CYBER CARE INC
Form S-8
April 18, 2002

As filed with the Securities and Exchange Commission on April 18, 2002
Registration no. 333-__________

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-8
Registration Statement
Under the Securities Act of 1933

CYBERCARE, INC.
(Exact name of Registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or organization)

65-0158479
(I.R.S. Employer Identification Number)

2500 Quantum Lakes Drive, Suite 1000
Boynton Beach, Florida 33426
(561) 742-5000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Steven M. Cohen
Chief Financial Officer
2500 Quantum Lakes Drive, Suite 1000
Boynton Beach, Florida 33426
(561) 742-5000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

CYBER-CARE RETIREMENT SAVINGS PLAN
(Full Title of the Plan)

COPY TO:
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CALCULATION OF REGISTRATION FEE

| TITLE OF SECURITIES TO BE REGISTERED | AMOUNT BEING REGISTERED(1) | PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2) | PROPOSED AGGR OFFERING |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Common Stock, par value $.0025 per share | 106,389 | $.19 | $20, |
| TOTAL | | | |

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, the number of shares of the issuer's Common Stock registered hereunder will be adjusted in the event of stock splits, stock dividends or similar transactions.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(h), on the basis of the average high and low prices as reported by the Nasdaq National Market on April 16, 2002.

PROSPECTUS
CYBERCARE, INC.

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106,389 SHARES

COMMON STOCK

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This prospectus is a part of a registration statement covering an aggregate of 106,389 shares of Common Stock of CyberCare, Inc. ("CyberCare", "we", "us" or "our"). The shares are being issued pursuant to Cyber-Care's Retirement Savings Plan (the "Plan"). Individuals who are issued shares covered by this prospectus are sometimes collectively referred to as "selling security holders." Selling security holders may sell all or a portion of the shares covered by this prospectus, from time to time, in the over-the-counter market, in negotiated transactions, directly or through brokers or otherwise, and at market prices prevailing at the time of such sales at negotiated prices.

We will not receive any portion of the proceeds resulting from the sale of the shares offered by the selling security holder under this prospectus. We will pay all costs and expenses incurred in connection with the registration of the shares. The selling security holders will pay the costs associated with any subsequent sales of the registered shares, including any concessions, commissions, fees and applicable transfer taxes.

Our common stock is quoted on the Nasdaq National Market under "CYBR." On April 16, 2002, the last reported sales price of CyberCare was $.16 per share.

AN INVESTMENT IN THE SECURITIES OFFERED BY THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. CONSIDER CAREFULLY THE RISK FACTORS APPEARING ON PAGE 7.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OF THE SECURITIES TO BE ISSUED UNDER THIS PROSPECTUS OR DETERMINED THAT THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is April 18, 2002



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WE HAVE NOT AUTHORIZED ANYONE TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION ABOUT CYBERCARE THAT DIFFERS FROM, OR ADDS TO, THE INFORMATION IN THIS PROSPECTUS OR IN OUR DOCUMENTS THAT ARE PUBLICLY FILED WITH THE SECURITIES EXCHANGE COMMISSION. ACCORDINGLY, IF ANYONE DOES GIVE YOU DIFFERENT OR ADDITIONAL INFORMATION YOU SHOULD NOT RELY ON IT.

IF YOU ARE IN A JURISDICTION WHERE IT IS UNLAWFUL TO BUY THE SECURITIES OFFERED BY THE PROSPECTUS, OR IF YOU ARE A PERSON TO WHOM IT IS UNLAWFUL TO DIRECT SUCH ACTIVITIES, THEN THE OFFER PRESENTED BY THIS PROSPECTUS DOES NOT EXTEND TO YOU.



WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and special reports, proxy statements and other information with the Securities Exchange Commission

("SEC"). You may read and copy any document we file at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C., and at its offices in New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for more information on the operation of the public reference rooms. Copies of our SEC filings are also available to the public from the SEC's web site at HTTP://WWW.SEC.GOV.

## INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information filed with the SEC will update and supersede this information. We incorporate by reference the documents listed below, any of such documents filed since the date this registration statement was filed and any future filings with the SEC under Section 13(a), 13(c), 14 or 15(d) of the 1934 Act until the offering is completed:

* Proxy statement filed on May 9, 2001, for our annual meeting of shareholders.
* Quarterly reports on Forms 10-Q for the periods ended March 31, 2001, June 30, 2001, and September 30, 2001.
* Current reports on Form 8-K filed on June 1, 2001, June 28, 2001, September 17, 2001, October 15, 2001, October 31, 2001, January 15, 2002, January 16, 2002, February 11, 2002, March 7, 2002, April 15, 2002 and April 17, 2002.
* Annual report on Form 10-K for the year ended December 31, 2001.

You may request a copy of these filings, at no cost, by writing or calling us at the following address and telephone number:

Corporate Secretary
CyberCare, Inc.
2500 Quantum Lakes Drive, Suite 1000
Boynton Beach, Florida 33426-8308
Telephone (561) 742-5000

## FORWARD-LOOKING INFORMATION

This Prospectus and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made, or to be made, by us, contain, or may contain disclosures which are "forward-looking statements."

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For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "could," "may," "will," "believes," "anticipates," "plans," "expects," "projects," "estimates," "intends," "continues," "seeks," "predicts," "expectations," variations of such words and similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict. As a result, because these statements are based on expectations as to future performance and events and are not statements of fact, actual events or results may differ materially from those expressed or forecast

in such forward-looking statements. Factors that might cause CyberCare's actual results to differ materially from those indicated by such forward-looking statements include, without limitation, those discussed in our filings with the Securities and Exchange Commission, including but not limited to our most recent proxy statement and "Risk Factors" and included elsewhere in this Prospectus, as well as Future Factors that may have the effect of reducing our available operating income and cash balances.

Future Factors include risks associated with the uncertainty of future financial results; government approval processes; changes in the regulation of the healthcare and technology industries at either the federal or state levels; changes in reimbursement for services by government or private payors; competitive pressures in the healthcare and technology industries and CyberCare's response thereto; delays or inefficiencies in the introduction, acceptance or effectiveness of new products; the impact of competitive products or pricing; CyberCare's relationships with customers and partners; cash expenditures related to possible future acquisitions and expansions; on-going capital expenditures; CyberCare's ability to obtain capital on favorable terms and conditions; increasing prices of products and services; U.S. and non-U.S. competitors, including new entrants; rapid technological developments and changes and CyberCare's ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products and services; the availability of manufacturing capacity, components and materials; the ability to recruit and retain talent; the achievement of lower costs and expenses; credit concerns in the emerging service provider market; customer demand for CyberCare's products and services; U.S. and non-U.S. government and public policy changes that may affect the level of new investments and purchases made by customers; changes in U.S. and non-U.S. governmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers and significant suppliers; the ability to supply customer financing; technological implementation; and cost/financial risks in the use of large, multiyear contracts; CyberCare's credit ratings; the outcome of pending and future litigation; continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support CyberCare's future business; general industry and market conditions and growth rates; and general U.S. and non-U.S. economic conditions, including interest rate and currency exchange rate fluctuations.

You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein. These statements should be considered only after carefully reading this entire Prospectus and the documents incorporated herein by reference.



BUSINESS

CyberCare, Inc. was incorporated in September 1989 in the State of Florida. Our principal executive offices are located at 2500 Quantum Lakes Drive, Suite 1000, Boynton Beach, Florida 33426, and our telephone number is (561) 742-5000. CyberCare consists of the following three separate and distinct businesses:

Pharmacy business whose operations primarily support assisted living and similar long-term care facilities;

Physical therapy and rehabilitation business focuses on providing occupational, physical and speech therapy services; and

Technology business focuses on the development and commercialization of patented products and services used in remote monitoring, care and communication between patients, caregivers and other people included in the healthcare continuum.

Our technology division is a tele-health solutions company improving the delivery of care through its products and services. Tele-health involves the remote monitoring of patients and delivery of care via specially designed hardware and software, through standard telephone lines and/or broadband connectivity, either directly or in a network-based environment over the Internet. Product offerings enable health plans, home health, disease management agencies, employers, hospital systems, HMOs, insurers and other risk bearing organizations to better manage the cost of care through wellness and disease management programs.

We create an online interactive community that incorporates all members of the care team in the healthcare delivery process, resulting in cost reductions and the improvement in the quality of patient care. Utilizing patented technology for the remote monitoring and real-time interactive communication between patients and caregivers, the CyberCare System(TM) allowS for effective and efficient electronic disease management, including automatic data collection, case management, and personal interaction. The CyberCare System(TM), which consists of the Electronic HouseCall(R) family of products ("EHC(TM)"), the CyberCare 24 Network(TM), and the CyberHealth ManagEr(TM), provides a complete package of tele-health products and services for patients, caregivers and payors. We are committed to quality and our solutions are global in nature. In addition to our domestic sales efforts, we intend to market our products and services in foreign markets via a series of licensing arrangements and joint venture partnerships with local organizations that understand local health care delivery issues and which have a strong local presence, appropriate infrastructure and relationships with industry and government.



Our proprietary software application is the Electronic HouseCall(R) application that runs on the EHC(TM) patient and provider Units that havE videoconferencing and medical measurement capabilities. This software application was originally developed at Georgia Tech and further modified by us. The software application implements the patented technology that is licensed to us from Georgia Tech and the Medical College of Georgia. The patent (U.S. Patent No. 5,987,519 titled "Telemedicine system using voice video and data encapsulation and de-encapsulation for communicating medical information between central monitoring stations and remote patient monitoring stations") secures all telemedicine applications that use packet-based technology to simultaneously exchange voice, video, and medical data. Also incorporated in the software application is the technology secured by U.S. Patent No. 6,112,224 titled "Patient monitoring station using a single interrupt resource to support multiple measurement devices" as well as technology secured by multiple patents pending.

Our CyberCare System is comprised of monitoring devices ("Units") and peripheral medical devices designed for use by patients and Units designed for use by care providers. Units and peripherals determined to be medical devices have received marketing approval by the United States Food and Drug Administration ("FDA") as described below. Other Units are not subject to FDA regulatory approval or, because they have been determined to be line extensions of a "cleared" Unit, do not require additional regulatory approval.

PATIENT UNITS

EHC100: This Unit is a general-purpose telecommunications device for use by patients and is not regulated by the FDA. It uses standard telephone lines and is intended for use by an unassisted patient in his or her residence. The Unit allows the patient to use certain peripheral medical devices and take their own vital signs measurements, such as blood pressure, blood glucose level and body weight. The Unit then transmits the measurements to a database that resides on the CyberCare 24 Network(TM) for review, analysis anD appropriate action by a care provider.

EHC1500: The EHC1500 is a variation of the EHC100 that uses a pocket PC platform, thereby allowing greater portability and flexibility of use. It can be configured to handle up to three peripheral medical devices, including a blood pressure cuff, weight scale and blood glucose meter. It communicates and transmits the vital signs data through the CyberCare 24 Network using a standard telephone line or by wireless connection.

EHC400: This patient Unit has received FDA marketing clearance and uses broadband telecommunication services to connect to the CyberCare 24 Network. It allows the patient to interact with care providers (such as a physician, nurse, physician assistant, care manager, etc.) situated in another location in a "virtual housecall" through an audio-visual videoconference, and allows the patient, using various peripheral medical devices, to collect and transmit his or her own medical measurements (such as blood pressure, using a sphygmomanometer; temperature, using an electronic



oral thermometer; blood oxygen saturation and pulse, using a pulse oximeter; blood glucose (sugar) level, using a glucometer; body weight, using an electronic weight scale; and/or heart, lung and bowel sounds, using an electronic stethoscope) through the CyberCare 24 Network for immediate or later review by care providers.

EHC300: This patient Unit is similar to the EHC400, but only permits audio-visual videoconferencing without the addition of peripheral medical devices or vital sign data collection. It communicates with care provider Units via the CyberCare 24 Network using standard telephone lines and has the capability to engage in multipoint conferences with other Units through the CyberCare 24 Network.

EHC350: Similar to the EHC400, this patient Unit combines the audio-visual videoconferencing capabilities of the EHC300 with peripheral medical device availability and patient vital signs data collection through a special module to accommodate the peripheral devices. The Model 350 is equipped with a module for accommodating the connection of peripheral devices and communicates and transmits data through the CyberCare 24 Network using standard telephone lines.

EHC2000: This is a more advanced, compact and lightweight version of the EHC400 which supports the use of peripheral medical devices including "plug and play" USB ports. It also features a magnetic card reader and can use either standard analog telephone lines or broadband telecommunications service to communicate and transmit data via the CyberCare 24 Network.

EHC2050: This patient Unit is a variation of the EHC 2000 and uses standard telephone lines to communicate and transmit data either using the routed architecture of the CyberCare 24 Network or directly (in a "point-to-point" manner) to a care provider using either an EHC650 or EHC1650 care provider Unit.

CARE PROVIDER UNITS

EHC600: The EHC600 care provider workstation Unit has received FDA marketing clearance and uses broadband telecommunications service to allow care providers to conduct a "virtual housecall" and interact with a remotely situated patient in an audio-visual videoconference. Incorporating the Cyber HealthManager software, this Unit also allows care providers to initiate collection of certain patient vital signs measurements during a "virtual housecall" as well as review patient vital sign measurements and snapshot images (such as for wound care treatment) transmitted by a patient Unit through the CyberCare 24 Network. This Unit enables the care provider to assess patient status, analyze patient data and develop reports through its various software capabilities.

EHC650: This Unit has the same features as the EHC600, except that it communicates directly with an EHC2050 patient Unit (in a "point-to-point" manner) rather than through the routed architecture of the CyberCare 24 Network.

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EHC1600: This care provider Unit is a laptop version of the EHC 600 workstation, but uses either standard analog telephone lines or broadband telecommunications service to communicate via the CyberCare 24 Network.

EHC1650: This model is similar to the EHC1600 except that it utilizes standard analog telephone lines to communicate directly (in a "point-to-point" manner) with patient Units having videoconferencing capabilities. The EHC1650 uses a stand-alone database and can be connected with the CyberCare 24 Network as needed for periodic software and database updates.

EHC1625: This care provider Unit is a scaled-down, hand-held version of the EHC600 and uses pocket PC platform. It is a care management device that enables the care provider to remotely monitor patient vital sign data transmitted from a patient Unit. It does not permit direct interaction or video conferencing with a patient. It is web-enabled and operates either in a wireless environment or using standard analog telephone lines to communicate via the CyberCare 24 Network.

EHC3000 CARE MANAGEMENT SOFTWARE: This is a web-enabled software platform that allows the care provider access, via the internet and a secure home page, to the data on the CyberCare 24 Network database transmitted from patient Units. It operates on any computer with internet access that utilizes an industry standard browser and can provide electronic mail notifications to care providers regarding a patient's condition based on programmable ranges and/or thresholds determined by the care provider.

PERIPHERAL MEDICAL DEVICES AND SOFTWARE APPLICATIONS

A number of peripheral medical devices are used in connection with certain EHC patient Units, some of which we obtain commercially from medical device suppliers and others which we have developed ourselves. We have developed certain medical devices and software applications as principle components of the CyberCare System and have received FDA marketing clearance on such items as follows:

Weight Scale - FDA marketing clearance obtained.
Blood Glucose Meter - FDA marketing clearance obtained.
Electronic Stethoscope - FDA marketing clearance obtained.
Blood Pressure Cuff (Sphygmomanometer) - FDA marketing clearance obtained.

Pulse Oximeter - FDA marketing clearance obtained.
Electronic Oral Thermometer - FDA marketing clearance obtained.
Spirometer - Application for FDA marketing clearance in progress.
Medication Compliance Option - Application for FDA marketing clearance in progress.

The CyberCare System has a very flexible configuration and system design, allowing the EHC products to meet various application requirements and conditions for different market segments. The products and services may be combined in a fully network-based system or in a point-to-point configuration. In addition to workstation type Units, the CyberCare System includes



web-based, mobile and hand-held EHC Units for both the caregiver and the patient so they are not constrained by the boundaries of home, office or expensive stand alone equipment. All the EHC products conform to industry standards and may be integrated into customer workflow and data management operating systems. Significant attention in the design process has been devoted to security, confidentiality and privacy, as well as to intended target markets. The CyberCare System helps the caregiver to track clinical outcomes and improvements in medication and treatment compliance.

The CyberCare System has been designed to be implemented in fee-for-service, case rate, episodic rate or capitation environments.

OUR OTHER BUSINESSES

We provide physical, occupational, speech therapy and pain rehabilitation services in clinics currently owned and/or operated. We currently employ approximately 153 people in this segment. On average, each physical therapy clinic typically has a staff of three, including a fully licensed therapist, a licensed therapy assistant and an administrative secretary/rehabilitation aide. We develop rehabilitation clinics within specific geographic locations throughout Florida that we believe will create synergies and operating efficiencies and satisfy the cost containment requirements of significant payor sources. Our rehabilitation services include specialty programs, like pain management, coupled with traditional services, such as comprehensive rehabilitation.

Our Pharmacy is a pharmacy employing approximately 48 individuals with its principal place of business in Lakeland, Florida. Through this segment, we provide unit-dosed medications to over 4,000 residents in 85 assisted-living facilities across central and west Florida by delivering directly to the facilities serviced. Our Pharmacy also has permits to dispense to patients in other states as a non-resident pharmacy.

We are currently evaluating the above two businesses for growth, profitability and cash flow. Upon the completion of the evaluation, we will make a determination whether to maintain these businesses as part of the consolidated group or, if we receive an offer to purchase these businesses which is in the best interest of our shareholders, we will sell the businesses.

RISK FACTORS

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF LOSSES AND A SUBSTANTIAL ACCUMULATED DEFICIT AND WE MAY NEVER REACH PROFITABILITY

To date, we have been unable to generate revenue sufficient to be profitable on a consistent basis. Consequently, we have sustained substantial losses. Net losses for the years ended December 31, 2001, 2000 and 1999 were $44,916,000, $28,698,000 and $10,808,000, respectively. Our



accumulated deficits as of December 31, 2001 and 2000 were $112,066,000 and $67,150,000, respectively. Our products and services may never achieve the commercial acceptance necessary to achieve the level of revenues needed to be profitable in the future or, if profitability is achieved, that it will be sustained.

WE WILL NEED TO OBTAIN ADDITIONAL FINANCING AND WE CANNOT BE CERTAIN THAT ADDITIONAL FINANCING WILL BE AVAILABLE WHEN NEEDED OR ON TERMS FAVORABLE TO US OR OUR STOCKHOLDERS

Our future capital requirements will depend on many factors, including but not limited to:

* the market acceptance of the CyberCare System;
* the levels of promotion and marketing required to attain a competitive position in the marketplace;
* the extent to which we invest in new technology and improvements of existing technology; and
* the response of competitors to our introduction of the CyberCare System and other new products and services.

To the extent that funds generated through the exercise of stock options and warrants, sale of common shares under our private equity line agreement with Strategic Investment Management, S.A., together with existing resources, are insufficient to fund our activities over the short and long term, we will need to raise additional funds through equity or debt financing or from other sources. The sale of additional equity or convertible debt may result in additional dilution to our stockholders. To the extent that we rely upon debt financing, we will incur the obligation to repay the funds borrowed with interest and may become subject to covenants and restrictions that restrict operating flexibility. Failure to obtain necessary financing could have a material adverse effect on our business, financial condition or results of operations.

WE MAY NOT BE ABLE TO PROTECT PATENTS AND PROPRIETARY TECHNOLOGY, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

Our ability to compete effectively in the tele-health industry will depend on our success in developing and marketing our products and services and/or acquiring other suitable businesses and protecting our proprietary technology both in the United States and abroad. We currently have a license for certain patents and have several patents pending. We intend to file additional patent applications that we deem to be economically beneficial. If we are not successful in obtaining and defending patents or demonstrating that our technology is proprietary, we will have limited protection against those who might copy our technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties. The expenditure involved in asserting, obtaining or defending these intellectual property rights may be more

than we can afford.



Although we have and will continue to enter into confidentiality, covenant not to compete and invention agreements with our employees, consultants, partners and acquisition targets, such agreements may not be honored or they may not be able to adequately protect our rights to our non-patented trade secrets and know-how.

THIRD PARTIES MAY CLAIM THAT WE HAVE BREACHED THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD RESULT IN SIGNIFICANT ADDITIONAL COSTS OR PREVENT US FROM PROVIDING ALL OF OUR SERVICES

Certain products, which are components of the CyberCare System, were the subject of a patent infringement complaint filed March 2, 2001 by the Cybernet Systems Corporation ("Cybernet") in the United States District Court for the Eastern District of Michigan. The complaint alleged that at least our EHC 600 Provider Units, EHC 500 and EHC 400 Patient Units, and EHC 200 Videoconferencing Unit infringed Cybernet's U.S. Patent No. 6,050,940, issued April 18, 2000, for "General-Purpose Medical Instrumentation". The complaint was never served on us and the lawsuit was dismissed by court order on July 5, 2001 based on the plaintiff's failure to prosecute the case. Had the lawsuit been pursued, we strongly believe we have good and valid defenses to Cybernet's charges of infringement, including, but not limited to, that each of the accused products do not infringe any of the Cybernet patent claims. We are not aware of other claims or threats of claims regarding patent infringement or alleged infringement.

Third parties may bring claims of copyright or trademark infringement, patent infringement or misappropriation of creative ideas or formats against us with respect to content that we distribute or our technology or marketing techniques and terminology. Claims of this kind, even if without merit, could be time-consuming to defend, result in costly litigation, divert management attention, require us to enter into costly royalty or licensing arrangements or prevent us from distributing certain content or utilizing important technologies, ideas or formats.

Defending and prosecuting intellectual property suits, interference proceedings and related legal and administrative proceedings are costly, time-consuming and divert the attention of technical and management personnel. Litigation may be necessary to enforce our patents or defend our patent rights, to protect our trade secrets or know-how or to determine the enforceability, scope and validity of the proprietary rights of others. If the outcome of any such litigation or interference proceedings is adverse to us, it could subject us to significant liabilities to third parties or require us to license disputed rights from third parties or cease using such technology, which would have a material adverse effect on our business, financial condition, results of operations and future growth prospects. Patent and intellectual property disputes in the medical device area have often been settled through licensing or similar arrangements, which can include ongoing royalties. We may not obtain the necessary licenses on satisfactory terms, if at all.



CHANGES IN PAYMENT FOR MEDICAL SERVICES COULD HARM OUR BUSINESS

We believe that trends in cost containment in the health care industry will continue to result in a reduction in per-patient revenues which may impact our health services segments. The federal government has implemented, through the Medicare program, a payment methodology for physician services. This methodology is a fee schedule that, except for certain geographical and other adjustments, pays similarly situated physicians the same amount for the same services. The schedule is adjusted each year and is subject to increases or decreases at the discretion of Congress. Reduced operating margins may not be recouped by us through cost reductions, increased volume, introduction of additional procedures or otherwise. Rates paid by non-governmental insurers, including those that provide Medicare supplemental insurance, are based on established physician, ambulatory surgery center and hospital charges, and are generally higher than Medicare payment rates. A change in the makeup of the patients that we serve that results in a decrease in patients covered by private insurance or a shift in private pay payment structures could adversely affect our business, financial condition or results of operations.

CERTAIN PAYMENTS TO OUR PT&R SUBSIDIARY HAVE BEEN HELD IN ESCROW

Our Physical Therapy and Rehabilitation subsidiary ("PT&R") received a letter from the Center for Medicare and Medicaid Services ("CMS") and its intermediary in April 2001 notifying us of the suspension of Medicare payments. CMS alleged that certain patient complaints, which constituted less than 1% of PT&R's Medicare patients, and other alleged regulatory non-compliance, justified the payment suspension. During the suspension, the Medicare program continued to process PT&R's claims, but held payments in escrow. In August 2001, the suspension was lifted and payments for processed claims were released, although approximately $1,114,548 remains held in escrow, pending further review. CyberCare has learned that CMS has completed its review and a formal determination is expected shortly, which is anticipated to include a release of the escrowed amount as offset by an amount for denied claims. The denied claims may be appealed through the CMS administrative appeal process. As of December 31, 2001, the Company has recorded an allowance for uncollectibles in the amount of $500,000 against the balance being held.

WE ARE THE SUBJECT OF SECURITIES CLASS ACTION LITIGATION

We are currently the subject of a consolidated class action lawsuit against us and certain of our executive officers alleging violations of federal securities laws. The action seeks unspecified damages and costs. Securities litigation could result in substantial costs to us and could divert management's attention and resources away from our operations and development. Although we have insurance coverage for this consolidated action which we believe will be adequate to cover defense costs, an exception or exclusion to coverage may apply or such coverage may not in fact cover all defense costs. We believe that we have meritorious defenses to these suits, but we may not prevail in this litigation. Since this consolidated action is in the early stages, we cannot predict the outcome of this litigation or determine the full potential impact it may have on our liquidity or financial condition. We, and our executives, believe the claims made in the complaint lack merit.

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We are engaged, as disclosed herein, in other ongoing litigation. We are unable to estimate the financial impact on CyberCare's financial statements of other ongoing litigation.

WE HAVE LIMITED EXPERIENCE CONDUCTING OPERATIONS INTERNATIONALLY, WHICH MAY MAKE OVERSEAS EXPANSION MORE DIFFICULT AND COSTLY

We have begun the process of initiating business network operations in several foreign countries. We are subject to differing laws, regulations and business cultures which may adversely impact our business. We may also be exposed to economic and political instability and international unrest. Although we have and will continue to enter into agreements with our partners and customers that attempt to minimize these risks, such agreements may not be honored or we may not be able to adequately protect our interests.

We plan to expand our international operations in the future. There are many barriers and risks to competing successfully in the international marketplace, including:

* Costs of customizing products for foreign countries;
* Foreign currency risks;
* Dependence on local vendors;
* Compliance with multiple, conflicting and changing laws, and regulations and policies;
* Longer sales cycles;
* Import and export restrictions and tariffs.

As a result of these competitive barriers to entry and risks, we may not be able to successfully market, sell and deliver our products and services in international markets.

We may engage in hedging transactions in the future to manage or reduce our foreign exchange risk. However, our attempts to manage our foreign currency exchange risk may not be successful and, as a result, our net earnings could be negatively affected by any unfavorable fluctuations in foreign currency exchange rates.

Our foreign operations could also be subject to unexpected changes in regulatory requirements, tariffs, and other market barriers and political and economic instability in the countries where we operate. Due to our foreign operations, we could be subject to such factors in the future and the impact of any such events that may occur in the future could subject us to additional costs or loss of sales, which could negatively affect our operating results.

THE NATURE OF OUR BUSINESS EXPOSES US TO PROFESSIONAL AND PRODUCT LIABILITY CLAIMS, WHICH COULD MATERIALLY ADVERSELY IMPACT OUR OPERATIONS



Our business and technology exposes us to potential professional and product liability risks which are inherent to such business and products, including the risks associated with providing tele-health and disease management products and services through a virtual private network which is reliant upon telecommunications pipelines and connections provided by third parties which may, from time to time, experience interruption of service. We carry reasonably adequate insurance to protect against professional and product liability, including errors and omissions in our technology and software design, unauthorized access to our network and loss or interruption of service or system functions, which could materially adversely impact our business and operations.

WE MAY LOSE REVENUE OR INCUR ADDITIONAL COSTS BECAUSE OF SYSTEM FAILURE

Any system failure that causes interruptions in our operations may have an adverse effect on our business, financial condition or results of operations. Our services are dependent on our own and other companies' abilities to successfully integrate technologies and equipment. In connecting with other companies' equipment we take the risk of not being able to provide service due to telecommunications failure. There is also the risk that our equipment may malfunction or that we could make an error, which may negatively affect our customers' service. Our hardware and other equipment may also suffer damage from natural disasters and other catastrophic events, such as loss of power and telecommunications failures. We have taken a number of steps to prevent our service from being affected by natural disasters, including development of redundant systems. Nevertheless, such steps and redundancies may not prevent our system from becoming disabled in the event of a hurricane, power outage or otherwise. The failure of our system resulting from the effects of a natural or man-made disaster could have an adverse effect on our relationship with our customers and our business, financial condition and results of operation.

THE LOSS OF CERTAIN MEMBERS OF OUR MANAGEMENT TEAM COULD MATERIALLY ADVERSELY AFFECT US

We are dependent, to a significant extent, on the continued efforts and abilities of members of our management team, the majority of which have employment contracts. CyberCare is the owner of $1,000,000 key man life insurance policies on the lives of our President and Executive Vice President. We have had a high degree of success attracting key personnel. Currently, we are not aware of any key personnel who plan to retire or leave CyberCare in the near future. Our former Chairman and CEO, Michael F. Morrell and former Corporate Secretary, Linda Moore resigned in February 2002 and on March 27, 2002, Jack Hight resigned from his position as Interim Chairman of the Board. If we were to lose the services of any of our key employees without obtaining qualified replacements, our business could be materially adversely affected.

We believe that our success will also depend upon our ability to hire, train and retain other highly skilled personnel. We compete in a new market and there are a limited number of people with skills necessary to provide the services our clients demand. Competition for quality personnel is



intense. We cannot be sure that we will be successful in hiring, assimilating or retaining the necessary personnel, and our failure to do so could affect our business, financial condition and results of operations.

WE COMPETE WITH A NUMBER OF ESTABLISHED COMPANIES, SOME OF WHICH HAVE SIGNIFICANTLY GREATER FINANCIAL, TECHNOLOGICAL AND MARKETING RESOURCES THAN WE DO, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY WITH THESE COMPANIES

The tele-health solutions business is relatively new and evolving. We compete with companies in the tele-health and monitoring business and from other industries. The health care industry in general and the market for medical ancillary services specifically are highly competitive. We compete with ancillary services companies that are larger and have greater financial resources than we do. We face competition from companies that provide tele-health solutions, most of which are in the early stages of development.

We believe that we compete effectively by providing superior technology and tele-health solutions and more personalized care to the patients and customers we serve. We believe the primary competitors for EHC products are small, privately-held companies, none of which have established a major market

position as of this time. Some larger companies, such as Panasonic and Agilent, have also recently announced initiatives in this market. Key differentiating factors between us and our competitors in this segment lie primarily in our tele-health solutions architecture that utilizes our patented technology and our developed software applications.

RISKS RELATED TO OUR INDUSTRY

WE CANNOT GUARANTEE YOU THAT OUR PRODUCTS WILL BE FULLY DEVELOPED OR ACCEPTED BY THE HEALTH CARE INDUSTRY

Payors, physicians, medical providers or the medical community in general may not accept and utilize our products and services. The extent, and the rate at which, our products achieve market acceptance and penetration will depend on many variables, including the establishment and demonstration in the medical insurance and payor communities of the clinical safety, efficacy and cost-effectiveness of our products and services, the advantage of these products over existing technology, third-party reimbursement practices and our manufacturing, quality control, marketing and sales efforts. There can be no assurance that similar risks will not confront any other products and services we develop in the future. Failure of our products and services to gain market acceptance would have a material adverse effect on our business, financial condition, and results of operations.

WE ARE SUBJECT TO A SIGNIFICANT NUMBER OF HEALTH CARE INDUSTRY REGULATIONS AND RELATED REGULATIONS, THE FAILURE TO COMPLY WITH, COULD MATERIALLY ADVERSELY AFFECT OUR OPERATIONS

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We are subject to substantial potential liability resulting from a variety of possible causes, including violation of numerous health care laws, malpractice and product liability. Many of the health care laws to which we are subject are broad in scope and difficult to interpret. If any actions or lawsuits are brought against us in the future, such actions or lawsuits could have a materially adverse effect on us. Violations of the state and federal anti-kick back or self-referral laws and regulations could result in substantial civil and/or criminal penalties and/or administrative sanctions for the individuals or entities, including exclusion from participation in the Medicare and Medicaid programs, as well as the suspension or revocation of professional licensure. Such sanctions, if applied to us or any of our employees, could result in significant loss of reimbursement and could have a material adverse effect on us.

We attempt to minimize our potential liability through implementation of and adherence to compliance policies and procedures, effective supervision and personnel recruitment procedures. We also carry a variety of insurance policies including policies insuring against certain negligent acts. Insurance policies may not adequately cover our losses resulting from such potential liability and we may be unable to continue to qualify for, or be able to afford or obtain such insurance in the future.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), among other things, mandates administrative simplification of electronic data interchanges of health information, including standardizing transactions, establishing uniform health care provider, payer and employer identifiers and seeking protections for confidentiality and security of patient data. Final regulations governing healthcare transaction security were published in the August 17, 2000 FEDERAL REGISTER, and will become effective for most entities in

or after October 2002. Final regulations governing privacy and confidentiality of individually identifiable health information were published in the December 20, 2000 FEDERAL REGISTER, and will become effective for most entities in or after February 2003. Many of the provisions of HIPAA do not directly apply to our technology business since it is not included in the types of entities to which HIPAA applies. However, because we may be considered a business associate of a covered entity, and because the implementation of our EHC(TM) system for our customerS necessitates that we have interaction with patient users of the system, we will nonetheless have to comply with certain aspects of the HIPAA regulations in order to assure compliance by our customers. HIPAA also applies to our physical therapy and rehabilitation segment, as well as our pharmacy segment. We are proceeding to assess where our current systems diverge from HIPAA's privacy and security requirements and to implement protocols and procedures that will bring such systems and areas into compliance before the deadlines identified in the final regulations. We are unable at this time to assess the cost of implementation of the administrative simplification requirements of HIPAA that are applicable to our business.



RISK FACTORS ASSOCIATED WITH CONTRACTS AND SUB-CONTRACTS WITH THE U.S. GOVERNMENT

It is our goal to introduce the CyberCare System for use by agencies or authorities of the federal and state governments (such as the U.S. Veterans Administration, Medicare, Medicaid, TRICARE, or other federally or state funded health care programs) and we are currently engaged in the administration of pilot programs for our CyberCare System with certain of these agencies and authorities. Accordingly, a portion of our revenue may be derived from contracts or subcontracts funded by the U.S. government or other state or local governments. Therefore, our financial performance may be adversely affected by changing government (federal, state or local) procurement practices and policies as well as declines in government spending and funding. The factors that could have a material adverse effect on our ability to win new contracts with the federal, state or local governments, or retain existing contracts, include the following: budgetary constraints; changes in government funding levels, programs, policies or requirements; technological developments; the adoption of new laws or regulations; and general economic conditions.

NEW LEGISLATIVE DEVELOPMENTS COULD RESULT IN FINANCIAL HARDSHIP

Legislation regarding health care reform may be introduced in the future by Congress or state legislatures. Any such reforms at the federal or state level could significantly alter patient-provider relationships. State and federal agency rule-making addressing these issues is also expected. No predictions can be made as to whether future health care reform legislation, similar legislation or rule-making will be enacted or, if enacted, its effect on us. Any federal or state legislation prohibiting investment interests in, or contracting with, us by physicians or health care providers for which there is no statutory exception or safe harbor would have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR STOCK

SUBSTANTIALLY ALL OF OUR SHARES ARE ELIGIBLE FOR PUBLIC RESALE, WHICH MAY HAVE A DEPRESSIVE EFFECT ON THE MARKET PRICE OF OUR COMMON STOCK

As of December 31, 2001, we had 67,827,992 shares of Common Stock

outstanding, of which substantially all can be sold under an effective registration statement or under Rule 144. Under Rule 144, a person who has held restricted securities for a period of one year may sell a limited number of shares to the public in ordinary brokerage transactions. Sales under Rule 144 may have a depressive effect on the market price of our Common Stock due to the potential increased number of publicly held securities. The timing and amount of sales of Common Stock that are currently eligible to be resold pursuant to Rule 144 could have a depressive effect on the future market price of our Common Stock.

THE ISSUANCE OF SHARES OF COMMON STOCK UNDER A PRIVATE EQUITY LINE AGREEMENT WILL BE DILUTIVE TO OUR EXISTING STOCKHOLDERS

Pursuant to the terms of a private equity line agreement, we may issue up to $30,000,000 of shares of our Common Stock to Strategic Investment Management, S.A. at a price equal to



approximately 85% of the market price of the Common Stock. By raising additional funds and issuing additional common shares under the private equity line, our stockholders may experience dilution and various investors engaging in short selling activities might also affect the market price of our common shares. As a result of a decrease in our common stock price, we could face de-listing, a damaged capital structure and a reduction in the availability of additional financing.

CyberCare has the ability to draw down funds from the private equity line subject to the terms and conditions of the equity line agreement. The amount that CyberCare will be able to draw down is dependent on CyberCare's stock price and volume. If the stock price decreases, this will require CyberCare to issue more shares (and vice versa) and if the trading volume decreases, then the amount of shares to be put will be minimized, thus limiting the amount of funding (and vice versa).

Due to our current stock price, the NASDAQ Stock Market Inc. ("Nasdaq") has notified us that on February 20, 2002, the price of our common stock had closed for the previous consecutive 30 days below the minimum $1.00 per share requirement under its Marketplace Rules. Consequently, CyberCare has until May 21, 2002 to regain compliance. CyberCare is currently evaluating all possible actions.

If CyberCare is unable to maintain its current listing or move to an alternative exchange, we will not be able to "Put" any additional shares under the Private Equity Line. In addition, even if we are able to maintain our listing and based upon the current stock price, CyberCare may not be willing to "Put" any additional shares.

THE EXERCISE OF OPTIONS AND WARRANTS WILL BE DILUTIVE TO OUR EXISTING STOCKHOLDERS

As of December 31, 2001, we had outstanding warrants and options to purchase a total of 23,602,370 shares of our Common Stock at prices ranging from between $0.50 and $31.50 per share, 16,726,000 shares of which are fully vested. We are also authorized to issue up to an additional 6,103,000 options without shareholder approval under our existing stock option plans.

THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF OUR

SUBORDINATED DEBENTURES COULD NEGATIVELY EFFECT THE MARKET PRICE FOR OUR COMMON STOCK

We have various outstanding subordinated debentures which are convertible into Common Stock at the holders' option at conversion prices equal to between 85% and 90% of the average closing price either on the date of the conversion notice or for the 20 days trading prior to the date of the conversion notice, but in no event will the conversion price be less than $.30 per share or more than $3.25 per share.

Because the conversion prices are not fixed the ultimate number of shares of Common Stock issueable if the holders elect to convert the principal amount of the subordinated debentures are



unknown at this time. Based upon the minimum conversion price for each subordinated debenture, we would be obligated to issue 11,410,256 shares on conversion if all the subordinated debentures were converted.

WE MAY ISSUE ADDITIONAL SHARES AND DILUTE YOUR OWNERSHIP PERCENTAGE

Some events over which you have no control could result in the issuance of additional shares of our Common Stock or Preferred Stock, which would dilute your ownership percentage in CyberCare. We may issue additional shares of Common Stock or Preferred Stock:

* to raise additional capital or finance acquisitions;
* upon the exercise or conversion of outstanding options and warrants;
* upon the sale of shares of Common Stock pursuant to the Private Equity Line Agreement;
* as interest payments for and/or upon conversion of certain Subordinated Debentures that have been issued; and/or
* in lieu of cash payment of dividends or for services rendered.

YOUR PERCENTAGE OF OWNERSHIP AND VOTING POWER AND THE PRICE OF OUR COMMON STOCK MAY DECREASE BECAUSE WE HAVE ISSUED, AND IN THE FUTURE MAY ISSUE, A SUBSTANTIAL NUMBER OF SHARES OF COMMON STOCK OR SECURITIES CONVERTIBLE INTO OR EXERCISABLE FOR OUR COMMON STOCK

We have the authority to issue up to 200,000,000 shares of our Common Stock and 20,000,000 shares of our Preferred Stock without stockholder approval. We may also issue options and warrants to purchase shares of our Common Stock. Future issuances could be at values substantially below the price paid for our Common Stock by current stockholders. We may conduct additional future offerings of our Common Stock, Preferred Stock, or other securities with rights to convert the securities into shares of our Common Stock which may result in a decrease in the value or market price of our Common Stock. Further, the issuance of Preferred Stock could have the effect of delaying, deferring or preventing a change of ownership without further vote or action by our stockholders and may adversely affect the voting and other rights of the holders of Common Stock.

WE ANTICIPATE VOLATILITY IN OUR STOCK PRICE

The market price for securities in our industry historically has been highly volatile. From January 1, 2000 through April 16, 2002, the price of our Common Stock has fluctuated between $39.75 and $0.16 per share. The price of our Common Stock may be subject to fluctuations in response to:

* quarter to quarter variations in operating results;
* vendor additions or cancellations;



* creation or elimination of funding opportunities;
* favorable or unfavorable coverage by securities analysts;
* the availability of products, technology and services; and
* other events or factors, many of which are beyond our control.

These broad market and industry factors may cause the price of our Common Stock to decline, regardless of our actual operating performance.

DESCRIPTION OF THE PLAN

The Plan is Cyber-Care's Retirement Savings Plan. The Plan, which was established on January 1, 1999, under Section 401(k) of the Internal Revenue Code of 1986, allows eligible employees to set aside a portion of their salary, ranging from 1% to 20%, on a tax-deferred basis.

The Plan is currently administered by Principal Life Insurance Company. In general, an employee becomes eligible to participate in the Plan upon attaining the age of 21 and following three months of service to us.

Under the Plan, CyberCare matches employees' contributions up to 50% of an employees' contributions up to a maximum of 4% of the employees' annual salary. CyberCare, at its option, may make payment of its matching contributions in cash, or in common stock of Cyber-Care. On an annual basis, we issue shares of our common stock in the name of the administrator, who holds the shares for the benefit of our employees, as their interests appear on the books and records of the administrator. The number of shares to be issued is determined annually, on December 31 of each year, by dividing the dollar amount of CyberCare's matching contribution obligation by the fair market value of its common stock on December 31 of that year. The shares beneficially owned by each employee will be held by the administrator until the earlier of: (1) termination of the employee's employment by CyberCare, other than by reason of retirement and (2) the employee's voluntary withdrawal from the Plan. Upon the occurrence of either such event, the employee's shares will be sold by the administrator and the proceeds disbursed to the employee as provided in the Plan.

This prospectus covers the issuance of shares of our common stock under the Plan, and the resale of those shares by persons who are our affiliates. Since the number of shares we may issue under the Plan cannot accurately be estimated, the registration statement, of which this prospectus forms a part, may be amended from time-to-time to register additional shares that we issue under the Plan. This prospectus may also be amended from time-to-time to update information about our affiliates using this prospectus for resales of shares issued to them under the Plan.

SELLING SECURITY HOLDERS

The information under this heading relates to resales of shares covered by this prospectus

by persons who are our "affiliates" as that term in defined under federal securities laws. Shares covered by this prospectus that are owned by our affiliates are "control" shares under federal securities laws.

The following table sets forth as of the date of this prospectus:

- the name of each affiliated selling security holder,
- the number of shares of common stock owned beneficially, directly or indirectly, by each affiliated selling security holder,
- the maximum number of shares to be offered by each affiliated selling security holder pursuant to this prospectus,
- the number of shares of our common stock to be owned by each affiliated selling security holder following sale of the shares, and
- the percentage of our common stock to be owned by the affiliated selling security holder following completion of such offering (based on 69,873,357 shares of our common stock outstanding as of the date of this prospectus), and adjusted to give effect to the issuance of shares upon the exercise of the named selling security holder's options or warrants, but no other person's options or warrants.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and includes any securities which the person has the right to acquire within 60 days through the conversion or exercise of any security or other right. The information as to the number of shares of our common stock owned by each affiliated selling security holder is based upon our books and records and the information provided by our transfer agent.

We may amend or supplement this prospectus from time to time to update the disclosure set forth in the table. Because the selling security holders identified in the table may sell some or all of the shares owned by them which are included in this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, no estimate can be given as to the number of shares available for resale hereby that will be held by the affiliated selling security holders upon termination of the offering made hereby. We have therefore assumed, for the purposes of the following table, that the affiliated selling security holders will sell all of the shares owned by them which are being offered hereby, but will not sell any other shares of our common stock that they presently own. IT IS OUR UNDERSTANDING THAT THE INDIVIDUALS LISTED HAVE NOT SOLD AND HAVE NO PRESENT INTENTION TO SELL ANY OF THE SHARES OWNED BY THEM.



| NAME AND POSITION | NUMBER OF SHARES OWNED PRIOR TO OFFERING | NUMBER OF SHARES OFFERED HEREBY | NUMBER OWN OF |
| --- | --- | --- | --- |

| | | | |
|---|---|---|---|
| Joseph Forte, Chief Executive Officer and President | 506,867 | 1,865 | 5 |
| Arthur Kobrin, Treasurer | 474,378 | 2,821 | 4 |
| Steven Cohen, Chief Financial Officer | 100,981 | 981 | 1 |
| Rodger Hochman, General Counsel | 105,065 | 3,541 | 1 |
| Total | 1,187,291 | 9,208 | 1,1 |

In accordance with SEC Regulations, and notwithstanding the number of affiliated selling security holder's shares that are covered by this prospectus, each affiliated selling security holder is limited in the number of shares he or she may resell under this prospectus during any three month period, up to the number of shares that does not exceed the greater of: (1) one percent of the then outstanding shares of common stock of CyberCare, or (2) the average weekly trading volume during the four calendar weeks preceding the date of receipt of the order to execute the transaction by the broker or the date of execution of the transaction directly with the broker.

## PLAN OF DISTRIBUTION

The information under this heading relates to resales of shares covered by this prospectus by persons who are our "affiliates" as that term in defined under federal securities laws.

The shares covered by this prospectus may be resold and distributed from time to time by the selling security holders in one or more transactions. Any such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices. Usual and customary or specifically negotiated brokerage fees or commissions may be paid by the selling security holders in connection with sales of securities.

The selling security holders may sell shares in one or more of the following methods, which may include crosses or block transactions:

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- o through the "pink sheets", on the Nasdaq National Market, or on such exchanges or over-the-counter markets on which our shares may be listed from time-to-time, in transactions which may include special offerings, exchange distributions and/or secondary distributions, pursuant to and in accordance with the rules of such exchanges, including sales to underwriters who acquire the shares for their own account and resell them in one or more transactions or through brokers, acting as principal or agent;
- o in transactions pursuant to Rule 144;
- o in transactions other than on such exchanges or in the

over-the-counter market, or a combination of such transactions, including sales through brokers, acting as principal or agent, sales in privately negotiated transactions, or dispositions for value by any selling security holder to its partners or members, subject to rules relating to sales by affiliates;

- through the issuance of securities by issuers other than us, convertible into, exchangeable for, or payable in our shares; or
- through the writing of options on our shares, whether or not such options are listed on an exchange, or other transactions requiring delivery of our shares, or the delivery of our shares to close out a short position.

In making sales, brokers or dealers used by the selling security holders may arrange for other brokers or dealers to participate. The selling security holders who are our affiliates and others through whom such securities are sold may be "underwriters" within the meaning of the Securities Act for the securities offered, and any profits realized or commission received may be considered underwriting compensation. Information as to whether an underwriter(s) who may be selected by the selling security holders, or any other broker-dealer, is acting as principal or agent for the selling security holders, the compensation to be received by underwriters who may be selected by the selling security holders, or any broker-dealer, acting as principal or agent for the selling security holders and the compensation to be received by other broker-dealers, in the event the compensation of other broker-dealers is in excess of usual and customary commissions, will, to the extent required, be set forth in a supplement to this prospectus. Any dealer or broker participating in any distribution of the shares may be required to deliver a copy of this prospectus, including the supplement, if any, to any person who purchases any of the shares from or through a dealer or broker.

In connection with distributions of the shares or otherwise, selling security holders may enter into hedging transactions with broker-dealers. In connection with the transactions, broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with selling security holders. Selling security holders may also sell shares short and deliver the Shares to close out the positions. Selling security holders may also enter into option or other transactions with broker-dealers which require the delivery to the broker-dealer of the shares, which the broker-dealer



may resell under this prospectus. The selling security holders may also pledge the shares to a broker or dealer and upon a default, the broker or dealer may effect sales of the pledged shares under this prospectus.

We have advised the selling security holders that, at the time a resale of the shares is made by or on behalf of a selling security holder, a copy of this prospectus is to be delivered.

We have also advised the selling security holders that during the time as they may be engaged in a distribution of the shares included herein they are required to comply with Regulation M of the Exchange Act. With certain exceptions, Regulation M precludes any selling security holders, any affiliated purchasers and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchase made in order to stabilize the price of a security in connection

with the distribution of that security.

Sales of securities by the selling security holders, or even the potential of these sales, may have an adverse effect on the market price for shares of our common stock.

There is no assurance that the selling security holders will sell all or any of the shares, which may be offered hereby.

RESALE OF SHARES BY AFFILIATES

The shares covered by the registration statement, of which this prospectus forms a part, may be resold freely, except that any selling security holder who is our affiliate, as that term is defined in the Securities Act and the rules and regulations thereunder, is limited in the number of shares that may be resold during any three month period to the greater of: (1) one percent of the number of shares of our common stock that are outstanding and (2) the average weekly trading volume in our common stock over the four calendar weeks preceding the date of sale.

Generally, our affiliates consist of our executive officers, directors and/or owners of 10% or more of our outstanding common stock. Employees not within the scope of the preceding sentence will generally not be considered our affiliates.

DESCRIPTION OF SECURITIES

GENERAL

The following description of our capital stock and provisions of our Articles of Incorporation is a summary thereof and is qualified by reference to our Articles of Incorporation, copies of which may be obtained upon request. Our authorized capital consists of 200,000,000 shares of common stock, with a par value of $.0025 per share, of which approximately [ ] shares are issued and



outstanding as of the date of this prospectus, and (2) Preferred Stock of which no shares are outstanding as of the date of this prospectus.

COMMON STOCK

Holders of shares of common stock are entitled to share, on a ratable basis, such dividends as may be declared by the board of directors out of funds, legally available therefor. Upon our liquidation, dissolution or winding up, after payment to creditors, our assets will be divided pro rata on a per share basis among the holders of our common stock.

Each share of common stock entitles the holders thereof to one vote. Holders of common stock do not have cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors can elect all of the directors if they choose to do so, and, in such event, the holders of the remaining shares will not be able to elect any directors. Our By-Laws require that only a majority of our issued and outstanding shares need be represented to constitute a quorum and to transact business at a stockholders' meeting. Our common stock has no preemptive, subscription or conversion rights and is not redeemable by us.

PREFERRED STOCK

Although none is currently issued and outstanding, we may issue preferred stock from time to time, with such designations, preferences, conversion rights, cumulative, relative, participating, optional or other rights, including voting rights, qualifications, limitations or restrictions as are determined by our board of directors.

COMMON STOCK PURCHASE WARRANTS

As of December 31, 2001, we had outstanding warrants and options to purchase a total of 23,602,370 shares of our Common Stock at prices ranging from between $0.50 and $31.50 per share, 16,726,000 shares of which are fully vested. We are also authorized to issue up to an additional 6,103,000 options without shareholder approval under our existing stock option plans.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is Corporate Stock Transfer, 3200 Cherry Creek Drive, Suite 430, Denver Colorado 80209, (303) 282-4800.

LEGAL MATTERS

The validity of the issuance of the securities offered hereby will be passed upon for us by Atlas Pearlman, P.A., Ft. Lauderdale, Florida.

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EXPERTS

Ernst & Young LLP, Certified Public Accountants, have audited our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001, as set forth in their report, which are incorporated by reference in this registration statement. Our financial statements are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

INDEMNIFICATION

Section 607.0850(1) of the Florida Business Corporation Act, as amended (the "Florida Act"), provides that, in general, a Florida corporation may indemnify any person who was or is a party to any proceeding (other than an action by, or on behalf of, the corporation), by reason of the fact that he is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against liability incurred in connection with such proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful.

In the case of proceedings by or in the right of the corporation, Section 607.0850(2) of the Florida Act provides that, in general, a corporation may

indemnify any person who was or is a party to any such proceeding by reason of the fact that he is or was a director, officer, employee or agent of the corporation against expenses and amounts paid in settlement actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof, provided that such person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made in respect of any claims as to which such person is adjudged liable unless a court of competent jurisdiction determines upon application that such person is fairly and reasonably entitled to indemnity.

Section 607.0850 further provides that to the extent a director, officer, employee or agent of a corporation is successful on the merits or in the defense of any proceeding referred to in subsections (1) or (2) of Section 607.0850 or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith; that the corporation may advance such expenses; that indemnification provided for by Section 607.0850 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of such person against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liabilities under such Section 607.0850.



Section 607.0850 of the Florida Act further provides that, in general, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee or agent if a judgment or other final adjudication establishes that such person's actions, or omissions to act, were material to the cause of action so adjudicated and constitute: (i) a violation of the criminal law, unless such person had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful; (ii) a transaction from which such person derived an improper personal benefit; (iii) in the case of a director, a circumstance under which the director has voted for or assented to a distribution made in violation of the Florida Act or the corporation's articles of incorporation; or (iv) willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in favor or in a proceeding by or in the right of a shareholder.

CyberCare's Articles of Incorporation and Bylaws provide that CyberCare shall indemnify its directors and officers to the fullest extent permitted by Florida law.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

106,389 Shares

CyberCare, Inc.

Common Stock

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PROSPECTUS

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April 18, 2002

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You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling security holders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 2. REGISTRANT INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION

There is available without charge, upon written or oral request, documents incorporated by reference in Section 10(a) of the prospectus. Also available without charge, upon written or oral request, those documents required to be delivered to employees pursuant to Rule 428(b) (ss. 230.428(b)). For copies of any such documents, please write to: CyberCare, 2500 Quantum Lakes Drive, Suite 1000, Boynton Beach, Florida 33426-8308, Attn. Arthur Kobrin, Treasurer, (561) 742-5113.

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE

The following documents filed by CyberCare with the SEC are incorporated herein by reference:

* Proxy statement filed on May 9, 2001, for our annual meeting of shareholders.

* Quarterly reports on Forms 10-Q for the periods ended March 31, 2001, June 30, 2001, and September 30, 2001.

* Current reports on Form 8-K filed on June 1, 2001, June 28, 2001, September 17, 2001, October 15, 2001, October 31, 2001, January 15, 2002, January 16, 2002, February 11, 2002, March 7, 2002, April 15, 2002 and April 17, 2002.

* Annual report on Form 10-K for the year ended December 31, 2001.

All documents subsequently filed by the registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment to the registration statement which indicates that all shares of common stock offered have been sold or which deregisters all of such shares then remaining unsold, shall be deemed to be incorporated by reference in the registration statement and to be a part thereof from the date of filing of such documents.

ITEM 4. DESCRIPTION OF SECURITIES

Not Applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL

Not Applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 607.0850(1) of the Florida Business Corporation Act, as amended (the "Florida Act"), provides that, in general, a Florida corporation may indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against liability incurred in connection with such proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful.

In the case of proceedings by or in the right of the corporation, Section 607.0850(2) of the Florida Act provides that, in general, a corporation may indemnify any person who was or is a party to any such proceeding by reason of the fact that he is or was a director, officer, employee or agent of the corporation against expenses and amounts paid in settlement actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof, provided that such person acted in good faith and in a manner he reasonably believed to be in, or not opposed to,

the best interests of the corporation, except that no indemnification shall be made in respect of any claims as to which such person is adjudged liable unless a court of competent jurisdiction determines upon application that such person is fairly and reasonably entitled to ndemnity. Section 607.0850 further provides that to the extent a director, officer, employee or agent of a corporation is successful on the merits or in the defense of any proceeding referred to in subsections (1) or (2) of Section 607.0850 or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith; that the corporation may advance such expenses; that indemnification provided for by Section 607.0850 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of such person against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liabilities under such Section 607.0850.

Section 607.0850 of the Florida Act further provides that, in general, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee or agent if a judgment or other final adjudication establishes that such person's actions, or omissions to act, were material to the cause of action so adjudicated and constitute: (i) a violation of the criminal law, unless such person had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful; (ii) a transaction from which such person derived an improper personal benefit; (iii) in the case of a director, a circumstance under which the director has voted for or assented to a distribution made in violation of the Florida Act or the corporation's

articles of incorporation; or (iv) willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in favor or in a proceeding by or in the right of a shareholder.

CyberCare's Articles of Incorporation and Bylaws provide that CyberCare shall indemnify its directors and officers to the fullest extent permitted by Florida law.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED

Any restricted securities to be offered or resold pursuant to this registration statement were issued pursuant to an exemption under Section 4(2) of the Securities Act, as a non-public offering of securities.

ITEM 8. EXHIBITS

The following exhibits are filed as part of this registration statement:

| EXHIBIT NO. | IDENTIFICATION OF EXHIBIT |
|---|---|
| 5.1(1) | Opinion Regarding Legality |
| 10.1(1) | Cyber-Care Retirement Savings Plan |
| 23.1(1) | Consent of Counsel (included in Exhibit 1.1) |
| 23.2(1) | Consent of Ernst & Young LLP, independent certified public accountants |

(1) Filed herewith

ITEM 9. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

i. To include any prospectus required by Section 10(a)(3) of the Securities Act;

ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing,

any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) of the Securities Act if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

Provided, however, that paragraphs (a)(1)(i) and (ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boynton Beach, State of Florida, on April 18, 2002.

CYBERCARE, INC.

By: /s/ STEVEN M. COHEN
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Steven M. Cohen, Chief Financial Officer

Pursuant to the requirements of the Securities Act, this registration statement has been signed below by the following persons in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
| --- | --- | --- |
| /s/ JOSEPH FORTE<br>------------------------<br>Joseph Forte | Chief Executive Officer, President and Director | April 18, 2002 |
| /s/ DANA PUSATERI | Executive Vice President and | April 18, 2002 |

| | | |
|---|---|---|
| ------------------------<br>Dana Pusateri | Director | |
| /s/ TERRY LAZAR<br>------------------------<br>Terry Lazar | Director | April 18, 2002 |
| /s/ PETER MURPHY<br>------------------------<br>Peter Murphy | Director | April 18, 2002 |
| /s/ ALAN ADELSON<br>------------------------<br>Alan Adelson | Director | April 18, 2002 |
| /s/ ZACHARIAH P. ZACHARIAH<br>--------------------------<br>Zachariah P. Zachariah | Director | April 18, 2002 |

The Company will continue to evaluate its range of future exposure, and the related insurance coverage available, and when appropriate, record future adjustments to those estimates, which could be material. The Company anticipates that any resolution of its asbestos related liabilities that may result from any reorganization plan for Congoleum will be limited at most to liabilities derivative of claims asserted against Congoleum as may be afforded under Section 524(g)(4) of the Bankruptcy Code. ABI reported in its Annual Report on Form 10-K for the year ended December 31, 2006 that it has been named as a Potentially Responsible Party ("PRP") within the meaning of the Federal Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"), as amended, with respect to six sites located in five separate states. On May 21, 2007, ABI entered into a Response Cost Sharing and Alternative Dispute Resolution Agreement, dated as of May 21, 2007, with Miller Industries, Inc., which provides for a cost sharing arrangement in connection with the clean-up of two sites in Lisbon Falls, Maine (which sites are referred to as "Parcel A" and "Parcel B," respectively, and the "Maine Sites," collectively, in ABI's Annual Report on Form 10-K for the year ended December 31, 2006). Under the agreement, each of the parties agrees to fund fifty percent of the budgeted costs of the remedial investigation, feasibility study and remediation of the two sites, subject to a final determination of the parties' respective allocation of its share of the applicable costs, which will be made either by mutual agreement of the parties or by arbitration, as provided under the agreement. The agreement provides for procedures for the funding of these costs as well as allocates oversight responsibility for the cleanup of the sites to the parties based upon a party's determined share of responsibility for the cleanup of the sites. The Company's estimated share of costs under the terms of the agreement are consistent with the Company's previously estimated costs and recorded liability as of December 31, 2006. Other than with respect to the Maine Sites as described above, there have been no material developments relating to the sites or the other environmental matters described in ABI's Annual Report on Form 10-K during the nine month period ended September 30, 2007. 22 Note I - Commitments and Contingencies (continued) Congoleum Congoleum is a defendant in a large number of asbestos-related lawsuits and on December 31, 2003, filed a petition commencing a voluntary reorganization case under Chapter 11 of the Bankruptcy Code for purposes of resolving its asbestos-related liabilities. See Note J. 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. The pending proceedings in which Congoleum is a named PRP currently relate to eight

disposal sites in New Jersey, Pennsylvania and Maryland in which recovery from generators of hazardous substances is sought for the cost of cleaning up the contaminated waste sites. Congoleum's ultimate liability and funding obligations in connection with those other sites depends on many factors, including the volume of material contributed to the site by Congoleum, the number of other PRP's and their financial viability, the remediation methods and technology to be used and the extent to which costs may be recoverable by Congoleum from relevant insurance policies. However, under CERCLA and certain other laws, Congoleum, as a PRP, can be held jointly and severally liable for all environmental costs associated with a site. The most significant exposure for which Congoleum has been named a PRP relates to a recycling facility site in Elkton, Maryland (the "Galaxy/Spectron Superfund Site"). The PRP group at this site is made up of 81 companies, substantially all of which are large, financially solvent entities. Two removal actions were substantially complete as of December 31, 1998, and a groundwater treatment system was installed thereafter. The United States Environmental Protection Agency has selected a remedy for the soil and shallow groundwater (Operable Unit 1 or OU-1); however, the remedial investigation/feasibility study related to the deep groundwater (Operational Unit 2 or OU-2) has not been completed. The PRP group, of which Congoleum is a part, has entered into a consent decree to perform the remedy for OU-1 and resolve natural resource damage claims. The consent decree also requires the PRP group to perform the OU-2 remedy, assuming that the estimated cost of the remedy is not more than $10.0 million. If the estimated cost of the OU-2 remedy is more than $10.0 million, the PRP group may decline to perform it or they may elect to perform it anyway. Cost estimates for the OU-1 and OU-2 work combined (including natural resource damages) range between $22 million and $34 million, with Congoleum's share ranging between approximately $1.0 million and $1.6 million. This assumes that all parties participate and that none cash-out and pay a premium; those two factors may account for some fluctuation in Congoleum's share of the costs. Fifty percent (50%) of Congoleum's share of the costs is presently being paid by one of its insurance carriers, Liberty Mutual Insurance Company, whose remaining policy limits for this claim are expected to cover approximately $300 thousand in additional costs. Congoleum expects to fund the balance to the extent further insurance coverage is not available. 23 Note I - Commitments and Contingencies (continued) Congoleum filed a motion before the Bankruptcy Court seeking authorization and approval of the consent decree and related settlement agreements for the Galaxy/Spectron Superfund Site, as well as authorization for Liberty Mutual Insurance Company and Congoleum to make certain payments that have been invoiced to Congoleum with respect to the consent decree and related settlement agreements. An order authorizing and approving consent decree and settlement agreements was issued by the Bankruptcy Court in August 2006. Congoleum also accrues remediation costs for certain of Congoleum's owned facilities on an undiscounted basis. Congoleum has entered into an administrative consent order with the New Jersey Department of Environmental Protection and has established a remediation trust fund of $100 thousand as financial assurance for certain remediation funding obligations. Estimated total clean-up costs of $1.3 million for Congoleum's expected portion of those remediation funding obligations, including capital outlays and future maintenance costs for soil and groundwater remediation, are primarily based on engineering studies. Of this amount, $300 thousand was included in current liabilities subject to compromise and $1.0 million was included in non-current liabilities subject to compromise as of September 30, 2007 and December 31, 2006. At September 30, 2007 and December 31, 2006, Congoleum had recorded a total of $4.4 million for estimated environmental liabilities none of which have been reduced by the amount of expected insurance recoveries. At September 30, 2007 and December 31, 2006, such estimated insurance recoveries are approximately $2.2 million. Receivables for expected insurance recoveries are recorded if the related carriers are solvent and paying claims under a reservation of rights or under an obligation pursuant to coverage in place or a settlement agreement. Substantially all of Congoleum's recorded insurance asset for environmental matters is collectible from a single carrier. Congoleum anticipates that these matters will be resolved over a period of years, and that after application of expected insurance recoveries, funding of the costs by Congoleum will not have a material adverse impact on Congoleum's liquidity or financial position. However, unfavorable developments in these matters could result in significant expenses or judgments that could have a material adverse effect on Congoleum's and the Company's business, results of operations or financial condition. Other In addition to the matters referenced above and in Note J, in the ordinary course of their businesses, the Company and Congoleum become involved in lawsuits, administrative proceedings in connection with product liability claims and other matters. In some of these proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts, and the matters may remain unresolved for several years. 24 Note J - Congoleum Asbestos Liabilities and 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 the Claimant Agreement. As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing 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 settlement values for the settlements entered into by Congoleum in connection with the Claimant Agreement exceed $491 million. 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 the Avoidance Actions seeking to void the security interest granted to the Collateral Trust and such settlements (discussed further below). 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 Bankruptcy Court (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 the Fourth Plan with the Bankruptcy Court reflecting the result of further negotiations with representatives of the ACC, the FCR 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. 25 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) In April 2005, Congoleum announced that it had reached an agreement in principle with representatives of the ACC and the FCR 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 March 2006, Congoleum filed the Eighth Plan. In addition, an insurance company, CNA, filed a plan of reorganization and the Bondholders' Committee also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered all parties in interest in Congoleum's reorganization proceedings to participate in global mediation discussions. Several mediation sessions took place from June through September 2006. During the initial mediation negotiations, Congoleum reached an agreement in principle, subject to mutually agreeable definitive documentation, with the ACC, the FCR and Congoleum's controlling shareholder, ABI, on certain terms of the Ninth Plan, which Congoleum filed and proposed jointly with the ACC in August 2006. CNA and the Bondholders' Committee jointly filed a new, competing plan in August 2006 and each withdrew its prior plan of reorganization. Following further mediated negotiations, Congoleum, the ACC, the FCR, ABI and the Bondholders' Committee reached agreement on terms of the Tenth Plan, which Congoleum filed jointly with the ACC in September 2006. Following the Bondholders' Committee's withdrawal of

support for CNA's plan, CNA filed the CNA Plan. In October 2006, Congoleum and the ACC jointly filed a revised version of the Tenth Plan, the Eleventh Plan, which reflected minor technical changes agreed to by the various parties supporting Congoleum's plan. In October 2006, the Bankruptcy Court held a hearing to consider the adequacy of the disclosure statements with respect to the Tenth Plan and the CNA Plan and to hear arguments on respective summary judgment motions that the Tenth Plan and the CNA Plan were not confirmable as a matter of law. The Bankruptcy Court provisionally approved the disclosure statements for both the Tenth Plan and the CNA Plan subject to the Bankruptcy Court's ruling on the respective summary judgment motions. In February 2007, the Bankruptcy Court entered on its docket two separate opinions ruling that neither the Tenth Plan nor the CNA Plan was confirmable as a matter of law. Because the Tenth Plan and Eleventh Plan are substantially identical, Congoleum believes the ruling issued with respect to the Tenth Plan also applies to the Eleventh Plan. Following the Bankruptcy Court's rulings, in March 2007, 26 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) Congoleum resumed global plan mediation discussions seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. Congoleum has also appealed the ruling with respect to the Tenth Plan to the District Court. On October 30, 2007, Congoleum informed the parties to the appeal that it would no longer be pursuing such appeal. The ACC, which is a co-appellant, has determined to continue to prosecute the appeal, which remains pending. There can be no assurance that Congoleum will be successful in negotiating a new plan of reorganization that resolves the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. On May 18, 2007, the State Court issued a decision ruling that Congoleum's insurers have no coverage obligations under New Jersey law for the Claimant Agreement. In that ruling, the State Court judge also citied trial testimony in his opinion that the releases (given by claimants who signed the Claimant Agreement) were non-recourse to Congoleum whether or not anyone recovered insurance proceeds. Based in part upon that finding, Congoleum filed the Omnibus Objection in the Bankruptcy Court on June 7, 2007 requesting that the Settled Claims be disallowed and expunged. The Omnibus Objection also requests that if the Bankruptcy Court finds that the holders of Settled Claims retain viable tort claims with recourse against Congoleum, that the Bankruptcy Court rescind the pre-petition settlement agreements and the Claimant Agreement and those claims be disallowed and expunged because, since the filing of Congoleum's bankruptcy case, supervening events have resulted in a substantial frustration of the purpose of those agreements. On July 27, 2007, the Bankruptcy Court issued two decisions regarding the legal status of the Settled Claims. One decision held that the relief requested in the Omnibus Objection should be heard in the context of an adversary proceeding (a formal lawsuit) in order to insure that the Bankruptcy Court has jurisdiction over all the affected claimants and that their due process rights are otherwise protected. Congoleum amended the complaint in the existing adversary proceeding to seek the relief requested in the Omnibus Objection. The Bankruptcy Court also reiterated its view that all the asbestos claims, unless they had obtained a final judgment as to liability and damages, are similarly situated and must receive similar treatment in any section 524(g) reorganization plan. In its other decision, the Bankruptcy Court ruled that the security interests in insurance collateral that were conveyed to the settled claimants pre-bankruptcy were ineffective and unenforceable against Congoleum's insurance policies or the proceeds of those policies because the attempts to create security interests were outside the scope of Article 9 of the Uniform Commercial Code and such security interests could not be considered a common law pledge. The Bankruptcy Court therefore granted summary judgment in Congoleum's favor on certain counts of the Avoidance Actions, which counts sought to void the security interests and liens securing the pre-petition settlements of asbestos claims. 27 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) On September 4, 2007, Congoleum filed the Third Amended Complaint in the Avoidance Actions, adding new counts that encompass the subject matter and relief requested in the Omnibus Objection. The Third Amended Complaint remains pending. On October 12, 2007, Congoleum filed a motion for summary judgment in the Omnibus Adversary Proceeding seeking a ruling that all of the summary judgment motion was heard on November 5, 2007, and the Bankruptcy Court has taken the motion under advisement. Due to, among other things, the ongoing Avoidance Actions and Omnibus Objection, the liability associated with the asbestos personal injury claims against Congoleum may be materially different than the present estimates of such items. As a result of tabulating ballots on the Fourth Plan, Congoleum is also aware of claims by approximately 33,000 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. The FCR filed a plan of reorganization and proposed disclosure statement (the "FCR Plan") on July 3, 2007. The FCR Plan is premised upon, among other things, treatment of all asbestos claimants holding claims against Congoleum on a substantially similar basis, although the

FCR did not propose a resolution of any pre-petition settlement agreements, including the Claimant Agreement. The FCR Plan provides, among other things, that all existing equity interests of Congoleum's stockholders will be cancelled and that the stockholders will receive nothing on account of their equity interests. Disclosure statement hearings were held on August 30, 2007and November 8, 2007, and a further hearing is scheduled for December 11, 2007. There is no assurance that the Bankruptcy Court will approve the disclosure statement or that the FCR Plan will be confirmed. At the November 8, 2007 hearing, the Bankruptcy Court also ruled that any competing plans of reorganization must be filed prior to the December 11, 2007 hearing. On October 25, 2007, the FCR amended the FCR Plan. As amended, the FCR Plan provides that reorganized Congoleum will assume the personal services agreement and business relations agreement between Congoleum and ABI, as well as a license agreement between Congoleum and AB Canada. The amended FCR Plan provides that other intercompany agreements between Congoleum and ABI will be rejected, including the joint venture agreement. Moreover, the amended FCR Plan proposes equitable subordination of ABI's claims against Congoleum and elimination of ABI's Congoleum equity interests. Congoleum continues to be 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 any future plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to any future plan. 28 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) During 2005 and 2006, Congoleum entered into a number of settlement agreements with excess insurance carriers over coverage for asbestos-related claims. In May 2005, certain American International Group, Inc. ("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 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 appealed the approval order granted by the Bankruptcy Court to the District Court. The District Court, however, entered an order in September 2006 that administratively terminated the appeal. The AIG settlement provides that any party may declare that the settlement agreement is null and void if any Bankruptcy Court order confirming a plan of reorganization for Congoleum fails to become a final order by May 12, 2007, and AIG may terminate the settlement agreement pursuant to this provision. On or about June 25, 2007, Congoleum and AIG executed a letter agreement providing that the parties would provide 45 days advance notice of their intent to terminate the AIG settlement. To date, neither party has given notice of an intention to terminate the agreement. At this time, it is not known whether AIG ultimately will seek to terminate the settlement agreement. In June 2005, Congoleum entered into a settlement agreement with certain underwriters at Lloyd's, London, pursuant to which those 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. The settlement provided that any party may declare that the settlement would be null and void if any Bankruptcy Court order confirming a plan of reorganization of Congoleum fails to become a final order by June 22, 2007. In November 2007, Congoleum filed a motion to amend the settlement agreement (the "Second Amendment"). Under the Second Amendment, the above provision providing for the settlement becoming null and void has been deleted. Also, within ten business days after the order approving the Second Amendment becomes a final order, the parties will direct the escrow agent (i) to disburse to Lloyd's London, 25% of the net interest that had accrued in the escrow account as of September 30, 2007; and (ii) to disburse to Lloyd's London, at the end of each calendar quarter, 75% of the net interest that accrued during each quarterly period occurring after September 30, 2007. Further, within five business days of the Trigger Date (as defined in the Second Amendment), the parties will direct the escrow agent to release the Settlement Amount (as defined in the Second Amendment) in full, together with any accrued interest that is due to Congoleum, to the Plan Trust or as otherwise directed by the Bankruptcy Court. 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, subject to certain adjustments, 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 FCR appealed the approval order granted by the Bankruptcy Court to the District Court. The FCR, Federal and Congoleum reached an agreement to resolve the appeal pursuant to which the Federal settlement agreement will

be amended to fix the settlement amount payable by Federal at $2.1 million and to delete from the settlement agreement the adjustment mechanism, which operated under certain circumstances to reduce the settlement amount, and the Bankruptcy Court 29 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) has approved this treatment. 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 paid $21.5 million into an escrow account. 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. An insurer and the FCR appealed the approval order granted by the Bankruptcy Court to the District Court, but the appeal has been administratively terminated by agreement. The Mt. McKinley and Everest settlement agreement contains a provision that any party may declare the agreement to be null and void if the Confirmation Order and Approval Order do not become final orders within two years of the Execution Date (as those terms are defined in the Mt. McKinley and Everest settlement agreement). At this time, Mt. McKinley and Everest have not sought to terminate the settlement agreement. In March 2006, Congoleum entered into a settlement agreement with Harper Insurance Limited. Under the terms of this settlement, Harper will pay approximately $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. The Bankruptcy Court approved this settlement in April 2006. In April 2006, Congoleum entered into a settlement agreement with Travelers Casualty and Surety Company and St. Paul Fire and Marine Insurance Company (collectively, "Travelers"). Under the terms of this settlement, Travelers will pay $25 million in two installments over thirteen months 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 FCR sought, and was granted, limited discovery with respect to the Travelers settlement to which the FCR has objected. A hearing to consider approval of the Travelers settlement was held in April 2007, and on May 11, 2007 the Bankruptcy Court issued a decision denying approval of the Travelers settlement. Congoleum and Travelers have appealed that decision to the District Court, and that appeal remains pending. In April 2006, Congoleum also entered into a settlement agreement with Fireman's Fund Insurance Company. Under the terms of this settlement, Fireman's Fund will pay $1 million to the Plan Trust once a plan of reorganization with the Section 524(g) protection specified in the settlement agreement becomes effective and the Bankruptcy Court approves the transfer of the funds. The settlement was approved by the Bankruptcy Court in September 2006. In August 2006, Congoleum entered into a settlement agreement with Century Indemnity Company and its affiliates ("Century"). Under the terms of this settlement, Century will pay $16.95 million to the Plan Trust in four installments over a three-year period commencing 60 days after all conditions to the agreement have been satisfied. The Bankruptcy Court approved this settlement in September 2006. Certain insurance companies appealed the Bankruptcy Court approval order to the District Court. Upon the entry of stipulations with the appellants, the appeal was dismissed. It is possible that one or more of the settling insurers may argue temporal, Plan-related, and other conditions to payment have not been satisfied and therefore such insurer is relieved of certain of its settlement obligations. If Congoleum is unable to confirm a plan of reorganization with Section 524(g) protection, the settlements described in this paragraph are subject to termination. 30 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) The terms of any new plan of reorganization are likely to be materially different from the Eleventh Plan, including with respect to the Company and its interests, such as the Company's Congoleum equity interests, whether and the extent to which the Company may receive the limited Section 524(g) channeling injunction relief that would have been provided to the Company under the Eleventh Plan, and the amount and form of any contribution the Company may be required to contribute to the Plan Trust in order to receive that injunctive relief. Further, any new plan of reorganization could be amended or modified as a result of further negotiations with various parties. Congoleum expects that it will take until some time in the third quarter of 2008 at the earliest to obtain confirmation of any plan of reorganization. Furthermore, the estimated costs and contributions to effect any plan of reorganization could be significantly greater than currently estimated. Any plan of reorganization pursued by Congoleum or any other person will be subject to numerous conditions, approvals and other requirements, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained, including that Congoleum or other plan proponent will obtain approval to solicit acceptances of a new plan of reorganization, that Congoleum or other plan proponent will receive the acceptances necessary for confirmation of a plan of reorganization, that any proposed plan will not be modified further, that a plan will receive necessary court approvals

from the Bankruptcy Court and the District Court, or that such approvals will be received in a timely fashion, that a plan will be confirmed, that a plan, if confirmed, will become effective, or that there will be sufficient funds for Congoleum to pay for continued litigation with respect to Congoleum's Chapter 11 case or the State Court insurance coverage case which Congoleum is pursuing against certain of its insurance carriers. Under plans prior to the Tenth Plan, Congoleum's assignment of insurance recoveries to the Plan Trust was net of costs incurred by Congoleum in connection with insurance coverage litigation, and Congoleum was entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for coverage litigation costs incurred after January 1, 2003 and for $1.3 million in claims processing fees paid in connection with claims settled under the Claimant Agreement. A receivable was recorded for these costs as they were paid. Under the Eleventh Plan, Congoleum would have been entitled to reimbursement of only the $1.3 million in claims processing fees and would not have collected the balance of these receivables ($24.8 million at September 30, 2007). As noted earlier, the Tenth and Eleventh Plans were deemed unconfirmable and therefore any write-off of these receivables as well as any forgiveness of indebtedness income pursuant to any future plan and any other applicable charges or credits may be recorded at a future date, the net effect of which cannot be determined. 31 Note J - Congoleum Asbestos Liabilities and Reorganization (continued) 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. It is anticipated that any plan of reorganization will provide for payment of those claims in full from certain insurance proceeds. On October 12, 2007, the Bondholders' Committee filed a motion seeking a bar order requiring all known holders of asbestos personal injury claims to file proofs of claim on or before January 8, 2008 or be forever barred from asserting asbestos personal injury claims against Congoleum. A hearing on the bar order motion was held on November 5, 2007, at the conclusion of which the Bankruptcy Court took the matter under advisement. Entry of a bar order and the subsequent filing of asbestos personal injury proofs of claim may affect the amount currently recorded for such liabilities in the Company's financial statements. Based on Congoleum's 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 a Plan Trust. Congoleum recorded charges aggregating approximately $51.3 million in prior years, and is not yet able to determine the amount of the additional cost that will be required to complete any future plan of reorganization. Amounts that may be contributed to any Plan Trust and costs for pursuing and implementing any plan of reorganization could be materially higher than currently recorded or previously estimated. Delays in proposing, filing or obtaining approval of a new amended plan of reorganization, or the proposal or solicitation of additional plans by other parties could result in a proceeding that takes longer and is more costly than Congoleum has previously estimated. Congoleum may record significant additional charges in connection with its reorganization proceedings. 32 Note K - Comprehensive Income (Loss) The following table presents total comprehensive income for the three and nine months ended September 30, 2007 and 2006 (in thousands): Three Months Ended Nine Months Ended September 30, September 30, 2007 2006 2007 2006 --------- --------- --------- --------- Net income (loss) $ 675 $ (852) $ 1,065 $ 650 Foreign currency translation adjustments 1,400 (37) 3,108 119 --------- --------- --------- --------- Total comprehensive income (loss) $ 2,075 $ (889) $ 4,173 $ 769 ========= ========= ========= ========= Note L - Earnings (Loss) Per Share Basic and diluted earnings per share are computed in accordance with FASB Statement No. 128, Earnings per Share ("SFAS 128"). SFAS 128 requires both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding and all dilutive potential common share equivalents outstanding. The dilutive effect of options is determined under the treasury stock method using the average market price for the period. Common share equivalents are included in the per share calculations when the effect of their inclusion would be dilutive. 33 Note M - Industry Segments Description of Products and Services The Company has four reportable segments: flooring products, tape division, jewelry and a Canadian division that produces flooring, rubber and other industrial products. The flooring products segment consists of Congoleum, a manufacturer of resilient floor coverings, which are sold primarily through floor covering distributors to retailers and contractors for commercial and residential use. The tape division segment manufactures paper, film, HVAC, electrical, shoe and

other tape products for use in industrial and automotive markets in two production facilities in the United States, and in finishing and sales facilities in Belgium and Singapore. The jewelry segment consists of the Company's majority-owned subsidiary K&M Associates L.P., a national costume jewelry supplier to mass merchandisers and department stores. The Company's Canadian division produces flooring, rubber and other industrial products. Net sales by segment for the three and nine months ended September 30, 2007 and 2006 were as follows (in thousands): Three Months Ended Nine Months Ended September 30, September 30, 2007 2006 2007 2006 --------- --------- --------- --------- Net sales to external customers: Flooring products $ 53,588 $ 57,460 $ 160,444 $ 173,440 Tape products 23,901 25,058 73,823 79,768 Jewelry 16,025 13,574 46,758 43,582 Canadian division 13,889 12,382 41,967 40,870 --------- --------- --------- --------- Total net sales to external customers 107,403 108,474 322,992 337,660 Intersegment net sales: Flooring products -- -- -- -- Tape products -- 4 -- 10 Jewelry -- -- -- -- Canadian division 1,231 1,255 3,830 4,117 --------- --------- --------- --------- Total intersegment net sales 1,231 1,259 3,830 4,127 Reconciling items -- -- -- -- Intersegment net sales (1,231) (1,259) (3,830) (4,127) --------- --------- --------- --------- Total consolidated net sales $ 107,403 $ 108,474 $ 322,992 $ 337,660 ========= ========= ========= ========= 34 Note M - Industry Segments (continued) Segment profit or loss is before income tax expense or benefit, noncontrolling interests, and net income (loss) from discontinued operations. Profit (loss) by segment for the three and nine months ended September 30, 2007 and 2006 was as follows (in thousands): Three Months Ended Nine Months Ended September 30, September 30, 2007 2006 2007 2006 --------- --------- --------- --------- Segment profit (loss) Flooring products $ 1,220 $ (518) $ 1,711 $ 435 Tape products (304) (17) (967) 1,250 Jewelry 487 350 1,023 232 Canadian division (564) (240) (182) 435 --------- --------- --------- --------- Total segment profit 839 (425) 1,585 2,352 Reconciling items Corporate expenses 148 (949) (247) (1,769) Intercompany profit (21) (18) (16) 45 --------- --------- --------- --------- Total consolidated income before income taxes and other items $ 966 $ (1,392) $ 1,322 $ 628 ========= ========= ========= ========= Assets by segment as of the end of the quarter and the end of the prior year were as follows (in thousands): September 30, December 31, 2007 2006 ------------- ------------ Segment assets Flooring products $ 185,915 $ 184,202 Tape products 61,454 52,848 Jewelry 39,261 38,913 Canadian division 40,091 36,396 --------- --------- Total segment assets 326,721 312,359 Reconciling items Corporate items 32,101 32,008 Intersegment accounts receivable (18,052) (12,416) Intersegment profit in inventory (159) (144) Intersegment other asset (126) (135) --------- --------- Consolidated assets $ 340,485 $ 331,672 ========= ========= 35 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations On December 31, 2003, Congoleum filed a voluntary petition with the Bankruptcy Court seeking relief under Chapter 11 of the Bankruptcy Code as a means to resolve claims asserted against it related to the use of asbestos in its products decades ago. During 2003, Congoleum had obtained the requisite votes of asbestos personal injury claimants necessary to seek approval of a proposed, pre-packaged Chapter 11 plan of reorganization. In January 2004, Congoleum filed its proposed plan of reorganization and disclosure statement with the Bankruptcy Court. In November 2004, Congoleum filed the Fourth Plan reflecting the result of further negotiations with representatives of the ACC, the FCR 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 ACC and the FCR 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 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 March 2006, Congoleum filed the Eighth Plan. In addition, an insurance company, CNA, filed a plan of reorganization and the Bondholders' Committee also filed a plan of reorganization. In May 2006, the Bankruptcy Court ordered all parties in interest in Congoleum's reorganization

proceedings to participate in global mediation discussions. Several mediation sessions took place from June through September 2006. During the initial mediation negotiations, Congoleum reached an agreement in principle, subject to mutually agreeable definitive documentation, with the ACC, the FCR and Congoleum's controlling shareholder, ABI, on certain terms of the Ninth Plan, which Congoleum filed and proposed jointly with the ACC in August 2006. CNA and the Bondholders' Committee jointly filed a new, competing plan in August 2006 and each withdrew its prior plan of reorganization. Following further mediated negotiations, Congoleum, the ACC, the FCR, ABI and the Bondholders' Committee reached agreement on terms of the Tenth Plan, which Congoleum filed jointly with the ACC in September 2006. Following the Bondholders' Committee's withdrawal of support for CNA's plan, CNA filed the CNA Plan. In October 2006, Congoleum and 36 the ACC jointly filed a revised version of the Tenth Plan, the Eleventh Plan, which reflected minor technical changes agreed to by the various parties supporting Congoleum's plan. In October 2006, the Bankruptcy Court held a hearing to consider the adequacy of the disclosure statements with respect to the Tenth Plan and the CNA Plan and to hear arguments on respective summary judgment motions that the Tenth Plan and the CNA Plan are not confirmable as a matter of law. The Bankruptcy Court provisionally approved the disclosure statements for both the Tenth Plan and the CNA Plan subject to the Bankruptcy Court's ruling on the respective summary judgment motions. In February 2007, the Bankruptcy Court entered on its docket two separate opinions ruling that neither the Tenth Plan nor the CNA Plan was confirmable as a matter of law. Because the Tenth Plan and Eleventh Plan are substantially identical, Congoleum believes the ruling issued with respect to the Tenth Plan also applies to the Eleventh Plan. Following the Bankruptcy Court's rulings, in March 2007, Congoleum resumed global plan mediation discussions seeking to resolve the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. Congoleum has also appealed the ruling with respect to the Tenth Plan to the District Court. On October 30, 2007, Congoleum informed the parties to the appeal that it would no longer be pursuing such appeal. The ACC, which is a co-appellant, has determined to continue to prosecute the appeal, which remains pending. There can be no assurance that Congoleum will be successful in negotiating a new plan of reorganization that resolves the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. The FCR filed the FCR Plan on July 3, 2007. The FCR Plan is premised upon, among other things, treatment of all asbestos claimants holding claims against Congoleum on a substantially similar basis, although the FCR did not propose a resolution of any pre-petition settlement agreements and including the Claimant Agreement. The FCR Plan provides, among other things, that all existing equity interests of Congoleum's stockholders will be cancelled and that the stockholders will receive nothing on account of their equity interests. Disclosure statement hearings were held on August 30, 2007 and November 8, 2007, and a further hearing is scheduled for December 11, 2007. There is no assurance that the Bankruptcy Court will approve the disclosure statement or that the FCR Plan will be confirmed. At the November 8, 2007 hearing, the Bankruptcy Court also ruled that any competing plans of reorganization must be filed prior to the December 11, 2007 hearing. On October 25, 2007, the FCR amended the FCR Plan. As amended, the FCR Plan provides that reorganized Congoleum will assume the personal services agreement and business relations agreement between Congoleum and ABI, as well as a license agreement between Congoleum and AB Canada. The amended FCR Plan provides that other intercompany agreements between Congoleum and ABI will be rejected, including the joint venture agreement. Moreover, the amended FCR Plan proposes equitable subordination of ABI's claims against Congoleum and elimination of ABI's Congoleum equity interests. The terms of any new plan of reorganization are likely to be materially different from the Tenth and Eleventh Plans, including with respect to the Company and its interests, such as the Company's Congoleum equity interests, whether and the extent to which the Company may receive the limited Section 524(g) channeling injunction relief that would have been provided to the Company under the Eleventh Plan, and the amount and form of any contribution the Company may be required to contribute to the Plan Trust in order to receive that injunctive relief. Further, any new plan of reorganization could be amended or modified as a result of further negotiations with various parties. Congoleum expects that it will take until some time in the third quarter of 2008 at the earliest to obtain confirmation of any plan of reorganization. Furthermore, the estimated costs and contributions to effect any plan of reorganization could be significantly greater than currently estimated. 37 Any plan of reorganization pursued by Congoleum or any other person will be subject to numerous conditions, approvals and other requirements, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained, including that Congoleum or other plan proponent will obtain approval to solicit acceptances of a new plan of reorganization, that Congoleum or other plan proponent will receive the acceptances necessary for confirmation of a plan of reorganization, that any proposed plan will not be modified further, that a plan will receive

necessary court approvals from the Bankruptcy Court and the District Court, or that such approvals will be received in a timely fashion, that a plan will be confirmed, that a plan, if confirmed, will become effective, or that there will be sufficient funds for Congoleum to pay for continued litigation with respect to Congoleum's Chapter 11 case or the State Court insurance coverage case which Congoleum is pursuing against certain of its insurance carriers. Congoleum continues to be 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 any future plan. Certain other parties have also filed various objections to Congoleum's previously proposed plans of reorganization and may file objections to any future plan. In anticipation of Congoleum's commencement of the Chapter 11 cases, Congoleum entered into 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 settlement values in excess of $491 million. As contemplated by the Claimant Agreement, Congoleum also entered into agreements establishing 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 the Avoidance Actions seeking to void the security interest granted to the Collateral Trust and such settlements. On May 18, 2007, the State Court issued a decision ruling that Congoleum's insurers have no coverage obligations under New Jersey law for the Claimant Agreement. In that ruling, the State Court judge also citied trial testimony in his opinion that the releases (given by claimants who signed the Claimant Agreement) were non-recourse to Congoleum whether or not anyone recovered insurance proceeds. Based in part upon that finding, Congoleum filed the Omnibus Objection in the Bankruptcy Court on June 7, 2007, requesting that the Settled Claims be disallowed and expunged. The Omnibus Objection also requests that if the Bankruptcy Court finds that the holders of Settled Claims retain viable tort claims with recourse against Congoleum, that the Bankruptcy Court rescind the pre-petition settlement agreements and the Claimant Agreement be rescinded and those claims be disallowed and expunged because, since the filing of Congoleum's bankruptcy case, supervening events have resulted in a substantial frustration of the purpose of those agreements. 38 On July 27, 2007, the Bankruptcy Court issued two decisions regarding the legal status of the Settled Claims. One decision held that the relief requested in the Omnibus Objection should be heard in the context of an adversary proceeding (a formal lawsuit) in order to insure that the Bankruptcy Court has jurisdiction over all the affected claimants and that their due process rights are otherwise protected. Congoleum amended the complaint in the existing adversary proceeding to seek the relief requested in the Omnibus Objection. The Bankruptcy Court also reiterated its view that all the asbestos claims, unless they had obtained a final judgment as to liability and damages, are similarly situated and must receive similar treatment in any section 524(g) reorganization plan. In its other decision, the Bankruptcy Court ruled that the security interests in insurance collateral that were conveyed to the settled claimants pre-bankruptcy were ineffective and unenforceable against Congoleum's insurance policies or the proceeds of those policies because the attempts to create security interests were outside the scope of Article 9 of the Uniform Commercial Code and such security interest could not be considered a common law pledge. The Bankruptcy Court therefore granted summary judgment in Congoleum's favor on certain counts of the Avoidance Actions, which counts sought to void the security interests and liens securing the pre-petition settlements of asbestos claims. On September 4, 2007, Congoleum filed the Third Amended Complaint in the Avoidance Actions, adding new counts that encompass the subject matter and relief requested in the Omnibus Objection. The Third Amended Complaint remains pending. On October 12, 2007, Congoleum filed a motion for summary judgment in the Omnibus Adversary Proceeding seeking a ruling that all of the pre-petition settlement agreements were null and void or should be rescinded. Argument on the summary judgment motion was heard on November 5, 2007, and the Bankruptcy Court has taken the motion under advisement. Due to, among other things, the ongoing Avoidance Actions and Omnibus Objection, the liability associated with the asbestos personal injury claims against Congoleum may be materially different than the present estimates of such items. As a result of tabulating ballots on the Fourth Plan, Congoleum is also aware of claims by approximately 33,000 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. Please refer to "Risk Factors - The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful,"

and "Any plan of reorganization for Congoleum will likely result in substantial dilution or elimination of Congoleum's equity interests, including the Company's Congoleum equity interests" included in Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of certain factors that could cause actual results to differ from the Company's and Congoleum's goals for resolving its asbestos liability. 39 During 2003, the Company decided to discontinue the operations of its subsidiary Janus, a manufacturer of pre-finished hardwood flooring, and sell the related assets. Results of Janus, including charges resulting from the shutdown, were reported as a discontinued operation. During 2006, the remaining assets of Janus were sold, and the discontinued operation was effectively dissolved. As of December 31, 2006, the Company merged Janus with and into AB Canada. Due to Congoleum's Chapter 11 proceedings 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. ABI and its non-debtor subsidiaries are comprised of the Tape, Jewelry (comprised of the Company's majority-owned subsidiary, K&M) and Canadian division segments as well as Corporate items and Janus. Congoleum is the flooring products segment. Application of Critical Accounting Policies and Estimates The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidating financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the Company's financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that its most critical accounting policies, upon which its financial condition depends and which involve the most complex or subjective decisions or assessments, are those described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission. There have been no material changes in what the Company considers to be its critical accounting policies or the applicability of the disclosure the Company provided regarding those policies in that Form 10-K. 40 Results of Operations ABI and Non-Debtor Subsidiaries Three Months Ended September 30 Nine Months Ended September 30 2007 2006 2007 2006 -------------------------------------- -------------------------------------- (In thousands) Net sales $ 53,815 $ 51,014 $162,548 $ 164,220 Cost of sales 40,000 37,120 119,694 120,015 ----------- ----------- ----------- ----------- Gross profit 13,815 25.7% 13,894 27.2% 42,854 26.4% 44,205 26.9% Selling, general & administrative expenses 13,796 25.6% 13,542 26.5% 42,611 26.2% 42,452 25.9% ----------- ----------- ----------- ----------- Operating income 19 352 243 1,753 Interest expense, net (502) (535) (1,597) (1,698) Other income, net 250 (673) 981 93 ----------- ----------- ----------- ----------- (Loss) income before taxes and other items (233) (856) (373) 148 Provision for (benefit from) income taxes 192 (461) 126 (98) Noncontrolling interests (79) (21) (104) (34) ----------- ----------- ----------- ----------- (Loss) income from continuing operations $ (504) $ (416) $ (603) $ 212 =========== =========== =========== =========== Net sales in the third quarter of 2007 were $53.8 million compared to $51.0 million in the third quarter of 2006, an increase of $2.8 million or 5.5%. Tape division sales decreased $1.2 million or 4.6% from year earlier levels as a result of lower sales volumes of automotive products, protective films, and protective paper. Canadian division sales increased $1.5 million or 10.9% from the third quarter of 2006, primarily due to the effect of foreign exchange on Canadian sales. Jewelry sales increased $2.5 million or 18.1% primarily as a result of increased shipments to mass merchandisers and mid-tier retailers coupled with lower sales allowances. Net sales for the first nine months of 2007 decreased $1.7 million (1.0%) to $162.5 million from $164.2 million for the nine months ended September 30, 2006. Tape division sales decreased $6.0 million or 7.5% primarily due to lower sales volumes of HVAC tapes, protective films, and automotive products. Canadian division sales in the first nine months of 2007 were up $0.8 million or 1.8% from year earlier levels due to the effect of foreign exchange on Canadian sales and higher flooring sales, partly offset by lower sales of industrial rubber products. Jewelry sales for the first nine months of 2007 were $3.2 million or 7.3% higher than the same period in 2006 due to higher sales to mass merchandisers and lower sales allowances, partly offset by lower sales to department stores and discount outlets. 41 Gross profit decreased from 27.2% of net sales for the third quarter of 2006 to 25.7% for the third quarter of 2007. Tape division margins in the third quarter of 2007 were below the same period in 2006 due to the effect of lower production volumes, partly offset by price increases. Canadian division margins in the third quarter of 2007 also decreased from year earlier levels due

to the significant strengthening of the Canadian dollar relative to the US dollar during the quarter. Because the Canadian division uses a first-in, first-out method of costing inventory, the effect of exchange rate fluctuations is reflected in sales more quickly than in cost of sales. Jewelry margins in the third quarter of 2007 were below the third quarter of 2006 due to a lower priced mix of sales as well as higher costs for fixtures and freight. Gross profit for the nine months ended September 30, 2007 was 26.4% compared to 26.9% for the first nine months of 2006. Tape division margins for the first nine months of 2007 were below the same period in 2006 due to the effect of lower production volumes and raw material and energy cost inflation, partly offset by price increases and cost reduction initiatives. Canadian division margins also decreased due to the effect of the Canadian dollar appreciation during the year. Jewelry margins for the first nine months of 2007 were below the same period in 2006 due to higher costs for goods, fixtures, and freight and lower priced mix of sales. 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 quarter ended September 30, 2007 and 2006 would have been 25.2% and 26.7%, respectively. The gross profit margins for the nine months ended September 30, 2007 and 2006 would have been 26.0% and 26.4%, respectively. Selling, general and administrative ("SG&A") expenses in the third quarter of 2007 increased by $254 thousand or 1.9% compared to the third quarter of 2006. As a percentage of net sales, SG&A decreased from 26.5% to 25.6% due to the increase in sales coupled with more limited increases in SG&A. SG&A expenses for the nine months ended September 30, 2007 were $42.6 million (26.2% of net sales) versus $42.5 million (25.9% of net sales) for the nine months ended September 30, 2006. The increase in SG&A for the three and nine months ended September 30, 2007 over the year earlier periods was primarily due to inflation on wages and benefits and additional selling and R&D headcount, largely offset by spending reductions in other areas. Net interest expense for the three and nine months ended September 30, 2007 was slightly lower compared to the same periods in 2006 due to lower average borrowing costs. Loss from continuing operations in the third quarter of 2007 was $504 thousand compared to $416 thousand in the corresponding prior year period. For the nine months ended September 30, 2007, the loss from continuing operations was $603 thousand compared to income of $212 thousand for the same period last year. 42 Congoleum Three Months Ended September 30 Nine Months Ended September 30 2007 2006 2007 2006 -------------------------------------- -------------------------------------- (In thousands) Net sales $ 53,588 $ 57,460 $ 160,444 $ 173,440 Cost of sales 39,365 44,562 120,478 133,661 ----------- ----------- ----------- ----------- Gross profit 14,223 26.5% 12,898 22.4% 39,966 24.9% 39,779 22.9% Selling, general & administrative expenses 9,829 18.3% 10,681 18.6% 29,243 18.2% 31,338 18.1% ----------- ----------- ----------- ----------- Operating income 4,394 2,217 10,723 8,441 Interest expense, net (2,961) (2,812) (8,765) (8,130) Other (expense) income, net (213) 77 (247) 124 ----------- ----------- ----------- ----------- Income (loss) before taxes 1,220 (518) 1,711 435 Provision for (benefit from) income taxes 20 (94) 27 22 ----------- ----------- ----------- ----------- Net income (loss) $ 1,200 $ (424) $ 1,684 $ 413 =========== =========== =========== =========== Net sales for the three months ended September 30, 2007 were $53.6 million as compared to $57.5 million for the three months ended September 30, 2006, down $3.9 million or 6.8%, due to lower sales volume of products for new residential construction and lower sales of resilient sheet specials, partially offset by increased selling prices. Net sales for the nine months ended September 30, 2007 were $160.4 million as compared to $173.4 million for the nine months ended September 30, 2006, down $13.0 million or 7.5%. The first quarter of 2006 included sales to the manufactured housing industry for production requirements carried over from the 2005 hurricane season and is the primary reason for the lower sales comparison versus 2007. Lower sales of new residential, remodel, and special products also contributed to the sales decrease, partially offset by increased selling prices. Gross profit for the three months ended September 30, 2007 totaled $14.2 million, or 26.5% of net sales, compared to $12.9 million, or 22.4% of net sales, for the same period last year. The increase in gross profit dollars and gross profit as a percent of net sales was driven by the improvement in product mix as a result of reduced sales of lower margin builder products and specials, a price increase instituted late in the second quarter of 2007 and the impact of cost reduction programs instituted early in 2007. Gross profit for the nine months ended September 30, 2007 totaled $40.0 million or 24.9% of net sales, compared to $39.8 million or 22.9% of net sales for the same period last year. The improvement in gross margin percentage reflected the improvement in product mix and the impact of price increases instituted in the second half of 2006, partially offset by the unfavorable impact of lower volume to spread fixed manufacturing expense. The decline in gross profit was due to lower sales, partially

offset by the improvement in margins. 43 Selling, general and administrative expenses were $9.8 million for the three months ended September 30, 2007 as compared to $10.7 million for the three months ended September 30, 2006, a decrease of $0.9 million. The decrease in selling, general and administrative expenses primarily reflect reduced payroll and related benefits costs related to headcount reductions coupled with lower merchandising costs. As a percent of net sales, selling, general and administrative costs were 18.3% for the third quarter of 2007 compared to 18.6% for the same period last year. Selling, general and administrative expenses were $29.2 million for the nine months ended September 30, 2007 as compared to $31.3 million for the nine months ended September 30, 2006. The lower selling, general and administrative expenses reflect lower payroll and benefits related expenses related to headcount reductions in the first quarter of 2007 coupled with lower merchandising costs. As a percent of net sales, selling, general and administrative costs were 18.2% for the nine months ended September 30, 2007 compared to 18.1% for the same period last year. Income from operations totaled $4.4 million for the quarter ended September 30, 2007 compared to income of $2.2 million for the quarter ended September 30, 2006. The increase in operating income reflects the higher gross profit margins achieved during the quarter coupled with reductions in operating expenses. Income from operations was $10.7 million for the nine months ended September 30, 2007 compared to income of $8.4 million for the nine months ended September 30, 2006. The increase in operating income resulted from reduced operating expenses and improved gross profit margins which mitigated the effect of lower sales volumes. Liquidity and Capital Resources ABI & Non-Debtor Subsidiaries Cash and cash equivalents increased $218 thousand in the first nine months of 2007 to $2.8 million. Working capital at September 30, 2007 was $30.3 million, up from $29.6 million at December 31, 2006. The ratio of current assets to current liabilities at September 30, 2007 was 1.56 compared to 1.62 at December 31, 2006. Capital expenditures in the first nine months of 2007 were $1.3 million compared to $2.2 million for the first nine months of 2006. It is anticipated that capital spending for the full year 2007 will be approximately $3 million. The Company has recorded provisions which it believes are adequate for environmental remediation, including provisions for testing and potential remediation of conditions at its own facilities, and non-asbestos product-related liabilities. While the Company believes its estimate of the future amount of these liabilities is reasonable, that most of such amounts will be paid over a period of five 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. 44 American Biltrite Inc.'s primary source of borrowings are the revolving credit facility (the "Revolver") and the term loan ("Term Loan") it has with Bank of America, National Association ("BofA") and BofA acting through its Canada branch (the "Canadian Lender") pursuant to an amended and restated credit agreement (the "Credit Agreement"). The Credit Agreement provides American Biltrite Inc. and its subsidiary K&M with (i) a $30.0 million commitment under the Revolver with a $12.0 million borrowing sublimit (the "Canadian Revolver") for American Biltrite Inc.'s subsidiary AB Canada and (ii) the $10.0 million Term Loan. The Credit Agreement also provides for domestic and Canadian letter of credit facilities with availability of up to $5.0 million and $1.0 million, respectively, subject to availability under the Revolver and the Canadian Revolver, respectively. On September 25, 2006, American Biltrite Inc., K&M and AB Canada entered into an amendment and restatement to the Credit Agreement with BofA and the Canadian Lender. Pursuant to the amendment and restatement, the Term Loan was added to the Credit Agreement and the amount of the Revolver was increased by $10.0 million to its current $30.0 million amount. In addition, the availability for domestic letters of credit issued under the Credit Agreement was increased from $4.0 million to $5.0 million. In connection with that amendment and restatement, American Biltrite Inc. used approximately $17.0 million of new borrowings from the proceeds of the Term Loan, which was fully drawn, and under the Revolver to fully prepay $16.0 million of aggregate outstanding principal amount of the Company's senior notes, all of which were held by The Prudential Insurance Company of America, together with approximately $1.0 million in interest and yield maintenance fees in connection with those notes and prepayment. A charge of approximately $860 thousand for early extinguishment of debt was recorded in connection with this prepayment, which was included in other expense in the third quarter of 2006. The amount of borrowings available from time to time for American Biltrite Inc. and K&M under the Revolver may not exceed the lesser of (a) $30.0 million less the then outstanding amount of borrowings by AB Canada under the Canadian Revolver less any outstanding borrowings under the domestic letter of credit facility

and (b) the applicable borrowing base. The formula used for determining the domestic 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 Term Loan. The amount of borrowings available from time to time for AB Canada under the Canadian Revolver is limited to the lesser of (a) $12 million less any outstanding borrowings under the Canadian letter of credit facility, (b) AB Canada's borrowing base amount, which is based upon AB Canada's accounts receivable, inventory and fixed assets, and (c) $30.0 million less the amount of domestic borrowings outstanding under the Revolver on behalf of the Company and K&M. AB Canada may borrow amounts under the Canadian Revolver in United States or Canadian dollar denominations; however, solely for purposes of determining amounts outstanding and borrowing availability under the Revolver, all Canadian dollar denominated amounts will be converted into United States dollars in the manner provided in the Credit Agreement. 45 Interest is payable quarterly on the Term Loan and Revolver borrowings by American Biltrite Inc. and K&M under the Credit Agreement 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, (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 Agreement, and (c) for loans not based on a LIBOR or fixed rate, the higher of (i) BofA's applicable prime rate and (ii) 0.50% plus the federal funds rate, as determined under the Credit Agreement. Under the Credit Agreement, American Biltrite Inc. and K&M 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. Interest is payable quarterly on revolving loans under the Canadian Revolver 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 (i) 0.50% plus the applicable 30-day average bankers' acceptance rate as quoted on Reuters CDOR page and (ii) 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 (i) 0.50% plus the federal funds rate as calculated under the Credit Agreement and (ii) 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 Canadian revolving loans will be calculated based on a LIBOR based rate. American Biltrite Inc. has entered into interest rate swap agreements that effectively fix the LIBOR rate component of the Term Loan and $6.0 million of the Revolver at 5.18% and 5.15% respectively. The Term Loan principal is payable in 20 quarterly installments of $500 thousand beginning December 31, 2006 and ending on September 30, 2011. All indebtedness under the Credit Agreement, other than the Term Loan, expires on September 30, 2009. The Credit Agreement contains certain covenants that the Company must satisfy. The covenants included in the Credit 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. 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, 46 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. Pursuant to the amendment and restatement to the Credit Agreement entered into on September 25, 2006, certain of the financial covenants under the Credit Agreement were amended to, among other things, (i) increase the permitted ratio of the Company's consolidated total liabilities to consolidated tangible net worth to 200%, (ii) to provide for a higher threshold for satisfying the consolidated tangible net worth test and (iii) to provide a higher permitted aggregate amount for capital expenditures in any fiscal year. The Credit Agreement also requires, for each fiscal quarter ending on and after September 30, 2007, the Company's consolidated adjusted EBITDA for the four consecutive fiscal quarters then ending to exceed 100% of the Company's consolidated fixed charges for the 12-month period ending on such date, as determined under the Credit Agreement. Pursuant to the Credit Agreement, the Company and certain of

its subsidiaries previously granted BofA and the Canadian Lender 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 Congoleum or the assets of Congoleum. In addition, pursuant to the Credit Agreement, certain of the Company's subsidiaries have agreed to guarantee the Company's obligations (excluding AB Canada's obligations) under the Credit 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. At March 31, 2007, the Company was not in compliance with the financial covenant under the Credit Agreement that there be no consecutive quarterly net losses from continuing operations. On May 14, 2007, American Biltrite Inc. and its subsidiaries, K&M and AB Canada, entered into an amendment, effective as of March 31, 2007, to the Credit Agreement with BofA and BofA acting through its Canada branch, each in their respective capacities as lenders and administrative agents under the Credit Agreement. The amendment revised that financial covenant to provide that for each of the two consecutive fiscal quarters of the Company ending December 31, 2006 and March 31, 2007, the Company not have a quarterly net loss from continuing operations in excess of $400 thousand. The Company was in compliance with the financial covenants of its debt agreements at September 30, 2007. While the Company does not currently anticipate that it will need to amend its existing debt agreements to avoid being in default at some future date, there can be no assurances in that regard, and any required amendments, if obtained, could result in significant cost to the Company. If a default were to occur and the Company was unable to obtain a waiver from BofA, the Company would be required to repay all amounts outstanding under the Credit Agreement and 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 might exercise its rights over the collateral. Any default by the Company of the Credit Agreement that resulted in the Company being required to immediately repay outstanding amounts under its debt agreements, and for which suitable replacement financing were not timely obtained, would have a material adverse effect on the Company's business, results of operations and financial condition. 47 Under the terms of the Eleventh Plan, ABI would have contributed $250 thousand in cash to the Plan Trust on the effective date of the plan. In addition, ABI would have agreed to forego certain rights it has to receive indemnification payments from Congoleum for asbestos claims pursuant to a joint venture agreement to which ABI and Congoleum are parties. ABI would also have received 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 were expected to have been channeled to the Plan Trust. However, the Eleventh Plan did not provide that any other asbestos claims that may be asserted against ABI would be channeled to the Plan Trust. The Bankruptcy Court has ruled that Congoleum's Tenth Plan is not confirmable as a matter of law and that ABI's contribution of $250 thousand is not sufficient to entitle it to relief under Section 524(g)(4) of the Bankruptcy Code. It is not yet known what terms will be negotiated in any future amended plan of reorganization for Congoleum, what contribution might be sought from ABI under the terms of such plan, what benefits ABI might receive, and what action ABI might take in response to any proposed plan terms. It is expected that any future amended plan of reorganization for Congoleum that might be confirmed will substantially reduce or eliminate Congoleum's equity interests, including ABI's Congoleum equity interests. Under the terms of the Eleventh Plan, ABI's equity interest in Congoleum would have been significantly reduced. Any future amended plan, or plans proposed by other persons, including the amended FCR Plan, would likely wholly eliminate ABI's Congoleum equity interests. Under any outcome, ABI anticipates its equity interest in Congoleum will be substantially reduced or eliminated. While the Company does not believe the loss of its equity interest in Congoleum would have a direct material adverse effect on ABI's liquidity, it could have a material adverse impact on Congoleum's business, operations and financial condition, and directly or indirectly, a material adverse impact on the business relationships between ABI and Congoleum, which in turn could have a material adverse impact on ABI's business, operations and financial condition. The Company has its own direct asbestos liability as well. The Company's strategy remains to vigorously defend and strategically settle its asbestos claims on a case-by-case basis. To date, the Company's insurers have funded substantially all of the Company's liabilities and expenses related to its asbestos liability under the Company's applicable insurance policies. The amount of coverage remaining under the Company's primary insurance coverage relating to policies underwritten from 1961 to 1985 is uncertain, and the Company is currently negotiating with the three insurance carriers currently providing that coverage to determine this amount. Upon the exhaustion of the primary insurance coverage, the Company intends to seek reimbursement for asbestos claims under its excess layers of insurance coverage and expects that its first layer of excess liability insurance will provide coverage for these

claims. The same three insurance carriers providing the Company's primary insurance coverage also underwrote the Company's first layer excess coverage during the period from 1964-1984, and the Company is currently negotiating with these carriers on how this first layer excess coverage will apply to asbestos bodily injury claims. Depending on the terms of any agreement with these carriers, the terms of the Company's excess liability insurance policies and the dates of asbestos exposure alleged in claims, the Company may incur uninsured costs related to asbestos claims once the primary layer has been exhausted. If the Company were not able to receive coverage from its insurers for the Company's asbestos liabilities and expenses, that would likely have a material adverse effect on the Company's 48 financial position. In addition, certain of the excess liability insurance policies that the Company purchased were underwritten by companies that are now insolvent, which may limit the amount of funds available to pay for any future claims covered by these policies. It is also possible that asbestos claims may be asserted against the Company alleging exposure allocable solely to years in which the Company's insurance policies excluded coverage for asbestos, in which case, insurance proceeds would not be available under those policies for those claims which would likely have a material adverse effect on the Company's financial position. 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 Agreement, 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 Agreement, earned from June 30, 2003. Congoleum The consolidated financial statements of Congoleum have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, Congoleum's consolidated financial statements do not include any adjustments that might be necessary should Congoleum be unable to continue as a going concern. Due to Congoleum's significant asbestos liabilities, which are described more fully in the Notes to the Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, there is substantial doubt about Congoleum's ability to continue as a going concern unless it obtains relief from 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 A and J of the Notes to Unaudited Consolidating Condensed Financial Statements, contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, for a discussion of Congoleum's bankruptcy proceedings. These matters continue to have a material adverse impact on Congoleum's liquidity and capital resources. During the first nine months of 2007, Congoleum paid $10.8 million in fees and expenses related to implementation of its planned reorganization under Chapter 11 and litigation with certain insurance companies. Furthermore, at September 30, 2007, Congoleum had incurred but not paid approximately $7.2 million in additional fees and expenses for services rendered through that date. Under plans prior to the Tenth Plan, Congoleum's assignment of insurance recoveries to the Plan Trust was net of costs incurred by Congoleum in connection with insurance coverage litigation, and Congoleum was entitled to withhold from recoveries, or seek reimbursement from the Plan Trust, for coverage litigation costs incurred after January 1, 2003 and for $1.3 million in claims processing fees paid in connection with claims settled under the Claimant Agreement. A receivable was recorded for these costs as they were paid. Under the Eleventh Plan, Congoleum would have been entitled to reimbursement of only the $1.3 million in claims processing fees and would not have collected the 49 balance of these receivables ($24.8 million at September 30, 2007). The write-off, as well as forgiveness of indebtedness income pursuant to any future plan and any other applicable charges or credits is expected to be recorded at a future date, the net effect of which cannot be determined. Congoleum cannot presently determine the amount of fees, expenses, and trust contributions it may incur or be obligated to make in connection with obtaining confirmation of a plan of reorganization. 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 September 30, 2007 is approximately $41.7 million and $42.6 million at October 31, 2007, including interest on the unpaid interest due. In February 2006, the Bankruptcy Court ordered Gilbert, Heinz & Randolph LLP (currently named Gilbert Randolph LLP), a law firm that previously represented Congoleum, to disgorge all fees and certain expenses it was paid by Congoleum. In October 2006, Congoleum and that firm entered into a settlement agreement (the "GHR Settlement") under which that firm will pay Congoleum approximately $9.2 million in full satisfaction of the disgorgement order. In April 2007, the Bankruptcy Court approved the GHR

Settlement. The payment is secured by assets of that firm and is to be made over time according to a formula based on that firm's earnings. Treatment of funds received pursuant to the GHR Settlement under a future amended plan of reorganization may differ from the treatment accorded by any prior plans. Unrestricted cash and cash equivalents, including short-term investments at September 30, 2007, were $25.6 million, an increase of $7.0 million from December 31, 2006. 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 $0.0 million and $3.6 million at September 30, 2007 and December 31, 2006, respectively, are recorded as restricted cash. Additionally, $6.4 million remaining from a $14.5 million settlement received in August 2004 from an insurance carrier, which is subject to the purported lien of the Collateral Trust, is included as restricted cash at September 30, 2007. Congoleum expects to contribute these funds to the Plan Trust. Working capital was $15.7 million at September 30, 2007, up from $11.5 million at December 31, 2006. The ratio of current assets to current liabilities at September 30, 2007 was 1.2 to 1.0, which is up slightly from 1.1 to 1.0 at December 31, 2006. Net cash provided by operations during the first nine months of 2007 was $4.6 million, as compared to net cash used in operations of $8.6 million in the first nine months of 2006. The reduction in cash used in operations was primarily due to lower working capital requirements for receivables and accrued expenses, as well as lower reorganization related expenditures. Capital expenditures for the nine months ended September 30, 2007 totaled $2.3 million. Congoleum is currently planning capital expenditures of approximately $5.0 million in 2007 and between $5 million and $7 million in 2008, primarily for maintenance and improvement of plants and equipment, which it expects to fund with cash from operations and credit facilities. 50 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 the earlier of (i) December 31, 2007 and (ii) the date the plan of reorganization in Congoleum's bankruptcy cases as confirmed by the Bankruptcy Court becomes effective. Total borrowing under the facility may not exceed $30 million. Interest is based on 0.25% 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 September 30, 2007. Borrowings under this facility are collateralized by inventory and receivables. At September 30, 2007, based on the level of receivables and inventory, $21.5 million was available under the facility, of which $2.2 million was utilized for outstanding letters of credit and $14.1 million was utilized by the revolving loan. Congoleum anticipates that its debtor-in-possession financing facility (including anticipated extensions thereof) together with cash from operations, will provide it with sufficient liquidity to operate during 2007 and 2008 while under Chapter 11 protection. There can be no assurances that Congoleum will continue to be in compliance with the required covenants under this facility or that the debtor-in-possession facility (as extended) will be renewed prior to its expiration if a plan of reorganization is not confirmed before that time. For a plan of reorganization to be confirmed, Congoleum will need to obtain and demonstrate the sufficiency of exit financing. Congoleum cannot presently determine the terms of such financing, nor can there be any assurances of its success in obtaining it. 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 I of the Notes to Unaudited Consolidating Condensed Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q). These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of Congoleum's owned and previously owned facilities. The contingencies also include claims for personal injury and/or property damage. The exact amount of such future costs and timing of payments are indeterminable due to such unknown factors as the 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, 51 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 cannot presently determine the amount of fees, expenses, and trust contributions it may incur or be obligated to make in connection with obtaining confirmation of any plan of reorganization. Congoleum believes that its existing cash (including restricted cash), cash generated from operations, and debtor-in-possession credit arrangements should be sufficient to provide adequate working capital for operations during 2007 and 2008. Congoleum's ability to emerge from Chapter 11 will depend on, among other things, obtaining sufficient exit financing to settle administrative expenses of the reorganization and any other related obligations, and to provide adequate future liquidity. Item 3. Quantitative and Qualitative Disclosures About Market Risk The Company and Congoleum are exposed to changes in prevailing market interest rates affecting the return on its investments. The Company and Congoleum invest 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 September 30, 2007, the fair value of our investments would decline by an immaterial amount. In addition, substantially all of the Company's outstanding consolidated long-term debt as of September 30, 2007 consisted of indebtedness with a fixed rate of interest, which is not subject to change based upon changes in prevailing market interest rates, or has been hedged with an interest rate swap agreement. The Company's interest rate swap agreements have been designated cash flow hedges. 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 in other countries in 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 the 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 the applicable foreign currency sales and expenses decreases. When the U.S. dollar weakens against those currencies, the U.S. dollar value of the applicable foreign currency sales and expenses increases. 52 Under their current policies, other than interest rate swap agreements, neither the Company nor Congoleum use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in foreign currency exchange rates, commodity prices or equity prices and does not hold any instruments for trading purposes. Item 4: Controls and Procedures a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the period in which this report 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 Exchange Act 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 Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control

over financial reporting. 53 PART II. OTHER INFORMATION Item 1. Legal Proceedings The information contained in Note I "Commitments and Contingencies" and Note J "Congoleum Asbestos Liabilities and Reorganization" of the Notes to Unaudited Consolidating Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part I, Item 2 of this Quarterly Report on Form 10-Q, and in "Risk Factors - The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful" and "Risk Factors - Any plan of reorganization for Congoleum will likely result in substantial dilution or elimination of Congoleum's equity holders, including the Company" included in Part II, Item 1A of this Quarterly Report on Form 10-Q, are incorporated herein by reference. Item 1A. Risk Factors The Company and its majority-owned subsidiary Congoleum have significant asbestos liability and funding exposure, and the Company's and Congoleum's strategies for resolving this exposure may not be successful. The Company and Congoleum have significant liability and funding exposure for asbestos personal injury claims. Congoleum has entered into settlement agreements with various asbestos claimants for settlement values totaling in excess of $491 million. In addition, as a result of tabulating ballots on the Fourth Plan, Congoleum is also aware of claims by approximately 33,000 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. The Bankruptcy Court entered on its docket a ruling in February 2007 determining that the asbestos claimants party to the pre-petition settlement agreements referred to above cannot receive, as a result of their pre-petition settlements, preferential treatment under a plan of reorganization for Congoleum. Congoleum has been engaged in global plan mediation discussions with parties in interest to resolve this and certain other plan issues. There can be no assurance that Congoleum will be successful in negotiating a new plan of reorganization that resolves the issues raised in the Bankruptcy Court's ruling with respect to the Tenth Plan. The terms of any new plan of reorganization are likely to be materially different from the Tenth and Eleventh Plans, including with respect to the Company and its interests, such as the Company's Congoleum equity interests, whether and the extent to which the Company may receive the limited Section 524(g) channeling injunction relief that would have been provided to the Company under the Eleventh Plan, and the amount and form of any contribution the Company may be required to make to the Plan Trust in order to receive that injunctive relief. Further, any new plan of reorganization could be amended or modified as a result of further negotiations with various parties. Congoleum expects that it will take until some time late in the third quarter of 2008 at the earliest to obtain confirmation of any plan of reorganization. Furthermore, the estimated costs and contributions to effect any plan of reorganization could be significantly greater than currently estimated. 54 Any plan of reorganization pursued by Congoleum or any other person will be subject to numerous conditions, approvals and other requirements, and there can be no assurance that such conditions, approvals and other requirements will be satisfied or obtained, including that Congoleum or other plan proponent will obtain approval to solicit acceptances of a new plan of reorganization, that Congoleum or any other plan proponent will receive the acceptances necessary for confirmation of a plan of reorganization, that any proposed plan will not be modified further, that a plan will receive necessary court approvals from the Bankruptcy Court and the District Court, or that such approvals will be received in a timely fashion, that a plan will be confirmed, that a plan, if confirmed, will become effective, or that there will be sufficient funds to pay for continued litigation with respect to Congoleum's Chapter 11 case or the State Court insurance coverage case which Congoleum is pursuing against certain of its insurance carriers. Confirmation of a plan of reorganization will depend on, among other things, Congoleum obtaining exit financing to provide it with sufficient liquidity to fund obligations upon the plan becoming effective. If Congoleum's cash flow from operations is materially less than anticipated, and/or if the costs in connection with seeking confirmation of a plan of reorganization or in connection with the State Court insurance coverage litigation discussed elsewhere in this Quarterly Report on Form 10-Q are materially more than anticipated, or if sufficient funds from insurance proceeds or other sources are not available at confirmation, Congoleum may be unable to obtain exit financing, when combined with net cash provided from operating activities, that would provide it with sufficient funds, which would likely result in a plan of reorganization not being confirmed or becoming effective. In addition, in view of ABI's relationships with Congoleum, ABI will be affected by Congoleum's negotiations regarding, and its pursuit of, a plan of reorganization, including possible claims by parties in interest against ABI either during the pendency of the Chapter 11 case or following consummation of any plan of reorganization, and there can be no assurance as to what that impact, positive or negative, might be. In any event, the failure of Congoleum to

obtain confirmation and consummation of a Chapter 11 plan of reorganization would have a material adverse effect on Congoleum's business, results of operations or financial condition and could have a material adverse effect on ABI's business, results of operations or financial condition. If the joint venture agreement between Congoleum and ABI is rejected pursuant to a plan of reorganization for Congoleum, ABI's rights to receive indemnification from Congoleum under that agreement for asbestos and other claims would terminate, which could have a material adverse affect on ABI's business, results of operations or financial condition. In addition, ABI has entered into a tolling agreement with Congoleum whereby Congoleum may commence avoidance or other actions against ABI with respect to any qualifying transfers of value from Congoleum to ABI. 55 The Company has its own direct asbestos liability as well. The Company's strategy remains to vigorously defend and strategically settle its asbestos claims on a case-by-case basis. To date, the Company's insurers have funded substantially all of the Company's liabilities and expenses related to its asbestos liability under the Company's applicable insurance policies. The amount of coverage remaining under the Company's primary insurance coverage relating to policies underwritten from 1961 to 1985 is uncertain, and the Company is currently negotiating with the three insurance carriers currently providing that coverage to determine this amount. Upon the exhaustion of the primary insurance coverage, the Company intends to seek reimbursement for asbestos claims under its excess layers of insurance coverage and expects that its first layer of excess liability insurance will provide coverage for these claims. The same three insurance carriers providing the Company's primary insurance coverage also underwrote the Company's first layer excess coverage during the period from 1964-1984, and the Company is currently negotiating with these carriers on how this first layer excess coverage will apply to asbestos bodily injury claims. Depending on the terms of any agreement with these carriers, the terms of the Company's excess liability insurance policies and the dates of asbestos exposure alleged in claims, the Company may incur uninsured costs related to asbestos claims once the primary layer has been exhausted. If the Company were not able to receive coverage from its insurers for the Company's asbestos liabilities and expenses, that would likely have a material adverse effect on the Company's financial position. In addition, certain of the excess liability insurance policies that the Company purchased were underwritten by companies that are now insolvent, which may limit the amount of funds available to pay for any future claims covered by these policies. It is also possible that asbestos claims may be asserted against the Company alleging exposure allocable solely to years in which the Company's insurance policies excluded coverage for asbestos, in which case, insurance proceeds would not be available under those policies for those claims which would likely have a material adverse effect on the Company's financial position. Some additional factors that could cause actual results to differ from the goals for resolving asbestos liability through an amended plan of reorganization include: (i) the future cost and timing of estimated asbestos liabilities and payments, (ii) the availability of insurance coverage and reimbursement from insurance companies that underwrote the applicable insurance policies for asbestos-related claims, including insurance coverage and reimbursement for asbestos claimants under any plan of reorganization for Congoleum, which certain insurers have objected to in Bankruptcy Court and are litigating in the State Court, (iii) the costs relating to the execution and implementation of any plan of reorganization for Congoleum, (iv) timely reaching agreement with other creditors, or classes of creditors, that exist or may emerge, (v) satisfaction of the conditions and obligations under the Company's and Congoleum's outstanding debt instruments, and amendment or waiver of those outstanding debt instruments, as necessary, to permit Congoleum and the Company to satisfy their obligations under any plan of reorganization for Congoleum and to make certain financial covenants in those debt instruments less restrictive, (vi) the response from time to time of the lenders, customers, suppliers and other constituencies of Congoleum and ABI to the ongoing process arising from Congoleum's strategy to settle its 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 creditor and court approval (including the results of any relevant appeals) of any reorganization plan pursued by 56 Congoleum or another plan proponent, and the court overruling any objections to confirmation of a reorganization plan for Congoleum that may be filed, (ix) developments in, costs associated with and the outcome of insurance coverage litigation pending in the State Court involving Congoleum and certain insurers, (x) compliance with the Bankruptcy Code, including Section 524(g), and (xi) the possible adoption of another party's plan of reorganization which may prove to be unfeasible. In any event, if Congoleum is not successful in obtaining sufficient creditor and court approval of a plan of reorganization, such failure would have a material adverse effect upon its business, results of operations and financial condition. As a result of Congoleum's significant

liability and funding exposure for asbestos claims, there can be no assurance that if Congoleum were to incur any unforecasted or unexpected liability or disruption to its business or operations it would be able to withstand that liability or disruption and continue as an operating company. Any significant increase of the Company's asbestos liability and funding exposure would likely have a material adverse effect on the Company's business, operations and financial condition and possibly its ability to continue as a going concern. For further information regarding the Company's and Congoleum's asbestos liability, insurance coverage and strategies to resolve that asbestos liability, please see Notes A and J of the Notes to Unaudited Consolidating Condensed Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in Part I, Item 1 and Part I, Item 2, respectively, in this report. Any plan of reorganization for Congoleum will likely result in substantial dilution or elimination of Congoleum's equity interests, including the Company's Congoleum equity interests. Congoleum's Tenth Plan, which has been ruled unconfirmable as a matter of law by the Bankruptcy Court, would have resulted in significant dilution of Congoleum's existing equity interests, including the Company's Congoleum equity interests. Congoleum has resumed reorganization plan mediation discussions with parties in interest to negotiate a new amended plan. The terms of any new amended plan proposed by Congoleum, or any proposed plan of reorganization (such as the amended FCR Plan) proposed for Congoleum by other parties in interest, may provide for even greater dilution of the Congoleum equity interests than was contemplated by the Eleventh Plan, including cancellation of Congoleum's existing Class A and Class B common stock. There can be no assurance as to how Congoleum's existing equity interests, including ABI's Congoleum equity interests, will be treated under any plan of reorganization for Congoleum that may ultimately be confirmed by the Bankruptcy Court and consummated. Under any outcome, ABI anticipates its equity interest in Congoleum will be substantially diluted or eliminated. Elimination of ABI's controlling equity interest in Congoleum could have a material adverse impact on Congoleum's business, operations and financial condition, the business relationships between ABI and Congoleum, and ABI's business, operations and financial condition. 57 The Company has had to amend its debt agreements in the past in order to avoid being in default of those agreements and may have to do so again in the future, and the Company's ability to obtain additional financing may be limited. 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. On September 25, 2006, the Company entered into an amendment and restatement to the credit agreement it has with Bank of America, National Association and Bank of America, National Association acting through its Canada branch, which is the agreement that governs the Company's primary source of borrowings. In connection with that amendment and restatement, certain financial covenants were amended under the credit agreement to enable the Company to comply with those covenants. In addition, the Company recently entered into an amendment to the Credit Agreement to allow the Company to satisfy the financial covenant requiring the Company to not have consecutive quarterly net losses from continuing operations with respect to the Company's two consecutive fiscal quarters ending December 31, 2006 and March 31, 2007. Although the Company does not anticipate that it will need to further amend the credit agreement to avoid being in default at some future date, there can be no assurances in that regard. If the Company were to violate one of those covenants and not amend the agreement to address or obtain a waiver of the violation, it could breach the agreement, resulting in a default of the agreement. If such a default were to occur, the lenders could require the Company to repay all amounts outstanding under the credit agreement. If the Company were unable to repay those amounts due, the lenders could have its rights over the collateral (most of the Company's and its domestic subsidiaries' (excluding Congoleum) assets) exercised, which would likely have a material adverse effect on the Company's business, results of operations or financial condition. In addition, under the terms of the credit agreement, the Company's ability to obtain additional debt financing is limited. Moreover, since the Company and 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 current and previously owned facilities, in order to comply with existing environmental laws, and those amounts may be substantial. Although the Company and Congoleum believe that 58 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. 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 affect on the Company's business, results of operations or financial condition. The Company and Congoleum have occasionally experienced significant price increases for some of their 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 59 the plant, the decision by another major supplier to exit the business, and the effect of hurricanes in 2005. Although the Company and Congoleum have been able to obtain sufficient supplies of specialty resin and other raw materials, there can be no assurances that they 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 remained high in 2006. They are expected to remain high until additional capacity becomes available, and could increase further in response to oil prices or other global market conditions. 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. 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. 60 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. 61 The Company and its majority-owned subsidiary Congoleum rely on a small number of customers and distributors for a significant portion of their sales or to sell their products. The Company's Tape division principally sells its products through distributors. Sales to five unaffiliated customers accounted for approximately 22% of the Company's Tape division's net sales for the year ended December 31, 2006 and 23% of its net sales for the year ended December 31, 2005. The loss of the largest unaffiliated customer and/or two or more of the other four unaffiliated customers could have a material adverse effect on the Company's business, results of operations or financial condition. 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 each of the years ended December 31, 2006 and 2005. The Company's majority-owned subsidiary K&M sells its products through its own direct sales force and, indirectly, through a wholly owned subsidiary and through third-party sales representatives. Three of K&M's customers accounted for approximately 54% of its net sales for the year ended December 31, 2006 and 58% of its net sales for the year ended December 31, 2005. 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. 62 Item 3. Defaults Upon Senior Securities The commencement of the Chapter 11 proceedings by Congoleum constituted an event of default under the indenture governing Congoleum's 8 5/8% Senior Notes Due 2008. Due to the Chapter 11 proceedings, Congoleum has not made interest payments that were due on February 1 and August 1 of 2004, 2005, 2006 and 2007. The aggregate amount of interest payments not paid on the Senior Notes with respect to those interest payment due dates is approximately $34.5 million. In addition, Congoleum has accrued interest on the unpaid interest in accordance with the terms of the indenture governing Congoleum's 8 5/8% Senior Notes Due 2008. As of September 30, 2007, the total accrued and unpaid interest aggregated $41.7 million and was included in "Liabilities Subject to Compromise" in the Company's consolidating condensed balance sheet included in this report. As of October 31, 2007, the total accrued and unpaid interest recorded by Congoleum was $42.6 million. The aggregate outstanding principal amount of the Senior Notes as of September 30, 2007 and October 31, 2007 was $100 million. Item 5. Other Information On November 7, 2007, the Board of Directors of American Biltrite Inc. adopted certain amendments to American Biltrite Inc.'s By-laws, Amended and Restated as of September 11, 2004 (the "By-laws"), and an amendment and restatement of the By-laws reflecting those amendments. The primary effects of the amendments include the following: o to permit the Company to issue stock of the Company in uncertificated form in furtherance of the American Stock Exchange LLC's requirement that the Company's common stock be eligible for a direct registration system on and after January 1, 2008; o to allow for electronic transmissions with respect to certain notices; o replacing the provision fixing the number of directors constituting the Board of Directors of the Company at eleven with a provision that generally provides that the exact number of directors would be determined from time to time by resolution adopted by affirmative vote of a majority of the entire Board of Directors, which is consistent with the Company's certificate of incorporation; o to remove the requirement that the President of the Company be chosen from among the Company's directors; o to remove the requirement that the Chief Executive Officer of the Company only be selected from between the Chairman of the Board of Directors of the Company or the Vice Chairman of the Board of Directors of the Company; o to revise the Company's obligations to indemnify and hold harmless certain persons, including the Company's current and former directors and officers, in connection with certain matters to expressly require the Company to advance the expenses of such persons incurred by them in connection with such matters and providing that such persons be indemnified and held harmless to the fullest extent authorized or permitted by law; 63 o to conform various provisions of the By-laws to be consistent with current applicable provisions of the General Corporation Law of the State of Delaware as well as the applicable rules and regulations of the American Stock Exchange LLC; and o to make certain other conforming, procedural, administrative, clarification and corrective changes. These amendments to the By-laws and the amendment and restatement of the By-laws were effective as of their adoption by the Board of Directors of American Biltrite Inc. on November 7, 2007. The full text of American Biltrite Inc.'s By-laws, Amended and Restated as of November 7, 2007, is attached as Exhibit 3.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference. The foregoing description of the amendments to the By-laws are qualified in their entirety by reference to the full text of American Biltrite Inc.'s By-laws, Amended and Restated as of November 7, 2007. 64 Item 6. Exhibits Exhibit No. Description ------------------------------------------------------------------------------ 3.1 I Restated Certificate of Incorporation 3.2 By-Laws, amended and restated as of November 7, 2007 31.1 Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 31.2 Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 32 Certification of the Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ---------- I Incorporated by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and filed with the Securities and

Exchange Commission on April 2, 1997 (1-4773) 65 SIGNATURE Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. AMERICAN BILTRITE INC. ---------------------- (Registrant) Date: November 13, 2007 BY: /s/ Howard N. Feist III ----------------------------- Howard N. Feist III Vice President-Finance (Duly Authorized Officer and Principal Financial and Chief Accounting Officer) 66 INDEX OF EXHIBITS Exhibit No. Description ------------------------------------------------------------------------------- 3.1 I Restated Certificate of Incorporation 3.2 By-Laws, amended and restated as of November 7, 2007 31.1 Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 31.2 Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended 32 Certification of the Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ---------- I Incorporated by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and filed with the Securities and Exchange Commission on April 2, 1997 (1-4773)