CONGOLEUM CORP
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

or

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to _________

Commission File Number 1-13612

CONGOLEUM CORPORATION
(Exact name of Registrant as specified in Its Charter)

DELAWARE	02-0398678
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3500 Quakerbridge Road
P.O. Box 3127
Mercerville, NJ 08619-0127
(Address of Principal Executive Offices, including Zip Code)
Telephone number: (609) 584-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

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

Class	Outstanding at August 1, 2002
Class A Common Stock	3,651,190
Class B Common Stock	4,608,945

Page 1 of 18

CONGOLEUM CORPORATION

Index

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONGOLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2002 ---- (Unaudi (Dollar
Current assets:	
Cash and cash equivalents	$ 18,82
Short-term investments	-
Accounts and notes receivable, net	27,34
Inventories	55,61
Prepaid expenses and other current assets	3,84

Deferred income taxes	4,53
Total current assets	110,17
Property, plant and equipment, net	94,95
Insurance for asbestos-related liabilities	43,88
Goodwill, net	-
Deferred income taxes	1,03
Other assets	9,56
Total assets	$ 259,60
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 17,86
Accrued expenses	35,31
Accrued taxes	35
Deferred income taxes	3,51
Total current liabilities	57,04
Long-term debt	99,69
Asbestos-related liabilities	53,00
Other liabilities	12,40
Accrued pension liability	13,93
Accrued postretirement benefit obligation	8,80
Total liabilities	244,88
STOCKHOLDERS' EQUITY	
Class A common stock, par value $0.01 per share; 20,000,000 shares authorized; 4,736,950 shares issued as of June 30, 2002 and December 31, 2001	4
Class B common stock, par value $0.01 per share; 4,608,945 shares authorized, issued and outstanding as of June 30, 2002 and December 31, 2001	4
Additional paid-in capital	49,10
Retained deficit	(20,54
Accumulated minimum pension liability adjustment	(6,11
	22,53
Less Class A common stock held in Treasury, at cost; 1,085,760 shares at June 30, 2002 and December 31, 2001	7,81
Total stockholders' equity	14,72
Total liabilities and stockholders' equity	$ 259,60

The accompanying notes are an integral part
of the condensed financial statements.

CONGOLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Three Months Ended
June 30,

	2002	2001	2
		(In thousands, exc per share amount	
Net sales	$ 67,976	$ 54,393	$ 125
Cost of sales	51,609	40,663	95
Selling, general and administrative expenses	13,516	11,841	26
Income (loss) from operations	2,851	1,889	3
Other income (expense):			
Interest income	62	155	
Interest expense	(2,095)	(2,060)	(4
Other income	456	458	
Income (loss) before income taxes and cumulative effect of accounting change	1,274	442	
Provision (benefit) for income taxes	432	287	
Net income (loss) before accounting change	842	155	
Cumulative effect of accounting change	--	--	(10
Net income (loss)	$ 842	$ 155	$ (10
Net income (loss) per common share before cumulative effect of accounting change, basic & diluted	$ .10	$ .02	$
Cumulative effect of accounting change	--	--	(
Net income (loss) per common share, basic and diluted	$ .10	$ .02	$ (
Weighted average number of common shares outstanding	8,260	8,260	8

The accompanying notes are an integral part of the condensed financial statements.

4

CONGOLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common Stock par value $0.01		Additional Paid-in	Retained	Accumulated Minimum Pension Liability
	Class A	Class B	Capital	Deficit	Adjustment
Balance, December 31, 2000	$ 47	$ 46	$ 49,105	$ (8,581)	$(3,494)
Minimum pension liability adjustment, net of tax benefit of $1,504					(2,617)

Net loss				(1,640)	
Net comprehensive loss					
Balance, December 31, 2001	47	46	49,105	(10,221)	(6,111)
Net loss				(10,328)	
Net comprehensive loss					
Balance, June 30, 2002	$ 47	$ 46	$ 49,105	$(20,549)	$(6,111)

The accompanying notes are an integral part of the condensed financial statements.

5

CONGOLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(10,328)	$ (3,522)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	5,256	5,933
Amortization	280	409
Deferred income taxes	2,050	(1,627)
Cumulative effect of accounting change	10,523	--
Changes in certain assets and liabilities:		
Accounts and notes receivable	(9,417)	4,261
Inventories	168	(3,167)
Prepaid expenses and other assets	3,343	2,504
Accounts payable	(45)	(3,665)
Accrued expenses	5,732	(2,748)
Other liabilities	(1,105)	(981)
Net cash provided by (used in) operating activities ..	6,457	(2,603)
Cash flows from investing activities:		
Capital expenditures	(4,305)	(4,632)
Purchase of short-term investments	--	(1,471)
Maturities of short-term investments	1,416	12,097

Net cash (used in) provided by investing activities ..	(2,889)	5,994
Net increase in cash and cash equivalents	3,568	3,391
Cash and cash equivalents:		
Beginning of period	15,257	12,637
End of period	$ 18,825	$ 16,028

The accompanying notes are an integral part of the condensed financial statements.

6

CONGOLEUM CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of the Company's financial position have been included. Operating results for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and related footnotes included in the Company's Annual Report on form 10-K for the year ended December 31, 2001.

Based upon the nature of the Company's operations, facilities and management structure, the Company considers its business to constitute a single segment for financial reporting purposes.

Certain amounts appearing in the prior year's condensed consolidated financial statements have been reclassified to conform to the current year's presentation.

2. Changes in Accounting Principles

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 applies to all business combinations completed after June 30, 2001 and requires the use of the purchase method of accounting. SFAS No. 141 also establishes new criteria for determining whether intangible assets should be recognized separately from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, however, companies with fiscal years beginning after March 15, 2001 may elect to adopt the statement early. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will not be amortized, but rather will be tested for impairment on an annual basis. Adoption of SFAS No. 141 did not have an impact on the results of operations or financial position of Congoleum Corporation. SFAS No. 142 was effective for the Company as of January 1, 2002. During the first quarter of 2002, the Company performed a transitional impairment test of goodwill and concluded that there was an impairment. The Company compared the implied fair value of goodwill to the carrying value of goodwill and it was determined that based on the fair value of the Company's assets and liabilities, there should be no goodwill recorded. Accordingly, the Company recorded an impairment loss of $10.5 million during the first quarter of 2002, which has been recorded as a cumulative effect of a change in accounting principle.

The impact of the adoption of SFAS 142 on the Company's financial statements also resulted in the elimination of $216 thousand of goodwill amortization expense or $.03 per share for the six months ended June 30, 2002.

The following table reflects consolidated results adjusted as though the Company's adoption of SFAS 142 occurred as of January 1, 2001:

(In thousands, except per share amounts)

	For the Six Months Ended June 30, 2002	June 30, 2001
Net loss before cumulative effect of accounting change:		
As reported	$ (195)	$ (3,522)
Goodwill amortization	--	216
As adjusted	$ (195)	$ (3,306)
Loss per share before cumulative effect of accounting change:		
As reported	$ (.02)	$ (0.43)
Goodwill amortization	--	.03
As adjusted	$ (.02)	$ (0.40)

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") was issued. Congoleum adopted SFAS No. 144 effective January 1, 2002. Among other things, SFAS No. 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Adoption of this pronouncement did not have an effect on the Company's consolidated financial position or results of operations.

In November 2001, Emerging Issues Task Force (EITF) issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products ("EITF 01-9"), was issued. Congoleum adopted EITF 01-9 effective January 1, 2002 as required. This issue addresses the manner in which companies account for sales incentives to their customers. The Company's current accounting policies for the recognition of costs related to these programs, which is to accrue for costs as benefits are earned by the Company's customers, are already in accordance with the consensus reached in this issue. The Company has reclassified amounts previously recorded in selling, general and administrative expense as a reduction in net sales. The impact for the six months ending June 30, 2002 and 2001 was a reduction of net sales and of selling, general and administrative expenses of $2.1 million and $2.7 million, respectively.

3. Inventories

A summary of the major classifications of inventories stated at the lower of LIFO cost or market is as follows:

(Dollars in thousands)	June 30, 2002	December 31, 2001
Finished goods.................	$43,185	$43,680
Work-in-process................	3,961	4,425
Raw materials and supplies......	8,468	7,677
	$55,614	$55,782

4. Income (Loss) Per Share

Net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding.

In December 2001, the Company offered its eligible option holders to exchange all options then outstanding and granted to them under the 1995 Plan or the Company's 1999 Stock Option Plan for Non-Employee Directors, as amended (the "1999 Plan"), for new stock options to be granted under those plans not earlier than six months and one day after the date the Company canceled any options tendered to and accepted by it pursuant to the offer to exchange. On January 4, 2002, the Company accepted and canceled 667,500 options that had been previously granted under the 1995 Plan and 9,500 options that had been previously granted under the 1999 Plan that were tendered to and accepted by the Company pursuant to the offer to exchange.

On July 11, 2002, the Company issued 665,500 options under the 1995 Plan and 9,500 options under the 1999 Plan at an exercise price of $2.05 per share pursuant to the exchange. The new options granted under the 1995 Plan will generally vest annually in equal installments over a five-year period beginning on the first anniversary of the date of grant, and the new options granted under the 1999 Plan will generally vest 100% six months from the date of grant.

5. Commitments and Contingencies

The Company is subject to federal, state and local environmental laws and regulations and certain legal and administrative claims are pending or have been asserted against the Company. Among these claims, the Company is a named party in numerous actions associated with waste disposal sites, asbestos-related claims and general liability claims. These actions include possible obligations to remove or mitigate the effects on the environment of wastes deposited at various sites, including Superfund sites and certain of the Company'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 clean-up costs, the timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other potentially responsible parties and the extent to which costs may be recoverable from insurance.

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

The Company is named, together with a large number (in most cases, hundreds) of other companies, as a potentially responsible party ("PRP") in pending proceedings under the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended, and similar state laws. In two instances, although not named as a PRP, the Company has received a request for information. These pending proceedings currently relate to seven disposal sites in New Jersey, Pennsylvania, Maryland, Connecticut and Delaware in which recovery from generators of hazardous substances is sought for the cost of cleaning up the contaminated waste sites. The Company's ultimate liability in connection with those sites depends on many factors, including the volume of material contributed to the site, the number of other PRP's and their financial viability, the remediation methods and technology to be used and the extent to which costs may be recoverable from insurance. However, under CERCLA, and certain other laws, as a PRP, the Company can be held jointly and severally liable for all environmental costs associated with a site.

The most significant exposure to which the Company has been named a PRP relates to a recycling facility site in Elkton, Maryland. The PRP group at this site is made up of 51 companies, substantially all of which are large financially solvent entities. Two removal actions were substantially complete as of December 31, 1998; however, the groundwater remediation phase has not begun and the remedial investigation/feasibility study related to the groundwater remediation has not been approved. The PRP group estimated that future costs of groundwater remediation, based on engineering and consultant studies conducted, would be approximately $26 million. Congoleum's proportionate share, based on waste disposed at the site, was estimated to be approximately 6.1%.

The Company also accrues remediation costs for certain of the Company's owned facilities on an undiscounted basis. Estimated total cleanup costs, including capital outlays and future maintenance costs for soil and groundwater remediation are primarily based on engineering studies.

Although the outcome of these matters could result in significant expenses or judgments, management does not believe based on present facts and circumstances that their disposition will have a material adverse effect on the financial position of the Company.

The Company is one of many defendants in approximately 10,994 pending claims (including workers' compensation cases) involving approximately 32,885 individuals as of June 30, 2002, alleging personal injury or death from exposure to asbestos or asbestos-containing products. There were 6,563 claims at December 31, 2001 that involved approximately 23,139 individuals. Activity related to asbestos claims was as follows:

10

	Six months ended June 30, 2002	Year ended December 31, 2001
Beginning claims...............	6,563	1,754

New claims.....................	4,843	5,048
Settlements....................	(42)	(40)
Dismissals.....................	(370)	(199)
Ending claims..................	10,994	6,563
	======	=====

The total indemnity costs incurred to settle claims during the six months ending June 30, 2002 and twelve months ending December 31, 2001 were $1.0 million and $1.1 million, respectively, which were paid by the Company's insurance carriers, as were the related defense costs. Costs per claim vary depending on a number of factors, including the nature of the alleged exposure and the jurisdiction where the claim was litigated. As of June 30, 2002, the Company has incurred asbestos-related claims of $12.6 million, to resolve claims of over 33,700 claimants, substantially all of which have been paid by the Company's insurance carriers. The average indemnity cost per resolved claimant is $374. Over 99% of claims incurred by the Company have settled, on average, for amounts less than $105 per claimant.

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

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

During the fourth quarter of fiscal 2001, the Company updated its evaluation of the range of potential defense and indemnity costs for asbestos-related liabilities and the insurance coverage in

place to cover these costs. As a result of the Company's analysis, the Company has determined that its range of probable and estimable undiscounted losses for asbestos-related claims through the year 2049 is $53.3 million to $195.6 million before considering the effects of insurance recoveries. As discussed previously, it is very difficult to forecast a liability for the Company's ultimate exposure for asbestos-related claims as there are multiple variables that can affect the timing, severity, and quantity of claims. Therefore, the Company has concluded that no amount within that range is more likely than any other, and therefore has determined that the amount of the gross liability it should record for asbestos-related claims is equal to $53.3 million in accordance with accounting principles generally accepted in the United States. Of this amount, $53.0 million has been reflected in the balance sheet as a long-term liability and $0.3 million in accrued expenses as of December 31, 2001 and June 30, 2002.

During the period that Congoleum produced asbestos-containing products, the Company purchased primary and excess insurance policies providing in excess of $1 billion coverage for bodily injury asbestos claims. To date, substantially all claims and defense costs have been paid through primary insurance coverage. At June 30, 2002, the Company had approximately $0.5 million in remaining primary insurance coverage for bodily injury asbestos claims. Once all primary coverage is exhausted, the Company expects defense and indemnity costs to be covered by its excess insurance policies. However, it is likely that the Company will share in these costs. The first layer of excess insurance policies provides for $135 million in coverage. Of this layer, approximately 25% to 33% (depending on the method used to allocate losses) was underwritten by carriers who are presently insolvent. The Company anticipates that it will have to pay some or all of the portion of costs for resolving asbestos-related claims that are allocable to such insolvent carriers, and that it may, in turn, be able to recover a portion of such payments from the estates or insurance guaranty funds responsible for the obligations of these carriers.

The same factors that affect developing forecasts of potential defense and indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include the financial viability of some of the insurance companies, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, how legal and other loss handling costs will be covered by the insurance policies, and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. Congoleum has filed suit regarding insurance coverage issues against certain of its primary insurance carriers, the carriers comprising its first layer of excess insurance, state guaranty funds representing insolvent carriers, and its insurance brokers and has begun settlement negotiations with several of these parties.

The Company has determined, based on its review of its insurance policies and the advice of legal counsel, that approximately $45.2 million at December 31, 2001 and $43.9 million at June 30, 2002 of the estimated $53.3 million gross liability is probable of recovery. This determination was made after considering the terms of the available insurance coverage, the financial viability of the insurance companies and the status of negotiations with its carriers. This insurance receivable has been recorded in other long-term assets as of December 31, 2001 and June 30, 2002.

Since many uncertainties exist surrounding asbestos litigation, the Company will continue to evaluate its asbestos-related estimated liability and corresponding estimated insurance assets as well

as the underlying assumptions used to derive these amounts. It is reasonably possible that the Company's total liability for asbestos-related claims may be greater than the recorded liability and that insurance recoveries may be less than the recorded asset. These uncertainties may result in the Company incurring future charges to income to adjust the carrying value of recorded liabilities and assets. Additionally, since the Company has recorded an amount representing the low end of the range of exposure for asbestos-related claims, it is possible that over time another amount within the range will be a better estimate of the actual losses. Although the resolution of these claims is anticipated to take decades, amounts recorded for the liability are not discounted, and the effect on results of operations in any given year from a revision to these estimates could be material.

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

Results of Operations

Three and six months ended June 30, 2002 as compared to three and six months ended June 30, 2001.

Net sales for the second quarter of 2002 were $68.0 million, as compared to $54.4 million in the second quarter of 2001, an increase of $13.6 million or 25.0%. This increase in sales was primarily due to three factors. First was sales of the Company's DuraStone product line, which was introduced in August 2001. Second was an increase in sales of the Company's existing sheet products for the remodel and builder markets. The third factor was an increase in inventory by the Company's largest distributor to improve product availability in certain locations. Year-to-date net sales for the first six months of 2002 were $125.9 million, an increase of $19.9 million or 18.8% from the first six months of 2001. The year-to-date increase is generally due to the second quarter sales increase, together with the first quarter sales of DuraStone. The Company also had the benefit of initial shipments of do-it-yourself tile to a major home center in the first quarter of 2002. Sales to this customer in the second quarter were offset by the decline in sales to another major home center that is phasing out the Congoleum line.

Gross profit for the second quarter of 2002 was $16.4 million, up $2.7 million from $13.7 million in the second quarter of 2001. Gross profit as a percent of net sales decreased to 24.1% in the second quarter of 2002 from 25.2% in the second quarter of 2001. Gross profit dollars increased as a result of the higher sales, but margins declined due to costs of expanding sales and a less profitable mix. Gross profit for the first six months of 2002 was $30.2 million (24.0% of net sales), as compared to $22.7 million (21.4% of net sales) in the first half of 2001. The improvement in year-to-date gross profit margin for the first six months of 2002 was due to higher production volumes and improved manufacturing efficiency, partly offset by the costs of expanding sales and less profitable mix.

Selling, general and administrative expenses were $13.5 million in the second quarter of 2002, up 14.1% from the second quarter of 2001. As a percent of net sales, selling, general and administrative expenses were 19.9% in the second quarter of 2002, as compared to 21.8% in the second quarter of 2001. For the six months ended June 30, 2002, selling, general and administrative expenses were $26.7 million (21.2% of net sales), as compared to $25.0 million (23.6% of net sales) in the same period one year earlier. Expenses in 2002 have increased as a result of higher sales volume and demand for displays and marketing materials, as well as increased medical benefit costs.

Income from operations for the second quarter of 2002 was $2.9 million, as compared to $1.9 million in the second quarter of 2001. Operating income for the first six months of 2002 was $3.6 million, compared to a loss of $2.3 million in the first half of 2001. The improved results for the second quarter of 2002 versus 2001 are due to increased sales, partly offset by lower margins and increased selling, general and administrative expenses.

The provision for income taxes for the six months ended June 30, 2002 represents an effective tax rate of 41.0%. This is indicative of the Company estimate of its full year effective tax rate.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments increased $2.2 million for the six months ended June 30, 2002 to $18.8 million. Working capital at June 30, 2002 was $53.1 million, up from $51.7 million at December 31, 2001. The ratio of current assets to current liabilities at June 30, 2002 was 1.9 compared to 2.0 at December 31, 2001. Cash provided by operations was $6.5 million for the first six months of 2002, compared to cash used by operations of $2.6 million in the first six months of 2001. The increase in cash provided by operations in the first six months of 2002 versus the first six months of 2001 was primarily due to higher net income (before non-cash charges for an accounting change), refunds of taxes paid in previous periods, timing of payments of accrued expenses, and the lack of an inventory increase partly offset by increased receivables resulting from higher sales.

Capital expenditures were $4.3 million for the first six months of 2002. Total 2002 capital spending is expected to be approximately $10.0 million.

The Company has recorded what it believes are adequate provisions for environmental remediation and product-related liabilities, including provisions for testing for potential remediation of conditions at its own facilities. While the Company believes its estimate of the future amount of these liabilities is reasonable, that such amounts will not have a material adverse effect on the financial position of the Company and that they will be paid over a period of five to ten years, the timing and amount of such payments may differ significantly from the Company's assumptions. Although the effect of future government regulation could have a significant effect on the Company's costs, the Company is not aware of any pending legislation which could have a material adverse effect on its results of operations or financial position. There can be no assurances that such costs could be passed along to its customers.

In 1998, the Company's Board of Directors approved a new plan to repurchase up to $5.0 million of the Company's common stock. As of June 30, 2002, the Company had repurchased 777,665 shares of its common stock for an aggregate cost of $4.3 million pursuant to this plan. The Company is presently restricted from making further purchases by the terms of its 8 5/8% Senior Note indenture.

The Company's principal sources of liquidity are net cash provided by operating activities and borrowings under its Amended and Restated Financing Agreement. The Company believes that these sources will be adequate to fund working capital requirements, debt service payments and planned capital expenditures through the foreseeable future.

The Company maintains defined benefit pension plans for its employees. Recent rates of return on the investments maintained by these plans have been below both actual longer term and assumed rates of returns. Due to the funding status of these plans, these lower rates of returns may result in increased reported pension expense, increased funding requirements, and/or increased charges to other comprehensive income to record minimum pension liabilities.

Some of the information presented in or incorporated by reference in this report constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes that its expectations are based on reasonable assumptions, within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors that could cause actual results to differ from expectations include: (i) the future cost and timing of payments associated with and availability of insurance coverage for asbestos-related personal injury claims, as well as other environmental, product and general liability claims, (ii) increases in raw material prices, (iii) increased competitive activity from companies in the flooring industry, some of which have greater resources and broader distribution channels than the Registrant, (iv) unfavorable developments in the national economy or in the housing industry in general, (v) shipment delays, depletion of inventory and increased production costs resulting from unforeseen disruptions of operations at any of the Registrant's facilities or distributors, (vi) product warranty claims, and (vii) changes in distributors of the Company's products.

Item 3: Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this risk exposure to be material to its financial condition or results of operations. The Company invests primarily in highly liquid debt instruments with strong credit ratings and short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Substantially all of the Company's outstanding long-term debt as of June 30, 2002 consisted of indebtedness with a fixed rate of interest which is not subject to change based upon changes in prevailing market interest rates. Under its current policies, the company does not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage its exposure to changes in interest rates, foreign currency exchange rates, commodity prices or equity prices.

16

PART II. OTHER INFORMATION

Item 1. Legal Proceedings: None

Item 2. Changes in Securities and Use of Proceeds: None

Item 3. Defaults Upon Senior Securities: None

Item 4. Submission of Matters to a Vote of Security Holders:

At the Annual Meeting of Stockholders held on May 8, 2002, the following actions were taken:

Three nominees were elected as Class C Directors who will hold office until the Annual Meeting of Stockholders in 2005 and until their successors are duly elected and qualify.

Name	Votes For	Votes Withheld
Roger S. Marcus	11,845,411	17,529
Cyril C. Baldwin, Jr.	11,845,426	17,514

John N. Irwin III	11,845,653	17,287

The following persons are the other directors of the Company whose term of office as a director continued after the meeting:

William M. Marcus
Richard G. Marcus
Mark S. Newman
C. Barnwell Straut
Mark N. Kaplan

Item 5. Other Information: None

Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibit 99: Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CONGOLEUM CORPORATION

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.

CONGOLEUM CORPORATION
(Registrant)

Date: August 12, 2002

By: /s/ H. N. Feist III

(signature)

Howard N. Feist III
Chief Financial Officer
(Principal Financial & Accounting Officer)