FAB INDUSTRIES INC
Form 10-Q
October 12, 2004

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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 AUGUST 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 October 12, 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 EN

	August 28, 2004
	(unaudited)
Net sales	$ 11,741,000
Cost of goods sold	11,249,000
Gross profit	492,000
Operating Expenses:	
Selling, general and administrative expenses	1,377,000
Asset impairment (Note13)	--
Other expense (Note 11)	--
Gain on sale of fixed assets	--
Total operating expenses	1,377,000
Operating loss	(885,000)
Other income:	
Interest and dividend income	65,000
Net gain on investment securities	42,000
Total other income	107,000
Loss before taxes	(778,000)
Income tax benefit	(270,000)
Net loss	$ (508,000)
Loss per share: (Note 5)	
Basic	$ (0.10)
Diluted	$ (0.10)
Cash dividends declared per share	$ --

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED	
	August 28, 2004	August 30
	(unaudited)	(unaudi
Net sales	$ 36,478,000	$ 38,590
Cost of goods sold	33,246,000	35,494

Gross profit	3,232,000	3,096
Operating Expenses:		
Selling, general and administrative expenses	5,046,000	4,955
Asset impairment (Note 13)	--	685
Other expense (Notes 11 and 12)	250,000	1,441
Gain on sale of fixed assets	(1,007,000)	(433
Total operating expenses	4,289,000	6,648
Operating loss	(1,057,000)	(3,552
Other income:		
Interest and dividend income	395,000	1,049
Net gain on investment securities	644,000	1,001
Total other income	1,039,000	2,050
Loss before taxes	(18,000)	(1,502
Income tax expense (benefit)	15,000	(300
Net loss	$ (33,000)	$ (1,202
Loss per share: (Note 5)		
Basic	$ (0.01)	$ (
Diluted	$ (0.01)	$ (
Cash dividends declared per share	$ 3.00	$

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

	As Of	
	August 28, 2004	November
	(unaudited)	(restated -
Current Assets:		
Cash and cash equivalents (Note 2)	$ 1,590,000	$ 3,397
Investment securities available-for-sale (Note 3)	18,186,000	29,004
Accounts receivable-net of allowance of $1,000,000 and $900,000 for doubtful accounts	6,892,000	7,171
Inventories (Note 4)	5,487,000	5,531

Deferred tax asset	606,000	506
Other current assets	521,000	701
Total current assets	33,282,000	46,310
Property, plant and equipment - at cost	31,386,000	33,495
Less: Accumulated depreciation	24,100,000	24,303
	7,286,000	9,192
Other assets	2,345,000	2,281
	$ 42,913,000	$ 57,783

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	
	August 28, 2004	November 2
	(unaudited)	(restated - s
Current liabilities:		
Accounts payable	2,817,000	$ 1,9
Corporate income and other taxes	614,000	8
Accrued payroll and related expenses	840,000	7
Other current liabilities 2,376,000	1,106,000	
Total current liabilities	6,647,000	4,6
Deferred income taxes	--	
Other noncurrent liabilities	3,457,000	4,4
Total liabilities	10,104,000	9,1
Stockholders' equity	32,809,000	48,6
	$42,913,000	$57,7

See notes to condensed consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 39 WEEKS ENDED AUGUST 28, 2004 (unaudited)

		COMMON STOCK *			ACCUMULA OTHER
	TOTAL	NUMBER OF SHARES	AMOUNT	RETAINED EARNINGS	COMPREHEN INCOME (L
Balance at November 29, 2003, as previously reported	$48,929,000	6,724,944	$1,345,000	$ 85,225,000	$(186,0
Restatement adjustment (Note 1)	(292,000)			(292,000)	
Balance at November 29, 2003, as restated	48,637,000	6,724,944	$1,345,000	$ 84,933,000	$(186,0
Net loss	(33,000)			(33,000)	
Change in net unrealized holding loss on investment securities available-for-sale, net of taxes of $99,000	(150,000)				(150,0
Total comprehensive loss	(183,000)				
Cash dividends	(15,645,000)			(15,645,000)	
Balance at August 28, 2004 (Unaudited)	$32,809,000	6,724,944	$1,345,000	$ 69,255,000	$(336,0

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

See notes to condensed consolidated financial statements.

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

	FOR THE 39 WKS E	
	August 28, 2004	Au
	(unaudited)	
OPERATING ACTIVITIES:		
Net loss	$ (33,000)	$
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	450,000	
Depreciation and amortization	1,215,000	
Deferred income taxes	(52,000)	
Non-cash asset impairment	--	
Net gain on investment securities	(644,000)	
Gain on disposition of fixed assets	(1,007,000)	
Decrease (increase) in:		
Accounts receivable	(171,000)	
Inventories	44,000	
Other current assets	180,000	
Other assets	(64,000)	
(Decrease) increase in:		
Accounts payable	904,000	
Accruals and other liabilities	106,000	
Net cash provided by operating activities	928,000	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(40,000)	
Proceeds from dispositions of property and equipment	1,738,000	
Proceeds from sales of investment securities	11,212,000	
Net cash provided by investing activities	12,910,000	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	--	
Dividends	(15,645,000)	(
Repayment of loan from stockholders	--	
Net cash used in financing activities	(15,645,000)	(
Decrease in cash and cash equivalents	(1,807,000)	
Cash and cash equivalents, beginning of period	3,397,000	
Cash and cash equivalents, end of period	$ 1,590,000	$

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 39 weeks ended August 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 Company's 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 February 18, 2004, August 1, 2003 and May 30, 2002, the Company's Board of Directors declared a liquidating distribution of $3.00 per share, $4.00 per share and $10.00 per share, respectively, which resulted in a payment to stockholders of $15,645,000, $20,860,000 and $52,380,000 in March 2004, August 2003 and June 2002, respectively. Of the total June 2002 liquidating dividend, $6,641,000 was deducted from additional paid in capital until the paid in capital account was eliminated and represents a return of capital. The remaining liquidating dividend of $45,739,000 was deducted from retained earnings.On August 11, 2004, the Company has announced that it has suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Restatement

The consolidated financial statements for the year ended November 29, 2003 have been restated to correct an error relating to the fact that the Company has not depreciated certain improvements to its land, mainly consisting of two parking lots constructed in 1984 and 1989 with a cost totaling approximately $292,000.

The restatement adjustments have resulted in a reduction of approximately $292,000 in fixed assets and retained earnings as of November 29, 2003, from the amounts previously reported. This adjustment does not effect the statements of operations for any period presented, as these fixed assets would have been depreciated over an estimated useful life of 15 years.

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 provision of SFAS No.123 subsequent thereto.

Cost of Goods Sold

Cost of goods sold includes labor, purchases, inbound freight charges, receiving costs, warehousing costs and the change in inventory during the period. Excess fixed production costs are not inventoried and are expensed in the period incurred.

Selling, General and Administrative Expense

Selling, general and administrative expenses primarily include costs relating to administrative and salespersons salaries and benefits, bad debt expense, professional and consulting fees, insurance expense and rent for the New York office.

Revenue Recognition

The Company recognizes its revenues upon shipment of the related goods. Shipping terms are FOB shipping point pursuant to the Company's sales agreements. Risk of loss transfers to the Company's customers at the time the goods are transferred to a common carrier, per the Company's sales agreements. The acceptance of goods by customers is not subject to inspection. Allowances for estimated returns are provided when sales are recorded.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Shipping and Handling Costs

Shipping and handling costs billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as cost of goods sold. The majority of the shipping costs are paid directly by the Company's customers to independent trucking companies.

Reclassifications

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

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

	August 28, 2004	November 29, 2003
Cash	$ 32	$ 549
Taxable and tax-free short-term debt instruments	1,558	2,848
	$ 1,590	$ 3,397

3. Investment Securities:

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

August 28, 2004 (unaudited)	Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss
Equities	$ 6,372	$ 339	$ (155)
U.S. Treasury obligations	50	0	0
Corporate bonds	250	0	(248)
Money market	11,578	0	0
	$ 18,250	$ 339	$ (403)

Gross Gross

November 29, 2003	Cost	Unrealized Holding Gain	Unrealized Holding Loss
Equities	$ 750	$ 17	$ 0
U.S. Treasury obligations	27,519	418	0
Corporate bonds	253	0	(250)
Money Market	297	0	0
	$ 28,819	$ 435	($250)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (continued):

During the nine months ended August 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. Although the Company uses these instruments to hedge against fluctuations in the market value of the securities, the Company has not elected to use hedge accounting. All gains and losses from the use of these instruments are included in the income statement in the period that they occur. Included in the Company's equity investment securities at August 28, 2004 are short term S & P 100 index put options with a fair value of $ 49,050 and short term S & P 100 index call options sold, not yet purchased with a fair value of $ 58,860. At November 29, 2003, 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 2003 and the nine months ended August 28, 2004, that custodian had an average balance of approximately $9.6 million, and $6.4 million, respectively, of the Company's cash under investment, which from time to time during such periods was invested entirely in equity securities. At August 28, 2004, that custodian had approximately $5.8 million of the Company's cash under investments, with a majority invested in equities. 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.

	August 28, 2004	November 29, 2003
Raw materials	$ 2,025,000	$ 1,446,000
Work in process	1,715,000	1,867,000
Finished goods	1,747,000	2,218,000
Total	$ 5,487,000	$ 5,531,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Inventories continued:

	August 28, 2004	November 29, 2003
Approximate percentage of inventories valued under LIFO valuation	63%	61%
Excess of FIFO valuation over LIFO valuation	$ 1,500,000	$ 1,007,000

Inventories accounted for under the LIFO method are goods manufactured for the Apparel segment. Inventories accounted for under the FIFO method are goods manufactured for the Home Furnishing and Accessories and the Other segments. Both methods are not used for similar types of goods. The Company reviews inventory values on a quarterly basis for items requiring markdowns to lower of cost or market value or due to obsolescence.

5. Loss Per Share:

Basic and diluted loss per share for the 13 weeks ended August 28, 2004 and August 30, 2003 are calculated as follows:

	NET LOSS	AVERAGE SHARES	WE PER AM
For the 13 weeks ended August 28, 2004:	$ (508,000)	5,215,031	$(

For the 13 weeks ended August 30, 2003:	$(1,252,000)	5,216,546	$(

Basic and diluted loss per share for the 39 weeks ended August 28, 2004 and August 30, 2003 are calculated as follows:

	NET LOSS	AVERAGE SHARES	WE PER AM
For the 39 weeks ended August 28, 2004:	$ (33,000)	5,215,031	$ (
For the 39 weeks ended August 30, 2003:	$(1,202,000)	5,230,859	$ (

There were no options outstanding during the 39 weeks ended August 28, 2004 and August 30,2003, respectively. During fiscal 2002, all outstanding options were either exercised or cancelled.

6. Comprehensive Loss:

Accumulated other comprehensive loss is comprised of unrealized holding gains (losses) related to available-for-sale securities. Comprehensive loss was $(183,000) and $(1,411,000) for the 39 weeks ended August 28, 2004 and August 30, 2003, respectively, and $(408,000) and $(1,810,000) for the 13 weeks ended August 28, 2004 and August 30, 2003 respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 defendant's fiduciary duties as well as the provisions of the Delaware General Corporation.

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 in Delaware Chancery Court asserting substantially 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.

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 would be material in relation to the Company's consolidated financial position and results of operations.

8. Effect of recently Issued Accounting Standards:

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation requires certain variable interest entities ("VIEs"), commonly referred to as special purpose entities, to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective for all new VIEs created or acquired after January 31, 2003. During December 2003, the FASB issued a revision to FIN 46 ("FIN 46R"). Under the new provisions, public entities were required to apply the guidance if the entity has interests in VIEs for the periods ending after December 15, 2003. Application of this guidance by public companies was required for all other types of entities for periods ending after March 15, 2004. The Company's adoption of FIN 46R did not have an effect on its consolidated financial statements.

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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 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 August 28, 2004, included in the Company's equity investment securities are short term S & P 100 index put options with a fair value of $49,050 and short term S & P 100 index call options sold, not yet purchased with a fair value of $58,860.

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 are primarily to manufacturers of home furnishings, the Company also uses its our own textile fabrics internally to produce flannel and satin sheets, blanket products, comforters, and other bedding products, which the Company sells 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Segment Information (continued):

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.

The 39 weeks and the 13 weeks ended August 28, 2004 and August 30, 2003, includes gain on the sale of fixed assets of $1,007,000, and $0, and $433,000 and $117,000, respectively. Of this, $441,000 in the 39 weeks ended August 28, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. The fixed assets, which were sold in the first quarter of 2004 relating to the Other Segment, were sold to a customer, which previously owned 50% of the equipment. The proceeds from this sale amounted to $1,100,000. As a result, the customer, at an undeterminable future date will be doing the production on its own. In addition, for the 39 weeks ended August 28, 2004 the Apparel Segment includes a $250,000 reserve for environmental costs (See Note 12). The financial statements for the 39 weeks and the 13 weeks ended August 30, 2003 includes other expenses in the amount of $1,441,000 which represents agreements with Chief Executive Officer (See Note 11). This amount was allocated between segments with the majority included in the Apparel Segment. In addition, asset impairment applies to the Apparel Segment (See Note 13).

(in thousands)

39 WEEKS ENDED 08/28/04 (UNAUDITED)	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TO
External sales	$26,439	$3,698	$ 6,341	$ 36
Intersegment sales	2,731	29	194	2
Operating income/(loss)	(2,318)	81	1,180	(1
Segment assets	10,598	729	1,426	12

(in thousands)

39 WEEKS ENDED 08/30/04 (UNAUDITED)	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TO
External sales	$29,974	$2,861	$ 5,755	$ 38
Intersegment sales	2,592	30	249	2
Operating income/(loss)	(3,669)	(216)	333	(3
Segment assets	12,963	797	2,532	16

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROFIT OR LOSS (UNAUDITED)	39 WEEKS ENDED AUGUST 28, 2004	39 WEEKS ENDED AUGUST 30, 2003
Total operating loss for segments	$(1,057)	$ (3,552)
Total other income	1,039	2,050
Loss before income tax expense or benefit	$ (18)	$ (1,502)

13 WEEKS ENDED 08/28/04 (UNAUDITED)	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOTA
External sales	$ 8,715	$1,103	$1,923	$11,7
Intersegment sales	1,074	4	98	1,1
Operating income (loss)	(840)	(105)	60	(8

13 WEEKS ENDED 08/28/03 (UNAUDITED)	APPAREL	HOME FASHIONS AND ACCESSORIES	OTHER	TOTA
External sales	$10,266	$1,087	$2,004	$13,3
Intersegment sales	840	9	81	9
Operating loss	(2,613)	(124)	(18)	(2,7

PROFIT OR LOSS (UNAUDITED)	39 WEEKS ENDED AUGUST 28, 2004	39 WEEKS ENDED AUGUST 30, 2003
Total operating loss for segments	$ (885)	$ (2,755)
Total other income	107	1,153
Loss before income tax benefit	$ (778)	$ (1,602)

11. Commitments:

On July 25, 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. Accordingly, the Company recorded a charge of $846,000, which was included in other expense for the 13 weeks and 39 weeks ended August 30, 2003.

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 two such policies during the third quarter August 30, 2003 having an aggregate cash surrender value of approximately $595,000. Accordingly, the Company recorded a charge of $595,000, which was included in other expenses for the 13 and 39 weeks ended August 30, 2003.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Commitments (continued):

Other

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

12. Other Expense:

The Company recorded an accrual of $250,000 for environmental costs in the quarter ending February 28, 2004, at which time the related costs could be reasonably estimated. The accrual represents the estimated costs associated with a lagoon cleaning process as per North Carolina State requirements to eliminate odors in a lagoon which is located next to one of our plants. As of August 28,2004, approximately $188,000 of this accrual was included in other current liabilities. The lagoon cleaning process has been completed and all costs associated with this process have been paid as of September 2004.

13. Asset Impairment:

During the third quarter ended August 30, 2003, the Company reviewed assets held for sale and determined an additional charge of $685,000 was required.

14. Benefit Plans:

During the first quarter of fiscal 2004, the Company adopted the interim disclosure provisions of SFAS No. 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an Amendment of FASB Statements No. 87, 88 and 106 and a Revision of FASB Statement No. 132." This statement revises employers' disclosures about pension plans and other post retirement benefit plans. The following table summarizes the components of net periodic benefit cost for the Company (In thousands):

	Three Months Ended		Nine Months E	
	Aug. 28, 2004	Aug. 30, 2003	Aug. 28, 2004	Au 2
Service cost	$ 40	$ 41	$ 120	$
Interest cost	54	54	161	
Expected return on assets	(36)	(48)	(108)	(
Net loss recognized	8	--	23	
Amortization of prior service cost	9	9	28	
Net periodic benefit cost	$ 75	$ 56	$ 224	$

The Company contributed $240,000 during the period, December 1, 2003 through August 28, 2004. The Company is expected to contribute $50,000 during the period, September 1, 2004 through November 30, 2004.

(17)

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

The domestic textile industry has been negatively affected by a flow of low cost foreign imports and market conditions since 1998.

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 Company's 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 February 18, 2004, August 1, 2003 and May 30, 2002, the Company's Board of Directors declared a liquidating distribution of $3.00 per share, $4.00 per share and $10.00 per share, respectively, which resulted in a payment to stockholders of $15,645,000, $20,860,000 and $52,380,000 in March 2004, August 2003 and June 2002, respectively. Of the total June 2002 liquidating dividend, $6,641,000 was deducted from additional paid in capital until the paid in capital account was eliminated and represents a return of capital. The remaining liquidating dividend of $45,739,000 was deducted from retained earnings. On August 11, 2004, the Company has announced that it has suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

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.

RESULTS OF OPERATIONS
Third Quarter and Nine Months
FISCAL 2004 COMPARED TO FISCAL 2003

Net sales for the third quarter of fiscal 2004 were $11,741,000 as compared to $13,357,000 in the similar 2003 period, a decrease of $1,616,000 or 12.1%. The domestic textile industry has been and continues to be negatively affected by a flow of low cost foreign imports and market conditions since 1998. Apparel segment in the current quarter decreased $1,551,000 or 15.1% to $8,715,000 as compared to last year's third quarter. There was a slight decrease in other segment and a slight increase in Home Fashions and Accessories sales. For the 39 weeks ended August 28, 2004, net sales were $36,478,000, a decline of $2,112,000, or 5.5% from 2003. Apparel segment decreased $3,535,000 or 11.8% to $26,439,000 from 2003.

Home Fashions and Accessories segment increased by $837,000 or 29.3% to $3,698,000 and other segment increased by $586,000 or 10.2% to $6,341,000 from 2003.

Gross margins as a percentage of sales for the third quarter of fiscal 2004 decreased to 4.2% from 7.5% as compared to the similar 2003 period. Lower sales volume reduced operating schedules at production facilities, although, gross margins decreased as a result of fixed operating costs in addition to the LIFO adjustment discussed below. For the nine months ended August 28, 2004, gross margins increased to 8.9% compared to 8.0% in the similar period. For the nine months and three months ended August 28, 2004, an increase in LIFO reserves of $493,000 and $193,000, respectively were recorded. For the nine months ended August 30, 2003, an increase in LIFO reserves of $300,000 was recorded. This was due to higher average FIFO prices. Additionally, gross margin has increased and as a result of a decrease in depreciation expense of approximately $224,000 for the nine months ended August 28, 2004 compared to the prior comparable period. This decrease in depreciation expense is a result of the sale of fixed assets and fixed assets that have become fully depreciated over the past year.

Selling, general and administrative expenses for the 13 weeks ended August 28, 2004, decreased by $371,000 or 21.2% as compared to last year's third quarter. The decrease results primarily from a reduction in payroll of $142,000, as a result of employee terminations over the past year and a decrease in professional fees of $216,000 as a result of increased costs of litigation in the third quarter of 2003. For the 39 weeks ended August 28, 2004, selling, general and administrative expenses remained relatively constant in comparison to the prior comparable period, but as a percentage of sales increased to 13.8% from 12.8% due to lower sales volume. Selling, general and administrative expenses for the 39 weeks ended August 28, 2004 remained relatively constant in comparison to the prior comparable period primarily due to a decrease in payroll totaling $423,000, as a result of employee terminations over the past year, offset by an increase in professional fees totaling $299,000, mainly incurred in the first two quarters of 2004, relating to legal fees incurred in connection with the class action lawsuits filed in November of 2003 (See note 7 to the Condensed Consolidated Financial Statements) and an increase bad debt expense totaling $150,000 as a result of several customers who filed for bankruptcy or have been unable to make their required payments due in the current year.

Other expenses for the 39 weeks ended August 28, 2004 include an accrual for environmental costs totaling $250,000, which was recorded in the quarter ending February 28, 2004, at which time the costs related could be reasonably estimated. The accrual represents the estimated costs associated with a lagoon cleaning process as per North Carolina State requirements to eliminate odors in a lagoon, which is located next to one of our plants. As of August 28, 2004, approximately $188,000 of this accrual was included in other liabilities. The lagoon cleaning process has been completed and all costs associated with this process have been paid as of September 2004. For the 13 weeks and 39 weeks ended August 30, 2003 a charge of $1,441,000 was recorded which represents certain amendments with the Chief Executive Officer. See note 11 to the Condensed Consolidated Financial Statements.

For the 13 weeks ended August 28, 2004, there were no sales of fixed assets compared to a $117,000 gain on sales of fixed assets in the third quarter of 2003. For the 39 weeks ended August 28, 2004, the Company had a gain on the sale of fixed assets of $1,007,000 compared to $433,000 in last year's comparable period. Of this, $441,000 in the 39 weeks ended August 28, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. The fixed assets, which were sold in the first quarter of 2004 relating to the Other Segment, were sold to a customer, which previously owned 50% of the equipment. The proceeds from this sale amounted to $1,100,000. As a result, the customer, at an undeterminable future date will be doing the production on its own. During the third quarter ended August 30, 2003, the Company reviewed assets held for sale and determined an additional charge of $685,000 was required.

Interest and dividend income for the 13 and 39 weeks ended August 28, 2004, decreased $290,000 and $654,000, respectively from the similar 2003 period. On March 10, 2004, the Company distributed its third liquidating distribution of $3.00 per share, or $15,645,000 and on August 22, 2003 the Company distributed its second liquidating distribution of $4.00 per share or $20,860,000. Accordingly, the Company had lower invested balances for the three and nine months ended August 28, 2004. In the current quarter, the Company realized gains from the sale of investment securities of $42,000 compared to $798,000 in the comparable third quarter 2003. For the nine months ended August 28, 2004, the Company realized gains from the sale of investment securities of $644,000 compared to $1,001,000 in last year's comparable nine months.

The Company has realized a tax benefit for the current quarter which had an effective tax rate of 34.7% as compared to a tax benefit of 21.8% last year's third quarter. For the 39 weeks ended August 28, 2004, the Company had an income tax expense of $15,000 compared to a tax benefit of $300,000 or 20.0%. The income tax expense of $15,000 represents a minimum State and Franchise Tax offset by deferred taxes.

As a result of these factors, the Company had a net loss of $508,000 or $0.10 basic and diluted loss per share and $33,000 or $0.01 basic and diluted loss per share for the 13 weeks and 39 weeks ended August 28, 2004. For the 13 and 39 weeks ended August 30, 2003, the Company had a net loss of $1,252,000 or $0.24 basic and diluted loss per share and $1,202,000 or $0.23 basic and diluted loss per share

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the 39 weeks ended August 28, 2004 amounted to $928,000 due to an increase in operating cash flows from a decrease in net loss and an increase in accounts payable partially offset by an increase in inventories.

Net proceeds from sales of investment securities were $11,212,000 for the 39 weeks ended August 28, 2004, compared to net proceeds from sales of investment securities of $17,651,000 in the comparative 2003 period. The Company mainly used the proceeds from sales of investment securities during the 39 weeks ended August 28, 2004 for the liquidating distribution of $3.00 per share or $15,645,000 on March 10, 2004. For the 39 weeks ended August 30, 2003, the Company mainly used the proceeds for sales of investment securities for the second liquidating distribution of $4.00 per share or $20,860,000 on August 22, 2003.

Stockholders' equity was $32,809,000 ($6.29 book value per share) at August 28, 2004 as compared to $48,637,000 ($9.33 book value per share) at the previous year- end November 29, 2003 and $49,011,000 ($9.40 book value per share) at August 30, 2003. The reduction in stockholders' equity from August 30, 2003 was primarily due to the third liquidating distribution of $3.00 per share or $15,645,000 paid on March 10, 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:

On July 25, 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. Accordingly, the Company recorded a charge of $846,000, which was included in other expense for the 13 weeks and 39 weeks ended August 30, 2003.

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 two such policies during the third quarter August 30, 2003 having aggregate cash surrender value of approximately $595,000. Accordingly, the Company recorded a charge of $595,000, which was included in other expense for the 13 and 39 weeks ended August 30, 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

The Company is exposed to risk of fluctuations in the market value of equity securities. To manage this exposure, the Company uses derivatives to hedge against fluctuations in the market value of equity securities. The Company's policy is to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in the fair value are recognized in the income statement in the period in which they occur. Derivatives are not used for trading purposes. At August 28, 2004, included in the Company's equity investment securities are short term S & P 100 index put options with a fair value of $49,050 and short term S & P 100 index call options sold, not yet purchased with a fair value of $58,860. At November 29, 2003, the Company had no such investments.

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 15d-15(f) under the Securities and 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 furnished on July 13, 2004, a report on Form 8-K announcing, under Item 12 of such form, its earnings for the 26 weeks and 13 weeks ended May 29, 2004.

The Company furnished on July 15, 2004, a report on Form 8-K announcing under Item 12 of such form the sources of its results of operations for the quarter ended May 29, 2004.

The Company filed on August 11, 2004, a report announcing under Item 5 and 7 of such form, that it has suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

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: October 12, 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)