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FAB INDUSTRIES INC
Form 10-Q
May 24, 2005

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 FEBRUARY 26, 2005

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

As of May 11, 2005, 5,215,031 shares of the registrant's common stock, \$0.20 par value, were outstanding.

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FAB INDUSTRIES INC. AND SUBSIDIARIES

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(1)

FAB INDUSTRIES, INC. AND SUBSIDIARIES

STATEMENT OF NET ASSETS IN LIQUIDATION

	(UNAUDITED) FEBRUARY 26, 2005 -----	NOVEMBER -----
ASSETS		
Cash and cash equivalents	\$ 530,000	\$
Investment securities available-for-sale	19,400,000	19
Accounts receivable	6,324,000	7

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Inventories	1,717,000	1
Other assets	3,111,000	3
Property, plant and equipment	6,082,000	6

TOTAL ASSETS	37,164,000	37

LIABILITIES:		
Accounts payable	3,487,000	3
Corporate income and other taxes	566,000	
Accrued payroll and related expenses	639,000	
Other liabilities	3,719,000	3
Estimated cost of liquidation	11,648,000	11

TOTAL LIABILITIES	20,059,000	20

Net assets in liquidation	\$17,105,000	\$16
=====		

See notes to condensed consolidated financial statements

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

PERIOD FROM NOVEMBER 27, 2004 THRU FEBRUARY 26, 2005 (UNAUDITED)

Net assets in liquidation at November 27, 2004		\$16,987,000
		=====
Changes in net assets in liquidation:		
Interest and dividend income	182,000	
Net loss on investment securities	(56,000)	
Net other operating income	51,000	
Increase in estimated costs of liquidation	(59,000)	

		118,000

Net assets in liquidation at February 26, 2005		\$17,105,000
		=====

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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	FOR THE 13 WKS ENDED

	February 28, 2004

	(unaudited)
Net sales	\$ 10,141,000
Cost of goods sold	9,712,000

Gross profit	429,000
Operating Expenses:	
Selling, general and administrative expenses	1,676,000
Other expense (Note 9)	250,000
Gain on sale of fixed assets	(685,000)

Total operating expenses	1,241,000

Operating loss	(812,000)

Other income:	
Interest and dividend income	222,000
Net gain (loss) on investment securities	168,000

Total other income	390,000

Loss before taxes	(422,000)

Income tax benefit	(130,000)

Net loss	\$ (292,000)
	=====
Loss per share: (Note 4)	
Basic	\$ (0.06)
Diluted	\$ (0.06)
Cash dividends declared per share	\$ 3.00

See notes to condensed consolidated financial statements.

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

	FOR THE 13 WKS ENDED

	February 28, 2004

	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (292,000)

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Adjustments to reconcile net income
to net cash provided by operating
activities:

Provision for doubtful accounts	100,000
Depreciation and amortization	407,000
Deferred income taxes	(52,000)
Net loss on investment securities	(168,000)
Gain on disposition of fixed assets	(685,000)
Decrease (increase) in:	
Accounts receivable	1,765,000
Inventories	50,000
Other current assets	64,000
Other assets	(68,000)
(Decrease) increase in:	
Accounts payable	459,000
Accruals and other liabilities	(151,000)

Net cash provided by operating activities	1,429,000

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment	(22,000)
Proceeds from dispositions of property and equipment	1,364,000
Acquisition of investment securities	(2,157,000)

Net cash used in investing activities	(815,000)

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase in cash and cash equivalents	614,000
Cash and cash equivalents, beginning of period	3,397,000

Cash and cash equivalents, end of period	\$ 4,011,000

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of presentation: (unaudited)

These financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended November 27, 2004. These financial statements supercede and replace the financial information for the 13 weeks ended, and as of, February 26, 2005 contained in the Company's press release dated May 11, 2005, which was furnished as an exhibit to its Current Report on Form 8-K dated May 11, 2005. That preliminary financial information had not been reviewed by the Company's auditors prior to the release thereof, as noted by the Company in its press release. These financial statements have been prepared following the review by the Company's auditors and contain adjustments to the preliminary information contained in the press release. In the opinion of management, all adjustments (consisting solely of adjustments to the estimated value of assets and costs of liquidation and other recurring estimates) necessary for a fair statement of the

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results of the liquidation of the Company for the interim period have been recorded.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders 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 Company engaged the investment banking firm of McFarland Dewey & Co., LLC in November 2002 to assist it with the sale of the Company's business. McFarland Dewey contacted numerous potential acquirers during the course of this eighteen-month process. On October 14, 2003, the Company announced that it had yet to receive any bona-fide offers to acquire the business as a going concern. Following that announcement, on October 23, 2003, the Company received a preliminary offer from a management-led buyout group to acquire the business, as a going concern, for \$3.75 per share. The Company subsequently announced on November 14, 2003, that a stockholder filed a lawsuit, naming as defendants, the Company and each of its directors, seeking class-action certification, preliminary and permanent injunctions against the proposed management-led buyout, and unspecified damages. The preliminary offer from the management-led buyout group was subsequently withdrawn.

The Company continued the auction process following the withdrawal of the management-led buyout group's preliminary offer. On March 10, 2004, the Company paid a \$3.00 per share liquidating distribution. Following this liquidating distribution, the auction process resulted in the Company receiving three non-binding initial indications of interest from unaffiliated third parties, at prices ranging from \$1.50 per share to \$2.25 per share and a non-binding initial indication of interest from SSJJJ, at a price of \$2.83 per share. A Special Committee of the Company's Board of Directors, (the "Special Committee") comprised solely of independent directors, was formed to evaluate SSJJJ's preliminary indication of interest. After further discussions between the Special Committee and SSJJJ, SSJJJ indicated that it may be willing make a binding offer of \$2.80 per share to purchase the Company's business as a going concern. SSJJJ informed the Special Committee on August 9, 2004, that it would not be making a binding offer at that time to purchase the Company's business. On August 11, 2004, the Company announced that it 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 announced on March 9, 2005 that it had received a preliminary non-binding indication of interest from SSJJJ Manufacturing Co., Inc., an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ"), to acquire the business, as a going concern, at a price of \$2.80 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, is currently evaluating SSJJJ's preliminary non-binding indication of interest. Additionally, the Company recently has been contacted by other persons who have expressed an interest in considering making an offer to acquire all or a portion of the Company's assets. The Special Committee will evaluate any offers that may be submitted on or before May 26, 2005 by any such persons. There can be no assurance that any such offers will be

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received or if received that they will be satisfactory to the Special Committee or result in a sale transaction.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Under the Plan, if the Company's business is not sold prior to May 30, 2005, the Company will be required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders. If the Company's assets and liabilities are transferred to a liquidating trust on May 30, 2005, the Company's stock transfer books will close and its common stock will be delisted from trading on the AMEX effective on the close of business on May 30, 2005. Thereafter, certificates representing shares of Company common stock will not be assignable or transferable on the books of the Company, except by will, intestate succession or by operation of law. Thus, at such time, it will no longer be possible for the Company's stockholders to publicly trade the Company's stock and the proportionate interests of all of the Company's stockholders will be fixed on the basis of their respective stock holdings at the close of business on May 30, 2005. After such date, any distributions made by the Company will be made solely to the stockholders of record at the close of business on May 30, 2005, except as may be necessary to reflect subsequent transfers recorded on the Company's books from any transfers by will, intestate succession or by operation of law. The interests in any liquidating trust will not be transferable.

Since May 30, 2005 is not a business day, the transfer to the liquidating trust will take place on May 27, 2005 and Fab's stock transfer books will close and its common stock will be delisted from trading on AMEX on the close of business on May 27, 2005.

There can be no assurance that the Company will be able to sell its business as a going concern or that the sale of its business and assets will generate proceeds to the stockholders in an amount equal to or greater than the market price of its stock or the liquidation value of its assets.

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, the Company changed its basis of accounting to the liquidation basis as of November 27, 2004.

The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Company may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets at the time of sale.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$17,105,000 net orderly liquidation value. Included in the liabilities, the Company accrued \$11,648,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation, however, actual costs could vary from those estimates.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Liabilities, including estimated costs of liquidation, consist of the following:

	(UNAUDITED) FEBRUARY 26, 2005 -----	NOVEMBER 27, 2004 -----
Accounts payable and accrued liabilities	\$ 8,411,000	\$ 9,008,000
ESTIMATED COSTS OF LIQUIDATION:		
Compensation and benefits	6,191,000	6,191,000
Defined benefit pension plan	2,092,000	2,033,000
Legal audit and tax services	1,250,000	1,250,000
Insurance	450,000	450,000
Other costs, including leases, property taxes, utilities, maintenance, repairs, stationery supplies, postage, and security	1,665,000	1,665,000
	11,648,000	11,589,000
Total liabilities	\$20,059,000	\$20,597,000

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	(Unaudited) February 26, 2005 -----	November 27, 2004 -----
Cash and cash equivalents	\$ 530	\$ 639

3. Investment Securities:

At February 26, 2005 and November 27, 2004, investment securities available-for-sale consisted of the following (in thousands):

February 26, 2005 (unaudited) -----	Cost -----	Fair Value -----
Equities	\$ 6,626	\$ 6,771
U.S. Treasury obligations	7,674	7,658
Corporate bonds	250	0
Money market	4,971	4,971
	-----	-----
	\$19,521	\$19,400

November 28, 2004 -----	Cost -----	Fair Value -----
Equities	\$ 6,516	\$ 6,651
U.S. Treasury obligations	11,132	11,112
Corporate bonds	1,591	1,339
Money Market	153	153
	-----	-----
	\$19,392	\$19,255

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. Investment Securities (continued):

During the three months ended February 26, 2005, the Company invested a portion of its 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 February 26, 2005 and November 27, 2004 are short term S & P 100 index put options with a fair value of \$56,160 and \$74,120, respectively and short term S & P 100 index call options sold, not yet purchased with a fair value of \$17,280 and \$20,710, respectively.

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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 2004 and the three months ended February 26, 2005, that custodian had an average balance of approximately \$6.3 million, and \$6.0 million, respectively, of the Company's cash under investment, which from time to time during such periods was invested entirely in equity securities. At February 26, 2005, that custodian had approximately \$6.0 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. On May 4, 2005, that custodian's account was closed.

4. Loss Per Share:

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

	NET LOSS	WEIGHTED AVERAGE SHARES	PER A
	-----	-----	---
For the 13 weeks ended February 28, 2004:	\$(292,000)	5,215,031	\$(0)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. 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 Law.

The complaint does not seek a specific amount of damages, and seeks to enjoin defendants from effectuating the planned management buyout. The company served an answer to the complaint on December 11, 2003.

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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.

By petition dated September 9, 2004, plaintiff requested that all of its claims be dismissed because they have been rendered moot by the withdrawal of the management buy-out and there is no current plan to effectuate a sale of the Company's assets. Plaintiff also petitioned the Court for an award of reasonable attorney's fees in the amount of \$300,000 and attorney's expenses of \$13,794.05 (the "Fee Petition") because plaintiff's claim conferred a benefit on the Company's public stockholders by preventing the consummation of the proposed management buy-out and preserving the value of the public stockholders' investment in the Company stock. The Company opposed the petition.

On December 29, 2004, the Court of Chancery of the State of Delaware denied the Fee Petition. The Court concluded that the Fee Petition should be denied as plaintiff's claims either were not meritorious when filed or, to the extent that they were, they are not yet moot.

Following that decision, plaintiff moved for summary judgment on its claims relating to the Company's alleged failure to timely file a certificate of dissolution and seeking a declaration that the plan of dissolution (the "Plan") is invalid for failure to require a shareholder vote before the sale of all of the Company's assets. The motions were fully briefed and argued before the Court on April 12, 2005. On May 2, 2005, the court issued its opinion holding that the Plan is valid in its entirety and that the Company has not violated Delaware law by not yet filing its certificate of dissolution. The court stated that the Company may negotiate and agree to a sale before the certificate of dissolution is filed, but that the sale cannot be consummated until the certificate of dissolution has become effective. The court concluded that once the dissolution becomes effective, Fab may consummate a sale of its assets without a shareholder vote.

A number of claims and lawsuits 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. 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 February 26,

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2005, included in the Company's equity investment securities are short term S & P 100 index put options with a fair value of \$56,160 and short term S & P 100 index call options sold, not yet purchased with a fair value of \$17,280.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. 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's basic warp and circular knit fabrics are sold to manufacturers of outerwear, intimate apparel, loungewear, and activewear. These fabrics are sold primarily in piece dyed form, as well as in "PFP" (prepared for print), and heat transfer print configurations.

The Company's wide elastic fabrics are sold to manufacturers of intimate apparel, foundation, swimwear, athleticwear, aerobicwear, sportswear, and healthcare products.

The Company's lace products are sold to manufacturers of intimate apparel, hosiery, ladies sportswear, children's wear, swimwear, accessories, and hobbies and crafts.

Home Fashions and Accessories: The Company utilizes its internally manufactured fabrics and laces to produce flannel and satin sheets, blankets, comforters, and other bedding-related products which are sold to specialty retail stores, catalog and mail order companies and airlines through the Company's subsidiary, Salisbury Manufacturing Corporation.

Other: Included in this segment is (1) Gem Urethane Corporation, (2) the Over-the-Counter Retail operation and (3) sales of industrial and other miscellaneous fabrics.

The Company's subsidiary, Gem Urethane Corporation produces a line of bonded products for manufacturers of environmental, healthcare, industrial and consumer products.

Gem also performs commission laminating for various manufacturers of consumer products. Fire resistant fabrics are sold to manufacturers in the seating, transportation, and military markets through its subsidiary Sandel International Corporation.

The Company also sells its fabric and laces to "Over-the-Counter" retail customers through the Company's retail manufacturing operations, which are

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located at the Company's Salisbury Manufacturing plant.

Specialized, engineered fabrics are sold to manufacturers of industrial, healthcare, medical, and military products.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. Segment Information (continued):

The accounting policy of the reportable segments are the same as those described in Summary of Accounting Policies. 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 13 weeks ended February 28, 2004, includes gain on the sale of fixed assets of \$685,000. Of this, \$441,000 in the 13 weeks ended February 28, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. In addition, Apparel Segment includes \$250,000 reserve for environmental costs. As of February 26, 2005, accounts receivable, inventory and plant and equipment are valued at net orderly liquidation value. In addition, other assets were decreased to liquidation value.

(in thousands)

FIRST QUARTER ENDED 02/26/05	Home Fashions and Accessories -----			TOTAL
(UNAUDITED)	APPAREL		OTHER	
Segment assets (1)	\$6,372	\$398	\$1,029	\$7,799

(in thousands)

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

PROFIT OR LOSS (UNAUDITED)

2004

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Total operating loss for segments	\$ (812)
Total other income	390

Loss before income tax expense or benefit	(422)
	=====

(1) As of February 26, 2005, accounts receivable, inventory and plant and equipment are valued at net orderly liquidation value. In addition, other assets were decreased to liquidation value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. Commitments and Contingencies

Employment Agreement:

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.

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.

Other:

The Company has a letter of credit with its insurance provider for \$100,000.

9. Other Expense:

The Company recorded an accrual of \$250,000 for environmental costs in the quarter ending February 28, 2004. 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. The lagoon process has been completed and all associated costs associated with this process have been paid.

10. 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".

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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	
	Feb. 26, 2005	Feb. 28, 2004
Service Service Cost	\$ 36	\$ 40
Interest cost	44	54
Expected return on assets	(35)	(36)
Net loss recognized	5	8
Amortization of prior service cost	9	9
Net periodic benefit cost	\$59	\$75

The Company contributed \$ 50,000 during the period, December 1, 2004 through February 26, 2005. In addition, the Company contributed \$270,000 on March 15, 2005.

Pension Obligation:

The Company maintains a non-contributory defined benefit pension plan (Fab Industries, Inc. Hourly Employees' Retirement Plan) which covers substantially all hourly employees. The Plan provides benefits based on the participants' years of service.

An estimate of the liability associated with terminating the plan for underfunding of the hourly plan would be approximately \$2.1 million. This will be assessed by the Pension Benefit Guarantee Corporation. This has been included in the estimated costs of liquidation. The Company plans to terminate the non-contributory defined benefit pension plan and distribute the lump sum payment to its participants on transfer of the Company's assets to the liquidating trust.

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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.

In the opinion of management, all adjustments (consisting solely of adjustments to the estimated value of assets and costs of liquidation and other recurring estimates) necessary for a fair statement of the results of the liquidation of

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the Company for the interim period have been recorded.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders 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 Company engaged the investment banking firm of McFarland Dewey & Co., LLC in November 2002 to assist it with the sale of the Company's business. McFarland Dewey contacted numerous potential acquirers during the course of this eighteen-month process. On October 14, 2003, the Company announced that it had yet to receive any bona-fide offers to acquire the business as a going concern. Following that announcement, on October 23, 2003, the Company received a preliminary offer from a management-led buyout group to acquire the business, as a going concern, for \$3.75 per share. The Company subsequently announced on November 14, 2003, that a stockholder filed a lawsuit, naming as defendants, the Company and each of its directors, seeking class-action certification, preliminary and permanent injunctions against the proposed management-led buyout, and unspecified damages. The preliminary offer from the management-led buyout group was subsequently withdrawn.

The Company continued the auction process following the withdrawal of the management-led buyout group's preliminary offer. On March 10, 2004, the Company paid a \$3.00 per share liquidating distribution. Following this liquidating distribution, the auction process resulted in the Company receiving three non-binding initial indications of interest from unaffiliated third parties, at prices ranging from \$1.50 per share to \$2.25 per share and a non-binding initial indication of interest from SSJJJ, at a price of \$2.83 per share. A Special Committee of the Company's Board of Directors, (the "Special Committee") comprised solely of independent directors, was formed to evaluate SSJJJ's preliminary indication of interest. After further discussions between the Special Committee and SSJJJ, SSJJJ indicated that it may be willing make a binding offer of \$2.80 per share to purchase the Company's business as a going concern. SSJJJ informed the Special Committee on August 9, 2004, that it would not be making a binding offer at that time to purchase the Company's business. On August 11, 2004, the Company announced that it suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

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The Company announced on March 9, 2005 that it had received a preliminary non-binding indication of interest from SSJJJ Manufacturing Co., Inc., an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ"), to acquire the business, as a going concern, at a price of \$2.80 per

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share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, is currently evaluating SSJJJ's preliminary non-binding indication of interest. Additionally, the Company recently has been contacted by other persons who have expressed an interest in considering making an offer to acquire all or a portion of the Company's assets. The Special Committee will evaluate any offers that may be submitted on or before May 26, 2005 by any such persons. There can be no assurance that any such offers will be received or if received that they will be satisfactory to the Special Committee or result in a sale transaction.

Under the Plan, if the Company's business is not sold prior to May 30, 2005, the Company will be required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders. If the Company's assets and liabilities are transferred to a liquidating trust on May 30, 2005, the Company's stock transfer books will close and its common stock will be delisted from trading on the AMEX effective on the close of business on May 30, 2005. Thereafter, certificates representing shares of Company common stock will not be assignable or transferable on the books of the Company, except by will, intestate succession or by operation of law. Thus, at such time, it will no longer be possible for the Company's stockholders to publicly trade the Company's stock and the proportionate interests of all of the Company's stockholders will be fixed on the basis of their respective stock holdings at the close of business on May 30, 2005. After such date, any distributions made by the Company will be made solely to the stockholders of record at the close of business on May 30, 2005, except as may be necessary to reflect subsequent transfers recorded on the Company's books from any transfers by will, intestate succession or by operation of law. The interests in any liquidating trust will not be transferable.

There can be no assurance that the Company will be able to sell its business as a going concern, that the Company will be able to liquidate all of its assets prior to May 30, 2005, or that the sale of its business and assets will generate proceeds to the stockholders in an amount equal to or greater than the market price of its stock or the liquidation value of its assets at the time of sale.

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, the Company changed its basis of accounting to the liquidation basis as of November 27, 2004.

The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Company may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets at the time of sale.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$17,105,000 net orderly liquidation value. Included in the liabilities, the Company accrued \$11,648,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation, however, actual costs could vary from those estimates.

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At February 26, 2005, the following represent the Company's estimated costs and expenses of liquidation:

ESTIMATED COSTS OF LIQUIDATION:	
Compensation and benefits	\$6,191,000
Defined benefit pension plan	2,092,000
Legal audit and tax services	1,250,000
Insurance	450,000
Other costs, including leases, property taxes, utilities, maintenance, repairs, stationery supplies, postage, and security	1,665,000
	\$11,648,000

Liquidity and Capital Resources

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company and its accountants, BDO Siedman, LLP, have determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, the Company changed its basis of accounting to the liquidation basis as of November 27, 2004. If the Company is not sold by May 30, 2005, all assets and liabilities will be transferred to a liquidating trust. The liquidating trust would then succeed to all our remaining assets, liabilities and obligations.

As of February 26, 2005, our assets consisted of \$19,930,000 of cash and cash equivalents and investment securities available for sale, \$6,324,000 for accounts receivable, \$1,717,000 for inventories, \$3,111,000 for other assets and \$6,082,000 for property, plant and equipment. Our liabilities consist of \$8,411,000 for accounts payable, accruals and other liabilities and \$11,648,000 for estimated cost of liquidation. The net assets in liquidation is \$17,105,000. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets.

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.

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.

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Off Balance Sheet Arrangements:

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The Company does not utilize off Balance Sheet arrangements.

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 27, 2004.

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", "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.

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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

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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 February 26, 2005, included in the Company's equity investment securities are short term S & P 100 index put options with a fair value of \$56,160 and short term S & P 100 index call options sold, not yet purchased with a fair value of \$17,280. We believe this is our only area of market risk.

ITEM 4. CONTROLS AND PROCEDURES

- (a) **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:** Our Chief Executive Officer and Chief Financial Officer, have 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(d)-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 significant changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15(d)-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.

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ITEM 6. EXHIBITS

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

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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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 24, 2005

FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

Samson Bitensky
Chairman of the Board
and Chief Executive Officer

By: /s/ David A. Miller

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

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