

MESSAGE TO SHAREHOLDERS

Net income in 2006 was \$685 thousand versus a net loss of \$17.6 million in 2005. Our consolidated financial results in 2006 improved considerably from 2005. In 2005, Congoleum's expenses included over \$25 million in charges for its asbestos-related reorganization. Although total net sales decreased to \$435.5 million in 2006 from \$445.2 million in 2005, all operations were slightly profitable.

The Tape division grew its sales by 7.1% from 2005 to 2006 and would have shown improved profitability had it not been for a product recall instituted after learning we had received some defective adhesive. We successfully quarantined nearly all the affected product before it reached our end customers, but incurred \$1.2 million in costs addressing the problem. As a result of this recall, coupled with increased costs for raw materials and energy, the division's profitability was less than 2005. We are seeking to recover the costs for the recall from the responsible parties.

The Canadian division grew sales by 10.3% over 2005 and returned to profitability in 2006. Increased sales of luxury tile products, the benefit of a stronger Canadian dollar, and cost reduction initiatives all contributed to the improved results, as did settlement payments from a rubber chemicals antitrust litigation.

K&M's sales declined 4.9% from 2005 to 2006 and profits also decreased. This sales decrease was primarily caused by the merger of two major department store chains, with the consolidated and repositioned stores resulting in fewer outlets offering K&M's brands. K&M is focused on regaining market position in this channel in 2007. Sales results were more positive in other retail channels, with K&M achieving solid gains in the mid-tier, specialty and discount categories.

Congoleum's sales decreased 7.6% from 2005 to 2006, but net results improved considerably due to the absence of any special reorganization charges. In light of the numerous unusual challenges confronted in 2006, reporting even a modest profit was a major accomplishment. The year began with raw material shortages necessitating supplier changes that hurt manufacturing efficiency in the first half. Then in August, an explosion at Congoleum's Marcus Hook plant required replacement of a major production line. Finally, a significant downturn in both new residential and remodel business began in September, caused by the slump in the housing market.

Congoleum's ongoing chapter 11 reorganization case continues to be a lengthy, challenging and costly process. Following what Congoleum viewed to be a very productive mediation of reorganization plan terms last year, Congoleum formulated and filed a plan that it expected would have significant creditor support. In early 2007, however, the bankruptcy court overseeing the reorganization case ruled that certain terms of Congoleum's plan would not permit bankruptcy court confirmation of that plan. Accordingly, Congoleum and other parties in interest have resumed the plan mediation process in order to address the court's concerns and propose a confirmable plan. Congoleum remains committed to emerging from bankruptcy as a healthy, reorganized business free of asbestos liabilities.

Generating cash and reducing debt was again a strategic focus in 2006. We sold our former wood flooring plant in Toronto during the second quarter, but agreed to accept a portion of the proceeds in the form of a \$4 million (Canadian) note until certain environmental certifications could be obtained. We completed the testing and documentation relating to obtaining those certifications in early 2007 and hope to receive a favorable decision from the Canadian government shortly. We currently expect to apply proceeds we receive from this note to reduce our own bank borrowings.

We also completed a major refinancing in the third quarter of 2006. Our new facility expands on an existing relationship, extending the facility for the next three years and giving us greater financial flexibility in a number of areas. As part of that refinancing, we prepaid \$16 million of notes that were then outstanding. Prepayment costs for the retired debt added \$860 thousand to our expenses in 2006, but we expect to benefit from lower borrowing costs in the future as a result of this new agreement.

As we approach our hundredth year in 2008, we cannot help but reflect on what has made our business endure. First and foremost, we believe it is our people. They make the company what it is, and we are proud of their accomplishments and grateful for their efforts. We are also confident in their ability to take advantage of the opportunities that are available to us in each of our businesses.

As has been our custom, for informational purposes, we have included a copy of Congoleum's annual report in the mailing to American Biltrite stockholders.



Roger S. Marcus
Chairman of the Board and Chief Executive Officer



Richard G. Marcus
President and Chief Operating Officer