FAB INDUSTRIES INC
Form 10-Q
April 13, 2004

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 FEBRUARY 28, 2004

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 [_]

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

As of April 13, 2004, 5,215,031 shares of the registrant's common stock, $0.20 par value, were outstanding.

FAB INDUSTRIES INC. AND SUBSIDIARIES

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED	
	February 28, 2004	March 1, 2003
	(unaudited)	(unaudited)
Net sales	$ 10,141,000	$ 11,587,000
Cost of goods sold	9,712,000	10,846,000
Gross profit (loss)	429,000	741,000
Operating expenses:		
Selling, general and administrative expenses	1,676,000	1,628,000

Gain on sale of fixed assets	(685,000)	(174,000)
Other expense (Note 12)	250,000	--
Total operating expenses	1,241,000	1,454,000
Operating loss	(812,000)	(713,000)
Other income (expense):		
Interest and dividend income	222,000	347,000
Net gain (loss) on investment securities	168,000	(29,000)
Total other income	390,000	318,000
Loss before taxes	(422,000)	(395,000)
Income tax benefit	(130,000)	(125,000)
Net loss	$ (292,000)	$ (270,000)
Income (loss) per share: (Note 5)		
Basic	($0.06)	($0.05)
Diluted	($0.06)	($0.05)
Cash dividends declared per share	$3.00	$0.00

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

	AS OF	
	February 28, 2004	November 29, 2003
	(unaudited)	
Current Assets:		
Cash and cash equivalents (Note 2)	$ 4,011,000	$ 3,397,000
Investment securities available-for-sale (Note 3)	31,411,000	29,004,000
Accounts receivable-net of allowance of $600,000 and $900,000 for doubtful accounts	5,306,000	7,171,000
Inventories (Note 4)	5,481,000	5,531,000
Deferred tax asset	473,000	506,000
Other current assets	637,000	701,000
Total current assets	47,319,000	46,310,000

Property, plant and equipment - at cost	32,456,000	33,787,000
Less: Accumulated depreciation	24,036,000	24,303,000
	8,420,000	9,484,000
Other assets	2,349,000	2,281,000
	$58,088,000	$58,075,000

See notes to condensed consolidated financial statements.

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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	
	February 28, 2004	November 29, 2003
	(unaudited)	
Current liabilities:		
Accounts payable	$ 2,372,000	$ 1,913,000
Corporate income and other taxes	709,000	861,000
Accrued payroll and related expenses	446,000	763,000
Dividends payable	15,645,000	--
Other current liabilities	1,312,000	1,106,000
Total current liabilities	20,484,000	4,643,000
Deferred income taxes	--	52,000
Other noncurrent liabilities	4,563,000	4,451,000
Total liabilities	25,047,000	9,146,000
Stockholders' equity	33,041,000	48,929,000
	$58,088,000	$58,075,000

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 13 WEEKS ENDED FEBRUARY 28, 2004 (unaudited)

		COMMON STOCK*				TREASURY S
	TOTAL	NUMBER OF SHARES	AMOUNT	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	NUMBER SHARES
Balance at November 29, 2003	$48,929,000	6,724,944	$1,345,000	$85,225,000	$ (186,000)	(1,509,
Net loss	(292,000)			(292,000)		
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	49,000				49,000	
Total comprehensive loss	(243,000)					
Cash dividends	(15,645,000)			(15,645,000)		
Balance at February 28, 2004 (Unaudited)	$33,041,000	6,724,944	$1,345,000	$69,288,000	$ (137,000)	(1,509,

* 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.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE 13 WKS ENDED	
	February 28, 2004	March 1, 2003

	(unaudited)	(unaudited)
OPERATING ACTIVITIES:		
Net loss	($ 292,000)	($ 270,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	100,000	100,000
Depreciation and amortization	407,000	480,000
Deferred income taxes	(52,000)	(60,000)
Net (gain) loss on investment securities	(168,000)	29,000
Gain on disposition of fixed assets	(685,000)	(173,000)
Decrease (increase) in:		
Accounts receivable	1,765,000	1,281,000
Inventories	50,000	(275,000)
Other current assets	64,000	158,000
Other assets	(68,000)	204,000
(Decrease) increase in:		
Accounts payable	459,000	(698,000)
Accruals and other liabilities	(151,000)	(1,456,000)
Net cash provided by (used in) operating activities	1,429,000	(680,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(22,000)	(24,000)
Proceeds from dispositions of property	1,364,000	190,000
Acquisition of investment securities	(2,157,000)	(255,000)
Net cash used in investing activities	(815,000)	(89,000)
Increase (decrease) in cash and cash equivalents	614,000	(769,000)
Cash and cash equivalents, beginning of period	3,397,000	3,146,000
Cash and cash equivalents, end of period	$ 4,011,000	$ 2,377,000

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 February 28, 2004 are not necessarily indicative of the results that may be expected for the entire fiscal year ending November 27, 2004. The balance sheet at November 29, 2003 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 Form 10-K for the fiscal year ended November 29, 2003.

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 Company's stockholders approved the Plan at the annual meeting on May 30, 2002. The Plan provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion and pursue a sale of the business as a going concern. The Company's Board of Directors has approved the engagement of McFarland Dewey & Co., LLC financial advisors in November 2002 to assist with the sale of the business. The accompanying financial statements have been prepared on a going concern basis. There can be no assurance, however, that the Company will be successful in selling it's business or if it does sell the business, that it will be able to recover full value of it's assets, particularly it's property, plant and equipment. On August 1, 2003 and May 30, 2002, the Company's Board of Directors declared a liquidating distribution of $4.00 per share and $10.00 per share, respectively, which resulted in a payment to stockholders of $20,860,000 and $52,380,000 in August 2003 and June 2002 respectively. On February 18, 2004, the Company's Board of Directors declared a third liquidating distribution of $3.00 per share, to be payable on March 10, 2004 with a record date of February 28, 2004. This resulted in a payment of $15,645,000 on March 10, 2004.

The Company's plan of liquidation provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion and pursue the sale of the business as a going concern. If the Company is not sold by May 2005, all assets will be transferred to a liquidating trust. The liquidating trust would then succeed to all our remaining assets, liabilities and obligations.

The Company is currently in compliance with the 40% limitation on holding investment securities set forth in the Investment Company Act of 1940 and intends to remain in compliance with such requirement in the future.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is party to equity option contract 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.

In accordance with SFAS No. 133, the Company's policy is to recognize all derivatives instruments as either assets or liabilities on the balance sheet at fair value. Changes in fair value are recognized in the income statement in the period in which they occur. Derivatives are not used for trading purposes. Derivatives are used to hedge against fluctuations in the market value of equity securities.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company's stock option plans were terminated subsequent to the fiscal year ended November 30, 2002 and there has been no stock compensation expense under the disclosure-only provisions of SFAS No.123 subsequent thereto.

RECLASSIFICATIONS

Certain accounts in 2003 financial statements have been reclassified with the 2004 presentations for comparative purposes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Cash and cash equivalents consist of the following (in thousands):

	FEBRUARY 28, 2004	NOVEMBER 29, 2003
Cash	$ 359	$ 549
Taxable and tax-free short-term debt instruments	3,652	2,848
	$4,011	$3,397

3. Investment Securities:

At February 28, 2004 and November 29, 2003, investment securities available-for-sale consisted of the following (in thousands):

FEBRUARY 28, 2004 (UNAUDITED)	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
Equities	$ 750	$ 30	$ 0	$ 780
U.S. Treasury obligations	28,495	487	0	28,982
Corporate bonds	253	0	(250)	3
Money market	1,646	0	0	1,646
	$ 31,144	$ 517	($250)	$ 31,411

NOVEMBER 29, 2003	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
Equities	$ 750	$ 17	$ 0	$ 767
U.S. Treasury obligations	27,519	418	0	27,937
Corporate bonds	253	0	(250)	3
Money Market	297	0	0	297
	$ 28,819	$ 435	($250)	$ 29,004

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (continued):

During the three months ended February 28, 2004, the Company invested a portion of it's investment securities in equity consisting of a portfolio of Standard and Poor's 100 ("S&P 100") common stocks, the fair value of which varies consistently with changes in the S&P 100 index. To hedge against fluctuations in the market value of the portfolio, the Company has purchased short-term S & P 100 index put options and sold short-term S & P 100 index call options. At February 28, 2004 and November 29, 2003, the Company had no such investments, but will continue to invest in such equities in the future.

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. It is the policy of the Company to limit 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 2003 and the three months ended February 28, 2004, that custodian had an average balance of approximately $9.6 million, and $8.0 million, respectively, of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. At February 28, 2004, that custodian had approximately $8.0 million of the Company's cash under investments, which were all invested in U.S. Treasury obligations. The Company's investment policy currently permits up to 50% of the Company's portfolio to be held by the custodian.

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.

	FEBRUARY 28, 2004	NOVEMBER 29, 2003
Raw materials	$ 1,705,000	$ 1,446,000
Work in process	1,759,000	1,867,000
Finished goods	2,017,000	2,218,000
Total	$ 5,481,000	$ 5,531,000
Approximate percentage of inventories valued under LIFO valuation	59%	61%
Excess of FIFO valuation over LIFO valuation	$ 1,007,000	$ 1,007,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Loss Per Share:

Basic and diluted loss per share for the 13 weeks ended February 28, 2004 and March 1, 2003 are calculated as follows:

	NET LOSS	WEIGHTED AVERAGE SHARES	PER-S AMOUN
For the 13 weeks ended February 28, 2004:			
Basic loss per share	($292,000)	5,215,031	($
For the 13 weeks ended March 1, 2003:			
Basic loss per share	($270,000)	5,238,015	($

There were no options outstanding during the 13 weeks ended February 28, 2004 and March 1, 2003, respectively. During fiscal 2002, all outstanding options were either exercised or cancelled.

6. Comprehensive Loss:

Accumulated other comprehensive loss is comprised of unrealized holding loss related to available-for-sale securities. Comprehensive loss was $243,000 and

$28,000 for the 13 weeks ended February 28, 2004 and March 1, 2003, respectively.

7. Litigation:

On November 10, 2003, a class action suit was filed against the Company in Delaware Chancery Court. The complaint asserts claims against the Company and certain of its officers and directors based on the management buy-out proposal at a price allegedly lower than the cash value and book value of the Company's shares and which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract, the Company's failure to seek stockholder approval for the management buyout and the Company's failure to file a certificate of dissolution with the Delaware Secretary of State. The complaint alleges such actions constitute violations of defendants fiduciary duties, as well as the provisions of the Delaware General Corporation Law.

The complaint does not seek a specific amount of damages, and seeks to enjoin defendants from effectuating the planned management buyout. The company served an answer to the complainant on December 11, 2003. On each of November 21 and November 26, 2003 class action lawsuits were initiated against the Company asserting the same allegations as those described above.

The Company believes that each of the claims described above is without merit. Further, certain of the claims described above have been rendered moot by the withdrawal of preliminary offer by management-led buyout to acquire the Company.

7. Litigation continued:

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.

Other

The Company has a letter of credit with its insurance provider for $400,000.

8. Effect of recently Issued Accounting Standards

In July 2002, the FASB issued SFAS 146 "Accounting for Restructuring Costs". SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS 146, a company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS 146 requires a company to disclose information about its exit and disposal activities, the related costs and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with an earlier adoption encouraged. Under SFAS 146, a company may not restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3. The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities. The objective of this interpretation is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. A Company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected returns if they occur. Interpretation No.46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The Interpretation became effective upon issuance. The Company's adoption of this interpretation did not have an effect on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement affects the classification, measurement and disclosure requirements of the following three types of freestanding financial instruments: 1) mandatorily redeemable shares, which the issuing company is obligated to buy back with cash or other assets; 2) instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, which includes put options and forward purchase contracts; and 3) obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominately to a variable such as a market index, or varies inversely with the value of the issuers' shares. In general, SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after Fiscal 2004. The Company's adoption of SFAS No. 150 did not have an effect on the Company's 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. As of February 28, 2004, the Company had no equity option contracts. During the three months ended February 28, 2004, the Company was party to equity option contracts from time to time.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and Other.

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, and airlines.

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. The Company also sells fabrics 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 expense or benefit

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The 13 weeks ended February 28, 2004 and March 1, 2003, includes gain on the sale of fixed assets of $685,000 and $174,000, respectively. Of this, $441,000 in the 13 weeks ended February 28, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. In addition, Apparel Segment includes $250,000 reserve for environmental costs. (in thousands)

HOME

FIRST QUARTER ENDED 02/28/04 (UNAUDITED)	APPAREL	FASHIONS AND ACCESSORIES	OTHER	TOTAL
External sales	$ 6,990	$ 1,233	$ 1,918	$ 10,141
Intersegment sales	1,049	15	42	1,106
Operating income (loss)	(1,383)	(77)	648	(812)
Segment assets	11,080	1,141	1,651	13,872

FIRST QUARTER ENDED 03/01/03 (UNAUDITED)	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
External sales	$ 9,122	$ 805	$ 1,660	$ 11,587
Intersegment sales	846	19	72	937
Operating income (loss)	(764)	(38)	89	(713)
Segment assets	16,520	1,020	2,542	20,082

PROFIT OR LOSS (UNAUDITED)	2004	2003
Total operating loss for segments	$ (812)	$ (713)
Total other income	390	318
Loss before income tax benefit	$ (422)	$ (395)

11. Commitments:

During fiscal year ended November 29, 2003, the Company and Mr. Bitensky amended the employment agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board.

Such amendment to the employment agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately $10,000,000 of shares of Common Stock from his estate. In consideration of Mr. Bitensky's relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company. The Company transferred these policies during the fiscal year ended November 29, 2003.

12. Other Expense:

During the quarter ended February 28, 2004, the Company recorded an accrual of $250,000 for environmental costs.

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ITEM 2. MANAGEMENT'S' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS
First Quarter

FISCAL 2004 COMPARED TO FISCAL 2003

Net sales for the first quarter 2004 were $10,141,000 as compared to $11,587,000 in the similar 2003 period, a decrease of $1,446,000 or 12.5%. Such decreases were caused substantially by lower volume as business conditions within the domestic textile industry remain depressed. The continued influx of low-cost foreign imports has also taken a sustained toll in the U.S. manufacturing sector. These factors have negatively impacted sales and production.

Gross margins as a percentage of sales declined from 6.4% to 4.2%. Lower sales volume reduced operating schedules at production facilities.

Selling, general and administrative expenses in the current quarter increase slightly by $48,000 or 2.9%. The increase in expenses is due primarily to an increase in Professional fees offset by a decrease in the number of employees and related expenses.

Other expense includes an accrual for $250,000 for environmental costs which was recorded in the quarter ended February 28, 2004.

The Company had a gain on the sale of fixed assets in the current quarter of $685,000 as compared to $174,000 last year first quarter.

Interest and dividend income for the current quarter decreased by $125,000 or 36.0% as compared to the first quarter of 2003. On August 22, 2003, the Company distributed a second liquidating distribution of $4.00 per share, or $20,860,000. Accordingly, the Company had lower average invested balances which were invested primarily in United States Treasury obligations resulting in lower risks and lower yields. In the first quarter of 2004, the Company had realized gains of $168,000 compared to realized losses of $29,000 in the comparable first quarter 2003.

The Company had realized a tax benefits, which had effective tax rates of 30.8% and 31.6% for the first quarters of 2004 and 2003, respectively.

As a result of these factors, the Company had a net loss of $292,000 or $0.06 basic and diluted loss per share for the 13 weeks ended February 28, 2004 compared to a net loss of $270,000 or $0.05 basic and diluted loss per share for the 13 weeks ended March 1, 2003.

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Liquidity and Capital Resources

Net cash provided by operations amounted to $1,429,000 in the first quarter 2004 compared to $680,000 used in operations for the comparative 2003 period. Of the increase, changes were as follows: $484,000 increase in accounts receivable, $325,000 in inventories and $2,462,000 in accounts payable and other current liabilities. These increases were offset by an increase of $22,000 in net loss, $512,000 in gain on disposition of fixed assets, $197,000 in net gain on investment securities, $366,000 to current and other assets and $73,000 to depreciation.

In the first quarter 2004, net acquisitions of investment securities were $2,157,000 as compared to net acquisitions of $255,000 in the comparative 2003 period.

Stockholders equity was $33,041,000 ($6.34 book value per share) at February 28, 2004 compared to $48,929,000 ($9.38 book value per share) at the previous year-end November 29, 2003 and $64,550,000 ($12.32 book value per share) at March 1, 2003. The reduction in stockholders' equity from the first quarter 2003 was primarily due to the second liquidating distribution of $4.00 per share, or $20,860,000 on August 22, 2003 and the third liquidating distribution of $3.00 per share or $15,645,000 declared on February 18, 2004 and paid on March 10, 2004 with a record date of February 28, 2004.

Management believes that the Company's current financial position is adequate to satisfying working capital requirements and to internally fund any future expenditures to maintain its manufacturing facilities for the next twelve months.

Commitments:

During fiscal year ended November 29, 2003, the Company and Mr. Bitensky amended the Employment Agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately $10,000,000 of shares of Common Stock from his estate. In consideration of Mr. Bitensky's relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company. The Company transferred these policies during fiscal year ended November 29, 2003.

CRITICAL ACCOUNTING POLICIES

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 period. The critical accounting policies that affect the Company's more complex judgments and estimates are described in the Company's Annual Report on Form 10-K for the fiscal year ended November 29, 2003.

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. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies, and expectations, are generally identifiable by the use of words "may", "will", "should", "expect", "anticipate", "estimate" "believe" "intend" or "project" or the negative of them or other variations of them or comparable terminology.

Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to: 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. These risks and uncertainties should be considered in evaluating any forward-looking statements contained in this quarterly report on Form 10-Q.

We undertake no obligation to update or revise a forward-looking statement, whether as a result of new information, future events, or otherwise, other than required by law.

ITEM 3. 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 Condensed Consolidated Financial Statements.

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Item 4. Controls and Procedures

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES: Our Chief Executive Officer and Chief Financial Officer, having concluded, based on their evaluation, as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(e) and 15-15(e)) are (1) effective to ensure that material information required to be disclosed by us in reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) designed to ensure the material information required to be disclosed by us in such reports is accumulated, organized and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriated, to allow timely decisions regarding required disclosure.

(b) INTERNAL CONTROL OVER FINANCIAL REPORTING. There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

31.1 Certification by Samson Bitensky pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by David A. Miller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Samson Bitensky pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by David A. Miller pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K:

The Company filed on February 18, 2004 a report on Form 8-K announcing the payment of a Liquidating Distribution in connection with its Plan of Liquidation.

The Company furnished on February 27, 2004, a report on Form 8-K announcing, under Item 9 of such form, its earnings for the 52 weeks ended November 29, 2003.

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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 13, 2004 FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

Samson Bitensky
Chairman of the Board
and Chief Executive Officer

By: /s/ David A. Miller

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

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