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FAB INDUSTRIES INC  
Form 10-Q  
July 15, 2003

FORM 10-Q QUARTERLY REPORT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended May 31, 2003

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  No

Indicate by check mark whether the registrant is an accelerated filer (as

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defined in Rule 12b-2 of the Exchange Act). Yes  No   
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As of July 15, 2003, 5,238,015 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

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	FOR THE 13 WEEKS ENDED	
	MAY 31, 2003	JUNE 1, 2002
	(unaudited)	(unaudited)
Net sales	\$ 13,646,000	\$ 17,362,000
Cost of goods sold	12,151,000	14,765,000
Gross profit	1,495,000	2,597,000
Selling, general and administrative expenses	1,579,000	2,146,000
Operating income (loss)	(84,000)	451,000
Other income:		
Interest and dividend income	347,000	931,000
Net gain on investment securities	232,000	1,021,000
Total other income	579,000	1,952,000
Income before taxes	495,000	2,403,000
Income tax expense	175,000	777,000
Net income	\$ 320,000	\$ 1,626,000
	=====	=====
Earnings per share: (Note 5)		
Basic	\$ 0.06	\$ 0.31
Diluted	\$ 0.06	\$ 0.31
Cash dividends declared per share	\$ --	\$ 10.00

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 26 WEEKS ENDED	
	MAY 31, 2003	JUNE 1, 2002
	(unaudited)	(unaudited)
Net sales	\$ 25,233,000	\$ 31,612,000
Cost of goods sold	22,823,000	27,829,000
Gross profit	2,410,000	3,783,000
Operating expenses:		
Selling, general and administrative expenses	3,207,000	4,518,000
Other expense (Note 11)	--	750,000

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Total operating expenses	3,207,000	5,268,000
Operating loss	(797,000)	(1,485,000)
Other income:		
Interest and dividend income	694,000	1,828,000
Net gain on investment securities	203,000	1,116,000
Interest expense	--	(10,000)
Total other income	897,000	2,934,000
Income before taxes	100,000	1,449,000
Income tax expense	50,000	500,000
Net income	\$ 50,000	\$ 949,000

Earnings per share: (Note 5)

Basic	\$ 0.01	\$ 0.18
Diluted	\$ 0.01	\$ 0.18
Cash dividends declared per share	\$ --	\$ 10.00

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

	AS OF	
	MAY 31, 2003	NOVEMBER 30, 2002
	(unaudited)	
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 2,514,000	\$ 3,146,000
Investment securities available-for-sale (Note 3)	46,969,000	45,551,000
Accounts receivable-net of allowance of \$1,200,000 and \$1,000,000 for doubtful accounts	8,140,000	7,548,000
Inventories (Note 4)	7,919,000	8,386,000
Other current assets	519,000	867,000
Total current assets	66,061,000	65,498,000
Property, plant and equipment - at cost	83,794,000	85,628,000
Less: Accumulated depreciation	72,670,000	73,621,000

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	-----	-----
	11,124,000	12,007,000
Other assets	3,790,000	3,724,000
	-----	-----
	\$80,975,000	\$81,229,000
	=====	=====

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	
	-----	-----
	MAY 31, 2003	NOVEMBER 30, 2002
	-----	-----
	(unaudited)	
Current liabilities:		
Accounts payable	\$ 2,480,000	\$ 2,858,000
Corporate income and other taxes	1,510,000	1,980,000
Accrued payroll and related expenses	561,000	903,000
Other current liabilities	1,148,000	940,000
Deferred income taxes	260,000	9,000
	-----	-----
Total current liabilities	5,959,000	6,690,000
	-----	-----
Other noncurrent liabilities	3,039,000	2,968,000
	-----	-----
Total liabilities	8,998,000	9,658,000
	-----	-----
Redeemable common stock (Note 12)	7,000,000	7,000,000
Stockholders' equity	64,977,000	64,571,000
	-----	-----
	\$80,975,000	\$81,229,000
	=====	=====

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 FOR THE 26 WEEKS ENDED May 31, 2003 (unaudited)

	TOTAL	COMMON STOCK *		RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	NUM S
		NUMBER OF SHARES	AMOUNT			
Balance at November 30, 2002	\$64,571,000	6,724,944	\$1,345,000	\$100,455,000	\$229,000	(1,48
Net income	50,000			50,000		
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	349,000				349,000	
Total comprehensive Income	399,000					39
Repayment of notes receivable from stockholders	7,000					
Balance at May 31, 2003 (Unaudited)	\$64,977,000	6,724,944	\$1,345,000	\$100,505,000	\$578,000	(1,48

\* 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 26 WEEKS ENDED  
 -----  
 MAY 31, 2003      JUNE 1, 2002  
 -----  
 (unaudited)      (unaudited)

OPERATING ACTIVITIES:

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Net income	\$ 50,000	\$ 949,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	200,000	200,000
Depreciation and amortization	960,000	1,027,000
Deferred income taxes	(121,000)	(62,000)
Net gain on investment securities	(203,000)	(1,116,000)
Gain on disposition of fixed assets	(316,000)	(216,000)
Compensation relating to acceleration of stock options	--	418,000
Decrease (increase) in:		
Accounts receivable	(792,000)	(792,000)
Inventories	467,000	2,235,000
Other current assets	348,000	377,000
Other assets	74,000	153,000
(Decrease) increase in:		
Accounts payable	(378,000)	481,000
Accruals and other liabilities	(533,000)	(412,000)
	-----	-----
Net cash provided by (used in) operating activities	(244,000)	3,242,000
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(108,000)	(193,000)
Proceeds from dispositions of property	347,000	320,000
Acquisition of investment securities	(634,000)	(1,644,000)
	-----	-----
Net cash used in investing activities	(395,000)	(1,517,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	--	(280,000)
Dividends	--	(521,000)
Exercise of stock options	--	172,000
Repayment of loan from stockholders	7,000	--
	-----	-----
Net cash provided by (used in) financing activities	7,000	(629,000)
	-----	-----
Increase (decrease) in cash and cash equivalents	(632,000)	1,096,000
Cash and cash equivalents, beginning of period	3,146,000	6,742,000
	-----	-----
Cash and cash equivalents, end of period	\$ 2,514,000	\$ 7,838,000
	=====	=====

See notes to condensed consolidated financial statements.

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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

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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 26 weeks ended May 31, 2003 are not necessarily indicative of the results that may be expected for the entire fiscal year ending November 29, 2003. The balance sheet at November 30, 2002 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 November 30, 2002.

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 its business or if it does sell the business, that it will be able to recover full value of its assets, particularly its property, plant and equipment. On May 30, 2002, the Company's Board of Directors declared an initial liquidating distribution of \$10.00 per share, which resulted in a payment to stockholders of \$52,380,000 in June 2002.

Pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by stockholders on May 30, 2002 the Employees Stock Ownership Plan (the ESOP) was terminated and all shares of common stock of the Company then held in the ESOP suspense account (86,456 shares) were transferred to the Company, and held as treasury stock, in exchange for the cancellation of the outstanding loan in the amount of \$3,957,000 from the Company to the ESOP. The Company recorded the related treasury stock at the fair market value on the date of the termination, which resulted in a \$2.4 million charge to additional paid-in-capital.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan, on May 30, 2002, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (including employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee, who exercised via payment to the Company) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. These loans receivable have been recorded as a reduction of stockholders' equity as of May 31, 2003. The amount loaned to employees and directors to exercise their options was approximately \$1,495,000, of which approximately \$1,281,000 was repaid prior to May 31, 2003. These options were subject to variable accounting at each reporting period, until the related loans were repaid. As of May 31, 2003 the balance of the loans outstanding was \$214,000. The loans were due as of May 31, 2003, but the borrowers had a month grace period to repay these loans. In June 2003, the Company repurchased 22,984 shares of its common stock at an average fair market value of \$9.48 per share, and offset the related payment against loans due from employees and directors, which were due as of May 31, 2003. The Company purchased enough shares in



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sufficient quantity to pay all outstanding loans, including interest.

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During the last quarter, the Company inadvertently exceeded the 40% limitation on holding investment securities set forth in the Investment Company Act of 1940 (the "Act"). Under the Act, a company 40% or more of whose assets are investment securities would be an investment company and would be required to register as such, absent an available exemption or exclusion. No other exemption is available to the Company. The failure to remain below the 40% threshold was discussed with the Company's Audit Committee, which adopted remedial procedures that required the Company to sell investment securities to fall below the threshold forthwith and instructed Company management to vigilantly maintain compliance on an ongoing basis. The Company has taken steps to comply with the 40% limitation mentioned above and intends promptly to come into and remain in compliance with such requirement in the future. Were the Securities and Exchange Commission to pursue an enforcement action against the Company it could have adverse consequences for the Company.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 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 its consolidated 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 (See Notes 3 and 9).

#### ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its various stock option plans. The Company has adopted the disclosure - only provisions of SFAS No. 123, "Accounting for Stock- Based Compensation" and SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure", which was released in December 2002 as an amendment to SFAS No. 123. In accordance with SFAS No. 148, the following table illustrates the effect on net income and earnings per share as if the company has applied the fair value recognition provisions of SFAS No. 123.

	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
	THREE MONTHS ENDED		SIX MONTHS ENDED	
PROFIT OR LOSS (UNAUDITED)	MAY 31, 2003	JUNE 1, 2002	MAY 31, 2003	JUNE 1, 2002
Net income, as reported	\$320	\$1,626	\$50	\$9
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax.	0	(33)	0	(

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Proforma net income	\$320	\$1,593	\$50	\$8
	----	-----	---	---
Basic and diluted net income per share: as reported	\$0.06	\$0.31	\$0.01	\$0.
Pro Forma	\$0.06	\$0.31	\$0.01	\$0.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

RECLASSIFICATIONS

Certain accounts in the 2002 financial statements have been reclassified with the 2003 presentations for comparatives purposes.

2. Cash and Cash Equivalents:

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

	MAY 31, 2003	NOVEMBER 30, 2002
	-----	-----
	(unaudited)	
Cash	\$ 477	\$ 526
Taxable and tax-free		
Short-term debt instruments	2,037	2,620
	-----	-----
	\$ 2,514	\$ 3,146

3. Investment Securities:

At May 31, 2003 and November 30, 2002, investment securities available-for-sale consisted of the following (in thousands):

MAY 31, 2003 (UNAUDITED)	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
-----	-----	-----	-----	-----
Equities	\$ 11,008	\$ 223	\$ 0	\$ 11,231
U.S. Treasury obligations	22,191	899	(2)	23,088
Tax-Exempt Obligations	1,055	7	0	1,062
Corporate bonds	7,978	264	(253)	7,989
Money market	3,599	0	0	3,599
	-----	-----	-----	-----
	\$ 45,831	\$ 1,393	(\$ 255)	\$ 46,969
	=====	=====	=====	=====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 3. Investment Securities (continued):

NOVEMBER 30, 2002	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
Equities	\$ 750	\$ 0	\$ 0	\$ 750
U.S. Treasury obligations	32,411	617	0	33,028
Corporate bonds	7,748	194	(254)	7,688
Money Market	4,085	0	0	4,085
	\$ 44,994	\$ 811	(\$ 254)	\$ 45,551
	=====	=====	=====	=====

During the six months ended May 31, 2003, the Company invested a portion of its investment securities in equity securities 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 with a fair value of \$115,440 and short-term S&P 100 index call options sold, not yet purchased with a fair value of \$179,820, which were outstanding at May 31, 2003. At November 30, 2002, the Company had no such investments.

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 2002 and the six months ended May 31, 2003, that custodian had approximately \$10 million and \$10.5 million, respectively, of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. At May 31, 2003, that custodian had approximately \$10.5 million of the Company's cash under investments, which a majority were invested in equity securities. The Company's investment policy currently permits up to 25% of the Company's portfolio to include equity securities.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 4. Inventories:

The Company's inventories are valued at the lower of cost or market value. Cost

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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.

	MAY 31, 2003	NOVEMBER 30, 2002
	(unaudited)	
Raw materials	\$ 1,902,000	\$ 2,131,000
Work in process	2,774,000	2,717,000
Finished goods	3,243,000	3,538,000
	-----	-----
Total	\$ 7,919,000	\$ 8,386,000
	-----	-----
Approximate percentage of inventories valued under LIFO valuation	60%	62%
	-----	-----
Excess of FIFO valuation over LIFO valuation	\$ 1,914,000	\$ 1,614,000
	-----	-----

### 5. Earnings Per Share:

Basic and diluted earnings per share for the 13 weeks ended May 31, 2003 and June 1, 2002 were calculated as follows:

	NET INCOME	WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	BASIC AND DILUTED EARNINGS PER-SHARE
	-----	-----	-----
For the 13 weeks ended May 31, 2003	\$ 320,000	5,238,015	\$ 0.06
	-----	-----	-----
For the 13 weeks ended June 1, 2002	\$ 1,626,000	5,205,854	\$ 0.31
	-----	-----	-----

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basic and diluted earnings per share for the 26 weeks ended May 31, 2003 and June 1, 2002 are calculated as follows:

	NET INCOME	WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	BASIC AND DILUTED EARNINGS PER-SHARE
	-----	-----	-----
For the 26 weeks ended May 31, 2003	\$ 50,000	5,238,015	\$ 0.01

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	=====	=====	=====
For the 26 weeks ended June 1, 2002	\$ 949,000	5,207,605	\$ 0.18
	=====	=====	=====

There were no options outstanding during the 13 weeks and 26 weeks ended May 31, 2003. All options outstanding during the 13 weeks and 26 weeks ended June 1, 2002 were not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

### 6. Comprehensive Income:

Accumulated other comprehensive income is comprised of unrealized holding gain related to available-for-sale securities. Comprehensive income was \$399,000 and \$782,000 for the 26 weeks ended May 31, 2003 and June 1, 2002, respectively, and \$427,000 and \$1,493,000 for the 13 weeks ended May 31, 2003 and June 1, 2002, 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 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, or 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.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation - Transition and Disclosure." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair market value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent

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disclosures in both annual and interim financial statements about the method used on reported results. The Statement has varying effective dates commencing with interim periods beginning after December 15, 2002 (See Note 1).

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of the Indebtedness of Others," which addresses accounting for and disclosure of guarantees. Interpretation No. 45 requires a guarantor to recognize a liability for the fair value of a guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The initial recognition and measurement provisions are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The Company's adoption of Interpretation No. 45 did not have a material effect on the Company's 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 residual 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 a material 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 predominantly 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 June 15, 2003. The adoption of SFAS No. 150 is expected to result in the Company reclassifying the \$7 million in redeemable common stock to a liability in the fourth quarter 2003 (See Note 12).

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### 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

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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. At May 31, 2003, the Company purchased short-term S&P 100 index put options with a fair value of \$115,440 and short-term S & P 100 index call options sold, not yet purchased with a fair value of \$179,820.

### 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 based upon the methodology management utilizes to organize 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 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:** With sales primarily to manufacturers of home furnishings, the Company uses its own textile fabrics internally to produce flannel and satin sheets, blanket products, comforters, and other bedding products which it sells 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. The Company also sells 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 expense

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Many of the Company's assets are used in 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.

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The 26 weeks ended June 1, 2002 include a litigation settlement in the amount of \$750,000 which is included in the Home Fashions and Accessory Segment. (See Note 11).

(in thousands)

26 WEEKS ENDED 05/31/03	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOT
(UNAUDITED)				
External sales	\$19,708	\$1,774	\$3,751	\$25,
Intersegment sales	1,752	21	168	1,
Operating income (loss)	(1,056)	(92)	351	(
Segment assets	15,462	920	2,615	18,

26 WEEKS ENDED 06/01/02	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOT
(UNAUDITED)				
External sales	\$25,889	\$2,373	\$3,350	\$31,
Intersegment sales	1,918	23	204	2,
Operating income (loss)	(418)	(1,120)	53	(1,
Segment assets	19,194	1,062	3,282	23,

PROFIT OR LOSS (UNAUDITED)	26 WEEKS ENDED	
	MAY 31	JUNE
	2003	2
Total operating loss for segments	\$ (797)	\$ (1,
Total other income	897	2,
Income before taxes on income	\$ 100	\$ 1,

13 WEEKS ENDED 05/31/03	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TO
(UNAUDITED)				
External sales	\$ 10,586	\$969	\$2,091	\$13,
Intersegment sales	906	2	96	1,
Operating income (loss)	(292)	(54)	262	

13 WEEKS ENDED 05/31/02	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TO
(UNAUDITED)				
External sales	\$14,355	\$1,154	\$1,853	\$17,
Intersegment sales	1,289	11	163	1,



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Operating income (loss) 581 (150) 20

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROFIT OR LOSS (UNAUDITED)	13 WEEKS ENDED	
	MAY 31	JUNE 01
	2003	2002
Total operating income (loss) for segments	\$ (84)	\$ 451
Total other income	579	1,952
Income before taxes on income	\$ 495	\$ 2,403

11. Other:

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 Court 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 conference, the Company settled this issue without admitting liability. On April 12, 2002, the Company paid SFN \$750,000 in exchange for a complete release of all claims.

12. Commitments

The Company has an agreement with the Chairman of the Board of Directors and Chief Executive Officer which 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 2004. The agreement provides that, in the event of the Chairman's death, his estate has the option to sell, and the Company has 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 Company's fiscal year immediately prior to his death, plus the \$3 million proceeds from insurance on his life for which the Company is the beneficiary. As a result of this feature, shares of common stock equal in value to \$7 million has been classified as redeemable common stock, for all periods presented (See Note 8).

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Results of Operations Second Quarter and Six Months of FISCAL 2003 COMPARED TO FISCAL 2002

Net sales for the second quarter of fiscal 2003 were \$13,646,000 as compared to \$17,362,000 in the similar 2002 period, a decrease of \$3,716,000 or 21.4%. For the six months ended May 31, 2003, net sales were \$25,233,000, a decline of \$6,379,000, or 20.2% from 2002. The decrease was caused substantially by lower volume as business conditions within the domestic textile industry remained depressed, and low-cost foreign imports continued to take a toll on the U.S. textile manufacturing sector. These factors have negatively impacted sales and production. These conditions have to date continued into the third quarter.

Gross margins as a percentage of sales for the second quarter of fiscal 2003 decreased to 11.0% from 15.0% as compared to the similar 2002 period. For the six months ended May 31, 2003 gross margins decreased to 9.6% compared to 12.0% in the similar 2002 period. Lower sales volume reduced operating schedules at production facilities. For the six months and three months ended May 31, 2003 and for the six months and three months ended June 1, 2002, an increase in LIFO reserves of \$300,000 and \$490,000 respectively, was recorded. This was due to the liquidation of certain LIFO layers and higher average FIFO prices.

Selling, general and administration expenses in the current quarter decreased by \$567,000, or 26.4% from that in the three months ended June 1, 2003. For the six months ended May 31, 2003, selling, general and administration expenses decreased by \$1,311,000 or 29.0% from that in the six months ended June 1, 2002. The decrease in expenses resulted primarily from the reduction in the number of employees and related expenses, moving executive offices and showroom facilities to smaller premises and the continued effectiveness of the cost containment programs.

In March 2002, the Company settled a dispute without admitting liability for \$750,000. See Note 11 to the Condensed Consolidated Financial Statements.

Interest and dividend income for the current quarter decreased by \$584,000 or 62.7% from that in the second quarter 2002. For the six months ended May 31, 2003, interest and dividend income decreased by \$1,134,000 or 62.0%, from that in the similar six months ended June 1, 2002. On June 24, 2002, the Company distributed an initial liquidating distribution of \$10.00 per share, or \$52,380,000. Accordingly, the Company had lower average invested balances for the three and six months ended May 31, 2003. In the current quarter, the Company realized gains from the sale of investment securities of \$232,000 compared to \$1,021,000 in last year's second quarter. For the six months ended May 31, 2003, we realized gains from the sale of investment securities of \$203,000 compared to \$1,116,000 in last year's six months.

The effective income tax rate for the current quarter was 35.4% as compared to 32.3% last year's second quarter. The effective income tax rate for the 26 weeks ended May 31, 2003 was 50% as compared to 34.5% for the 26 weeks ended June 1, 2002. The increase in the current year is due to a minimum State and Franchise Tax.

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As a result of these factors, the Company has net income of \$320,000 or \$0.06 basic and diluted earnings per share and \$50,000 or \$0.01 basic and diluted earnings per share for the 13 and 26 weeks ended May 31, 2003, respectively. For the 13 and 26 weeks ended June 1, 2002, the Company has net income of \$1,626,000

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or \$0.31 basic and diluted earnings per share and \$949,000 or \$0.18 basic and diluted earnings per share.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$244,000 for the 26 weeks ended May 31, 2003, compared to \$3,242,000 provided by operations for the comparative 2002 period. The decrease was primarily caused by a \$899,000 decrease in net income, \$1,768,000 increase of inventories, a decrease of \$980,000 in accounts payable and other current liabilities, offset by \$913,000 in net gain on investment securities.

In the six months ended May 31, 2003, net acquisition of investment securities were \$634,000 as compared to net acquisitions of \$1,644,000 in the comparative 2002 period.

Stockholder's equity was \$64,977,000 (\$12.40 book value per share) at May 31, 2003 as compared to \$64,571,000 (\$12.33 book value per share) at the previous fiscal year end November 30, 2002 and \$69,215,000 (\$13.21 book value per share) at the end of the comparative 2002 second quarter.

In June 2003, the Company repurchased 22,984 shares of its common stock at an average fair market value of \$9.48 per share, and offset the related payment against loans due from employees and directors, which were due as of May 31, 2003. The Company purchased enough shares in sufficient quantity to pay off the entire loan, including interest.

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

### Commitments

The Company has an agreement with the Chairman of the Board of Directors and Chief Executive Officer which 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 2004. The agreement provides that, in the event of the Chairman's death, his estate has the option to sell, and the Company has 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 Company's fiscal year immediately prior to his death, plus the \$3 million proceeds from insurance on his life for which the Company is the beneficiary. As a result of this feature, shares of common stock equal in value to \$7 million has been classified as redeemable common stock, for all periods presented. See Note 8 to the Condensed Consolidated Financial Statements.

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### 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 reporting 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

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fiscal year ended November 30, 2002.

### 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 Condensed 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: The Company's Chief Executive Officer and it's Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934 Rules 13a-14(c) and

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15d-14(c) as of a date within 90 days of the filing date of this quarterly report on form 10-Q (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

- (b) CHANGE IN INTERNAL CONTROL: There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls and procedures subsequent to the evaluation, nor any significant deficiencies or material weaknesses in such internal controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

### PART II. OTHER INFORMATION

#### ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 13, 2003. The matter submitted to a vote of the Company's stockholders were the election of two directors to Class III of the Company's Board of Directors.

The Company's stockholders elected Messrs. Samson Bitensky and Frank Greenberg to Class III of the Company's Board of Directors, to hold office until the 2006 Annual Meeting of the Stockholders and until their respective successors are duly elected and qualified. The results of the voting were as follows:

	Votes For	Votes Withheld
Samson Bitensky	3,482,102	83,038
Frank Greenberg	3,527,674	37,466

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

99.1 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.

99.2 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 furnished on April 15, 2003 a report on Form 8-K announcing, under Item 9 of such form, its earnings for the first quarter ended March 1, 2003.

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SIGNATURES

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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: July 15, 2003

FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

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Samson Bitensky  
Chairman of the Board  
and Chief Executive Officer

By: /s/ David A. Miller

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

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CERTIFICATION

I, Samson Bitensky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fab Industries, Inc. (the Company);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13A-14 and 15d-14) for the Company and have;
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including it's consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which quarterly report is being prepared;

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- b) Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date 90 days prior to the filing date of this quarterly report (the Evaluation Date): and
- c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions);
  - a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls and
  - b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
- 6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 15, 2003

/s/ Samson Bitensky

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Samson Bitensky  
Chief Executive Officer

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CERTIFICATION

I, David A. Miller, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Fab Industries, Inc. (the Company); 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and

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procedures (as defined in Exchange Act Rules 13A-14 and 15d-14) for the Company and have;

- a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which quarterly report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date 90 days prior to the filing date of this quarterly report (the Evaluation Date):  
and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions);
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 15, 2003

/s/ David A. Miller

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David A. Miller  
Chief Financial Officer