FAB INDUSTRIES INC
Form 10-Q
April 16, 2002

FORM 10-Q QUARTERLY REPORT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 MARCH 2, 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 1-5901

FAB INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	13-2581181
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer) Identification No.)
200 MADISON AVENUE, NEW YORK, N.Y.	10016
(Address of principal executive office)	(Zip Code)

(212) 592-2700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year; if changed since last report)

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

CLASS	SHARES OUTSTANDING AT APRIL 15, 2002
Common stock, $.20 par value	5,205,676

FAB INDUSTRIES INC. AND SUBSIDIARIES

TABLE OF CONTENTS

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED	
	MARCH 2, 2002	MARCH 3, 2001
	(unaudited)	(unaudited)
Net sales	$14,250,000	$20,005,000
Cost of goods sold	13,064,000	20,157,000
Gross profit (loss)	1,186,000	(152,000)
Operating expenses:		
Selling, general and administrative expenses	2,372,000	2,886,000
Other expense (Note 11)	750,000	--
Total operating expenses	3,122,000	2,886,000
Operating loss	(1,936,000)	(3,038,000)

Other income (expense):		
Interest and dividend income	897,000	1,078,000
Net gain on investment securities	95,000	523,000
Interest expense	(10,000)	(10,000)
Total other income	982,000	1,591,000
Loss before taxes	(954,000)	(1,447,000)
Income tax benefit	(277,000)	(405,000)
Net loss	$ (677,000)	$(1,042,000)
Loss per share: (Note 5)		
Basic	$(0.13)	$(0.20)
Diluted	$(0.13)	$(0.20)
Cash dividends declared per share	--	$0.100

See notes to condensed consolidated financial statements.

(2)

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

	AS OF	
	MARCH 2, 2002	DECEMBER 1, 2001
	(unaudited)	
Current Assets:		
Cash and cash equivalents (Note 2)	$ 8,094,000	$ 6,742,000
Investment securities available-for-sale (Note 3)	82,900,000	82,021,000
Accounts receivable-net of allowance of $700,000 and $600,000 for doubtful accounts	8,812,000	10,668,000
Inventories (Note 4)	10,359,000	12,335,000
Other current assets	1,277,000	1,617,000
Total current assets	111,442,000	113,383,000
Property, plant and equipment - at cost	91,041,000	91,095,000
Less: Accumulated depreciation	77,496,000	77,030,000
	13,545,000	14,065,000

Other assets	4,059,000	4,080,000
	$129,046,000	$131,528,000

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

L I A B I L I T I E S and

S T O C K H O L D E R S' E Q U I T Y

	AS OF	
	MARCH 2, 2002	DECEMBER 1, 2001
	(unaudited)	
Current liabilities:		
Accounts payable	$ 2,777,000	$ 3,661,000
Corporate income and other taxes	1,230,000	1,787,000
Accrued payroll and related expenses	911,000	1,318,000
Dividends payable	--	521,000
Other current liabilities	1,508,000	816,000
Deferred income taxes	215,000	269,000
Total current liabilities	6,641,000	8,372,000
Obligations under capital leases - net of current maturities	298,000	311,000
Other noncurrent liabilities	2,346,000	2,342,000
Total liabilities	9,285,000	11,025,000
Stockholders' equity	119,761,000	120,503,000
	$129,046,000	$131,528,000

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE 13 WEEKS ENDED MARCH 2, 2002 (unaudited)

		COMMON STOCK *			
	TOTAL	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
Balance at December 1, 2001	$120,503,000	6,591,944	$1,319,000	$6,967,000	$151,224,000
Net loss	(677,000)				(677,000)
Change in net unrealized holding loss on investment securities available-for-sale, net of taxes	(34,000)				
Total comprehensive loss	(711,000)				
Exercise of Stock Options	120,000	9,240	1,000	119,000	
Purchase of treasury stock	(151,000)				
Balance at March 2, 2002 (Unaudited)	$119,761,000	6,601,184	$1,320,000	$7,086,000	$150,547,000

	TREASURY STOCK	
	NUMBER OF SHARES	COST
Balance at December 1, 2001	(1,383,574)	($35,384,000)
Net loss		
Change in net unrealized holding loss on investment securities available-for-sale, net of taxes		

Total comprehensive loss		
Exercise of Stock Options		
Purchase of treasury stock	(8,894)	(151,000)
Balance at March 2, 2002 (Unaudited)	(1,392,468)	($35,535,000)

* Common stock $0.20 par value - 15,000,000 shares authorized. Preferred stock $1.00 par value - 2,000,000 shares authorized, none issued.

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE 13 WKS ENDED	
	MARCH 2, 2002	MARCH 3, 2001
	(unaudited)	(unaudited)
OPERATING ACTIVITIES:		
Net loss	($677,000)	($1,042,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	100,000	100,000
Depreciation and amortization	512,000	1,389,000
Deferred income taxes	(31,000)	(191,000)
Net gain on investment securities	(95,000)	(523,000)
Gain on disposition of fixed assets	(43,000)	--
Decrease (increase) in:		
Accounts receivable	1,756,000	2,628,000
Inventories	1,976,000	(386,000)
Other current assets	340,000	24,000
Other assets	21,000	168,000
(Decrease) increase in:		
Accounts payable	(884,000)	1,226,000
Accruals and other liabilities	(277,000)	(2,873,000)
Net cash provided by operating activities	2,698,000	520,000

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(73,000)	(173,000)
Proceeds from dispositions of property	120,000	16,000
Acquisition of investment securities	(841,000)	(12,815,000)
Net cash used in investing activities	(794,000)	(12,972,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(151,000)	(2,000)
Dividends	(521,000)	(528,000)
Exercise of Stock Options	120,000	--
Net cash used in financing activities	(552,000)	(530,000)
Increase (decrease) in cash and cash equivalents	1,352,000	(12,982,000)
Cash and cash equivalents, beginning of period	6,742,000	14,695,000
Cash and cash equivalents, end of period	$ 8,094,000	$ 1,713,000

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 13 weeks ended March 2, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year ending November 30, 2002. The balance sheet at December 1, 2001 has been derived from the audited balance sheet at that date. The financial information included in the quarterly report should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 1, 2001.

The Company's Board of Directors has determined that it is in the best interests of its stockholders to sell the Company's textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002 which authorized, subject to stockholder approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Plan provides that if the requisite stockholder approval is received, the Company's officers and directors will continue to operate the Company's textile business in its current fashion, pursue a sale of the business as a going concern and, if the Company's Board of Directors deems it advisable, engage financial advisors to assist with the sale of the business. The Board of Directors will present the Plan for the approval by stockholders at the Company's annual meeting, which is expected to occur in May 2002. If the Plan is not approved by the Company's stockholders, the Company will continue to operate in the ordinary course while the Company's Board of Directors explores alternatives then available for the future of the Company.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company's policy is to recognize all derivatives instruments as either assets or liabilities on the balance sheet and to measure those instruments at market value.

SFAS No. 133 also requires the disclosure of certain other information including a description of the instruments, objectives, strategies and risk management policies for holding all derivatives (Notes 3 and 9).

(7)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING (IN THOUSANDS):

	MARCH 2, 2002	DECEMBER 1, 2001
Cash	$ 275	$ 155
Taxable and tax-free short-term debt instruments	7,819	6,587
	$8,094	$6,742

3. INVESTMENT SECURITIES:

At March 2, 2002 and December 1, 2001, investment securities available-for-sale consisted of the following (in thousands):

MARCH 2, 2002 (UNAUDITED)	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
Equities	$ 7,752	$ 229	($156)	$ 7,825
U.S. Treasury obligations	39,366	329	(22)	39,673
Corporate bonds	25,537	464	(345)	25,656
Money market	9,746	--	--	9,746
	$82,401	$ 1,022	($523)	$82,900

DECEMBER 1, 2001	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
Equities	$ 798	$ --	($15)	$ 783
U.S. Treasury obligations	47,240	316	(16)	47,540
Corporate bonds	32,288	721	(450)	32,559
Money Market	1,139	--	--	1,139
	$81,465	$ 1,037	($481)	$82,021

(8)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (CONTINUED):

Included in the Company's equity investment securities at March 2, 2002 are short-term S&P 100 index put options with a fair value of $66,360 and short-term S&P 100 index call options sold, not yet purchased with a fair value of $126,420.

The Company has agreements with various brokerage firms to carry its account as a customer. The brokers have custody of the Company's securities and, from time to time, cash balances which may be due from these brokers.

These securities and/or cash positions serve as collateral for any amounts due to brokers or as collateral for securities sold short or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Company.

The Company is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. By policy, the Company limits the amount of credit exposure to any one financial institution. The Company has received confirmation indicating that, with respect to investment securities, each custodian with the exception of one custodian maintains appropriate insurance coverage. During fiscal 2001 and the first quarter of 2002 that custodian had approximately $16 million of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. As at March 2, 2002, that custodian had approximately $16 million of the Company's cash under investment of which approximately $7 million was invested in equity securities. The Company's investment policy currently permits up to 25% of the Company's portfolio to include equity securities.

(9)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORIES:

The Company's inventories are valued at the lower of cost or market. Cost is determined principally by the last-in, first-out (LIFO) method with the remainder being determined by the first-in, first-out (FIFO) method. Because the inventory valuation under the LIFO method is based upon an annual determination of inventory levels and costs as of the fiscal year-end, the interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs.

	MARCH 2, 2002	DECEMBER 1, 2001
Raw materials	$ 1,834,000	$ 3,036,000
Work in process	4,029,000	4,083,000
Finished goods	4,496,000	5,216,000
Total	$ 10,359,000	$ 12,335,000
Approximate percentage of inventories valued under LIFO valuation	55%	56%
Excess of FIFO valuation over LIFO valuation	$ 1,710,000	$ 1,710,000

5. LOSS PER SHARE:

Basic and diluted loss per share for the 13 weeks ended March 2, 2002 and March 3, 2001 are calculated as follows:

	NET LOSS	WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	PER-SHARE AMOUNT
For the 13 weeks ended March 2, 2002:			
Basic and diluted loss per share	($677,000)	5,209,355	($0.13)
For the 13 weeks ended March 3, 2001:			
Basic and diluted loss per share	($1,042,000)	5,281,372	($0.20)

(10)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. COMPREHENSIVE LOSS:

Accumulated other comprehensive loss is comprised of unrealized holding loss related to available-for-sale securities. Comprehensive loss was $711,000 and $579,000 for the 13 weeks ended March 2, 2002 and March 3, 2001, respectively.

7. CONTINGENCIES:

A number of claims and lawsuits seeking unspecified damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position and results of operations.

8. NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Companies are required to adopt FAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt FAS 142 on December 2, 2002, the beginning of fiscal 2003. The Company does not believe the adoption of FAS 142 will impact its results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30 for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company expects to adopt SFAS 144 as of December 2, 2002, the beginning of fiscal 2003, and it does not expect that the adoption of the Statement will have a significant impact on the Company's financial position and results of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS HELD OR ISSUED

The Company is party to equity option contracts as part of its investing activities. Option contracts are contractual agreements that give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a predetermined exercise price. In return for this right, the purchaser pays a premium to the seller of the option. By selling or writing options, the Company receives a premium and becomes obligated during the term of the option to purchase or sell a financial instrument at a predetermined exercise price if the option is exercised, and assumes the risk of not being able to enter into a closing transaction if a liquid secondary market does not exist.

10. SEGMENT INFORMATION:

The Company adopted SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" in fiscal 1999. SFAS No. 131 requires companies to report information on segments using the way management organizes segments within the company for making operating decisions and assessing financial performance. The

Company's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Company's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance. The Company has identified three reportable segments based upon the primary markets it serves: Apparel Fabrics, Home Fashions, Industrial Fabrics and Accessories.

Apparel Fabrics: The Company is a major manufacturer of warp and circular knit fabrics and raschel laces. The Company's textile fabrics are sold to a wide variety of manufacturers of ready-to-wear and intimate apparel for men, women, and children, including dresses and sportswear, children's sleepwear, activewear, swimwear, and recreational apparel.

Home Fashions and Accessories: While sales primarily to manufacturers of home furnishings, we also use our own textile fabrics internally to produce flannel and satin sheets, blanket products, comforters, and other bedding products which we sell to specialty stores, catalogue and mail order companies, airlines and cruise lines, and health care institutions.

Other: The Company produces a line of ultrasonically, hot melt adhesive, flame and adhesive bonded products for apparel, environmental, health care, industrial and consumer markets. The Company's textile fabrics are sold to manufacturers servicing the residential and contract markets. We also sell fabrics to vendors in the over the counter markets.

The Company neither allocates to the segments nor bases segment decisions on the following:

- Interest and dividend income
- Interest and other expense
- Net gain on investment securities
- Income tax benefit

(12)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Many of the Company's assets are used by multiple segments. While certain assets such as Inventory and Property, Plant and Equipment are identifiable by segment, an allocation of the substantial remaining assets is not meaningful.

The segment assets as of March 2, 2002 includes asset impairment and restructuring charges recorded in the second and fourth quarters of fiscal 2001 and apply mainly to the apparel segment with a small portion to the other segment. The 13 weeks ended March 2, 2002 include a litigation settlement in the amount of $750,000 which is included in the Home Fashions and Accessories Segment (see Note 11).

(in thousands)

FIRST QUARTER ENDED 03/02/02	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
External sales	$11,534	$ 1,219	$ 1,497	$14,250
Intersegment sales	629	12	41	682
Operating income/(loss)	(999)	(970)	33	(1,936)
Segment assets	19,608	1,259	2,825	23,692

FIRST QUARTER ENDED 03/03/01	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
External sales	$14,001	$ 3,193	$ 2,811	$20,005
Intersegment sales	3,574	20	76	3,670
Operating income/(loss)	(3,209)	306	(135)	(3,038)
Segment assets	43,771	2,047	4,017	49,835

PROFIT OR LOSS	2002	2001
Total operating loss for segments	$ (1,936)	$ (3,038)
Total other income	982	1,591
Loss before taxes on income	$ (954)	$ (1,447)

11. SUBSEQUENT EVENT:

During the fall of 1999, San Francisco Network ("SFN") commenced an action in the Superior Court of California, Marin County, against the Company and the Company's Salisbury Manufacturing Corporation ("Salisbury") subsidiary. The action related to an agreement between SFN and Salisbury (whose performance the Company guaranteed), pursuant to which Salisbury was licensed to use the Karen Neuburger trademark for branded bedding products. The case was removed to the United States District of California. Salisbury and the Company denied any wrongdoing and asserted affirmative claims against SFN and certain of its principals. On March 14, 2002, at a court-ordered settlement conference and without admitting liability, on April 12, 2002, FAB paid SFN $750,000 in exchange for a complete release of all claims, which is included in other current liabilities at March 2, 2002.

(13)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS
FIRST QUARTER
FISCAL 2002 COMPARED TO FISCAL 2001

The Board of Directors has determined to sell its textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002 which authorized, subject to stockholder approval, the sale of its business pursuant to a Plan of Liquidation and Dissolution. The Board of Directors will present the Plan for the approval by stockholders at the Company's annual meeting, which is expected to occur in May 2002.

Net sales for the first quarter 2002 were $14,250,000 as compared to $20,005,000 in the similar 2001 period, a decrease of $5,755,000 or 28.8%. Such decreases were caused substantially by lower volume as business conditions within the domestic textile industry remained depressed and continued low-cost foreign imports has taken a sustained toll in the U.S. manufacturing sector. These factors have negatively impacted sales and production. These conditions have to date continued into the second quarter.

Gross margins as a percentage of sales increased to 8.3% from a small gross loss in first quarter 2001 of 0.8%. A more favorable product mix and the consolidation of three of our manufacturing facilities reducing costs relating to employee termination, decrease in depreciation an other related costs. In the current quarter no adjustments to LIFO inventory reserves were required. In the first quarter 2001, a reduction in LIFO inventory reserves arising principally from lower average FIFO cost levels benefited margins in the amount of $628,000.

Selling, general and administrative expenses in the current quarter decreased by $514,000, or 17.8%. Reduced expenses related primarily to the reduced number of employees and related expenses. In addition, expenses decreased as a result of the continued effectiveness of our expense and cost containment programs. The Company settled a dispute without admitting liability for $750,000. See Note 11 to the Consolidated Financial Statements for further details.

Interest and dividend income for the current quarter decreased by $181,000, or 16.8%. Although the Company had higher invested balances, the Company invested a large portion of its portfolio in United States Treasury obligations resulting in lower yields.

In the current quarter, we realized gains from the sale of investment securities of $95,000 compared to $523,000 in last year's first quarter.

The Company had realized a tax benefit for the current quarter which had an effective tax rate of (29.0%) as compared to a tax benefit of (28.0%) in last year's first quarter 2001.

As a result of these factors, the Company had a net loss of $(677,000) or ($0.13) loss per share, compared to a net loss of $(1,042,000) or ($0.20) loss per share in last year's first quarter 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities amounted to $2,698,000 and $520,000 for the 13 weeks ended March 2, 2002 and March 3, 2001 respectively. Of this increase, $365,000 relates to comparative changes in net loss, $2,362,000 to inventories, $486,000 to accounts payable and other current liabilities, $316,000 to other current assets, $428,000 to net gain on investment securities, and $160,000 to deferred taxes. These

increases were offset by $872,000 in accounts receivable, $877,000 in depreciation, $147,000 in other assets and $43,000 in gain on disposition of assets.

In the first quarter 2002, net acquisition of investment securities were $841,000 as compared to net acquisition of $12,815,000 in the comparative 2001 period. Approximately $12,000,000 of the net acquisitions in first quarter 2001 was in cash and cash equivalents.

Stockholders' equity was $119,761,000 ($22.99 book value per share) at March 2, 2002, as compared to $120,503,000, ($23.14 book value per share) at the previous fiscal year-end December 1, 2001, and $129,749,000 ($24.57 book value per share) at the end of the comparative 2001 first quarter.

Management believes that our current financial position is adequate to satisfy working capital requirements and to internally fund any future expenditures to maintain our manufacturing facilities for the next twelve months.

COMMITMENTS

STOCK REPURCHASE

The Company has an agreement with the Chairman of the Board of Directors and Chief Executive Officer which provides that, in the event of the Chairman's death, his estate has the option to sell, and the Company the obligation to purchase, certain stock owned by the Chairman. The amount of stock subject to purchase is equal to the lesser of $7 million or 10% of the book value of the Company at the end of the year immediately following his death, plus the $3 million proceeds from insurance on his life for which the Company is the beneficiary. The agreement extends automatically from year to year unless either party gives notice of cancellation at least six months prior to the then current expiration date. The current expiration date is March 2003.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are discussed in Summary of Accounting Policies in the audited financial statements, which are included in the Company's most recent Annual Report on Form 10-K. Certain accounting policies are important to the portrayal of the Company's financial condition and results of operations, and require management's subjective judgements. These policies relate to the following:

RISKS AND UNCERTAINITIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, investment securities, and trade receivables. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. By policy, the Company limits the amount of credit exposure to any one financial institution. The Company has received confirmation indicating that, with respect to investment securities, each custodian with the exception of one custodian maintains appropriate insurance coverage. During fiscal 2001 and the first quarter of 2002 that custodian had approximately $16 million of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. As at March 2, 2002, that custodian had approximately $16 million of the Company's cash under investment of which approximately $7 million was invested in equity securities. The Company's investment policy currently permits up to 25% of the Company's portfolio to include equity securities.

Concentrations of credit risk with respect to trade receivables are limited due to the diverse group of manufacturers, wholesalers and retailers to whom the Company sells. The Company reviews a customer's credit history before extending credit. The Company further reduces its credit risk by factoring, without recourse, a variable amount of trade receivables. As of March 2, 2002 and December 1, 2001, 11% and 18%, respectively, of the accounts receivable outstanding were due from factors. The Company has established an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

REVENUE RECOGNITION

The Company recognizes its revenues upon shipment of the related goods. Allowances for estimated returns are provided when sales are recorded.

INVESTMENTS

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). SFAS No. 115 addresses accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Investments in such securities are

to be classified as either held-to-maturity, trading, or available-for-sale. The Company classifies all of its investments as available-for-sale. The investments are recorded at their fair value and the unrealized gain or loss, net of income taxes, is recorded in stockholders' equity.

Gains and losses on sales of investment securities are computed using the specific identification method.

FORWARD-LOOKING INFORMATION

Certain statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties. In particular, any statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in our communications and discussions with investors and analysts in the normal course of business including, but not limited to, meetings, phone calls and conference calls, regarding the sale of our assets pursuant to a plan of liquidation and dissolution, as well as expectations with respect to future sales and operating efficiencies prior to a sale of the company, are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond our control and which may cause actual results, performance or achievements to differ materially from anticipated results, performances or achievements. Factors that might affect such forward-looking statements include, among other things: our stockholders' decision at our upcoming annual meeting on whether to approve of a plan of liquidation and dissolution for the company; if the plan is approved, our ability to find qualified buyers for our assets; overall economic and business conditions; our continuing ability to support the demand for our goods and services; competitive factors in the industries in which we compete; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; material contingencies provided for in a sale of our assets; de-listing of our common stock from the American Stock Exchange; our ability to retain key employees through any wind down period; and any litigation arising as a result of our plan to wind down our operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Derivative Instruments and Hedging Activities" in Note 1 and Note 3 of the Notes to the Consolidated Financial Statements. See also "Derivative Financial Instruments Held or Issued" in Note 9 of the Notes to the Consolidated Financial Statements.

(18)

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits: No exhibits are filed herewith.

b) Reports on Form 8-K: On December 6, 2001, the Company filed a report on Form 8-K announcing its intent to pursue a sale of its business and to do so as part of a plan of liquidation. On March 4, 2002, the Company filed a report on Form 8-K announcing its Board of Directors' approval of a plan of liquidation and announcing the Company's operating results for the year ended December 1, 2001.

(19)

SIGNATURES

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.

Dated: April 16, 2002 FAB INDUSTRIES, INC.

By: /s/ David A. Miller

David A. Miller
Vice President-Finance, Treasurer
and Chief Financial Officer
(Principal Financial and Accounting Officer)

(20)