --	Other	2.4 (3.4)	1.6							
-----	Effective tax rate	(8.4)%	(208.0)%	(33.4)%	=====	On October 22, 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. The Act creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the U.S. at an effective tax rate of 5.25%. On December 21, 2004, the FASB issued FASB Staff Position, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (FAS 109-2). FAS 109-2 allows companies additional time to evaluate the effect of the law on whether unrepatriated foreign earnings continue to qualify for SFAS 109's exception to recognizing deferred tax liabilities and would require explanatory disclosures from those who need the additional time. During 2005, the Company determined it would not repatriate any accumulated earnings from foreign locations. Through December 31, 2005, the Company has not provided U.S. income taxes on approximately \$22.1 million of unremitted foreign earnings because such earnings are intended to be indefinitely reinvested outside the U.S. The Company will make no change in its current intention to indefinitely reinvest accumulated earnings of its foreign subsidiaries, except in instances where the Company can remit such earnings without a significant associated tax cost. The Company believes that any U.S. tax liability due upon remittance of such earnings would be immaterial due to availability of U.S. foreign tax credits generated from such remittance. During 2005 and 2003, the Company made payments for income taxes of \$3.0 million and \$434 thousand, respectively. During 2004, the Company received net income tax refunds of \$4.0 million. 100 American Bilrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 11. Other Comprehensive Income The Company records unrealized gains or losses on foreign currency translation adjustments and changes in certain minimum pension liabilities in other comprehensive income. Components of other comprehensive income (loss) for the years ended December 31 consisted of the following (in thousands): 2005 2004 2003	-----	Foreign currency translation adjustments	\$ 420	\$ 1,301	\$ 3,181	Change in minimum pension liability	(2,416)	1,839
(2,937)	-----	\$(1,996)	\$ 3,140	\$ 244	=====	Accumulated balances related to each component of other comprehensive loss as of December 31, net of related taxes, were as follows (in thousands): 2005 2004	-----	Foreign currency translation adjustments	\$ 301	\$(119)				
	Minimum pension liability	(18,213)	(15,797)	-----	\$(17,912)	\$(15,916)	=====							

101 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 12. Income (Loss) Per Share The following table sets forth the computation of basic and diluted loss per share for the years ended December 31 (in thousands, except per share amounts): 2005 2004 2003 ----- Numerator: Net (loss) income \$(17,633) \$1,953 \$(14,158) ===== Denominator: Basic income per share: Weighted-average shares 3,442 3,442 3,442 Dilutive employee stock options -- 16 -- ----- Diluted income per share: Adjusted weighted-average shares and assumed conversions 3,442 3,458 3,442 ===== Basic (loss) income per share \$ (5.12) \$ 0.57 \$ (4.11) ===== Diluted (loss) income per share \$ (5.12) \$ 0.54 \$ (4.11) ===== Diluted earnings per share for the year ended December 31, 2004

includes the dilutive effect of Congoleum's stock options during the year. The impact of Congoleum's dilutive stock options was \$0.02 per share and was determined based on Congoleum's diluted earnings per share of \$0.35 for the year ended December 31, 2004. During 2005 and 2003, Congoleum's stock options had no effect on American Biltrite Inc.'s diluted earnings per share. 13. Stock Option Plans ABI Stock Plans During 1999, ABI adopted a stock option plan, which permits the issuance of 50,000 options for common stock to non-employee directors. Under the terms of the plan, options granted are nonqualified and are issued at a price equal to 100% of fair market value at the date of grant. Options granted under the plan are exercisable six months after the date of grant. ABI maintains a stock award and incentive plan which permits the issuance of options, stock appreciation rights (SARs), limited SARs, restricted stock, restricted stock units and other stock-based awards to selected employees and independent contractors of the Company. The plan reserved 400,000 shares of common stock for grant and provides that the term of each award be determined by the committee of the Board of Directors (the "Committee") charged with administering the plan.

During 1997, the Board of Directors approved an amendment to the plan to increase the number of shares reserved for grant from 400,000 to 550,000. 102 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 13. Stock Option Plans (continued) Under the terms of the plan, options granted may be either nonqualified or incentive stock options and the exercise price, determined by the Committee, may not be less than the fair market value of a share on the date of grant. SARs and limited SARs granted in tandem with an option shall be exercisable only to the extent the underlying option is exercisable and the grant price shall be equal to the exercise price of the underlying option. In addition, the Committee may grant restricted stock to participants of the plan at no cost to them. No SARs or restricted stock have been granted under the plan since its adoption. Other than the restrictions that limit the sale and transfer of these SARs and restricted stock, participants are entitled to all the rights of a shareholder. The following tables summarize information about ABI's stock options: 2005 2004 2003 -----

	2005	2004	2003	Weighted- Average	Weighted- Average	Weighted- Average
	Exercise Price	Exercise Price	Exercise Price	Exercise Price	Exercise Price	Exercise Price
Outstanding at beginning of year	486,000	\$15.42	228,500	\$22.04	469,940	\$19.48
Granted	4,000	9.30	261,500	9.66	3,500	7.10
Exercised	--	--	--	--	--	--
Forfeited (7,000)	11.65	(4,000)	16.64	(244,940)	16.90	
Outstanding at end of year	483,000	\$15.42	486,000	\$15.42	228,500	\$22.04
Options exercisable at end of year	483,000	223,300	218,100	Available for grant at end of year	100,020	97,020
354,520	Weighted- Average	Weighted- Average	Weighted- Average	Remaining Range of	December 31,	Exercise
December 31,	Exercise	Contractual Life	Exercise Price	2005 Price	2005 Price	(Years)
				\$7.10-\$14.00	270,500	
	\$ 9.74	270,500	\$ 9.74	8.32	\$14.01-\$17.25	21,000
	\$14.82	21,000	\$14.82	4.07	\$17.26-\$23.625	191,500
	\$23.53	1.40	103	American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 13.		

Stock Option Plans (continued) Congoleum Stock Option Plans Congoleum maintains a Stock Option Plan and a Directors' Stock Option Plan. Under these plans, options to purchase up to 850,000 shares of Congoleum's Class A common stock may be issued to directors, officers and key employees. These options may be either incentive stock options or nonqualified stock options, and the options' exercise price must be at least equal to the fair value of Congoleum's Class A common stock on the date of grant. The following table summarizes information about Congoleum's stock options: 2005 2004 2003 ----- Weighted- Weighted- Weighted- Average Average Average Exercise Exercise Exercise Shares Price Shares Price Shares Price ----- Outstanding at beginning of year 703,500 \$1.99 668,000 \$1.99 691,500 \$2.10 Granted 9,500 4.98 41,000 1.98 30,500 0.39 Canceled -- -- -- Exercised (11,200)

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1.81 (400) 2.05 -- -- Forfeited (8,300) 1.14 (5,100) 3.06 (54,000) 2.05 ----- Outstanding at end of year 693,500 2.04 703,500 1.99 668,000 2.02 ===== Options exercisable at end of year 400,600 2.03 270,100 2.03 140,300 2.12 Available for grant at end of year 142,900 144,100 180,000 Weighted-Average Remaining Contractual Life of Options Outstanding (Years) 6.65 7.64 8.53 14. Industry Segments Description of Products and Services The Company has four reportable segments: flooring products, tape products, jewelry, and a Canadian division that produces flooring and rubber products. The flooring segment consists of Congoleum, which manufactures vinyl and vinyl composition floor coverings and sells them primarily through floor covering distributors to retailers and contractors for commercial and residential use. The tape products segment consists of two production facilities in the United States, and finishing and sales facilities in Belgium and Singapore. The tape products segment manufactures paper, film, HVAC, electrical, shoe, and other tape products for use in industrial and automotive markets. The jewelry segment consists of K&M Associates L.P., a national costume jewelry supplier to mass merchandisers and department stores. The Company's Canadian division produces flooring, rubber products, including materials used by footwear manufacturers, and other industrial products. 104 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 14. Industry Segments (continued) Factors Used to Identify Reportable Segments Reportable segments are business units that offer different products and are each managed separately. The Company's Canadian division manufactures certain products which are similar to products of the flooring segment; however, the Canadian division is managed and reports separately from the flooring segment. Measurement of Segment Profit or Loss and Segment Assets Costs specific to a segment, such as pension expense, are charged to the segment. Certain Corporate office expenses are allocated to certain segments based on resources allocated. Significant assets of the Corporate office include cash, insurance assets related to accrued liabilities, and deferred tax assets. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost plus an agreed upon intercompany profit on intersegment sales or transfers. Segment Profit and Assets Years ended December 31 2005 2004 2003 ----- (In thousands) Revenues Revenues from external customers: Flooring products \$237,916 \$229,650 \$220,650 Tape products 96,103 85,560 81,141 Jewelry 62,790 75,757 76,157 Canadian division 48,363 42,902 38,621 ----- Total revenues from external customers 445,172 433,869 416,569 Intersegment revenues: Flooring products 13 58 56 Tape products 81 120 126 Jewelry -- -- -- Canadian division 5,144 6,207 6,856 ----- Total intersegment revenues 5,238 6,385 7,038 ----- Total revenues 450,410 440,254 423,607 Reconciling items Intersegment revenues (5,238) (6,385) (7,038) ----- Total consolidated revenues \$445,172 \$433,869 \$416,569 ===== 105 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 14. Industry Segments (continued) Approximately 48%, 48% and 51% of the Canadian division's revenues from external customers were for flooring products for 2005, 2004 and 2003, respectively. The remaining revenues from the Canadian division's external customers were from sale of rubber and other industrial products. For 2005, 2004 and 2003, one customer of the flooring division accounted for 21%, 23% and 22%, respectively, of the Company's consolidated revenues. Another customer of the flooring division accounted for 15%, 14% and 13% of the Company's consolidated revenues for 2005, 2004 and 2003, respectively. Years ended December 31 2005 2004 2003 ----- (In thousands) Interest income Flooring products \$ 438 \$ 114 \$ 63 Tape products -- 4 16 Jewelry -- 3 7 Canadian division -- -- 9 ----- Total segment interest revenue 438 121 95 Corporate office interest revenue 201 7 96 ----- Total consolidated interest income \$ 639 \$ 128 \$ 191 ===== Interest expense Flooring products \$10,411 \$ 9,446 \$ 8,906 Tape products 95 106 111 Jewelry 456 416 416 Canadian division 649 575 66 ----- Total segment interest expense 11,611 10,543 9,499 Corporate office interest expense 1,417 1,922 2,077 ----- Total consolidated interest expense \$13,028 \$12,465 \$11,576 ===== Depreciation and amortization expense Flooring products \$11,002 \$11,428 \$11,761 Tape products 2,619 2,812 2,939 Jewelry 832 860 900 Canadian division 2,005 2,427 2,412 ----- Total segment depreciation and amortization 16,458 17,527 18,012 Corporate office depreciation 10 12 14 ----- Total consolidated depreciation and amortization \$16,468 \$17,539 \$18,026 ===== 106 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 14. Industry Segments (continued) Years ended December 31 2005 2004 2003 ----- (In thousands) Segment (loss) profit Flooring products \$(24,150) \$ 403

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\$(10,636) Tape products 1,101 (630) 300 Jewelry 2,162 5,400 4,782 Canadian division (1,673) (2,264) (2,072)
 ----- Total segment (loss) profit (22,560) 2,909 (7,626) Reconciling items Corporate
 income (expenses) 4,154 (2,089) (2,214) Intercompany profit 112 (12) (106) ----- Total
 consolidated (loss) earnings from continuing operations before income taxes and other items \$(18,294) \$ 808 \$
 (9,946) ===== Segment profit or loss is before income tax expense
 or benefit. The flooring products segment loss includes charges related to asbestos claims of \$25.3 million in 2005,
 \$5.0 million in 2004 and \$3.7 million in 2003. Corporate income for 2005 includes a gain of \$2.3 million (before
 non-controlling interest) from the sale of a warehouse during the first quarter and an expense recovery of \$2.9 million
 from an insurance settlement during the fourth quarter. December 31 2005 2004 ----- (In thousands)
 Segment assets Flooring products \$207,347 \$212,882 Tape products 51,679 51,788 Jewelry 39,421 37,158 Canadian
 division 43,139 39,953 ----- Total segment assets 341,586 341,781 Reconciling items Assets of
 discontinued operation 3,142 2,952 Corporate office assets 33,080 22,577 Intersegment accounts receivable (20,650)
 (11,558) Intersegment profit in inventory (167) (281) Intersegment other asset (147) (186) ----- Total
 consolidated assets \$356,844 \$355,285 ===== 107 American Biltrite Inc. and Subsidiaries
 Notes to Consolidated Financial Statements (continued) 14. Industry Segments (continued) The Jewelry segment
 assets include goodwill of \$11.7 million and \$11.3 million at December 31, 2005 and 2004, respectively. The increase
 in goodwill is due to the acquisition of Jay Jewelry (see Note 15). Corporate office assets increased as a result of in
 increase in intercompany accounts receivable. Years ended December 31 2005 2004 2003 -----
 (In thousands) Additions to long-lived assets Flooring products \$4,274 \$3,428 \$4,628 Tape products 858 670 973
 Jewelry 578 1,105 801 Canadian division 1,175 652 1,038 Corporate office -- -- 5 ----- Total
 additions to long-lived assets \$6,885 \$5,855 \$7,445 ===== December 31 2005
 2004 ----- (In thousands) Long-Lived Assets by Area United States \$135,874 \$146,078 Canada 13,045
 13,527 Europe 904 1,115 Asia 2,084 2,151 ----- Total long-lived assets \$151,907 \$162,871
 ===== Geographic Area Information Years ended December 31 2005 2004 2003
 ----- (In thousands) Revenues from external customers United States \$368,931 \$361,410
 \$354,392 Canada 40,589 39,808 30,660 Mexico 5,141 3,602 4,639 Europe 17,950 17,494 17,308 Asia 10,743 9,153
 7,899 Other 1,818 2,402 1,671 ----- Total revenues from external customers \$445,172
 \$433,869 \$416,569 ===== Revenues are attributed to regions based on the
 location of customers. 108 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements
 (continued) 15. Acquisition On October 31, 2005, the Company acquired certain assets and assumed certain liabilities
 of JayRam, Inc., comprising of JayRam Inc.'s Jay Jewelry division, a Florida distributor of costume jewelry with a
 market focus on theme parks, tourist attractions and surf and beach shops. The purchase price consisted of \$2.4
 million, comprised of a cash payment of \$1.4 million on the closing date and a note payable to the seller for \$1.0
 million, plus an additional payment to the seller based on 25% of the acquired business's future earnings before
 interest, taxes, depreciation and amortization for a period of three years. The note is payable in equal monthly
 installments through October 2008 with interest at 6%. The transaction was accounted for under the purchase method
 of accounting and, accordingly, the assets and liabilities acquired were recorded at their estimated fair values at the
 closing date of the acquisition. The recorded fair value of tangible assets acquired and liabilities assumed were \$690
 thousand and \$91 thousand, respectively. The purchase agreement includes a non-competition and non-solicitation
 agreement with the seller. The Company obtained a valuation for these intangible assets as well as the acquired trade
 name and customer list. The aggregate value of these assets was \$1.4 million, resulting in goodwill of \$426 thousand.
 The values assigned to the amortizable intangible assets acquired and the amortization periods are as follows: Value
 Amortization Assigned Period ----- (In thousands) Non-competition and non-solicitation
 agreement \$ 616 2 years Customer list 640 7 years Trade name 119 15 years ----- \$1,375 =====
 Amortization expense in each of the next five years is as follows (in thousands): 2006 \$ 407 2007 356 2008 99 2009
 99 2010 99 109 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 16.
 Discontinued Operation During the second quarter of 2003, the Company reassessed operations at its Toronto, Canada
 subsidiary, Janus Flooring Corporation, a manufacturer of prefinished hardwood flooring, and decided to exit and
 dispose of this business before the end of 2003 due to its history of operating losses. The Company acquired Janus in
 2000 intending it to serve as a strategic addition to the flooring product business. In connection with this decision to
 exit and dispose of Janus Flooring, the Company recorded a charge of \$8.5 million in second quarter 2003 consisting

primarily of \$3.0 million to reduce inventories to net realizable value, \$0.5 million in accounts receivable allowances, a \$2.5 million asset impairment charge related to machinery and equipment and a \$1.9 million income tax provision to write off deferred tax assets deemed not probable of recovery. Results of Janus Flooring, including this charge, are being reported as a discontinued operation. Assets of discontinued operation at December 31, 2005 and 2004 consisted primarily of land and building held for sale and liabilities of discontinued operation consist primarily of accrued expenses. During 2005, the Company entered into a purchase and sale agreement covering the land and building for an amount in excess of the carrying value of the property. The property is under contract, and the Company expects the sale will close in the second quarter of 2006. 17. Fair Value of Financial Instruments The Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable, notes payable and long-term debt are financial instruments. Congoleum's \$100 million 8 5/8% Notes due in 2008 had a book value of \$99.9 million and a fair market value of \$63.5 million at December 31, 2005. The corresponding amounts at December 31, 2004 were a book value of \$99.8 million and a fair market value of \$64.0 million. The carrying value of the Company's remaining financial instruments approximates their fair value at December 31, 2005. The fair value of the Company's publicly traded long-term debt is determined based on quoted market values. The fair value of the Company's other financial instruments is determined based on discounted cash flows. Due to the short period over which the cash flows are expected to be realized, the carrying value of the financial instruments approximates the net present value of cash flows and changes in interest rate assumptions would not have a material effect on the calculation. 110 American Biltrite Inc. and Subsidiaries Notes to Consolidated Financial Statements (continued) 18.

Quarterly Financial Information (Unaudited) First Second Third Fourth Quarter Quarter Quarter Quarter
 ----- (In thousands, except per share amounts) 2005(1) Net sales \$107,424
 \$109,542 \$114,152 \$114,054 Gross profit 28,568 27,609 28,311 26,360 Income (loss) from continuing operations 680
 (14,646) 1,088 (4,518) Discontinued operation (56) (57) (80) (44) Net income (loss) 624 (14,703) 1,008 (4,562) Net
 income (loss) per share, basic: Income (loss) from continuing operations 0.20 (4.25) 0.32 (1.31) Discontinued
 operation (0.02) (0.02) (0.02) (0.01) Net income (loss) 0.18 (4.27) 0.30 (1.32) Net income (loss) per share, diluted:
 Income (loss) from continuing operations 0.19 (4.25) 0.31 (1.31) Discontinued operation (0.02) (0.02) (0.02) (0.01)
 Net income (loss) 0.17 (4.27) 0.29 (1.32) 2004(2) Net sales \$ 99,415 \$112,510 \$113,180 \$108,764 Gross profit
 25,217 33,238 32,616 27,528 (Loss) income from continuing operations (1,863) 1,827 1,514 904 Discontinued
 operation (162) (110) (70) (87) Net (loss) income (2,025) 1,717 1,444 817 Net (loss) income per share, basic: (Loss)
 income from continuing operations (0.54) 0.53 0.44 0.27 Discontinued operation (0.05) (0.03) (0.02) (0.03) Net (loss)
 income (0.59) 0.50 0.42 0.24 Net (loss) income per share, diluted(3) : (Loss) income from continuing operations
 (0.54) 0.52 0.43 0.25 Discontinued operation (0.05) (0.03) (0.02) (0.03) Net (loss) income (0.59) 0.49 0.41 0.22 (1)
 The second and fourth quarters of 2005 include asbestos-related charges of \$15.5 million and \$9.8 million,
 respectively, in Congoleum's selling, general and administrative ("SG&A") expenses for costs related to Congoleum's
 reorganization plan. The impact of these charges to American Biltrite's basic and diluted earnings per share for the
 second and fourth quarters was \$4.50 and \$2.85, respectively. (2) The fourth quarter of 2004 includes a \$5.0 million
 asbestos-related charge recorded in SG&A expenses by Congoleum and a \$650 thousand charge recorded in SG&A
 expenses by American Biltrite for costs related to Congoleum's reorganization plan. The impact of these charges to
 American Biltrite's basic and diluted earnings per share for the fourth quarter was \$1.45 and \$0.19, respectively. (3)
 Diluted earnings per share for the second, third and fourth quarters of 2004 include the dilutive effect of Congoleum's
 stock options during those periods. Congoleum's stock options had no effect on American Biltrite Inc.'s diluted
 earnings per share during 2005. 111 Report of Registered Independent Public Accounting Firm Board of Directors and
 Stockholders American Biltrite Inc. We have audited the accompanying consolidated balance sheets of American
 Biltrite Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated
 statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended
 December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These
 financial statements and schedule are the responsibility of the Company's management. Our responsibility is to
 express an opinion on these financial statements and schedule based on our audits. We conducted our audits in
 accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards
 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are
 free of material misstatement. We were not engaged to perform an audit of the Company's internal control over
 financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for

designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Biltrite Inc. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. /s/ ERNST & YOUNG LLP Boston, Massachusetts March 17, 2006

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES (a) **Evaluation of Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2005. Based on this evaluation, the Company's CEO and CFO concluded that, as of December 31, 2005, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including the Company's consolidated subsidiaries, is made known to the Company's CEO and CFO by others within those entities, particularly during the period in which this Annual Report on Form 10-K was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. (b) **Changes in Internal Controls.** No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION Not applicable.

113 PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The Company has adopted a code of ethics (as that term is defined in Item 406 of Regulation S-K of the regulations promulgated by the SEC) that applies to the principal executive officer, principal financial officer, principal accounting officer or controller and all other employees of the Company. The text of the Company's code of ethics is posted on our Internet website www.ambilt.com or may be obtained without charge by sending a written request to Mr. Henry W. Winkleman, Secretary of the Company, at the Company's office at 57 River Street, Wellesley Hills, Massachusetts 02481. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of our code of ethics and conduct that applies to our principal executive officer, our principal financial and accounting officer or controller by posting such information on our website at www.ambilt.com.

ITEM 11. EXECUTIVE COMPENSATION The information required by this item is contained in ABI's Proxy Statement for its Annual Stockholders' Meeting to be held May 9, 2006 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS The information required by this item is contained in part in Item 5 hereof and in part in ABI's Proxy Statement for its Annual Stockholders' Meeting to be held May 9, 2006 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information required by this item is contained in ABI's Proxy Statement for its Annual Stockholders' Meeting to be held May 9, 2006 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES The information required by this item is contained in ABI's Proxy Statement for its Annual Stockholders' Meeting to be held May 9, 2006 to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005 and is incorporated herein by reference.

114 PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (a) **List of Financial Statements and Financial Statement Schedules** (1) The following

consolidated financial statements of American Biltrite Inc. and its subsidiaries are included in Item 8: Consolidated Balance Sheets with Consolidating Details - December 31, 2005 and 2004, pages 50 & 51 Consolidated Statements of Operations with Consolidating Details - Years ended December 31, 2005, 2004 and 2003, page 52 Consolidated Statements of Cash Flows with Consolidating Details - Years ended December 31, 2005, 2004 and 2003, page 53 & 54 Consolidated Statements of Stockholders' Equity - Years ended December 31, 2005, 2004 and 2003, page 55 Notes to Consolidated Financial Statements, pages 56 through 111 (2) The following financial statement schedule is included in Item 15(d) SCHEDULE II - Valuation and Qualifying Accounts All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted. (3) Listing of Exhibits The listing of exhibits required under this item is incorporated herein by reference to pages 119 through 125 of this Form 10-K. (b) Exhibits: The required exhibits are filed herewith or incorporated by reference following the required Exhibit Index. (c) Financial Statement Schedule: The required consolidated financial statement schedule is included on page 116 of this Form 10-K. 115 American Biltrite Inc. and Subsidiaries Schedule II -- Valuation and Qualifying Accounts Years ended December 31, 2005, 2004 and 2003 (In thousands of dollars)

----- COL. A
COL. B COL. C COL. D COL. E COL. F COL. G

Additions	Charged to Accounts	Balance at Description	Charged to Other Period Expenses	Beginning of Other Period	Costs and Describe End of Period	2005
Allowances for doubtful accounts and cash discounts	\$2,745	\$2,922	\$2,847	(A)	\$2,820	
2004 Allowances for doubtful accounts and cash discounts	\$2,615	\$2,648	\$2,518	(A)	\$2,745	
2003 Allowances for doubtful accounts and cash discounts	\$2,764	\$2,691	\$2,840	(A)	\$2,615	

(A) Represents accounts charged off during the year, net of recoveries. 116 Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. AMERICAN BILTRITE INC. (Registrant) Date: March 27, 2006 by: /s/ Howard N. Feist III ----- Howard N. Feist III, Vice President Finance and Chief Financial Officer Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Date: March 27, 2006 by: /s/ Roger S. Marcus ----- Roger S. Marcus, Chairman of the Board, Chief Executive Officer and Director Date: March 27, 2006 by: /s/ Richard G. Marcus ----- Richard G. Marcus, President, Chief Operating Officer and Director Date: March 27, 2006 by: /s/ William M. Marcus ----- William M. Marcus, Executive Vice President, Treasurer, Chairman of the Executive Committee and Director Date: March 27, 2006 by: /s/ Leo R. Breitman ----- Leo R. Breitman, Director Date: March 27, 2006 by: /s/ Gilbert K. Gailius ----- Gilbert K. Gailius, Director Date: March 27, 2006 by: /s/ John C. Garrels III ----- John C. Garrels III, Director Date: March 27, 2006 by: /s/ Frederick H. Joseph ----- Frederick H. Joseph, Director Date: March 27, 2006 by: /s/ Mark N. Kaplan ----- Mark N. Kaplan, Director Date: March 27, 2006 by: /s/ James S. Marcus ----- James S. Marcus, Director 117 Date: March 27, 2006 by: /s/ Natalie S. Marcus ----- Natalie S. Marcus, Director Date: March 27, 2006 by: /s/ Kenneth I. Watchmaker ----- Kenneth I. Watchmaker, Director Date: March 27, 2006 by: /s/ Howard N. Feist III ----- Howard N. Feist III, Vice President Finance, Chief Financial Officer and Principal Accounting Officer 118 INDEX OF EXHIBITS Exhibit No. Description

Exhibit No.	Description
3 (1)	VII Restated Certificate of Incorporation
3	(2) I By-Laws, amended and restated as of September 11, 2004
4 (1)	XV Amended and Restated Note Purchase

Agreement and Facility Guarantee, dated as of May 20, 2005, among American Biltrite Inc., certain domestic subsidiaries of American Biltrite Inc. and The Prudential Insurance Company of America 4 (2) XIV Security Agreement, dated as of October 14, 2003, among American Biltrite Inc., K&M Associates L.P., Fleet National Bank and the subsidiaries of American Biltrite Inc. from time to time party thereto 4 (3) XV Intercreditor and Collateral Agency Agreement, dated as of May 20, 2005, by and among Fleet National Bank, a Bank of America company, The Prudential Insurance Company of America, and the other banks from time to time party thereto, and Fleet National Bank, a Bank of America company, as administrative agent, and the Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement by American Biltrite Inc. and certain of its domestic guarantor subsidiaries 4 (4) XV Joinder Agreement, dated as of May 20, 2005, between Abimex, LLC and Fleet National Bank, a Bank of America company, as domestic agent 4 (5) XV Joinder Agreement, dated as of May 20, 2005, between ABItalia, Inc. and Fleet National Bank, a Bank of America company, as domestic agent 4 (6) XV Joinder Agreement, dated as of May 20, 2005, between American Biltrite Far East, Inc. and Fleet National Bank, a Bank of America company, as domestic agent 4 (7) XV Joinder Agreement, dated as of May 20, 2005, between K&M Legendary Services, Inc. and Fleet National Bank, a Bank of America company, as domestic agent 4 (8) I Indenture, dated as of August 3, 1998, by and between Congoleum Corporation and First Union National Bank, as trustee 4 (9) I First Supplemental Indenture, dated as of March 28, 2003, between Congoleum Corporation and Wachovia Bank, National Association (as successor to First Union National Bank), as trustee 4 (10) I Second Supplemental Indenture, dated as of August 7, 2003, between Congoleum Corporation and Wachovia Bank, National Association (as successor to First Union National Bank), as trustee 10 (1) III Joint Venture Agreement dated as of December 16, 1992 by and among American Biltrite Inc., Resilient Holdings Incorporated, Congoleum Corporation, Hillside Industries Incorporated and Hillside Capital Corporation 119 Exhibit No. Description

----- 10 (2) IV Closing Agreement dated as of March 11, 1993 by and among American Biltrite Inc., Resilient Holdings Incorporated, Congoleum Corporation, Hillside Industries Incorporated and Hillside Capital Corporation 10 (3) VIII, II 1993 Stock Award and Incentive Plan as Amended and Restated as of March 4, 1997 10 (4) VI K&M Associates L.P. Amended and Restated Agreement of Limited Partnership 10 (5) V Purchase Agreement dated as of March 31, 1995 by and among Ocean State Jewelry, Inc. and certain limited partners of K&M Associates L.P. 10 (6) V Agreement and Plan of Merger dated as of April 1, 1995 by and among the Company, Jewelco Acquisition Co., Inc., AIMPAN, Inc., Arthur I. Maier, Bruce Maier and Edythe J. Wagner 10 (7) V Option Agreement dated as of April 1, 1995 by and among Ocean State Jewelry, Inc. and certain limited partners of K&M Associates L.P. 10 (8) V Agreement and Plan of Merger dated as of May 3, 1995 by and among the Company, Zirconia Acquisition Co., Inc., Wilbur A. Cowett Incorporated and Wilbur A. Cowett 10 (9) VII, II Split-Dollar Agreement dated as of December 20, 1996 by and between American Biltrite Inc. and the Marcus Family 1996 Irrevocable Insurance Trust Dated October 28, 1996 10 (10) VII, II Split-Dollar Agreement dated as of December 20, 1996 by and between American Biltrite Inc. and The Richard G. Marcus Irrevocable Insurance Trust of 1990 Dated June 1, 1990 10 (11) VII, II Split-Dollar Agreement dated as of December 20, 1996 by and between American Biltrite Inc. and the Roger S. Marcus Irrevocable Insurance Trust Dated November 29, 1996, Richard G. Marcus, Trustee 10 (12) VII, II Split-Dollar Agreement dated as of January 9, 1997 by and between American Biltrite Inc. and Joseph D. Burns 10 (13) VII, II Description of Supplemental Retirement Benefits for Gilbert K. Gailius 10 (14) IX, II American Biltrite Inc. Deferred Compensation Plan 10 (15) IX American Biltrite 1999 Stock Option Plan for Non-Employee Directors 10 (16) X, II Description of Employment Arrangement for Gilbert K. Gailius. 10 (17) II, XI Split-Dollar Agreement dated as of November 20, 2000 by and between American Biltrite Inc. and Howard N. Feist III 120 Exhibit No. Description ----- 10 (18) XII Personal Services Agreement, dated as of March 11, 1993, by and between Congoleum Corporation and the Company; First Amendment dated as of February 8, 1995; Second Amendment dated as of November 15, 1996; Third Amendment dated as of March 10, 1998; Fourth Amendment dated as of November 7, 2002 10 (19) XV Amended and Restated Credit Agreement, dated as of May 20, 2005, among American Biltrite Inc, K&M Associates L.P., and American Biltrite (Canada) Ltd., Fleet National Bank, a Bank of America company, both in its capacity as a domestic lender and as a domestic administrative agent, Bank of America, National Association, acting through its Canada branch, both in its capacity as a Canadian lender and as Canadian administrative agent, and the other lenders from time to time party thereto 10 (20) XIV Security Agreement, dated as of October 14, 2003, among American Biltrite Inc., K&M Associates L.P., Fleet National Bank and the subsidiaries of American Biltrite Inc. from time to time party

thereto 10 (21) XV Intercreditor and Collateral Agency Agreement, dated as of May 20, 2005, by and among Fleet National Bank, a Bank of America company, The Prudential Insurance Company of America, and the other banks from time to time party thereto, and Fleet National Bank, a Bank of America company, as administrative agent, and the Acknowledgment of and Consent and Agreement to Intercreditor and Collateral Agency Agreement by American Biltrite Inc. and certain of its domestic guarantor subsidiaries 10 (22) XIV Guarantee Agreement dated as of October 14, 2003, among Abtre, Inc., Aimpar, Inc., American Biltrite Intellectual Properties, Inc., Ideal Tape Co., Inc., Majestic Jewelry, Inc., Ocean State Jewelry, Inc., 425 Dexter Associates, L.P. and Fleet National Bank 10 (23) XV Joinder Agreement, dated as of May 20, 2005, between Abimex, LLC and Fleet National Bank, a Bank of America company, as domestic agent 10 (24) XV Joinder Agreement, dated as of May 20, 2005, between ABIItalia, Inc. and Fleet National Bank, a Bank of America company, as domestic agent 10 (25) XV Joinder Agreement, dated as of May 20, 2005, between American Biltrite Far East, Inc. and Fleet National Bank, a Bank of America company, as domestic agent 10 (26) XV Joinder Agreement, dated as of May 20, 2005, between K&M Legendary Services, Inc and Fleet National Bank, a Bank of America company, as domestic agent 10 (27) XV Deed of Hypothec and Issue of Mortgage Bonds, dated May 20, 2005, by American Biltrite (Canada) Ltd. in favor of Bank of America, National Association 10 (28) XV Hypothec and Pledge of Bonds, dated May 20, 2005, between American Biltrite (Canada) Ltd. and Bank of America, National Association 121 Exhibit No. Description

----- 10 (29) XVI Form of Stock Option Agreement for American Biltrite Inc.'s 1993 Stock Award and Incentive Plan, as amended and restated as of March 4, 1997 10 (30) XVI Form of Stock Option Agreement for American Biltrite Inc.'s 1999 Stock Option Plan for Non-Employee Directors 10 (31) XIII Settlement Agreement Between Congoleum Corporation and Various Asbestos Claimants dated April 10, 2003 10 (32) XIII First Amendment to Settlement Agreement Between Congoleum Corporation and Various Asbestos Claimants dated June 6, 2003 10 (33) XIII Collateral Trust Agreement, dated April 16, 2003, by and between Congoleum Corporation, Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust, and Wilmington Trust Company, solely in its capacity as Delaware Trustee of the Collateral Trust 10 (34) XIII First Amendment to Collateral Trust Agreement, dated June 6, 2003, by and between Congoleum Corporation, Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust, and Wilmington Trust Company, solely in its capacity as Delaware Trustee of the Collateral Trust 10 (35) XIII Security Agreement, dated April 16, 2003, by and between Congoleum Corporation and Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust 10 (36) XIII Second Security Agreement, dated April 17, 2003, by and between Congoleum Corporation and Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust 10 (37) XIII Termination Agreement, dated June 6, 2003, by and between Congoleum Corporation and Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust 10 (38) XIII Superseding Security Agreement, dated June 11, 2003, by and between Congoleum Corporation and Arthur J. Pergament, solely in his capacity as the Collateral Trustee of the Collateral Trust 10 (39) I Loan and Security Agreement, dated December 10, 2001 by and between Congress Financial Corporation and Congoleum Corporation 10 (40) I Amendment No. 1 to Loan and Security Agreement, dated September 24, 2002, by and between Congress Financial Corporation and Congoleum Corporation 10 (41) I Amendment No. 2 to Loan and Security Agreement, dated as of February 27, 2003, by and between Congress Financial Corporation and Congoleum Corporation 122 Exhibit No. Description ----- 10 (42) I Ratification and Amendment Agreement dated January 7, 2004, by and between Congoleum Corporation and Congress Financial Corporation 10 (43) I Ratification and Amendment Agreement dated December 14, 2004, by and between Congoleum Corporation and Congress Financial Corporation 10 (44) Amendment No. 4 to Ratification and Amendment Agreement and Amendment No. 6 to Loan and Security Agreement 21 (1) Subsidiaries of the Registrant (including each subsidiary's jurisdiction of incorporation or organization and the name under which each subsidiary does business) 23 (1) Consent of Independent Registered Public Accounting Firm 31.1 Certification of the Chief Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 31.2 Certification of the Chief Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 32 Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 99 (1) XVII Eighth Modified Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, et al., dated as of March 17, 2006 99 (2) XVII Proposed Disclosure

Statement with respect to the Eighth Modified Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Congoleum Corporation, et al., dated as of March 17, 2006 99 (3) XV Settlement Agreement and Release, dated June 18, 2004, by and between Congoleum Corporation and Liberty Mutual Insurance Company 99 (4) XV Settlement Agreement and Release, dated May 12, 2005, by, between and among Congoleum Corporation, Congoleum Sales, Inc., Congoleum Fiscal, Inc. and AIG Domestic Claims, Inc., as authorized agent for the applicable AIG companies, and the Plan Trust 99 (5) XV Confidential Settlement Agreement and Release, dated June 22, 2005, by and between Congoleum Corporation, the Plan Trust and certain underwriters at Lloyd's, London 99 (6) XV Amendment, dated July 29, 2005, to the Confidential Settlement Agreement and Release, among Congoleum Corporation, the Plan Trust and certain underwriters at Lloyd's, London 123 Exhibit No. Description
----- 99 (7) XVI Settlement Agreement and Release dated August 3, 2005 by, between and among Congoleum Corporation and Federal Insurance Company 99 (8) XVI Confidential Settlement Agreement and Release dated September 30, 2005 among Congoleum Corporation, the Plan Trust and Mt. McKinley Insurance Company and Everest Reinsurance Company ----- I Exhibits filed with the current Company's Annual Report on Form 10-K for the year ended December 31, 2004. II Compensatory plans required to be filed as exhibits pursuant to Item 15(a) of Form 10-K. III Incorporated by reference to the exhibits filed with the Company's Current Report on Form 8-K filed on December 21, 1992. (1-4773) IV Incorporated by reference to the exhibits filed with the Company's Current Report on Form 8-K filed on March 25, 1993. (1-4773) V Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K as amended by the Form 8-K/A filed respectively on May 17, 1995 and July 17, 1995. (1-4773) VI Incorporated by reference to Item 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 1995. (1-4773) VII Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 1996. (1-4773) VIII Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q filed on August 8, 1997. (1-4773) IX Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q filed on August 12, 1999. X Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 1999. XI Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2000. XII Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2002. XIII Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q filed on August 14, 2003. 124 XIV Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed on October 17, 2003. XV Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q filed on August 15, 2005. XVI Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q filed on November 14, 2005 XVII Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed on March 22, 2006 125